

Memo

To: WSO Board and Finance Committee

From: Bill D., General Manager

Date: 9/14/2022

Re: Concern about tax-exempt status
raised on the September TC

Dear Board and Finance Committee:

It has been brought to my attention that a member raised a concern on the TC this past Saturday regarding WSO being in danger of losing its tax-exempt status due to low contributions from the fellowship and high book sales. I would like to address this from a factual standpoint using the IRS Public Support Test that requires public charities like ACA WSO meet certain criteria to maintain its 501(c)3 standing. From what I was told I believe the member may have misunderstood the percentage required in the test.

The public support test is among the least understood topics by nonprofits, but it is absolutely critical to understand how it works, as our nonprofit could lose its public charity status if we fail it two years in a row.

Public charities, the preferred organizational choice of most 501(c)(3)s, are expected to have both diverse control and diverse funding. On the control side, the IRS expects charity boards to have a majority of members who are unrelated by blood, marriage, and outside business ownership. As for funding sources, charities are required to have a broad base of public support, which is where the public support test comes in.

The simplest definition of the IRS public support test states that at least 1/3 (33.3%) of donations must be given by donors who give less than 2% of the nonprofit's overall receipts. Exceptions include any gifts received from other donative public charities and/or a government source, such as a state or federal grant. For organizations that also get funds from sales of goods or services (this is called program revenue), such revenue counts toward the public support test also.

Program revenue is the second most common form of nonprofit income after donations. It consists of money received from the sale of goods and services that are directly related to the nonprofit's exempt purpose. Even though program revenue is similar to income received by a commercial business, it isn't taxable due to the connection with the mission of the nonprofit.

Failure to pass the public support test is a serious matter that will result in our nonprofit having its public charity status reverted to that of a private foundation. For many nonprofits, that could be a potentially devastating outcome. Private foundation status is ideal for those organizations that specifically need that structure. For charities that find themselves downgraded, however, the consequences include having to file Form 990-PF each year, regardless of income, plus the addition of excise taxes not charged to public charities. Even worse, the organization cannot regain public charity status for at least 5 forward years.

Fortunately, ACA WSO does very well with the public support test despite contributions in the 15-18% range because we can count book sales as program revenue. In each of our last several federal 990 returns we have scored 99% or better in the percentage of public support category. The minimum required to maintain the tax-exempt 501(c)3 status is 33.3%. So WSO is well above that threshold and is in no danger of losing its tax-exempt status due to low contributions and high book sales.

This number can be found on Schedule A of our annual 990 Federal return.

2021 return:

organization, check this box and **stop here**.

Section C. Computation of Public Support Percentage

15	Public support percentage for 2021 (line 8, column (f), divided by line 13, column (f)).....	15	99.78 %
16	Public support percentage from 2020 Schedule A, Part III, line 15.....	16	99.80 %

Section D. Computation of Investment Income Percentage

2020 return:

organization, check this box and **stop here**.

Section C. Computation of Public Support Percentage

15	Public support percentage for 2020 (line 8, column (f), divided by line 13, column (f)).....	15	99.80 %
16	Public support percentage from 2019 Schedule A, Part III, line 15.....	16	99.86 %

Section D. Computation of Investment Income Percentage

17	Investment income percentage for 2020 (line 10, column (A), divided by line 12, column (A)).....	17	~ ~ ~ %
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2019 return:

Section C. Computation of Public Support Percentage

15	Public support percentage for 2019 (line 8, column (f), divided by line 13, column (f)).....	15	99.86 %
16	Public support percentage from 2018 Schedule A, Part III, line 15.....	16	99.02 %

Section D. Computation of Investment Income Percentage

2018 return:

organization, check this box and **stop here**.

Section C. Computation of Public Support Percentage

15	Public support percentage for 2018 (line 8, column (f), divided by line 13, column (f)).....	15	99.02 %
16	Public support percentage from 2017 Schedule A, Part III, line 15.....	16	99.98 %

Section D. Computation of Investment Income Percentage