



SHRM® Guide to Chapter
FINANCIAL MANAGEMENT

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SHRM® Guide to Chapter FINANCIAL MANAGEMENT



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Section 1

INTRODUCTION

Each chapter treasurer, whether or not any responsibility may be delegated to a chapter management professional, is accountable for the receipt and disbursement of all funds for his/her chapter. It is also his/her responsibility to maintain adequate records that reflect the financial status and transactions of the chapter. Software packages are available commercially to make the funds management responsibilities/tasks easier and less daunting. For larger chapters, it may be necessary to seek professional assistance (such as a CPA) to set up and maintain records; however, the ultimate responsibility rests with the chapter treasurer.

The SHRM Guide to Chapter Financial Management is a guide for chapter treasurers regarding accounting, financial internal control and tax filing requirements (other than payroll). While the guide is not extensively detailed on these subjects, it will familiarize chapter treasurers with essential information, which is a prerequisite for handling chapter financial record keeping, internal controls and complying with certain IRS and legal requirements. This information is relevant and important for all chapters, regardless of whether there are ten members or three thousand members in the chapter.

SHRM-affiliated chapters are autonomous entities and are legally accountable for their own operations.

The SHRM headquarters staff are available to serve as a resource for questions or comments and can be reached at SHRM, 1800 Duke Street, Alexandria, VA 22314-3499, 1-800-283-7476 x6071 or e-mail bknight@shrm.org.

Section 2

OPERATING CONSIDERATIONS

Not-for-Profit vs. Tax-Exempt

The terminology used to describe associations often generates confusion. Consequently, it is useful to clarify two key terms. Associations are generally organized and operated as both not-for-profit and tax-exempt entities. Not-for-profit refers to incorporation status under state law; tax-exempt status refers to federal income tax exemption under the Internal Revenue Code. It might reasonably be concluded that as not-for-profit, tax-exempt entities, associations may not earn profits (realize more income than expenditures) and that they need not pay any taxes. Neither conclusion is correct.

Even though they are not-for-profit organizations, associations are permitted to generate greater income than expenses and still retain their not-for-profit status. As not-for-profit organizations, what associations are barred from doing is distributing their net earnings to individuals who control the organizations. Similarly, they are barred from accumulating equity appreciation for private benefit.

Not-for-profit organizations have chosen to undertake programs to benefit members and the public rather than private individuals. Their earnings, therefore, must, by law, be dedicated to furthering the purposes for which they were organized. Not-for-profit organizations have no shareholders and pay no dividends — all earnings are “reinvested” in the organization in furtherance of its not-for-profit purposes.

Most associations are also tax-exempt entities, but they need not be. Because the requirements for federal income tax exemption are more stringent than those for not-for-profit corporation status, there are some associations that are not-for-profit corporations but do not qualify for exemption from federal income tax. However, these organizations are few and far between.

Most not-for-profit organizations qualify for federal income tax exemption under one of 25 subsections of Section 501 (c) of the Internal Revenue Code. Most associations are tax-exempt under sections 501 (c)(3) or 501 (c)(6), and a smaller number of

sections 501(c)(4) or 501(c)(5). In addition, many 501(c)(6) associations form related educational foundations exempt under Section 501(c)(3).

But what does tax exemption mean? Does it mean that an organization is exempt from all taxes? No. Tax-exempt status means that an organization is exempt from paying corporate federal income tax on income generated from activities that are substantially related to the purposes for which the entity was organized — purposes for which the organization was granted tax-exempt status in the first place. The organization does, however, pay corporate federal income tax (at standard corporate rates) on income unrelated to its tax-exempt purposes, called the unrelated business income tax (UBIT).

Organizations that meet the requirements for federal tax exemption can generally rely on that status to exempt their income from state corporate income tax.

However, most tax-exempt associations do remain subject to a wide variety of other taxes, including federal payroll (social security, medicare, and unemployment) taxes, state and local unemployment taxes, real estate taxes, personal property taxes, sales and use taxes, franchise taxes, and taxes on lobbying activities, among others. Exemptions for certain state and local taxes are sometimes provided for charitable organizations.

Associations are required to comply at all times with the strict guidelines for both tax exemption and not-for-profit status to maintain their favored status under federal and state tax codes and state corporation laws.

Tax-exempt Status

According to Jerald A. Jacobs, there are eight criterion for determining tax-exempt status. The following are the first three of those eight.

“The first of the combined statutory and regulatory criteria for tax-exempt associations is that it not be organized for profit.

The second criterion for a tax-exempt association is that no part of its net earnings inure to the benefit of any private shareholder or individual.

The third criterion for a tax-exempt association is that the organization be an association.”¹

SHRM affiliated chapters generally fall into this criterion.

Each chapter is responsible for applying for its own federal tax-exempt recognition. Although this is not a legal requirement, it is recommended that each chapter do so.

Form 1024, Application for Tax-Exempt Status, should be filed by chapters that are of a 501(c)(6) nature. This type of organization is a membership organization for business leagues, chambers of commerce, trade associations or professional societies, which most likely resembles nearly all chapters of SHRM.

Form 1023, Application for Tax-Exempt Status, should be filed by chapters that are of a 501(c)(3) nature. This type of organization is organized and operated exclusively for educational, charitable, religious or scientific purposes.

Remember that it is the nature of the organization's activities that determines tax exemption, not just the filing of an application for tax-exempt status. All tax forms can be obtained from your local IRS office, library, or CPA. The forms may also be available from the IRS web site at www.irs.gov/forms_pubs/index.html.

¹ Jacobs, Jerald A.; Association Law Handbook; Third Edition, 1996, American Society of Association Executives, p. 374

Applications are generally subject to a filing fee depending on the chapter's annual gross receipts. Applications should be accompanied by Form 8718, User Fee for Exempt Organization Determination Letter Request.

The Internal Revenue Service will issue a determination letter, stating either approval or disapproval of recognition of tax-exempt status. Letters of Determination should be kept with the chapter's permanent records.

Note that a federal tax exemption does not automatically mean state tax exemption. Tax exemption rules vary from state to state. Consult with your CPA regarding your individual state's exemption rules.

Employer Identification Number

Each chapter must apply for its own employer identification number (EIN), also referred to as a federal tax ID number. This nine-digit number is used for filing income and payroll tax returns. Most banks and financial institutions require this number to set up accounts for your chapter.

File Form SS-4, Application for Employer Identification Number, to apply for a number if you have not obtained one. Form SS-4 can be obtained from your local IRS office, library or CPA. Many IRS forms are available on the IRS web site at www.irs.gov/forms_pubs/index.html.

The Letter of Determination for the EIN should be filed with your chapter's permanent records.

Note that having a tax identification number does not mean the chapter is exempt from paying income taxes. You must apply for recognition of tax exemption separately from applying for a tax identification number.

Chapters may not use SHRM's federal tax identification number.

Incorporation

The major advantage of incorporating is that it provides a measure of protection for members of the chapter from personal liability for chapter obligations and from liability if chapter officers, directors, or staff violate the law. Each chapter should file for corporate status according to its particular state's not-for-profit laws. Most of the states have adopted special laws that govern incorporation of not-for-profit entities and have created guidelines for the operation of not-for-profit entities. Each chapter should consider retaining an attorney and/or a CPA to advise it on the incorporation and not-for-profit application process.

Liability Insurance

Carrying liability insurance is an option; but, one many chapters exercise for their own protection.

Chapter officers and directors are responsible for exercising reasonable care over the assets of their chapter. Personal liability may arise upon authorization of acts in violation of the corporate charter or applicable state or federal law. Other liabilities may arise due to employment related claims such as discrimination, wrongful termination or defamation. Therefore, each chapter should consider purchasing liability insurance to protect itself, employees (such as a chapter management professional or staff), officers and directors.

A local insurance agent may be able to provide information or quotations on such insurance.

Section 3

METHODS OF ACCOUNTING AND FINANCIAL REPORTING

1. *Methods of Accounting*

Single-entry vs. Double-entry Record keeping

Single-entry record keeping records flow of income and expenses through summaries of cash receipts or disbursements. There are no “debits and credits” involved. In double-entry record keeping, every transaction is recorded as a debit in one account and a credit in another, thus the term “double-entry.” Double-entry requires much more accounting knowledge. Single-entry is much simpler to use. However, some chapters may need to use the double-entry method to achieve more accuracy and control. In this case, an accountant may be needed if the treasurer is not knowledgeable in this area. An accounting principles textbook is a good resource for a more detailed discussion of debits and credits.

Cash vs. Accrual Method of Accounting

The method chosen (cash or accrual) is dependent on the results anticipated. When budgets are prepared and the results are measured with the only concern being increases and/or decreases in cash, then accounting on the cash method is adequate. If, on the other hand, budgets are prepared and results measured by matching income and related expenses in the same year, then the accrual method of accounting is recommended. This would be true regardless of the dollar amount involved. Generally the larger the dollar amount involved, the better it is to use the double-entry and accrual methods, because these methods will more accurately reflect the true financial position and financial results of an entity.

The cash method recognizes income and expenses when cash physically flows. Income and expenses are recorded when cash is physically received and disbursed. The cash method is often used because of its simplicity. The accrual method recognizes income when it is earned, and expenses when the obligation or liability has occurred, regardless of when the cash physically flows. The earning of income and incurring of expense do not necessarily happen at the time the cash flows. The accrual method is typically used by larger chapters, and is also used by SHRM. It may require a skilled bookkeeper or accountant.

2. *Financial Reporting*

Journals

All business transactions of the chapter must be summarized. How often this is to be done, and in what manner, depends mostly on the dollar volume of activity and how often you wish to prepare financial statements. At a minimum, all chapters should summarize their activity on a quarterly basis. Various journal systems are available. Regardless of which system is used, income and expenses should be summarized separately. Each transaction should include the date of the transaction, amount, if funds were received or disbursed, and if by check or cash. If by cash, proof of the cash receipt or disbursement should be kept. The following are three of the most commonly used journals.

Cash Receipts Journal

Used to summarize all cash receipts. Will be used whether on cash or accrual method of accounting. For smaller chapters, a checkbook could suffice.

Cash Disbursements Journal

Used to summarize all cash disbursements. Will be used whether on cash or accrual method of accounting. For smaller chapters, a checkbook could suffice.

General Journal

Used to summarize transactions that do not “fit” in the other journals; that is, transactions that may not necessarily be related to the physical flow of cash, (e.g., depreciation). Usually used only when on the accrual method of accounting. Consists of two columns (one for debits, the other for credits).

Note that the term “cash” for these journals means currency, checks or charge card transactions, not just cash itself.

Financial Statements

The two most commonly used financial statements are the Statement of Financial Position and the Statement of Activities (or Statement of Cash Receipts and Disbursements for cash method of accounting). They represent the culmination of all transactions. Some computer software packages are now available which may assist you in preparing financial statements.

Statement of Financial Position

The Balance Sheet shows financial position as of a specific date. It is called the Balance Sheet because assets must equal the total of liabilities and net assets, (e.g., they must balance each other). The Balance Sheet helps measure the financial stability of an entity. It measures the properties (assets) owned by the entity, the amounts due to third parties (liabilities), the amounts restricted for specific uses other than everyday use (restricted net assets), and the entity's accumulated changes in its net assets.

Statement of Activities

The Statement of Activities is also referred to as a "Profit and Loss," "Income and Expense," "Revenue and Expense," and "Income Statement." It measures financial results of activities for a period of time, (i.e., from one date to another.)

New Financial Statement Requirements

In June 1993, the Financial Accounting Standards Board (FASB) issued two pronouncements which have significant implications on not-for-profit organizations: Statement of Financial Accounting Standards (SFAS) Number 116, Accounting for Contributions Received and Made and SFAS Number 117, Financial Statements of Not-for-Profit Organizations. The intention of these pronouncements is to bring uniformity to financial reporting in the not-for-profit industry.

SFAS Numbers 116 and 117 established uniformity standards for general purpose external financial statements. Therefore, these standards predominantly apply to audited financial statements. Chapters that prepare financial statements for internal purposes only and that do not have their financial statements audited by a CPA may not need to be concerned with these standards. However, if you would like your chapter's financial statements to be prepared in accordance with generally accepted accounting principles, then they must conform to SFAS Nos. 116 and 117.

Note: These financial statements can be quite complex. If you think that your Chapter is subject to these requirements, please consult with a CPA.

3. Summary of Statement of Financial Accounting Standards Nos. 116 and 117

The Financial Accounting Standards Board issued two accounting standards, Statement of Financial Accounting Standards (SFAS) No. 116 (Accounting for Contributions Received and Contributions Made) and SFAS No. 117 (Financial Statements of Not-for-Profit Organizations) that mostly affect not-for-profit organizations. In general, the standards deal with how contributions received and made (including unconditional promises to give, formerly termed "pledges") should be accounted for, and the format used to present a not-for-profit organization's financial statements.

Specifically, SFAS No. 116, the standard on contributions, should have little impact on most SHRM chapters unless the chapter begins to receive donor specific types of contributions (such as contributions for scholarships, research or other specific programs/projects) or contributed services or materials. Under the new standard, the value of contributed materials and certain types of contributed services are required to be reflected in the body of the statements of revenue and expense. An example of contributed services are volunteers used for exam writing workshops and reviews for each of its two annual exam sittings relating to the Senior Professional in Human Resources (SPHR) and Professional in Human Resources (PHR) certification. These services are professional in nature and would need to be paid for outside of the organization if not volunteered.

SFAS No. 117, the standard on financial statement presentation, requires the presentation of the statements of revenue and expense in a format which separately identifies those revenues that are unrestricted, temporarily restricted and permanently restricted. The standard also requires that expenses of an organization be presented on a functional basis. Therefore, overhead costs related to operating the programs and supporting activities of an SHRM chapter, such as occupancy, depreciation, and

insurance, will need to be allocated to each program or department. The standard also impacts some of the nomenclature used in the display of the financial statements.

Section 4

CHECKLIST OF INTERNAL CONTROLS OVER CHAPTER'S RECEIPTS AND DISBURSEMENTS

Internal controls generally represent the procedures adopted within an organization to safeguard its assets and check the accuracy and reliability of its accounting data. Strong internal controls minimize the possibility of misappropriation of assets or misstatement of accounts while maximizing the likelihood of prompt detection if they do occur.

The following section is a checklist of considerations that a chapter can use to establish some basic internal accounting controls. It can also aid a chapter in conducting an internal audit of its accounting function.

1. Controls over Checks and Cash Received

Would it be effective to use a bank's lockbox system to receive checks and cash?

The possibility of irregularities occurring can be greatly reduced through use of a lockbox.

If a lockbox is not practical, are photocopies made of all checks received?

A photocopy of the check should be attached to the remittance advice (i.e.: invoice, application, bill, order, etc.).

Are checks restrictively endorsed when received?

The full name of the chapter should be spelled out (never use acronyms) with the account number.

Are deposits made on a timely basis?

Validated deposit slips should be attached to the copies of checks and remittance advices supporting such deposit.

Are deposits recorded in the chapter's checkbook or general ledger on a timely basis?

This step assists in the detection of errors made from either the chapter or bank which should be promptly corrected upon their occurrence.

Is documentation supporting the deposit maintained on file in an organized and chronological fashion?

A well organized filing system is not only necessary for day-to-day operations but is also essential in establishing an audit trail to verify the propriety of a transaction from the accounting records to the source of the transaction.

2. Controls over Disbursements

Does appropriate approval occur on payments to be made before the check is issued?

In order to document such approval, documents supporting the disbursement should be initialed by an appropriate officer.

Is supporting documentation necessary?

Supporting documentation, such as invoices or letters, should be attached to a copy of every check, then filed after issuance of the check. Mark or stamp all invoices "PAID" to avoid duplication of payment.

Are all payments made only by check, never in cash?

Payments made by check decrease the likelihood of misappropriation and provides an audit trail.

Are all checks issued recorded in the chapter's checkbook or general ledger on a timely basis?

This step assists in the detection of errors made from either the chapter or bank which should be promptly corrected upon their occurrence.

Does an officer of the chapter, other than the treasurer or person keeping the books, receive the unopened bank statement directly?

This officer should review the canceled checks and entries on the statement and investigate any suspicious payments before forwarding the bank statement to the person who prepares the bank reconciliation.

3. Bank Reconciliations

Are the bank accounts of the chapter reconciled on a monthly basis?

A timely reconciliation alerts the chapter of any differences in cash transactions processed by its bank which should be investigated promptly.

Are such reconciliations reviewed by an officer of the chapter, other than the person preparing the reconciliations?

A person who has no cash handling responsibilities (preferably an officer) strengthens the chapter's internal controls by reviewing the monthly cash reconciliation to ensure that the transactions are executed in accordance with management authorization.

A checking account (interest bearing, if possible) should be established in the chapter's name. The chapter must have its own employer identification number to establish an account (see page 9). Do not use the treasurer's or any other individual's social security number to open this account. Authorized check signers may vary from chapter to chapter. For smaller chapters, the signer may be the treasurer. For larger chapters, it may be an executive director, chapter management professional, or, perhaps, the chapter president and/or treasurer. Here are some other checking account suggestions:

- The chapter's money should NEVER be kept in any officer's personal checking account. This would constitute co-mingling of funds, and could result in tax problems for the officer.
- A good control over cash disbursements is to require two signatures on every check or perhaps on checks over a certain pre-determined dollar amount.
- Check signers should not reconcile the checkbook. Limit the number of persons with check-signing authority.
- Avoid retaining excessive amounts of cash in the checking account; invest excess cash in a savings account, money market account, or certificate of deposit. Even if the checking account is interest bearing, these other types of accounts typically yield higher rates of return. (See, Investments)

Section 5

AUDITING

As a matter of sound business practices, periodic chapter auditing is recommended. Please check with a local CPA regarding the depth, breath, and frequency of auditing for your specific chapter.

The chapter audit questionnaire is to help the chapter get started. This list is based primarily on information in this Guide and is located in the Appendix (See page 19).

The questionnaire will give you the opportunity to indicate if the statements are true, false, or do not apply to your chapter. There is an "Observations" section to note your thoughts regarding any controls that might help you.

When considering if a control is appropriate for your chapter, identify risks that the control would help reduce. Consider the likelihood of occurrence, the consequences of occurrence and the cost of implementing the control to prevent occurrence of the risk event.

Chapters vary in size and complexity. Small chapters will find many of these controls impractical. No chapter will answer "true" to every statement.

Section 6

INVESTMENTS

Each chapter must evaluate its own financial situation and cash flow needs when making investment decisions.

To guide the investment of excess funds (non-operational investments not to be used to fund normal operating expenses), an investment policy should be established and approved by the chapter's board.

Different types of investments take on varying degrees of risk. For example, U.S. Treasury Bills and Notes are backed in full by the United States Government and are virtually risk free. Also, some types of investment vehicles assess penalties for early withdrawals. These factors should be considered prior to any investment activity.

Certificates of deposit (CDs) also have relatively low risk. You should note that the Federal Deposit Insurance Corporation (FDIC) only insures \$100,000 per financial institution, not per account. Thus, it is advisable that a chapter not invest more than \$100,000 in any one institution.

Mutual funds and corporate stocks and bonds are other types of investment vehicles, but are less conservative and have greater risk. Typically, the greater the opportunity for appreciation and income, the more risk associated with an investment.

Non-operational investments are maintained for various reasons by not-for-profit organizations. Typically, a chapter should maintain non-operational investments that enable it to withstand a downturn in the economy, loss of members, or other unexpected event. Most not-for-profit organizations work toward accumulating non-operational investments that are equal to 50% - 100% of their budgeted operating expense. There are no absolute answers to the questions of definition or adequacy of non-operational investments. Appropriate answers depend upon the needs and circumstances of each chapter.

Section 7

TAX FILINGS (OTHER THAN PAYROLL)

1. Who Must File?

Qualifying not-for-profit organizations (see Page 4) must file Form 990 or Form 990-EZ if their gross receipts are normally more than \$25,000. Not-for-profit organizations with gross receipts of \$25,000 or less are not required to file.

2. What Forms Are Used?

Form 990 Return of Organization Exempt from Income Tax
Form 990-EZ Short Form Return for Organization Exempt from Income Tax

- These forms are used by most tax-exempt organizations. Form 990-EZ can be used if the organization's total assets are less than \$250,000 and the organization's gross receipts are less than \$100,000.
- If an organization qualifies to file Form 990-EZ, it can still file Form 990.

Form 990-T Exempt Organization Business Income Tax Return

- General issues regarding this form and unrelated business income tax appears in Section VII, unrelated business income (UBI).

General Payroll Filings

Employers (chapters) who withhold federal income tax, social security tax, or both from their employees' wages (from a chapter management professional, for example, if the individual is on payroll and considered an "employee"), are required to file quarterly payroll returns (Form 941), to report the amount of tax withheld and the chapter's share of social security and Medicare tax. Form 941 is due on or before the last day of the month following the end of the calendar quarter involved. Form 940 is an annual form filed by employers and is used to report and pay federal unemployment taxes. Other payroll forms such as Form W-2 and Form W-3, Wage and Tax Statements, must be filed with the Social Security Administration by the last day of February of the year following the year included in the return. Consult with your CPA and the appropriate jurisdiction regarding other federal payroll concerns and your state's payroll filing requirements.

3. When Are the Returns Due?

Form 990 and Form 990-EZ are due on the fifteenth day of the fifth month following the close of the calendar year or the chapter's fiscal year, if the chapter is not operating on a calendar-year basis.

The 940 and W-2 are annual returns covering the period January 1 through December 31 and are due on or before January 31, following the close of the calendar year. The 941 are due each calendar quarter.

4. Are Extensions to File Granted?

Yes, an extension of time to file is granted by completing Form 2758, Applications for Extension of Time to File Certain Excise, Income, Information, and Other Returns. Form 2758 must be filed by the date when Form 990, or Form 990-EZ, was due without an extension.

5. Are There Any Penalties for Filing Late?

Yes, a penalty of \$10 per day is assessed to organizations filing late. The penalty will not exceed the smaller of \$5,000 or five percent of the organization's gross receipts. The penalty is assessed from the due date of the return.

Additionally, there are severe penalties, including other fines and imprisonment, for willfully filing fraudulent returns or not filing returns.

6. Are Form 990 and Form 990-EZ Subject to Public Inspection?

Yes, on July 30, 1996, President Clinton signed the Taxpayer Bill of Rights 2 which requires tax-exempt organizations to furnish a copy of its Federal Form 990 to anyone who requests it.

7. Is there a State Return to be Filed?

If you file a Federal Form 990-T, you most likely will need to file a state income tax return. You also may be required to file a copy of your Federal Form 990 with the state in which you do business. You should contact a CPA to determine these specific requirements.

Section 8

UNRELATED BUSINESS INCOME

Unrelated business income (UBI) is revenue generated by a tax-exempt organization that possess all three of the following characteristics:

- *It must be from a trade or business,*
- *It must be from a trade or business that is not substantially related to carrying out the exempt purpose for which the organization exists, and*
- *The trade or business must be regularly carried on.*

The term trade or business generally includes any activity carried on for the production of income from selling goods or performing services.

To determine whether a business activity is substantially related requires an examination of the relationship between the business activities that generate the particular income in question and the accomplishment of the organization's exempt purpose.

A trade or business is related to exempt purposes, in the statutory sense, only when the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income). The causal relationship must be substantial. The activities that generate the income, to be substantially related, must contribute importantly to the accomplishment of the organization's exempt purpose.

In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function that they intend to serve.

Business activities of an exempt organization ordinarily will be considered to be regularly carried on if they show a frequency and continuity and are pursued in a manner similar to comparable commercial activities of nonexempt organizations.

The following revenue sources are generally excluded from tax on unrelated business income:

- Dues
- Dividends
- Annuities
- Royalties
- Gains from the disposition of property
- Contributions
- Proceeds from the sale of goods or services produced in the course of the organization's exempt function (such as salary/benefits survey sales)

- Income from any trade or business in which substantially all the work is performed by volunteer labor
- Any trade or business carried on for the convenience of members
- Selling donated merchandise or gifts
- Exhibits and sponsorships
- Qualified convention/conference/meeting or trade show activities regularly conducted by a 501(c)(6) as one of its exempt purposes

The following revenue sources are generally included in the computation of unrelated business income:

- Advertising in publications (e.g. newsletters, membership directories, websites etc.) or other types of media
- Rental income from debt-financed property
- Income from controlled organizations (investment income, royalties, rents received by a tax-exempt organization from a subsidiary, tax-exempt or nonexempt, in which it owns more than an 80% interest)

Note: If you believe your chapter has unrelated business income, you should contact a CPA to discuss the details.

Unrelated business income tax is computed on net taxable income, not gross revenue. Net income is that derived from any unrelated trade or business, less deductions directly connected with carrying on the trade or business.

The filing of Federal Form 990-T will be required if you have gross unrelated business income of \$1,000 or more for the year.

Some Commonly Asked Questions Regarding Unrelated Business Income

1. When is Form 990-T Due?

Form 990-T must be filed by the fifteenth day of the fifth month after the tax year ends.

2. Are Extensions of Time to File Granted?

Chapters can request an automatic extension of six months to file a return by submitting Form 7004, Application for Automatic Extension of Time to File Corporation Income Tax Return. This extension of time to file the return does not extend the time for payment of taxes due.

3. What If the Chapter is Not Tax-Exempt?

If a chapter is not eligible for tax-exempt recognition, it should file income tax returns as a regular corporation (Federal Form 1120, U.S. Corporation Income Tax Return, is used for federal income tax purposes. It may file Form 1120-A if gross receipts are under \$500,000 and its total assets are under \$500,000 (even if it is not incorporated). A chapter must file even if no income was generated. File either Form 1120 or Form 1120-A by the 15th day of the third month following the close of the tax year. Note that a chapter will be taxed as a corporation if its characteristics are such that it more closely resembles a corporation than a partnership or trust. The term corporation includes chapters that are professional societies and associations even if not incorporated.

4. Are 990-T Returns Available for Public Inspection?

An exempt chapter's income tax return (Form 990-T) is not available for public inspection. The annual information return filed by an exempt chapter (Form 990) must be available for public inspection. The requirements for public inspection have expanded to provide for easier access by the public. The changes allow requests to be made either in person or in writing. Copies of the return must be furnished immediately for requests in person and within 30 days for written requests. Chapters are allowed to charge

only a reasonable fee for reproduction and mailing costs. The penalty for noncompliance is \$10 for each day the failure continues, up to a maximum of \$5,000. Tax-exemption applications and IRS tax determination letters are also required for public inspection, with the same penalties for noncompliance.

5. What are the Tax Rates?

All chapters subject to the tax on unrelated business income are taxed at prevailing corporate tax rates.

6. Are Estimated Tax Payments Required?

Tax-exempt chapters must make quarterly payments of estimated tax on unrelated business income under the same rules as corporations. Generally, if an organization expects its tax to be \$500 or more, estimated-tax payments are required.

7. When are Estimated Tax Payments Due?

Estimated-tax payments are due on the fifteenth day of the fourth, sixth, ninth, and twelfth months of the tax year.

8. How are Estimated Taxes Computed?

Tax-exempt chapters should use Form 1120-W, Corporate Estimated Tax, to estimate taxes.

9. How are Estimated Tax Payments Made?

Chapters should deposit all estimated tax payments with Form 8109, Federal Tax Deposit Coupon. These deposits must be made with an authorized financial institution or a Federal Reserve bank in accordance with the instructions on the coupon. Form 8109 can be obtained from your local IRS office, library or your CPA.

Chapters will be required to deposit electronically once they meet applicable thresholds. Regulations require depositors of more than \$50,000 of payroll taxes made in 1995 to begin making deposits electronically as of July 1, 1997 and depositors of more than \$20,000 in 1997 to begin making deposits electronically in 1999.

The IRS has sent confirmation packages that include an enrollment confirmation letter, update form and a payment instruction booklet to depositors enrolled in the Internal Revenue Service's Electronic Federal Tax Payment System (EFTPS). Chapters required to use EFTPS must enroll in the system by filing Form 9779, EFTPS Business Enrollment Form. Chapters who did not receive these forms can request copies by calling 1-800-945-8400 or 1-800-555-4477 or by contacting their CPA.

10. How Much of the Final Tax Liability Must be Paid via Estimated Tax Payments?

To avoid an estimated tax penalty, each installment of estimated tax payments required by the organization must equal at least 25% of the lesser of (1) 100 percent of the final tax liability, or (2) 100% of the tax shown on the chapter's return for the preceding tax year, provided a positive tax liability was shown.

11. What is the Penalty for Underpayment of Estimated Taxes?

An interest penalty is assessed for underpayment of estimated taxes; it is effective on the due date of the tax. Currently, the interest is computed at the short-term federal rate plus 3 percent. This interest rate is adjusted quarterly by the IRS. Interest rates can be obtained from your local IRS office, library or your CPA.

12. Is There a Penalty for Not Filing Form 990-T?

The penalty for not filing Form 990-T by the deadline is 5 percent of the tax due per month, to a maximum of 5 months, or 25 percent of the tax due.

Section 9

LOBBYING ACTIVITY

Frequently Asked Questions: Lobbying, Political Activities and Tax Exempt Status

1. Is my chapter tax exempt under 501(c)(6) or 501(c)(3)?

A chapter is much more likely to be tax exempt under 501(c)(6) than under 501(c)(3)

501(c)(6) is appropriate for non-profit associations and persons having some common business interest and a purpose of promoting such common business interest. Unlike a 501(c)(3), an IRS determination letter is not required, but it is recommended.

501(c)(3) is appropriate for an educational, religious, charitable or scientific non-profit organization.

Although an association of human resource professionals could be an educational 501(c)(3) organization, the IRS will always have a strong bias towards treating such an organization as a 501(c)(6) non profit business association.

In order to be a 501(c)(3) organization, a chapter's organizational documents must have specific language stating that it is a 501(c)(3), prohibiting political activities and substantial lobbying, requiring distribution of assets to another 501(c)(3) organization in the event of dissolution (See IRS publication 557 for model language), and, unless its annual receipts are normally less than \$5,000, it must have an IRS determination letter conferring 501(c)(3) status in order to be exempt under such section.

2. Can a 501(c)(6) chapter engage in lobbying and political activities without threat to its tax exempt status?

Yes.

3. What is the tax consequence of lobbying and political activities of a 501(c)(6) chapter?

If a 501(c)(6) chapter engages in political activities (e.g., creation of a PAC, contributions to a PAC, publication or distribution of written or verbal statements in support of or in opposition to political candidates), such expenditures will be taxable to the organization to the extent of its net investment income under IRC 527. Furthermore, if a 501(c)(6) chapter engages in lobbying or political activities, as defined below, that portion of its dues which is attributable to such expenditures will be non-deductible by its members, and the chapter must include with its annual dues notice, disclosure of a reasonable estimate of the portion of dues which will be non-deductible as being applicable to lobbying and political expenditures during the year. If the chapter fails to provide such a notice with its dues notice, it must pay at the highest corporate tax rate, a tax on the amount which it should have notified its members was the non-deductible portion of their dues.

4. What activities of a 501(c)(6) chapter constitute lobbying or political activities for purposes of non-deductibility of dues?

Lobbying or political activities of a 501(c)(6) chapter include: (i) communications with legislators or their staff in a manner which refers to specific legislation and reflects a view on that legislation, (ii) attempts to influence the general public concerning an election or legislation (i.e. grass root lobbying), (iii) direct communication with certain specified senior US executive branch officials in attempts to influence their official action, and (iv) contributing to or otherwise intervening in political campaigns.

5. What specific activities do or do not constitute lobby or political activities?

Volunteer time does not count toward lobbying; only staff time, expenses, and payments to third party lobbyists are included in lobbying expenses.

Annual lobbying expenses below the de minimus \$2000 per year threshold are excluded from lobbying.

Only communications referring to specific legislation and reflecting a view on that legislation are included within lobbying communications.

Mere monitoring of legislation does not constitute lobbying.

Mere "information sessions" updating members on the status of legislation does not constitute lobbying.

Lobbying on federal and state legislation is covered, but lobbying of local legislation is excluded.

Communications with federal, state or local agencies concerning agency regulations and orders does not constitute a lobbying expense (except for communication with specified senior federal executive department officials).

6. *If a 501(c)(6) chapter does engage in lobbying and political activities covered by the non-deductibility rule, must it make a reasonable allocation of employee time and administrative overhead to such expenses?*

Yes. The Chapter should consult its CPA and IRS regulation § 1.162-28 for allocation rules.

7. *Can a 501(c)(3) chapter engage in political activities or lobby without threat to its tax exempt status?*

A 501(c)(3) chapter may not engage in any political activities (as defined below); it will forfeit its tax exempt status if it does so. A 501(c)(3) chapter may engage in insubstantial lobbying, but will forfeit its tax exempt status if its lobbying activities become "substantial" (as defined below).

8. *What constitutes "political activities," which will cause forfeiture of a chapter's 501(c)(3) status?*

A 501(c)(3) chapter may not intervene in any amount, directly or indirectly, in political campaigns on behalf of or in opposition to a candidate for public office. Prohibited activities include: creation of a PAC, contributions to a PAC, and publication or distribution of written or oral statements for or in opposition to a candidate for public office.

9. *What constitutes lobbying expenses of a 501(c)(3) chapter?*

Lobbying expenses of a 501(c)(3) chapter include: (i) expenses of communications with legislators and their staff, which communications refer to specific legislation and reflect a view on such legislation, and (ii) expenditures of grass root lobbying (communications to the general public which refer to specific legislation, reflect a view on such legislation, and encourage the recipient to take action with respect to such legislation). Lobbying by 501(c)(3) chapters includes local legislation as well as federal and state legislation.

10. *What specific activities do or do not constitute lobbying by a 501(c)(3) chapters?*

Volunteer time does not count toward lobbying expenses; only staff time and payments to third party lobbyists are included in lobbying expenses.

Only communication referring to specific legislation and reflecting a view on that legislation are included within a lobbying communications

Mere monitoring of legislation does not constitute lobbying.

Mere "information sessions" updating members on the status of legislation do not constitute lobbying.

Communications with federal, state or local agencies concerning agency regulations and orders do not constitute lobbying

11. How much lobbying by a 501(c)(3) chapter is “substantial” lobbying so as to forfeit tax exempt status?

A 501(c)(3) chapter (other than a private foundation) may file IRS Form 5768 and elect to have the “substantiality” of its lobbying tested under a “specific expenditure” test. This provides certainty as to what constitutes permissible (i.e., “insubstantial”) lobbying; and in fact a large amount of lobbying expenditures can be made before the expense is deemed to be “substantial” under this test. The “specific expenditure” rules impose a ceiling on “total lobbying” (i.e., direct lobbying plus grass root lobbying) and a ceiling on grass roots lobbying alone. The ceiling is a sliding scale based on the percentage of total exempt purpose expenditures the organization devotes to lobbying. Under the first tier, up to 20% or \$100,000 of the first \$500,000 of exempt purpose expenditures may be devoted to total lobbying, and 25% of that amount, or \$25,000, may be spent on grass roots lobbying, without any taxable effect. If either of those ceilings is exceeded, a 25% tax is imposed; and if either ceiling is exceeded by more than 150%, the tax exempt status is forfeited. Under the “specific expenditure” test, a reasonable allocation of employee time and administrative costs must be added to “lobbying” expenses for purposes of the test. 501(c)(3) Chapters should consult their CPA and IRS regulation Section 56.4911-3 concerning allocation of employee time and overhead to lobbying expenses.

A chapter which does not make the Form 5768 election will be subject to the vague and ill-defined case law on what constitutes “substantial” lobbying. A leading case, *Seasongood v. Commissioner*, held that lobbying activities equal to 5% or less of total activities were “insubstantial.” However, other cases have refused to focus merely on the percentage of total expenses which are lobbying expenses, stating that whether the lobbying of a non-electing 501(c)(3) is “substantial” depends upon the facts and circumstances of each case, and that the percentage of total expenses devoted to lobbying is only one pertinent factor.

12. Will lobbying activities of a Chapter trigger Federal, State or Local registration requirements?

Regardless of whether a chapter is tax exempt under 501(c)(6) or 501(c)(3), its lobbying activities could trigger registration requirements under Federal, State or Local law. The Federal Lobbying Disclosure Act will require a chapter to register and file reports with the U.S. Senate and House if the chapter has at least one employee who spends more than 20% of his/her time during any six month period on lobbying at the federal level (provided that if the chapter does not incur \$20,000 in lobbying expenses during such six month period, it need not register under the Federal law). Numerous State and local governments have lobbying registration laws which could apply to a chapter’s lobbying activities. Before a chapter lobbies at the state or local level, it should check with the law of the applicable jurisdiction to see whether such a lobbying registration law exists, and if so whether the chapter’s activities require registration under such law.

Section 10

FILING FORM 1099

A chapter must file Form 1099-MISC for each person, other than corporations, to whom it has paid at least \$600 during the calendar year for any of the following:

- *Services that were not performed as an employee (e.g., independent contractor, speaker)*
- *Prizes and awards*
- *Rents or royalties*

Form 1099-MISC is due to the recipient by January 31 and is due to the IRS by February 28. Consult your CPA for additional information and reporting requirements.

The chapter must use Form 1096, Annual Summary and Transmittal of U.S. Information Returns, to transmit all of the Form 1099s to the IRS by February 28.

Section 11

TRAVEL AND MEAL REIMBURSEMENT

Travel and meal reimbursements for expenses incurred by chapter officers and members should follow the same authorization and documentation requirements as other disbursements of the chapter.

Ideally, a standard expense reimbursement form should be utilized to summarize and document the business purpose of each expense. Original or copies of receipts should be attached to the form supporting the expense and the form should be signed by the person requesting reimbursement.

Internal control over such expenses are enhanced if at least one officer, other than the person requesting reimbursement, reviews the expense reimbursement form and supporting documentation for propriety prior to the disbursement being made.

The chapter may also want to establish policy (or create an internal operations guide) regarding the types of travel and accommodation arrangements that are considered reasonable and acceptable.

Section 12

RECORD RETENTION GUIDELINES

	<i>Retention Period</i>		<i>Retention Period</i>
Accident reports/claims (settled cases).....	7 years	Minute books of directors, stockholders, bylaws, and charter	Permanently
Accounts payable ledgers and schedules.....	7 years	Notes receivable ledgers and schedules	7 years
Accounts receivable ledgers and schedules	7 years	Option records (expired)	7 years
Audit reports	Permanently	Patents and related papers.....	Permanently
Bank reconciliations	2 years	Payroll records and summaries	7 years
Bank statements	3 years	Personnel files (terminated)	7 years
Capital stock and bond records; ledgers; transfer registers, stubs showing issues, record of interest coupons, options, etc.....	Permanently	Petty cash vouchers	3 years
Cash books.....	Permanently	Physical inventory tags	3 years
Chart of accounts	Permanently	Plant cost ledgers.....	7 years
Checks (canceled-see exception below)	7 years	Property appraisals by outside appraisers	Permanently
Checks (canceled for important payments, i.e., taxes, purchases of property, special contracts, etc. Checks should be filed with the papers pertaining to the underlying transaction)	Permanently	Property records, including costs, depreciation reserves, year-end trial balances, depreciation schedules, blueprints, and plans	Permanently
Contracts, mortgages, notes and leases (expired).....	7 years	Purchase orders (except purchasing department copy).....	1 year
(still in effect)	Permanently	Purchase orders (purchasing department copy).....	7 years
Correspondences (general)	2 years	Receiving sheets.....	1 year
Correspondence (legal and important matters only)	Permanently	Retirement and pension records	Permanently
Correspondence (routine) with customers and/or vendors.....	2 years	Requisitions.....	1 year
Deeds, mortgages, and bills of sale	Permanently	Sales commission reports	3 years
Depreciation schedules	Permanently	Sales records.....	7 years
Duplicate deposits slips.....	2 years	Scrap and salvage records (inventories, sales, etc.)	7 years
Employment applications.....	3 years	Stenographers' notebooks	1 year
Expense analyses/expense distribution schedules	7 years	Stock and bond certificates (canceled)	7 years
Financial statements (year-end, other optional)	Permanently	Stockroom withdrawal forms	1 year
Garnishments.....	7 years	Subsidiary ledgers.....	7 years
General/private ledgers, year-end trial balance.....	Permanently	Tax returns and worksheets, revenue agents' reports, and other documents relating to determination of income tax liability	Permanently
Insurance policies (expired)	3 years	Time books/cards.....	7 years
Insurance records, current accident reports, claims, policies, etc.	Permanently	Trademark registrations and copyrights	Permanently
Internal audit reports (longer retention periods may be desirable).....	3 years	Training manuals	Permanently
Internal reports (miscellaneous)	3 years	Union agreements.....	Permanently
Inventories of products, materials and supplies.....	7 years	Voucher register and schedules	7 years
Invoices (to customers, from vendors)	7 years	Vouchers for payments to vendors, employees, etc. (includes allowances and reimbursement of employees, officers, etc. for travel and entertainment expenses)	7 years
Journals.....	Permanently	Withholding tax statements.....	7 years
Magnetic tape and tape cards	1 year		

Section 13

APPENDIX

Statement	TRUE	FALSE	Not / Applicable	Observations
Each check issued and cashed is endorsed by the payee.				
Two signatures are required on Chapter Checks.				
"A person other than the preparer of the checks reviews supporting documents for accuracy of amount, correctness of coding and spending approval."				
"An officer who did not print or write checks reviews checks and supporting documentation for accuracy of amount and coding. The same officer, and not the check issuer, mails the checks."				
"The treasurer requires segregation of the duty to disburse checks, to receive the bank statement, and to perform a bank reconciliation."				
"The chapter has an authorization and documentation procedure for purchasing, issuing request-for-proposals, request-for-bids, and contracting."				
"At least one officer, other than the person requesting reimbursement, reviews the expense reimbursement form and supporting documentation before scheduling printing of the check."				
The treasurer requires making all payments by check and/or electronic banking so that an audit trail is produced.				
The chapter has an authorization and documentation procedure for travel and meal reimbursement.				
"A standard form, signed by the requester, is used to summarize and document the business purpose of each expense."				
Procedures allow for timely recording of checks issued - to the cash disbursements journal.				
Cash and checks are received through a bank lock box system.				
Procedures allow for timely recording of deposits - to the cash receipts journal.				
Copies of checks received and remittance forms are attached to validated deposit slips.				
A photocopy is on file for each check received and deposited.				
The treasurer requires restrictive endorsement of checks that includes the full name of the chapter spelled out and the bank account number.				
Record keeping facilitates GAAP presentation if the chapter requires audited financial statements. Adherence to SFAS 116 and 117 are particular concerns.				
The chapter records donor-specific types of contributions per SFAS 116.				
The chapter correctly records both a revenue and an expense for the value of volunteer services of a professional (PHR or SPHR).				

Statement	TRUE	FALSE	Not / Applicable	Observations
"If the chapter requires audited financials, transaction detail allows for reporting unrestricted, temporarily restricted, and permanently restricted assets; and for reporting expenses on a functional basis with overhead expenses allocated to each program or department."				
The chapter issues Form 1099-MISC to each person paid \$600 or more during the calendar year for services not performed as an employee or for prizes and awards or for rents and royalties.				
The Treasurer knows the definition of lobbying and is aware of all lobbying activity of the chapter.				
The Treasurer knows the difference between monitoring of legislation and advocacy and can segregate and track these expenses.				
The chapter accurately aggregates and reports lobbying expense on the information return.				
The qualifying chapter notifies members of the accurate portion of their dues that are allocable to lobbying expense and therefore not deductible unless a proxy tax is paid.				
501(c)(3) organizations consider making an election to replace the "substantial part of its activities" test with a sliding scale limitation regarding lobbying activity that exceeds the tax-exempt threshold.				
Financial statements are prepared under GAAP and GAAS when relied on by outside parties for contractual reasons or when required by the by-laws to help assure sound financial management.				
Chapter activities do not violate the tax-exempt purpose.				
"The chapter has its own employer identification number, EIN (also called federal tax ID number)."				
The chapter applied for federal tax-exempt recognition.				
The chapter is not using SHRM's federal tax identification number.				
The chapter complies with both federal and state tax exemption rules.				
"The chapter files an information return, form 990, with the IRS if required to do so."				
The chapter files an unrelated business income tax return (Form 990-T) if required.				
The chapter files a corporate income tax return (Form 1120) if required.				
The chapter files a state income tax return if required.				
"The chapter makes payroll filings (Form 941, Form 940, W-2, W-4, Wage and Tax Statements) if required."				
The chapter makes property tax filings if required.				
The chapter makes sales tax filings if required.				

Statement	TRUE	FALSE	Not / Applicable	Observations
"The chapter files estimated tax payments (Form 8109, Form 1120-W) if required."				
The chapter files electronic filing registration (Form 9779) if required.				
Tax filings are accurate and on time.				
Chapter management is aware of the potential fines and imprisonment for willfully filing fraudulent returns or for not filing returns.				
"The chapter has the advice of a CPA regarding classification of unrelated business income, if it exists."				
Expenses are correctly classified and applied against UBI in determining the net taxable income.				
Annual IRS returns are filed and return copies are maintained.				
The chapter records and reports lobbying activity and expense.				
Taxable unrelated business income is identified and reported.				
"The chapter uses either a one-write system or a double-entry bookkeeping system (manual or computer-based) that is suitable for the volume, complexity of transactions, accuracy, and control needs."				
"The chapter maintains, at a minimum, a cash receipts/disbursements journal (checkbook register) and a general journal for non-cash transactions."				
"Salary records are in good order, accurate, and confidential."				
The method of accounting (cash or accrual) is suitable for management of the chapter.				
The treasurer requires distribution of the bank reconciliation statement to an officer who has no cash-handling responsibilities. This officer reviews the reconciliation for accuracy and matching support.				
The treasurer requires a monthly bank reconciliation.				
The chapter has an effective budgeting and periodic budget review process.				
An interest bearing checking account is established in the chapter's name. Neither the treasurer's nor any other individual's social security number was used in establishing this account.				
The number of persons with check-signing authority is reasonably limited.				
A well organized filing system is maintained.				
The chapter summarizes and reports business transactions at least quarterly.				
The chapter board have approved an investment policy and the policy is in writing. Investments and services of investment advisors and/or fund managers are periodically reviewed for compliance with policy.				

Statement	TRUE	FALSE	Not / Applicable	Observations
The chapter has an investment manager or managers (such as mutual fund managers).				
The chapter investment policy includes a covenant regarding the amount of non-operating investment reserves needed to withstand a downturn in the economy.				
Journals and other records are in good order and up-to-date.				
Check signers do not reconcile the checkbook.				
The chapter has a written policy or guideline regarding the types of travel and accommodation arrangements that are considered reasonable and acceptable.				
The chapter has and follows a policy regarding maintenance of liquid assets.				
The chapter has a policy regarding public inspection of financial records and tax filings. The policy agrees with legal requirements.				
Records are retained per the record retention guide found on page 29 of the SHRM Guide for Chapter Financial Management.				
The Treasurer knows the legal structure of the chapter.				
The chapter has expert advice regarding risk assessment and whether to purchase D & O Liability Insurance.				
Chapter discounts or covenants for D & O insurance are not tied the SHRM policy.				
The Treasurer has not construed advice of chapter relations staff at SHRM to constitute endorsement of an insurance carrier or broker.				
The Treasurer has access to a Webliography of references for doing further research and obtaining tax or accounting forms.				
The Treasurer has access to an e-mail directory (hotline) or listing of professional consultants (fee-based) and SHRM staff for assistance.				
"The Treasurer and subordinates have suitable knowledge, experience and training in accounting and finance to perform the job."				
Chapter Treasurer's know the resources available from SHRM national headquarters.				
Chapter Treasurer's know the responsibilities of the office.				
The chapter has appropriate access to accounting and bookkeeping services for it's size.				
The chapter used an attorney or CPA for advice on incorporation and the not-for-profit application process.				
"The chapter has knowledge of, or access to filing requirements, filing extension requirements and deadlines."				

Statement	TRUE	FALSE	Not / Applicable	Observations
Transactions are recorded in sufficient detail for reporting.				
Transaction records are maintained in sufficient detail for researching to and from source documents.				



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