

THE MOST WORSHIPFUL GRAND LODGE OF ANCIENT FREE AND ACCEPTED MASONS

OF THE STATE OF CONNECTICUT

Committee on Legal Matters Advisory

FORM 990 ANNUAL REPORTING REQUIREMENTS

Applicability and Responsibility:

This document applies to the Grand Lodge of Connecticut, A.F. & A.M., all subordinate Lodges and other fraternal organizations bearing allegiance to this Grand Lodge.

This article was prepared by the Committee on Legal Matters, with the approval of the Grand Master, and is intended to provide readers with general information. Laws and compliance matters undergo continuous changes. Accordingly, readers should refer to written guidance provided by the Internal Revenue Service or other tax advisor.

Discussion

Annually all lodges (exempt from taxation pursuant to IRC Section 501(c)(10)) and building corporations (exempt from taxation pursuant to IRC Section 501(c)(2)) must each file Form 990 within 4 and ½ months following the end of the fiscal year of the lodge or building corporation. This also includes certain lodges and temple corporation who applied for tax-exempt status and the applications are pending.

Failure to file the Form 990, or the wrong Form 990, can result in the imposition of significant late filing penalties and/or loss of tax-exempt status.

Because of the complex nature of compliance reporting for non-profit organizations, the Lodge or temple corporation is encouraged to retain the services of a tax professional to assist in the completion of the Form 990-EZ or Form 990.

Information required to complete Form 990

- A complete accounting of the lodge or building corporation assets, liabilities, income and expenses from the beginning of the year to the end of the year – referred to as the “fiscal year”.
- List of officers with title and any compensation received.
- Analysis of gross receipts for the current year and the two prior years for purposes of determining the average gross receipts which then determines if you can file Form 990-N rather than having to complete Form 990-EZ or Form 990.

Determining what series Form 990 you are required to file

For fiscal years beginning in 2008

Form 990 – Income Report Form for non-profit organizations with more than \$1,000,000 in gross receipts and total assets of \$2,500,000.

Form 990-EZ – Income Report Form for non-profit organizations with more than \$25,000 in gross receipts but less than \$1,000,000 and total assets less than \$2,500,000.

Form 990-N – Simplified electronic reporting form for non-profit organizations with gross receipts normally \$25,000 or less.

For fiscal years beginning in 2009

Form 990 – Income Report Form for non-profit organizations with more than \$500,000 in gross receipts and total assets of \$1,250,000 or more.

Form 990-EZ – Income Report Form for non-profit organizations with more than \$25,000 in gross receipts but less than \$500,000 and total assets of \$1,250,000 or less.

Form 990-N – Simplified electronic reporting form for non-profit organizations with gross receipts normally \$25,000 or less.

For fiscal years beginning in 2010 and thereafter

Form 990 – Income Report Form for non-profit organizations with more than \$200,000 in gross receipts or total assets of \$500,000 or more.

Form 990-EZ – Income Report Form for non-profit organizations with gross receipts less than \$200,000 and total assets less than \$500,000.

Form 990-N – Simplified electronic reporting form for non-profit organizations with gross receipts normally \$50,000 or less.

Cautionary Note:

If you are required to file Form 990-EZ, you must determine if you are a "controlling entity". If the tax-exempt organization is a "controlling entity", you must file Form 990 and not Form 990-EZ. See IRS instructions to the Form 990-EZ for line 45(a) to determine if this applies to your lodge or building corporation.

The issue is germane to a lodge and not the building corporation.

Based on the IRS instructions, a lodge would be considered to be a "controlling entity" if the lodge owned more than 50% of the stock of a building corporation. Although most building corporations are non-stock corporations, there are a few older corporations that are stock corporations. If the lodge owns more than 50% of the stock, the lodge is probably a "controlling entity" and Form 990 must be filed rather than Form 990-EZ.

For non-stock building corporations, control means that over 50% of the building corporation directors or trustees are either representatives of, or directly or indirectly controlled by, the lodge. A trustee or director is controlled by a lodge if the lodge has the power to remove such trustee or director and designate a new trustee or director. To make that determination it is necessary to refer to the building corporation's Articles of Incorporation and By-laws.

If in doubt, it is recommended Form 990 be filed rather than Form 990-EZ until the IRS gives further guidance.

How to determine "gross receipts" for this filing threshold

"Gross receipts" are the total amounts the organization received from all sources during the fiscal year, without subtracting any costs or expenses.

Includes donations received, dues, investment income from savings, mutual funds, stocks and bonds (including assets held by trustees), gross rental income, tenant reimbursement of utilities, etc, gross proceeds from the sale of assets (including stocks and securities), gross fundraising revenue, gross funds collected by Junior Warden for meals & refreshments.

The following are examples of how to determine “gross receipts” for purposes of determining which Form 990 to file. Keep in mind the filing threshold test is based on a 3-year rolling average. As a result, complete the analysis for the 2-years preceding the current year, and determine the **average gross receipts** for the 3-year period.

	Revenue	Receipt Test
Lodge - Example		
Dues & assessments received	\$ 10,280	\$ 10,280
Bank interest received	1,500	1,500
Dividends received	5,250	5,250
Donations received	1,350	1,350
Sale of investments		
Sales proceeds	\$ 45,500	45,500
Cost of securities	<u>(56,350)</u>	
	(10,850)	
Junior Wardens fund		
Collections	\$ 500	500
Cost of food & beverages	<u>(500)</u>	
	-	
Special events		
Steak roast	\$ 5,650	5,650
Cost of food & beverages	<u>(3,280)</u>	
	2,370	
Total	<u>\$ 9,900</u>	<u>\$ 70,030</u>
Building corporation - Example		
Bank interest received	\$ 150	\$ 150
Rental income		
Gross rents received	\$ 18,900	18,900
Rental expenses	(26,000)	
Tenant reimbursement of expenses	<u>7,500</u>	7,500
	400	
Total	<u>\$ 550</u>	<u>\$ 26,550</u>

The most common error is to consider only the lodge dues and assessments when determining the filing threshold and failing to take into consideration investment activities of trustees or other fundraising activities. The gross proceeds from sales of investments and gross proceeds from special events can cause a lodge to go from having to file a Form 990-N to a Form 990-EZ or Form 990.

How to determine if "gross receipts" are normally not more \$50,000

This is an important computation and is used to determine if Form 990-N can be filed rather than Form 990-EZ or Form 990.

The computation is based on a 3-year average using the "gross receipts" described above for the current year, and two immediately preceding years.

Appropriate documentation should be maintained in the lodge records to substantiate the determination of the 3-year average was \$50,000, or less.

How to determine "total assets" for the filing threshold

Assets are computed on a cost method of accounting although investments (such as stocks and mutual funds) may be reported on a Fair Market Value ("FMV") or cost method of accounting, and the determination is made at the end of the year.

The cost method refers to an accounting concept wherein assets are recorded and accounted for based on the amount paid to acquire the particular asset.

Lodges - As a practical matter, lodge records are likely to be sketchy with many items such as furniture and regalia being so old that records do not exist or are not readily available. The assets to focus on are bank and savings accounts and the lodge investments.

Building corporations – Information regarding the cost of the lodge building and improvements made to the property over the years should be available. The cost of the property would be segregated between land and structures. The building would be subject to depreciation, an accounting concept designed to reduce the cost of the asset thereby reflecting the decline in economic value. Building corporations may also have other assets such as investments and bank accounts.

For purposes of determining if Form 990-EZ or the more complex Form 990 must be filed, the computation of "**total assets**" becomes important. As a practical matter, for 2008 and 2009 the threshold is high enough that lodges are likely to be required to file either Form 990-N or Form 990-EZ. However, for 2010 and subsequent years, a lodge may be required to file the more complex Form 990 if the average gross receipts are more than \$200,000 or a lodge has total assets of \$500,000 or more. The asset threshold could easily cause an unsuspecting lodge into Form 990 due to their investment portfolio.

Determining the “fiscal year” used for completing the Form 990

“Fiscal year” refers to a twelve month period. The reporting period begins on the first day of a month and ends on the last day of a month. Absent an election by the entity, the default “fiscal year” utilized by the IRS is December 31st. An entity can elect a different “fiscal year” when filing their first return. A “fiscal year” can be changed by a lodge or building corporation by following IRS requirements for changing their “fiscal year”.

Lodges:

Many lodges have adopted a “fiscal year” of December 1st through November 30th. There are some lodges utilizing a “fiscal year” such as January 1st through December 31st.

The choice of a “fiscal year” is left to the lodges to decide. Once selected, the same fiscal year must be utilized every year unless a lodge follows IRS requirements for changing their “fiscal year”.

With the difficulties of completing the accounting of lodge assets, income and expenses in time for the December annual meeting, the Committee on Legal Matters suggests lodges consider adopting a “fiscal year” of October 1st to September 30th for financial reporting purposes. Using a fiscal year of September 30th would result in a Form 990 series filing due date of February 15th.

The fiscal year of the lodge most likely will not be disclosed in the by-laws of the lodge. The Model By-laws have added language describing the “fiscal year” of the lodge. Lodges are encouraged to add this language when considering other amendments to their by-laws.

Building corporations:

Many of the corporations have adopted a “fiscal year” of December 31st.

The “fiscal year” should be disclosed in the corporation’s by-laws.

The committee recommends adopting a “fiscal year” of December 31st or adopting a fiscal year that coincides with the “fiscal year” of the lodge.

What year Form 990 should be filed?

This can be confusing. The Form 990-EZ and Form 990 each have a year noted on the upper right hand corner of the form.

The “year” for purposes of filing the correct Form 990 is determined by the beginning of the “fiscal year” of the lodge or building corporation.

For example:

If you are reporting on the activity of your lodge for the “fiscal year” December 1, 2013 and ending November 30, 2014, you will use the 2013 Form 990.

On page 1, line A, of the Form 990 or 990-EZ the fiscal year must be shown. The IRS prompts you to indicate the “tax year beginning _____, 2013” if you are planning on using the 2013 Form 990 or 990-EZ.

Financial information which must be obtained and reported to the IRS?

The Form 990 requires you to report all of the assets and liabilities of the lodge as of the first day of the “fiscal year” and the last day of the “fiscal year”. This information is commonly referred to as the “balance sheet”. In addition, you will need the total of the receipts and disbursements of the lodge for that twelve month period.

Thus, you must accumulate all financial records including but not limited to; treasurer and secretary books of accounts; bank, brokerage and investment fund statements, and other assets of the lodge maintained by the Treasurer, Secretary, Trustees, and Committees established in the lodge by-laws or created by appointment of the Worshipful Master, and other individuals having possession or control over assets of the lodge.

This process takes time and is the most challenging part of the process for lodges and the person charged with filing the Form 990. A good start may be the Treasurer and Trustee reports submitted to the lodge at the annual meeting along with a copy of the prior year Form 990.

Filing Form 990-N

If the lodge or building corporation is not required to file Form 990 or Form 990-EZ, Form 990-N must be filed electronically.

The Form 990-N is essentially a registration process to reaffirm the existence of the organization and contact information. To complete the Form 990-N you need to go to the IRS website section for [Annual Electronic Filing Requirement for Small Exempt Organizations](#).

Form 990-N cannot be filed prior to the end of the fiscal year of the lodge or building corporation, and must be filed no later than 4 and ½ months after the end of the fiscal

year. For example, if the lodge has a year-end of November 30, 2014, the Form 990-N must be filed by April 15, 2015.

The following information is needed prior to filing the Form 990-N:

- The federal employer tax identification number for the tax-exempt entity filing.
- Legal name of the entity.
- Know the year-end of the tax-exempt entity.
- The name and address of the principal officer (Worshipful Master for the lodge and President for the building corporation).
- User name and password and email address for confirmation of the acceptance of filing.

After filing, remember to print the filing summary. You will also receive an emailed confirmation of acceptance of filing. It is very important these documents are retained in the permanent lodge records and not at the home or office of the person who filed the Form 990-N. Do not lose the filing confirmation.

Filing Form 990-EZ

The Form 990-EZ can be completed and filed electronically at the IRS website. Prior to venturing to the website to electronically file, the Committee recommends printing the Form 990-EZ, the associated schedules and instructions (see the IRS Forms and Publications page) and completing the entire Form 990-EZ on paper first.

The following are comments regarding information required to be provided on Form 990-EZ (these are not all inclusive and may not be applicable to your lodge). **You must refer to the IRS instructions for Form 990-EZ for complete guidance.**

Page 1

- Item A – Reporting period
 - This is your “fiscal year” described above.
- Item B – certain events
 - Address Change – check this box if the address changed. In Item C you would use the new address. You should also file Form 8822 – Change of Address.
 - Name Change – check this box if the name changed due to merger.
 - Lodges would need to attach a copy of the revised bylaws of the lodge which have been adopted by the lodge and approved by the Grand Master.
 - Temple corporations would need to attach a copy of the amended articles of incorporation filed with the Secretary of State office.
 - Initial return – check this box if this is the first filing of the Form 990 series and have not previously filed Form 990, 990-EZ or 990-N.

- Termination – check this box if the lodge or temple corporation has dissolved and this is the final return. Complete Schedule N and attach documents specified in the instructions to Schedule N. Line 36 of Form 990-EZ should be checked yes.
- Application pending – check this box if lodge or temple corporation has filed Form 1024 for recognition of tax-exempt status with the IRS.
 - Lodges – this would apply to lodges who had their tax-exempt status revoked and have submitted a Form 1024 for reinstatement but not yet approved. New lodges issued a Charter by Grand Lodge are automatically exempt due to the Grand Lodge group exemption and would not check this box but would check the box for “Initial return.”
 - Temple corporations – this would apply to temple corporations who are applying for tax-exempt status and have submitted a Form 1024 but not yet approved.
- Item C – Name and address of organization
 - The name should be consistent with the name in the IRS records and will typically start as “Ancient Free & Accepted Masons of CT...”
 - The address should be the address of the lodge. The Committee strongly recommends, pleads, and begs lodges not to use the home address of a brother. If lodges do not have a physical mail box, the lodge needs to rent a Post Office box. The IRS sends notices and correspondence regarding the Form 990 and other matters based on the address used on the Form 990. A claim that a notice was not received, when sent to the address of record, will not be an adequate defense from penalties and other actions the IRS will deem appropriate.
- Item E – Using the phone number of the Treasurer is recommended.
- Item F – Group exemption number – **0608** (This is applicable only for lodges.)
- Item G – Accounting method
 - Lodges generally will use the “Cash” method of accounting.
- Item H – Schedule B
 - Complete Schedule B if the lodge received any contribution or bequest for use exclusively for religious, charitable, scientific, literary, etc, purposes or, received non-charitable contributions of \$5,000 or more.
- Item I – all lodges should have a web page address on the Grand Lodge website.
- Item J – Organization type
 - Lodges will indicate 501(c)(10)
 - Tax-exempt building corporations will indicate 501(c)(2)
- Item K – form of organization
 - Lodges should indicate “Association”
 - Tax-exempt building corporations should indicate “Corporation”

- Lodges -

- Part I – Revenue, Expenses and Changes in Net Assets or Fund Balances

This is essentially the income statement. Remember, income and expenses reported by the Treasurer, Committees and Trustees must be combined and reported in total within this section.

- Line 1 – report any donations received
- Line 3 – report lodge dues, initiation & affiliation fees, and assessments
- Line 4 – report interest and dividend income
- Line 5(a) – report the gross proceeds from the sale of investments and other assets
- Line 5(b) – report the cost of the investments and other assets. Cost will be the amount you reflect in the lodge accounting.
- Line 6 is used to report fundraising activities and other social activities when there is a charge to attend.
- Line 7 – sale of inventory generally will not be applicable.
- Line 8 – report other sources of income not reported above. Note, a transfer of funds from the Trustees to the Treasurer is neither an item of income nor an item of expense, but merely a transfer of lodge assets between accounts.
- Line 10 – report grants paid. This typically would be donations, scholarships or similar items. Payments of the GL assessments should be reported on this line.
- Line 11 – generally blank.
- Line 12 – generally blank unless the lodge has employees.
- Line 13 – report payments to attorneys, accountants and other independent contractors. This would include “gratuities” paid to lodge officers not reported on Line 12.
- Line 14 – report the lodge rent, utilities, repairs & maintenance, real estate taxes and depreciation expense.
- Line 16 – report all other costs not reported within lines 10 - 15.

- Building corporations -

▪ Part I – Revenue, Expenses and Changes in Net Assets or Fund Balances

The corporation is exempt as a title holding corporation. The function of the corporation is to hold title to assets of the affiliated organization, collect income, pay expenses and then remit any remaining income to the affiliated organization at the end of the year. With that in mind, please note the following comments:

- Line 1 – this line should be blank. Building corporations should not be receiving donations.
- Line 2 – report on this line rental income received from the lodge or from other non-profit organizations if their rent is set below market for the purpose of aiding their exempt function.
- Line 3 – this line should be blank.
- Line 4 – report interest and dividend income. Also included would be rental income from investment property (rental at FMV to unaffiliated non-profit organizations and other tenants).
- Line 5(a) – report the gross proceeds from the sale of investments and other assets such as the land and building.
- Line 5(b) – report the cost of the investments and other assets. Cost will be the amount you reflect in the lodge accounting.
- Line 6(a) & (b) – these lines should be blank. Building corporations should not be engaged in fundraising activities.
- Line 7 – this line should be blank.
- Line 8 – report other sources of income not reported above. Note a transfer of funds from the Trustees to the Treasurer is neither an item of income nor an item of expense, but merely a transfer of lodge assets between accounts.
- Line 10 – report payments to your lodge. The building corporation should not be used for donations, scholarships or similar items.
- Line 11 – generally blank.
- Line 12 – generally blank unless the building corporation has employees.
- Line 13 – report payments to attorneys, accountants and other independent contractors. This would include amounts paid to officers and directors not reported on Line 12.
- Line 14 – include costs of operating and maintaining the property.
- Line 16 – report all other costs not reported within lines 10 -15.

– All Filers –

- Line 19 – see Part II, Line 27, Column A, on page 2.
 - Line 20 – generally this line will be blank unless there is a merger or closing of a lodge or dissolution of a building corporation resulting in a transfer of assets.
 - Line 21 – this line must agree with Part II, Line 27, Column B, on page 2.
- Part II – Balance Sheet
 - This section must be completed by all filers. Column A, lines 22 – 27, will be the amounts reported on last year’s Form 990-EZ, Column B.
 - Part III – Statement of Program Service Accomplishments
 - You need to attach a statement of exempt purpose. The following are examples of statements.
 - Lodge
 - *This organization is a Masonic lodge created by charter from the Grand Lodge of Connecticut A.F. & A.M. Freemasonry is a charitable, benevolent, educational and religious society. Freemasonry impresses upon its members the principles of personal righteousness and personal responsibility, enlightens them as to those things which make for human welfare, and inspires them with that feeling of charity, or goodwill, towards all mankind which will move them to translate principle and conviction into action.*
 - Building corporation
 - *This entity holds title to the temple building that is occupied by Masonic lodges and affiliated organizations (if applicable).*
 - You need to identify program service accomplishments. Generally you would provide a general statement concerning the overall activities of the lodge or building corporation. Additional purposes could be related to charitable activities or scholarship programs. Expenses related to fulfilling those activities may be reported in the Column “Expenses”, but are not required.
 - Part IV – List of Officers, Directors, Trustees and Key Employees.
 - In Column A - Report the brothers holding the officer positions described in your by-laws, as well as trustees. Address is optional.
 - In Column C – report compensation paid to any brother during the year if the amount would be required to be reported on Form W-2 or Form 1099. This may include gratuities paid by some lodges to Treasurer, Secretary, etc.
 - Columns D and E will generally be blank.
 - Part V – Other information.

Pay close attention to how these questions are answered. The following are comments to assist you with understanding what is being asked of you.

- Line 33 – change in the activity of the organization.
 - For lodges a change in activities of the lodge is unlikely and the answer would typically be “no”.
 - For building corporations a change could occur if the building is sold and a replacement property is not intended because that significant activity has been discontinued.
- Line 34 – this is answered yes if your organizational documents have changed. Organizational documents would be the by-laws. If that occurs, answer yes and attach a photocopy of the signed by-laws.
- Line 35 – concerns Form 990-T and Unrelated Business Income Tax. See the discussion below regarding the Form 990-T and filing requirements.
- Line 36 – answer this question “yes” if the lodge is merged with another lodge or the lodge goes dark; surrenders its charter and transfers the assets to GL. A building corporation would answer this question “yes” if the corporation is merged, dissolved or substantial contraction such as a transfer of a significant portion of the assets to the lodge. This question would also be answered yes if there is a sale or other disposition of more than 25 percent (based on FMV) of assets during the year. Schedule N must be completed if Line 36 is answered yes.
- Line 37 – concerning expenditures for political purposes should always be answered “no”. If this is answered “yes” your District Deputy must be notified.
- Line 38 – concerning loans to officers, directors, trustees and key employees should always be answered “no”. If this is answered “yes” complete Line 38(b), Form 990 Schedule L, and notify your District Deputy.
- Line 39 – this is “N/A” and should be left blank.
- Line 40(a) – this is N/A for a lodge and title holding corporation.
- Line 40(b) – this is “N/A”.
- Line 40(e) – this answer is most likely “No”.
- Line 41 – Connecticut, if applicable (see Connecticut reporting requirements on page 16 of this memo).
- Line 42(a) – generally the Treasurer.
- Line 42(b) – if you do have foreign bank and investment accounts (not foreign stocks or mutual funds) answer yes and be sure to also file Form 114 electronically by June 30th. Significant penalties apply if not filed.
- Line 42(c) – should be “No”.
- Line 43 - this is “N/A”.
- Line 44(a) – (d) - this is “N/A” and should be answered “No”.
- Line 45 – you need to review the discussion “Cautionary note” on page 2 of this document and the IRS instructions to this line to determine if you

are a "controlling entity". ***If yes, you must file Form 990 rather than Form 990-EZ.***

- Line 46 - should always be answered "no". If this is answered "yes" your District Deputy must be notified.
- Part VI – Section 501(c)(3) Organizations
This section is "N/A" for lodges and building corporations.

After completing the Form 990-EZ what should be done?

Always retain a copy of the completed Form 990-EZ with the permanent records of the lodge. If you mail the Form 990-EZ, you should mail "certified mail" with a return receipt card as a means of documenting timely filing. If you electronically file the Form 990-EZ, you should print and retain the e-file confirmation.

Filing Form 990

The Form 990 is more complex to complete and beyond the scope of this article. If your lodge or building corporation is required to file Form 990, we recommend you retain the services of an accountant to complete the return.

What to do if the Form 990 series cannot be filed by the due date of the return

Two 3-month extensions of time to file may be requested by completing Form 8868, Application for an Extension of Time to File an Exempt Organization Return.

The initial 3-month extension is done by completing Part I of the Form 8868 and filing with the IRS prior to the original due date of the Form 990-EZ or Form 990.

A second 3-month extension of time to file may be requested by completing Part II of Form 8868. A valid reason why the Form 990 cannot be completed on time must be provided. If a reason for the extension is not provided, the extension will be denied. The Form 8868 should be filed well before the expiration of the first extended due date.

All extensions should be mailed to the IRS "certified mail" with a return receipt card as a means of documenting timely filing.

Are there any consequences if the Form 990 series is not filed on time?

Form 990-N filers will risk losing their tax-exempt status if the Form 990-N is not filed by the tax-exempt organization for 3-years. In the past two years nearly a dozen lodges or temple corporations have lost their tax exempt status due to their failure to file Form 990-N and the reinstatement process is time consuming and expensive.

Form 990-EZ and Form 990 filers are subject to a late filing penalty of \$20 per day until filed, not to exceed the lesser of \$10,000 or 5% of the gross receipts of the organization and will risk losing their tax-exempt status.

What to do when the lodge or building corporation merges and ceases existence?

Following approval from Grand Lodge, lodges and tax-exempt building corporations which merge or dissolve will need to file a final Form 990 in order to notify the IRS of termination of existence.

On page 1 of the Form 990 you should check the Box “Termination” and complete Schedule N – Liquidation, Termination, Dissolution or Significant Disposition of Assets.

For a lodge, there must be notice to members, a resolution to merge presented to the lodge members and a vote to approve the merger as provided for in the by-laws. A certified copy of the approved resolution must be attached to the Form 990.

For a building corporation, in addition to the above items the corporation should attach a copy of the filing with the Secretary of State office to merge or dissolve the corporation.

Depending on the assets involved, the lodge or tax-exempt building corporation may request a private letter ruling from the IRS approving the proposed merger, dissolution or liquidation thereby confirming the transaction will be non-taxable.

In all cases, the officers must attend to the assets of the lodge or corporation. This requires titling the bank and investment accounts, real estate and other property in the name of the successor entity. For the bank and investment accounts the Federal tax identification number must be changed to that of the successor entity.

We are tax-exempt but is there a chance we would have to pay income taxes?

On Form 990-EZ, in Part V, line 35, you were asked if there was “unrelated business gross income” of \$1,000 or more.

Unrelated business income, also referred to as, “UBI”, is income derived from any business activity regularly carried on by a lodge or building corporation that is not substantially related to its exempt purpose or function.

Typical types of UBI would include

- Pass-thru from partnership investments
 - This could occur if the lodge or building corporation invested in “publicly traded partnership interests” regularly traded on the stock exchanges.
- Rental income from tangible personal property.
 - This could occur if the lodge or building corporation rents lodge furniture for events. If the facilities are rented and the tables and chairs are incidental to the rental, there would be no rental income from tangible personal property. If furniture is rented, it will be necessary to address Connecticut sales tax.
- Debt financed income.

- If the Treasurer or Trustee(s) trade on margin, investment income from those leveraged investments will result in debt financed income.
- If the building corporation has a mortgage and the property has rental income (including rent from the lodge) the net rental income will result in debt financed income.
- Advertising income
 - If you solicit paid advertising for such items as a newsletter, you will have advertising income. This should be distinguished from an “Ad Book” the proceeds of which are for a charitable fundraiser.

If the lodge building is encumbered with debt, and you are considering selling the building, you will need to consider whether any profit realized from the sale will be classified as UBI and subject to tax.

The IRS instructions to Form 990-T will provide detailed guidance regarding UBI.

We have determined we do have unrelated business income, what do we do?

You will be required to complete IRS Form 990-T and pay income tax on the UBI in excess of \$1,000, via electronic payment. You will also be required to file Form CT-990-T with the CT Department of Revenue Services.

If taxes exceed \$500, you will be required to pay estimated payments, via electronic payment.

Please refer to the IRS instructions for Form 990-T the Connecticut instructions for Form CT-990-T.

Reporting requirements with Connecticut

The Connecticut Solicitation of Charitable Funds Act requires most organizations to register with the Department of Consumer Protection if the organization engages in any activity that involves the solicitation of contributions. The Department of Consumer Protection is responsible for administering the compliance provisions of the Act. The Attorney General has responsibility for initiating civil and criminal proceedings against individuals and organizations violating provisions of the act. Both agencies work jointly through the Public Charities Unit of the Attorney General’s office.

Fundraising activity includes telephone, mail and in-person solicitation of donations, raffles, or the sale of goods or services.

If your lodge engages in fundraising activities you need to take action:

- If your lodge normally receives less than \$50,000 in contributions/donations annually the lodge is exempt from annual reporting requirements provided the lodge does not compensate any person primarily to conduct solicitations.

The lodge should complete Form CPC-54 – Claim of Exemption from Registration. This form can be obtained from the [Department of Consumer Protection](#). There is no filing fee and the Form CPC-54 needs to be filed only once.

Please note - The \$50,000 threshold is determined on a “gross receipts” basis. Thus if your lodge holds fundraising event for a scholarship program, raffling an auto, and collects \$83,000 in raffle proceeds and awards a auto costing \$40,000, the lodge has exceeded the \$50,000 threshold and would not be exempt from the registration and reporting requirements of the Connecticut Solicitation of Charitable Funds Act.

- If your lodge does not qualify for exemption you must register annually by completing Form PCUREG-01 – Charitable Organization Registration Application.

The lodge will be required to annually register with the Department of Consumer Protection; pay a filing fee and provide a copy of their Form 990 or 990-EZ and in certain situations, undergo a financial audit.

For information call 860-808-5030 or go to the Attorney General’s Office website <http://www.ct.gov/ag/> and go to the Charities page.

NOTE: If the Lodge, Fellowcraft Club, etc., holds a raffle, bingo, Las Vegas night, or other games of chance as a fundraiser, Connecticut law does allow certain organizations to conduct games of chance but permits are required. Inquiries should be directed to Division of Special Revenue, 555 Russell Road, Newington, CT 06111. www.state.ct.us/dosr.

Summary

If additional information is needed you are encouraged to go to the IRS webpage [“Charities & Non-profits”](#) for information. To keep abreast of current developments we recommend [subscribing](#) to the Exempt Organization’s EO Update newsletter.

While it is not necessary to retain a professional tax return preparer to prepare Form 990-N; the officers of the lodge should carefully consider whether there are lodge members capable to assemble the financial information required and complete either Form 990-EZ or Form 990. Completing the forms incorrectly or filing the wrong 990 series form can result in the imposition of significant financial penalties for the lodge.

This article is intended to provide the Grand Lodge of Connecticut, A.F. & A.M., all subordinate Lodges and other fraternal organizations bearing allegiance to the Grand Lodge of Connecticut, A.F. & A.M. with general guidance and information. Specific questions should be referred to the IRS, Connecticut DRS or a professional tax advisor.