03/20/2011tae

To all Northern California Chapter Councils,

In December of last year, many Councils, received a notification letter, similar to what is below this reminder message. A new tax filing deadline is approaching many councils who reported a federal tax filing account period, based on a calendar year, which ended December 31st 2010. These Councils must file a new Franchise Tax Board ECard, (form 199N) by May 15th 2011. The Councils that received the notification letter from the FTB, had most likely been properly filing their annual federal filings on time for the 2009 tax period, and their federal tax exemption status was the type of entity that is now required to file this new tax form for the State of California. Councils that did not file in 2009, or on time for that period, or may have had an incorrect mail correspondence address on record with the IRS, would not have received the notification letter, but are still required to file under this new regulation. The Chapter, the State, and the Supreme Council are not the overseers of a Council's income tax filings. This is solely the individual Councils responsibility. The Supreme Council only includes each Council as a part of its Group exemption granted by the IRS, if the Council has properly notified the Supreme Advocate of the Councils existence, after formation, and has provided the Advocate with a valid federal tax identification number. Prior to this new regulation for California, Councils with under $25,000.00 in annual gross receipts were not required to file, but were supposed to register as a tax exempt fraternal benefit society with the California Secretary of State's office. Most Councils did not register, not knowing they had to, because first, California recognized the Federal exemptions and second the IRS records did not show any councils delinquent from filing, when their annual gross receipts were under $25,000.00, because the revocation of exemption for delinquent Councils under this status, required 3 consecutive years of not filing a 990N Ecard ending with the 2009 taxable year. The IRS instituted their mandatory ECard filing for the 2007 taxable year, so the first year they could start revoking exemptions was 2010. California started its new policy as soon as the IRS started enforcement of delinquency with the penalties of exemption revocation and collection of taxes after this loss of exemption. If a Council chooses not to file the new FTB Ecard, they will be not be assessed a penalty as noted in the letter below, however after 3 consecutive years of non-filing with the FTB, their IRS exemption, recognized as well in California, will be revoked.

One last clarification, California has not granted Knights of Columbus Councils in California a tax exemption, they have recognized the IRS group exemption that was granted to the Supreme Council as being a valid reason for not pursuing a required annual tax filing by each Council until the taxable year of 2010. Most likely, for Economic reasons, they have decided to now enforce filing, rather than recognize the exemption alone, as being sufficient for their records.

EXEMPT ORGANIZATIONS UNIT MS F120
FRANCHISE TAX BOARD
PO BOX 1286 RANCHO CORDOVA CA
95741-1286

New Reporting Requirements for Small Tax-Exempt Organizations

New reporting requirements for small tax-exempt organizations-take effect January 1, 2011 (California Revenue and Taxation Code Section 23772). Small tax-exempt organizations are those with normal

gross receipts of $25,000 or less who under these new reporting requirements must electronically file FTB 199N, Annual Electronic Filing Requirement for Small Tax-Exempt Organizations (California e-Postcard), available January 2011. This new requirement applies to account periods beginning on or after January 1st, 2010.

Annually, these small tax-exempt organizations must include the following information in electronic form when they file the California e-Postcard. (The term organization and entity are interchangeable.) **[NOTE: Councils are not incorporated or legally termed a Corporation, so they will not have, or need, to acquire a CA Corporation number, however, they will need to register with the California Secretary of State's office as a Fraternal Society, (our real tax exemption title is: "a fraternal benefit society", under our Federal tax exemption ruling), using form LP/UNA 128. Once a Council's registration form is accepted by the CSS, they should receive back an Entity Identification number which will allow them to file the ECard if their annual gross receipts are under $25,000.00.**

Knights of Columbus Councils are not considered Church related organizations in regards to their tax filing statuses, so they are not exempt from filing at least an ECard.

- **Entity identification number or California corporation number**
- **Legal name of the organization**
- **Federal employer identification number**
- **Account period beginning and ending (also known as your tax period or tax year)**
- **If your entity's account period changed**
- **Entity's mailing address**
- **Any other names the entity uses (doing business as or DBA name)**
- **Name and address of a principal officer**
- **Website address, if applicable**
- **Entity's amount of total gross receipts (the gross receipts must be normally $25,000 or less)**
- **If the entity terminated or went out of business**
- **If the entity started business within the current year**
- **Contact person's name and telephone number**

The due date is the same for state and federal purposes - by the 15th day of the 5th month after an organization's tax year ends. Therefore, calendar year organizations must file by May 15th 2011. We do not charge a fee to file the California e-Postcard. If the organization does not file on time, we will send a reminder notice, but will not assess a penalty for late filing. However, if an organization fails to file for three consecutive years, **we automatically revoke its California tax-exempt status.** If this occurs, the organization must reapply using form FTB 3500, Exemption Application, and get approval to regain its tax-exempt status, any income received between the revocation date and renewed exemption date *may be taxable*. **We must publish and maintain a list of the organizations whose tax-exempt status is revoked.** We plan to publish this list on our website in the near future. For more information, go to ftb.ca.gov and search for exempt organizations, or call us at 800.852.5711, select Business Entities Information, and then select option 4 to speak to a representative.

Internet and Telephone Assistance

Website: http://ftb.ca.gov/index.shtml

Telephone: **800.852.5711**

TTYITDD: **800.822.6268** for persons with hearing or speech impairments

The Supreme Councils instructions on tax filing and explanations of the IRS group ruling granted to the Supreme Council which allows each Council to be exempt from taxes:

I. General Information

The Knights of Columbus is a fraternal benefit society, recognized as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code (IRC). All councils and assemblies in the United States are exempt from federal income tax under Section 501 (c)(8) as "fraternal lodges," provided their Employer Identification Number (EIN) is reported to the Supreme Advocate, who in turn will report the number to the IRS for inclusion in the group exemption listing.[2] Each assembly and council must obtain its own EIN from the IRS and submit its own tax return. *(We ask, however, that you **do not** send a copy of your tax return to the Supreme Council).* Further, each council and assembly must also provide its EIN and written authorization to the Office of the Supreme Advocate in order for it to be recognized under the Order's group exemption. Please note that the group exemption does not extend to home corporations or home associations, which are separate legal entities. The Order's group exemption does not exempt councils or assemblies from state and local taxes. For example, assemblies and councils may be subject to state or local sales taxes or property taxes, unless state or local laws specifically exempt these entities. Typically, states grant sales tax exemptions only to organizations that are recognized as charitable organizations under IRC Section 501(c)(3); as a fraternal benefit society under Section 501(c)(8), the Knights of Columbus is not entitled to this exemption. Each assembly and council should consult its own tax adviser, accountant, or legal counsel to determine whether it is exempt from state and local taxes.

[1] For the purposes of this document, the term "council" applies to both state and local councils.

[2] The Order itself is classified under the federal tax code as a "fraternal benefit society."