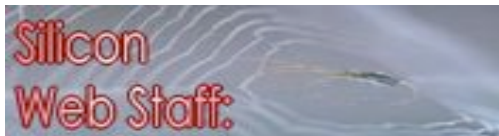




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### Editor's message

Dana MacDermott

Included in this issue is a report by ICG Treasurer, Bruce MacDermott, on the currently being considered question of the new regulations applying to educational non-profit organizations, and how they do or might affect the chapters of the International Costumers' Guild. This is a very significant issue.

### Treasurer's Report

Bruce MacDermott

#### Tax Exempt Status: To Exempt or Not to Exempt, that is the question...

The ICG board of Directors has been in discussions regarding filing for a Group Exemption Letter that would extend 501(c)(3) federal tax exempt status to all chapters who agree to the IRS requirements. When the ICG was founded and incorporated as a non-profit corporation in the State of Maryland, the federal laws allowed for the extension of that tax exempt status to the "subordinate organizations" of the parent organization. As chapters, we were, thus, exempt from federal taxes on all income generated in support of our membership related activities. All of that changed, however, after the passage of the "Patriot Act". The definition of "subordinate organizations" changed, becoming significantly more restrictive. The Chapters were no longer extended tax exempt status automatically. Instead, it became necessary for the parent organization to file for a "Group Exemption Letter" (GEL). This request or a GEL involves the inclusion of documentation showing that numerous requirements have been met.

Before looking at these requirements, let's look at what advantages might be gained should a chapter be included in a GEL.

First, let me state that I am not an expert on non-profits or on the advantages or lack of advantage that non-profit status provides an organization. That said, I can provide some insight into the issues.

Simple Answer:

501(c)(3) exempt organizations do not have to pay federal taxes on income that is generated for the sole benefit of their membership and/or educational purposes. Having Federal 501 exempt status, however, does not automatically mean that your

organization has State exempt status. That generally requires the filing of a state form requesting such status be granted to the organization. Federal status, however, has a significantly positive influence on the state approval process

Donations to exempt organizations are deductible for state and federal tax purposes. Raising money is easier for that reason.

A non-exempt organization is subject to payment of taxes (state and federal) for all proceeds (dues, commissions received, sales of old costumes, etc.) that exceed the state and federal minimum income level for paying taxes. Federal limit is currently \$500. That is for all *income*, not to be confused with *net profit* (Income less Expenses).

Donations to non-exempts are not deductible for federal and/or state taxes.

Implications:

For Canadian Chapters - none. They do not pay taxes to the IRS and US non-profit status does not apply to organizations in Canada. For the Greater Columbia Fantasy Costumers Guild - none. They have their own independent 501(c)(3) status granted at the same time as the ICG's

For chapters with no income besides dues payments - minimal. They are flying "below the IRS radar", and will probably never find themselves being audited for non-payment of taxes, unless there is a change in enforcement policy.

For chapters who hold occasional small events with an admission charge - definite benefits.

For any chapter that is considering hosting any sort of costume related convention -- you would be crazy not to be exempt.

End of simple answer.

In order for the individual Chapters of the ICG to be granted Exempt Status under the ICG's non-profit exemption, they would have to agree to be governed by the "Uniform Governing Instrument", (UGI). To attain local state exemption, they would each have to also file for State non-profit or not-for-profit exemption status. This eliminates the (under the radar) approach to taxes.

It remains to be seen if the "Uniform Governing Instrument", as written, will be approved by the IRS examiner. At this point, the UGI is no more than a list of the By-Laws and Standing Rules that pertain to the IRS requirements. Our approach is to "define as little as possible" where the regulations are vague. Let them (the IRS) counter with a "not sufficient control" or whatever, complaint, if they consider it necessary. We would then modify the instrument to a degree acceptable to the chapters (and hopefully the IRS), send it back for approval, and await their next response. There is no charge beyond the initial \$900 for the approval process.

Here are some things to consider when deciding if exempt status is a good idea for your group:

If the group does not have its own federal Employer Identification Number (EIN), then income (all) is required to be reported on an individual tax return under the Social Security Number of one of the organization's officers or "owners". The result will be an increased tax burden of the "owner", one way or another. If the chapter has a bank account, it has had to provide either a social security number or an EIN. If a Social Security number was provided, then the person whose number was given is responsible for taxes on all receipts.

Many small group organizations (SiW, I must admit, is among them) choose to ignore this requirement and assume that the IRS and/or State tax board have bigger fish to fry, so they will not be likely to run into difficulties with the "law" if they ignore this ("it's not mine") income when filing tax forms. This is a reasonable (but not valid) approach, given the low probability of being audited by the IRS, as an example, for groups with few activities beyond dues collection.

Former chapters which held major events, however, could, and most likely did, generate cash flows that far exceeded the minimum reporting requirements of either the State or Federal tax authorities. A quick visit to the state taxing authority website would confirm my statements. The ICG's 501(c)(3) status did not eliminate the need to file for state non-profit exempt status nor the need to file annual State Non-Profit tax returns.

It should be noted, however, that it is a good idea, even if your income is under the reporting limits, to file state and federal forms. That is the best way to document your exempt status. It is much easier to point to filed forms as proof, than to try to reconstruct your financial history from sketchy books kept by a Treasurer, who, for example, only wrote down who was paid, but not what the payment was for.

Few of the current ICG chapters generate sufficient income to rise above the IRS's radar. Chapters who have events and charge admission, however, should seriously consider the consequences of not having exempt status.

All non-profits must meet the tax filing requirements of the state where they maintain their office.

***For a discussion of the requirements for a chapter to be included in a Group Exemption Letter, see page 7.***

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## **Halloween in the Castro**

By Richard Man

Halloween in the San Francisco Castro district is quite famous for drag queens, pregnant nuns, various costumers, along with up to half a million folks partying. This was our first Halloween-in-the-Castro outing.

As people who frequent anime, SF&F cons and Costume Cons, we have seen a lot of high quality costumes. To judge Halloween costumes put on by revelers by those standards would be unfair. Yes, there were a number of drag queens and pregnant nuns. There were also clever costumes such as a set of music playing Tetris pieces, and a couple dressed up as a honey and beehive. Even the restaurant workers were into the spirit. It was clearly a lot of people having a great time.

We got there around 8PM, walked around a little and had a nice dinner. By 10 PM, our spider sense told us that it is time to leave as more and more people were coming in even though the place was already uncomfortably crowded.

The last few years the events were marred by violence and unfortunately this year was no exception. The city of San Francisco had been expecting around 300,000 revelers this year and the police planned to shut down the area by 11PM. In spite of the precautions, we read the next day that nine people were shot.

(Editor's note: The gunfire was reported to have occurred in a single incident between two groups of young people and took place after the music was concluded, and people were heading home as the police had announced the event was over.)

Photographing an event like this is a major challenge. The lights are everywhere but since it is at night, it is still dark. Lots of people are moving about. I hope the following set of pictures shows off the flavors of this unusual event.





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**Project completed**

Jeanine Swick



Here are some photos of an order I just finished. I don't have photos of two other orders that also went out this month (a wedding and belly dance costumes). Pictures are owed to me and when I get them I'll send them and descriptions along.

The outfits are for a couple in FL who plan to attend anime cons, ren faires and a Halloween party. They are portraying Herald-Mage Vanyel and Bard Stefan from the Valdemar stories by Mercedes Lackey.

The sketch for court garb was provided by the customer based on items shown on my web site; shirt, hanging sleeve tunic and musketeer cloak. I kind of cheated on the Herald's crest as I printed it. The size and detail was not going to be a reasonable appliqué project for what their budget allowed. The shirts are silk habotai, hanging sleeve tunics are matte satin with the sleeves lined with Cloud-9 and knot work trim, and the cloaks are cotton velveteen.



## More Halloween

Dana MacDermott

With the (huge) pumpkin carving party at our house, the effort goes into the party which is virtually costume-free due to the realities of carving large numbers of pumpkins, some of them quite large. We had fewer trick-or-treaters this year for unknown reasons. There were somewhere around 700, as far as we could tell, rather than the 800 of the previous year.

Here are some of the pumpkins that adorned the house. Yes, that is Ari's son (my grandson) Lumen inside a pumpkin. The impressive gourd at the lower left weighed 650 pounds. The one Lumen is in weighed in at around 250 pounds.



## Tax Exempt Status (continued) Group Exemption Letter

The requirements for requesting a Group Exemption Letter are spelled out, in a general way, in IRS Form 557. Specifically, the organization must file Form 8718 "User Fee for Exempt Organization Determination Letter Request". There is a \$900 filing fee.

The following information will be required for subordinate organizations (chapters). These include, in order of reference in Form 557:

1. Information verifying that the subordinates:
  - a. are affiliated with the central organization.
  - b. are subject to its general supervision or control
  - c. are eligible to qualify for exemption as a 501(c)
  - d. are not private foundation
  - e. are all on the same accounting period
  - f. are all willing to be recognized as exempt from the date of application
2. A detailed description of the purposes and activities of the subordinates, including the sources of receipts and expenses
  - a. *This should be fairly straight forward – list any sources of income (SiW has Memberships, Mark-Up on Kagi membership purchases, and donations) If you hold tag sales, then include them in the list.*
  - b. *Expenses would include the cost of publishing the chapter newsletter, if any, dues to the ICG, awards given, etc.*
3. A sample copy of a uniform governing instrument (such as a charter or articles of association) adopted by the subordinates, or in its absence, copies of representative instruments.
  - a. *(Byron Connell has written a uniform governing instrument (UGI)adequate for submission)*
4. An affirmation to the effect that, to the best of my knowledge, the purposes and activities of the subordinates are as stated in (2) and (3) above.
  - a. *As ICG Treasurer, I would provide this.*
5. A statement that each subordinate to be included in the group exemption letter has given authorization to that effect, signed by an authorized officer of the subordinate, to the central organization.
  - a. *Each Chapter would provide a letter signed by its President, stating that they agree to the UGI and wish to be included in the GEL.*
  - b. *Chapters are not required to participate in the GEL. Only those wishing to be included need supply this statement.*
6. A list of subordinates to be included in the group exemption letter to which the IRS has issued an outstanding ruling or determination letter relating to exemption.
  - a. *Once we have the letters from (5), above, the ICG Treasurer would generate the list.*
7. An affirmation to the effect that, to the best of my knowledge, no subordinate to be included in the group exemption letter is a private foundation as defined in section 509(a).
  - a. *Again, the ICG Treasurer would make this statement*
8. (not relevant to our situation)
9. (not relevant to our situation)
10. A list of names, mailing addresses, actual addresses if different, and EINs of subordinates to be included in the group exemption letter. A current directory of subordinates may be furnished instead of the list if it includes the required information and if the subordinates not to be included in the group exemption letter are identified.
  - a. *Fairly straight forward.*

*The primary sticking points will, undoubtedly, be the definition of "supervision or control" mentioned in 1.(b) above. We can only guess as to what the IRS will expect. Rather than do that, we are sending our current situation to them. If they want more "control" of the "subordinate organizations", then we burn that bridge when we get to it. There is no point in burning it **before** we get to it.*

*Bruce*