

## 501(c)(3) FAQ

### **What are we being asked to vote on?**

The Board is asking the membership to approve the conversion of the Club's corporate status from a non-charitable not-for-profit to a charitable not-for-profit under New York law. Simultaneously the Club would apply to convert from Section 501(c)(7) treatment to Section 501(c)(3) treatment under the Federal tax laws. With your approval, we will amend the Club's Certificate of Incorporation to effect the change in status under the New York Not-for-Profit Corporation Law and file a Form 1023 application with the IRS.

### **Why are we doing this?**

Charitable not-for-profit corporations are exempt from paying NY sales taxes on goods and services they acquire and from charging NY sales tax on goods and services they sell, including memberships and ENY registrations. Absent the change, our sales tax liability would approximate 9% of our revenues. In addition, the change would permit donors of goods and services to the Club (such as ENY sponsors) to deduct the value of those donations.

### **Are We a Charity?**

We are active in at least three of the recognized areas of charitable activity, specifically:

- Education (rider training, leader training, SIG/STS, creation and publication of manuals and similar materials, creation and maintenance of our Ride Library, instruction in First Aid, bicycle maintenance and wheelbuilding, etc.);
- Support for charitable causes (Kids Ride Club, I Challenge Myself and other miscellaneous donations); and
- Promotion of amateur sports.

We believe that these activities have given the Club a charitable cast it had not had before, which is why we are proposing this change at this time.

### **How will this affect our activities?**

This change will not affect our rides, our parties or our other activities. Apart from some incremental paperwork (see below), we believe the change will be invisible to

members.

**Will we have to change our governance? Do we need “independent” directors?**

No and No. We will be governed, as before, by member-nominated officers and directors who are members of the Club. We will not need “outside” or “independent” directors.

**What about requirements that we give away most of our money to charitable causes?**

There are no such requirements. Requirements such as this apply to foundations, but we will not be a foundation.

**Will we drown in paperwork? What will this cost?**

There will be some additional paperwork, but our accountants tell us it will be manageable.

We are being represented by *pro bono* counsel. Filing fees and similar expenses are estimated to be less than \$1,000.

**Will there be limits on our political activities?**

Yes. However we intend to make an election under Section 501(h) of the Federal tax laws, which will limit our political expenditures to 20% of our “exempt purpose expenditures”. Given the limited scope of our political expenditures, we expect to be able to live comfortably within that limit.

**What happens if our application to convert to Section 501(c)(3) status is turned down?**

There would be no penalty for being wrong, and life would continue much as today. We would have to (choose one): (1) charge sales tax on membership dues and ENY registrations, (2) increase both or (3) make do with less revenue.

**Have any other Clubs done this?**

Yes, the Westchester Cycling Club, the Potomac Pedalers Touring Club and the Bicycle Club of Philadelphia, among some 50+ others, have gone this route, successfully.

**Is there any reason NOT to vote for this change?**

Your Board believes there is not. If successful, the benefits to the Club would be significant. If not, there is no harm trying. Either way, the costs will be minimal.