



Financial Reporting Requirements

Please note: the following information is provided in response to general questions about the reporting requirements for small not-for-profit organizations in Wisconsin. If you are in any doubt about how the responses apply to your organization, you should consult a knowledgeable Certified Public Account (CPA) or attorney.

The River Alliance of Wisconsin asked river and watershed groups to share accounting and financial reporting questions. This document provides responses, prepared by a CPA, for these four issues:

- Reporting income tax for WI Nonstock Corporations that are not tax-exempt
- Operating as tax-exempt without filing a federal application
- Accepting contributions while your tax-exempt status is pending
- Reporting raffle income

Income tax reporting – non-exempt organizations

Q: Many Wisconsin river groups become Chapter 181 Nonstock Corporations in order to accept DNR River Protection and other grants. What tax and financial reporting requirements do these groups have?

*A: Unless it has applied for or received tax-exempt status,¹ every active corporation (WI Chapter 181) is required to file [IRS Form 1120](#), *U.S. Corporation Income Tax Return* to report revenue, expenses, taxable income, and income tax due (if any) for the year. In addition, the State of Wisconsin requires corporations organized under Wisconsin law to file [Form 4](#), *Wisconsin Corporation Franchise or Income Tax Return*.*

A corporation that has not applied for or received tax-exempt status and that has generated net income during a particular year may be required to pay federal and state tax on its income. For example, a corporation that receives more gift and grant income than it spends in a particular year may incur income tax liability. On the other hand, a corporation that receives a grant for \$10,000 and also has \$10,000 in expenses would owe no tax. However, if it has not applied for recognition of tax-exempt status, the corporation may still need to file IRS Form 1120 and Wisconsin Form 4.

As discussed in the next section, certain small organizations are permitted to conduct business as a tax-exempt organization without applying for formal recognition of tax-exempt status. Therefore, it is important that you understand the rules governing application for tax-exempt status, and that your organization applies for tax-exempt status when required.

¹ Environmental organizations usually obtain tax-exempt status under Internal Revenue Code Section 501(c)(3) because their mission is “charitable, scientific, or educational.” But there are other Code sections under which tax-exempt status may be granted.

Applying for exempt status

Q: Under which circumstances are charitable organizations exempt from filing IRS Form 1023?

A: Charitable organizations apply for exempt status by filing [IRS Form 1023](#), *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*. However, certain organizations are not required to file Form 1023. Specifically, an organization that operates in accordance with the requirements of Section 501(c)(3) is automatically exempt if it “normally has annual gross receipts of not more than \$5,000.” Thus, a small corporation (with annual gross receipts of \$5,000 or less) that is operated exclusively for religious, charitable, scientific, literary, or educational purposes need not file Form 1023 in order to obtain exemption from the income tax reporting requirements that apply to other corporations.

An organization will be considered not to have annual gross receipts in excess of \$5,000 if any one of the following applies:

- During its first tax year the organization received gross receipts of \$7,500 or less.
- During its first two years the organization had a total of \$12,000 or less in gross receipts.
- In the case of an organization that has been in existence for at least three years, total gross receipts received by the organization during the immediately preceding two years, plus the current year, are \$15,000 or less.

An organization with gross receipts that exceed any of these thresholds must file Form 1023 within 90 days of the end of the year in which the threshold was exceeded.

Example: This organization must file Form 1023 within 90 days of the end of its second year in order to avoid being treated as a taxable corporation.

Income Year One.....	\$7,000
Income Year Two	\$5,500
Income Total	\$12,500

Example: This organization does not need to file Form 1023. Provided that the organization conducts itself as a charitable organization, it will be treated as tax-exempt and is not required to complete IRS Form 1120 or Wisconsin Form 4 for income tax purposes.

Income Year One.....	\$1,000
Income Year Two (DNR River Protection Grant).....	\$10,000
Income Total	\$11,000

Further information about applying for tax-exempt status can be found in IRS [Publication 557](#), *Tax Exempt Status for Your Organization*.

To review the reporting responsibilities of small organizations that have received their tax-exempt status, see River Alliance of Wisconsin’s *Filings and Forms Tool* in the [Watershed Advocate Toolkit](#).

Accepting income before tax-exempt

Q: What is the rule for accepting contributions while your application for tax-exempt status is pending?

A: Organizations apply for recognition of exemption by filing IRS Form 1023. If the organization files Form 1023 within 15 months of the end of the month in which it was incorporated as a nonstock corporation in Wisconsin, its exemption will be recognized from the date of its incorporation. (The organization may obtain an additional 12-month, automatic extension. If it does so, then the organization's exemption will date from its inception provided that it files Form 1023 within 27 months of its incorporation.)

However, many organizations take advantage of the automatic exemption provided to small organizations that operate exclusively for charitable purposes as explained in the previous question. That is, they do not file Form 1023 until they normally receive annual gross receipts in excess of \$5,000. In such cases, the IRS recognizes the organization's exempt status for the years during which its annual gross receipts did not exceed \$5,000. But the organization must file Form 1023 within 90 days of the end of the year during which annual gross receipts reach the \$5,000 threshold in order to be considered tax-exempt for this and future years.

Example: An organization is organized and operated exclusively for charitable purposes. It was incorporated as Wisconsin Nonstock Corporation under Chapter 181 on January 1, 2003, and files returns on a calendar year basis. It did not file Form 1023. The organization's gross receipts during the years 2003 through 2006 were as follows:

2003	\$ 3,600
2004	2,900
2005	400
2006	12,600

The organization's total gross receipts for 2003, 2004, and 2005 were \$6,900. Therefore, it did not have to file Form 1023 and is exempt for those years. However, for 2004, 2005, and 2006 the total gross receipts were \$15,900. Therefore, the organization must file Form 1023 within 90 days after the end of its 2006 tax year. If it does not file within this time period, it will not be exempt under section 501(c)(3) for the period beginning with tax year 2006, and ending when the IRS receives the organization's Form 1023. But the organization will not lose its exempt status for the years ending before 2006.

Provided that the organization operates in accordance with the rules governing 501(c)(3) organizations, once it files Form 1023 it will be treated as exempt from the date the form is postmarked.

Further information about applying for tax-exempt status can be found in IRS [Publication 557](#), *Tax Exempt Status for Your Organization*.

Reporting raffle income

Q: Is raffle income taxable if the organization conducting the raffle is not considered tax-exempt?

A: [Wisconsin statute 563.90](#) provides that a “religious, charitable, service, fraternal, or veterans organization, or any organization to which contributions are deductible for federal income tax purposes or state income or franchise tax purposes ... may conduct a raffle upon receiving a license for the raffle event.” Furthermore, “no other person may conduct a raffle in this state.”

The statute prohibits organizations that are not considered tax-exempt from applying for or receiving a raffle license. (Keep in mind, however, that there is more than one type of tax-exempt organization. Exemption as a charitable organization under Internal Revenue Code Section 501(c)(3) is one, but not the only way to meet the statutory requirement.)

In addition, Wisconsin statutes require all income from a raffle to be used to further the exempt mission of the organization. This means that the organization is not allowed to earn a profit on the raffle after taking into account use of raffle proceeds to support program activities. Thus the raffle should generate no taxable income.

Nevertheless, gaming income (of which income from raffle events is one type) is reportable on [Form 990](#) (or [Form 990-EZ](#) for small organizations). If gross receipts from a raffle exceed \$15,000, the organization reports revenue and related expenses of the event on [Schedule G](#) attached to Form 990-EZ.

Also, the State of WI requires each recipient of a raffle license to report the gross receipts, expenses, prizes, and profit or loss from each raffle event on the [Annual Raffle Report](#).

Note: Revenue from raffle ticket sales is considered non-taxable for sales tax purposes. Therefore, the organization conducting the raffle should not collect or remit sales tax on sales of raffle tickets.

For further information about obtaining a license to conduct a raffle, go to the [State of Wisconsin Department of Administration](#).

Links

IRS Form 1120, *U.S. Corporation Income Tax Return*

Form- <http://www.irs.gov/pub/irs-pdf/f1120.pdf>

Instructions- <http://www.irs.gov/pub/irs-pdf/i1120.pdf>

Form 4, *Wisconsin Corporation Franchise or Income Tax Return*

<http://www.revenue.wi.gov/forms/2008/08ic-040.pdf>

IRS Form 1023

Form <http://www.irs.gov/pub/irs-pdf/f1023.pdf>

Instructions <http://www.irs.gov/pub/irs-pdf/i1023.pdf>

IRS Publication 557, *Tax Exempt Status for Your Organization*

<http://www.irs.gov/pub/irs-pdf/p557.pdf>

River Alliance of Wisconsin's *Filings and Forms Tool*

http://www.wisconsinrivers.org/documents/FilingsandForms_Tool%20Kit_2008.pdf

Wisconsin Raffle Statute

<http://www.doa.state.wi.us/docview.asp?docid=230>

IRS Form 990

<http://www.irs.gov/pub/irs-pdf/f990.pdf>

IRS Form 990-EZ

<http://www.irs.gov/pub/irs-pdf/f990ez.pdf>

IRS Schedule G

<http://www.irs.gov/pub/irs-pdf/i990sg.pdf>

Wisconsin Annual Raffle Report

<http://www.doa.state.wi.us/docview.asp?docid=232>

Wisconsin Department of Administration Raffle Information

http://www.doa.state.wi.us/section_detail.asp?linkcatid=689&linkid=116&locid=7

References and Resources

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