

501(c)3 Information

Introduction:

The CLYC Board of Directors is evaluating a proposal to separate the sailing school from CLYC and create a 501(c)3 Corporation for the Sailing School only. CLYC would remain a 501(c)7 corporation. All buildings and property would remain the assets of CLYC.

The major benefits of creating a 501(c)3 corporation for the Sailing School are:

1. It will limit liability of CLYC (further protecting the assets and land) in case of an injury or worse occurring during Sailing School;
2. It will allow donors to receive a tax exemption for donations to the 501(c)3 Sailing School;
3. It will allow purchases made by the 501(c)3 Sailing School to be tax exempt.

The major disadvantages of creating a 501(c) corporation for the Sailing School are:

1. CLYC will divest some control over the Sailing School (but we anticipate retaining 2 seats on the new Sailing School Board of Directors);
2. It will require a separate Board of Directors and separate tax filings.

CLYC is in the very small minority of the inland lakes yacht clubs in this area that have not moved their Sailing School to a 501(c)3 corporation. It is the Board's unanimous position that creating the 501(c)3 corporation for the Sailing School is in the best interests of CLYC.

We will discuss this in more depth at our annual meeting.

What is a 501(c)3?

A 501(c)3 is type of incorporation that is used to set up a charitable corporation. We will meet this requirement because we further amateur sports.

Benefits to becoming a 501(c)3:

1. Limiting Legal Liability:

Incorporating the Sailing School as a 501(c)3 makes it a separate legal entity. It places any legal liability for possible injuries/damages during sailing school as the responsibility of the Sailing School 501(c)3 corporation so that the property and possessions of CLYC are further protected from potential creditors.

2. Tax Exempt Status:

501(c)3 corporations are exempt from paying federal income tax.

3. Charitable donations are tax deductible:

Donors to 501(c)(3) organizations are able to deduct their charitable contributions from their own taxes. Deduction of charitable contributions is so important to donors that many will not donate goods or money if the organization does not have a 501(c)(3). Also, the 501(c)(3) exempts the nonprofit itself from paying taxes on donations received.

4. The 501(c)3 is exempt from paying sales tax for purchases.

Cons to becoming a 510(c)3:

1. Once a 501(c)3, always a 501(c)3:

A corporation is either a 501(c)3 organization or it is not. It cannot change its function. If the organization ceases to be a nonprofit corporation, then the organization must be dissolved. If the 501 (c) 3 is dissolved, the assets must be distributed to a recognized non-profit entity.

2. Increased tax filing requirements annually, insurance costs and a separate budget.

3. Less control by CLYC over the Sailing School.

4. Need to have a separate Board of Directors:

The new Sailing School Board of Directors is anticipated to have two members on it from the CLYC Board of Directors.

5. The 501 (c) 3 cannot have a closed membership.

It must be open to all –We already allow this through our sailing camp and sailing school on a limited basis.

The steps to a new corporation:

1. Create the not for profit, chapter 181 company with the state of Wisconsin.

2. Gain EIN from IRS - needed for payroll and opening an operating account.

3. Prepare and produce Corporation by-laws .

4. Once the bylaws are completed and acceptable, the IRS forms need to be filled out and sent in for IRS approval of the 501(c)3 tax exempt status. (time 1 to 27 Months for approval).

Step 3 must be done to get 501(c)3 approval (a submittal document) however once 1 and 2 are completed the corporation can begin operation.