



# Federal Bar Association

## CHAPTERS AND FINANCES: AN OVERVIEW

The Federal Bar Association (FBA) requires that its local chapters be financially and legally separate entities from the FBA. For the purposes of this overview, the following circumstances are assumed to describe accurately the operations of a typical chapter. A chapter is organized for the primary purpose of furthering the professional development of its members in the legal profession. A chapter's primary source of revenue are from programming, CLE, dues rebates and other income from activities substantially related to the chapter's exempt purposes. Many chapters publish a newsletter, which is circulated to members and is not otherwise sold or circulated to non-members. A chapter often sponsors professional development programs such as seminars, luncheon discussions, and CLE panels. Members and non-members are invited to attend such functions and the price charged is intended to defray expenses. Such programs serve the function of professional development, legal education, and promoting the bar.

### CHAPTER TAX EXEMPT STATUS

Each FBA chapter is responsible for obtaining its own tax-exempt status and Employer Identification Number (EIN). A relatively easy process, here's how to go about obtaining these numbers:

FBA local chapters are eligible for tax exemption from federal income tax as "business leagues" within the meaning of Section 501(c) 6 of the Internal Revenue Code. However, recognition of your chapter is not automatic. Each chapter must apply to the Internal Revenue Service (IRS) for recognition of its tax-exempt status.

Application for exemption is filed on IRS Form 1024, "Application for Recognition of Exemption." Instructions for filing this form and the necessary supporting documents are included in IRS package 1024.

In order to file form 1024, the chapter must have an Employer Identification Number. If the chapter does not have an EIN, you must also file form 58-4, "Application for Employer Identification Number" along with your application for exemption. Even if your chapter does not have any employees, your chapter must have an EIN because this is the number that the IRS uses in maintaining the chapter's tax records.

**Please send a copy to the association's office of your chapter's application for exemption and once received a copy of the chapter's Letter of Exemption from the IRS for inclusion in the chapter's permanent file.**

### FILING A TAX RETURN

If your chapter's revenue exceeds \$25,000 during any fiscal year, then the chapter must file a tax return with the IRS, regardless of whether or not the chapter achieved tax exempt status. If your chapter has received tax exempt status, you must file an annual information tax return, Form 990, "Return of Organization Exempt from Income Tax."

This form is due before the 15<sup>th</sup> day of the fifth month following the close of your chapter's fiscal year. If the chapter's income is less than \$100,000 then the chapter may file Form 990EZ.

*You may obtain the necessary IRS forms by contacting the IRS directly at 1-800-TAX-FORM or by visiting the IRS website at [www.irs.gov](http://www.irs.gov). The IRS will also make available upon request Publication 557, "Tax Exempt Status for Your Organization."*

### **ESTABLISHING A CHECKING ACCOUNT**

The chapter should have a checking and/or savings account. The treasurer will typically handle the set-up of such account. The chapter should discuss and determine the bank to be used, which officers are authorized to make withdrawals or sign checks, and how many signatures are required. If the chapter is a 501(c)6 organization and a letter to this effect is on file, use the chapter's tax-exempt number to open the account. If the chapter has not been recognized as a 501(c)6 organization, follow the instructions above for obtaining your chapter's IRS tax exempt number and use this number for all chapter accounts. If you do not have a "Letter of Exemption" from the IRS establishing your chapter's tax status, the bank will most likely ask for personal social security numbers.

### **CHAPTER REBATES**

Chapters receive a rebate from the association that is 20 percent of the dues collected for chapter members during the previous quarter. Rebates are paid on all classes of membership, except Foreign Associates and Law Student Associates. The Chapter Treasurer will receive a rebate check 4-6 weeks following the close of that quarter.

### **THINGS TO CONSIDER**

When officer elections are held, it is important that the new and old treasurer meet and discuss the chapter's financial situation. The old treasurer should hand over all past records to the new treasurer. It is also important that the association offices be notified of the change in officers so as not to interrupt the flow of chapter rebates.

In some states, a chapter must obtain a right to do business in the state. To find out if this is necessary, contact your Secretary of State or Attorney General.

Your chapter may determine that it is beneficial to file for incorporation within your state. Any application for incorporation should be reviewed by the FBA national offices before filing.

Many chapters will find it beneficial to establish a petty cash fund that is used to make change and collect receipts at local programs. Since the cost of most educational meetings is a deductible business expense, the chapter should provide attendees with suitable receipts or documentation.

**\*No part of this Guide should be considered as financial advice.**