

APPENDIX T

United States Catholic Conference Group Ruling and the Official Catholic Directory

Introduction

The USCC Group Ruling is important for establishing the following:

1. The exemption of Catholic organizations from:
 - a. federal income tax
 - b. federal unemployment tax
2. The deductibility, for federal income, gift and estate purposes, of contributions to Catholic organizations.

Organizations included in the Official Catholic Directory (OCD) are automatically covered by the USCC Group Ruling establishing tax-exempt status. Any newly-created or newly-acquired Catholic organization that wishes to qualify for exemption from federal tax under Section 501(c) (3) of the Internal Revenue Code by virtue of inclusion in the USCC Group Ruling must file an application with the Diocese of Yakima Pastoral Center for inclusion in the OCD. In addition, any Catholic organization that is currently listed in the OCD but that reincorporates or otherwise changes its corporate form (i.e. from association to trust or corporation) is considered a new legal entity for IRS purposes and must file a new application for inclusion in the OCD.

Applications are available through the Chancellor's office.

A. Demonstrating Tax-Exempt Status

When providing proof of exempt status, the parish can show the letter from the IRS included in the following pages, with a copy of the pages in "The Official Catholic Directory" listing the Parish, School, Cemetery or Institution. Copies of the pages are included at the end of this section. A link to the most recent IRS determination letter held by the USCCB is found at www.usccb.org/ogc, under General Counsel Tax Exemption.

Group Ruling by the Internal Revenue Service

The following information pertains to the federal tax status of Catholic organizations listed in the Official Catholic Directory. It is important for all parishes and schools to be in compliance with Revenue Procedure 75-50, Lobbying Activities and Political Activities.

A. Revenue Procedure 75-50

Rev. Proc. 75-50 sets forth notice, publication, and recordkeeping requirements regarding racially nondiscriminatory policies that must be complied with by private schools, including church-related schools, as a condition of establishing and maintaining exempt status under section 501(c)(3) of the Code. Under Rev. Proc. 75-50, private

schools are required to file an annual certification of racial nondiscrimination with the IRS. For private schools not required to file Form 990, the annual certification must be filed on Form 5578, Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax. This form may be obtained from your local IRS office or online at www.irs.gov. Form 5578 must be filed by the 15th day of the 5th month following the close of the fiscal year. Form 5578 may be filed individually or by the diocese on behalf of all its diocesan schools.

The requirements of Rev. Proc. 75-50 remain in effect and must be complied with by all schools listed in the OCD. Diocesan or school officials must insure that the requirements of Rev. Proc. 75-50 are met since failure to do so could jeopardize the exempt status of the school and, in the case of a school operated by a church, the exempt status of the church itself.

B. Political Activities

Organizations included in the Group Ruling may not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office. Violation of the prohibition against political activity can jeopardize the organization's tax-exempt status. In addition to revoking exempt status, the IRS may also impose excise taxes on an exempt organization and its managers on account of political expenditures. Where there has been a flagrant violation, the IRS has authority to seek an injunction against the exempt organization and immediate assessment of taxes due. If you have any questions in this regard, please refer them to your attorney.

Unrelated Business Income Tax (UBIT)

Churches may engage in income producing activities unrelated to their tax-exempt purposes. However, the net income from such activities will be subject to the UBIT if the following three conditions are met:

- The activity constitutes a trade or business.
- The trade or business is regularly carried on.
- The trade or business is not substantially related to the church's exempt purpose. (The fact that the church uses the income to further its charitable or religious purposes does not make the activity substantially related to its exempt purposes.)

Exceptions to UBIT:

Even if an activity meets the above three criteria, the income may not be subject to tax if it meets one of the following exceptions:

- Substantially all of the work in operating the trade or business is performed by volunteers.
- The activity is conducted by the church primarily for the convenience of its members.
- The trade or business involves the selling of merchandise substantially all of which was donated.

In general, rents from real property, royalties, capital gains, and interest and dividends are not subject to the unrelated business income tax unless financed with borrowed money.

Income tax return:

If the church has gross income of \$1,000 or more for each taxable year from the conduct of any unrelated trade or business, it is required to file IRS Form 990-T, Exempt Organization Business Income Tax Return. Form 990-T is due the 15th day of the 5th month following the end of the church's tax year (November 15th). Forms 990-T and instructions can be obtained from the IRS website at www.irs.gov.

Federal Income Tax Reporting and Withholding Requirements for Lotteries, Prizes and Bingo

The rules in this area are somewhat complicated. Please refer to the IRS publication "*Instructions for Forms 1099, 1098, 5498, and W-2G*". The document can be viewed online at the IRS's web site, www.irs.gov. At a minimum, you must be aware of the following rules:

- A. Issue the winners Form W-2G for sweepstake and lottery winnings of \$600 or more. This includes non-cash winnings. Federal income tax withholding of 28% applies for sweepstake and lottery winnings of more than \$5,000.
- B. Form W-2G is also to be issued to bingo winners totaling \$1,200 or more per event. Federal income tax withholding does not apply to bingo winnings.
- C. Obtain the winner's name, address and social security number if you are required to issue a W-2G. You may use Form W-9, *Request for Taxpayer Identification Number and Certification*, to request the Taxpayer's identification number.

A. State Sales Tax on Fundraisers

Fundraiser items are not subject to sales tax.

For any additional information regarding state sales tax or other regulations please contact the Diocesan Finance Office or consult the Washington State Department of Revenue web site at www.dor.wa.gov/

B. Federal and State Unemployment Tax

Parishes and religious organizations are exempt from federal unemployment taxes.