

# IRS Glossary

## **Advance Ruling**

A written determination of an organization's public charity status that was issued by the IRS prior to issuance of new regulations September, 2008, that treated an organization as "publicly supported" during a five-year period beginning, generally, on the date of its formation.

Under the new regulations an organization will be treated as public charity for its first five tax years if it can show that it can reasonably expect to be publicly supported regardless of its actual receipts. If an advance ruling letter has been issued to an organization and the advance ruling period ends after the effective date of the regulations it is no longer required to complete form 8734 at the end of the advance ruling period and the advance ruling letter will be considered to be a final determination. Beginning with the organization's sixth year the IRS will monitor the organization's public charity status based on the information reported in Schedule A of Form 990.

## **Backup Withholding**

Deduction of tax that applies to payments to employees or non-employees when the recipient does not provide a Taxpayer Identification Number (TIN). Backup withholding also occurs when the recipient of a reportable prize awarded in a gaming activity does not provide a TIN. The regular withholding rate for gaming prizes is 25 percent. The backup withholding rate is 28 percent.

## **Bingo**

A game of chance played with cards that are generally printed with five rows of five squares each, on which participants place markers to form a preselected pattern to win the game. Bingo is a type of gambling.

The Internal Revenue Code accepts income from certain bingo games from unrelated business taxable income. The exception applies to a bingo game that is legal under state and local law and not ordinarily carried out on a commercial basis. In addition, the game must be one in which wagers are placed, winners are determined, and prizes are distributed in the presence of all persons placing wagers in that game.

Pull-tabs, scratch-offs, "instant" bingo, and other similar games are not within this exception.

## **Central Organization**

An organization with one or more subordinate organizations under its supervision or control.

## **Certification of Filing**

Evidence that on a specific date, articles of incorporation for an organization were filed with and approved by an appropriate state authority.

## **Compensation**

All forms of income from working including salary or wages; deferred compensation; retirement benefits, whether from a qualified or nonqualified employee plan (e.g., pensions or annuities); fringe benefits (e.g., personal vehicle, meals, lodging, personal and family educational benefits, low-interest loans, payment of personal travel, entertainment or other expenses, athletic or country club membership, and personal use of one's property); and bonuses.

**Definitive Ruling**

A written determination by the IRS on a 501(c)(3)'s public charity status that classifies the 501(c)(3) as a publicly supported organization if it has completed its first tax year, consisting of at least eight full months, and it meets one of the public support tests. A definitive ruling may also be issued at the end of the five-year advance ruling period if the 501(c)(3) was issued an advance ruling and it meets one of the public support tests.

**Director**

Member of the board of directors of a corporation. As classified by statute, a director of a corporation working in his or her capacity as director is a non-employee of the corporation.

**Disqualified Person**

In general, a person in a position to exercise substantial influence over the affairs of a 501(c)(3) or 501(c)(4), such as an officer, director, trustee, or any other individual who has similar powers or responsibilities. The Instructions for Form 1023 describe in detail what entities are "disqualified persons."

**Earned Income Credit (EIC) Advance Payment**

A tax credit that is paid to employees whose income falls below a certain level.

**Employee**

Under common law rules, a worker who performs services for an organization is an employee if the organization can control what the worker does and how he or she does it. This is so even if the organization gives the worker freedom of action. What matters is that the organization has the right to control how the services are performed.

To determine whether an individual is an employee or independent contractor under common law, examine the relationship between the worker and the business, considering all evidence of control and independence. Facts that indicate the degree of control and independence fall into three categories: behavioral control, financial control, and the relationship of the parties.

**Employer Identification Number (EIN)**

A nine-digit number in the following format: xx-xxxxxxx that the IRS assigns. The IRS uses this number to identify taxpayers who must file various returns. EINs are used by employers, sole proprietors, corporations, partnerships, nonprofit associations, trusts, estates of decedents, government agencies, certain individuals, and other business entities.

**Excess Benefit Transaction**

An excess benefit transaction is a transaction in which a 501(c)(3) or 501(c)(4) provides an economic benefit, directly or indirectly, to or for the use of a disqualified person, and the value of the economic benefit that the organization provides exceeds the value of the consideration received.

**Excise Tax**

A tax imposed on the manufacture, sale, or use of goods, or on an occupation or activity.

**Exempt Purpose**

To qualify as exempt under section 501(c)(3), an organization must be organized and operated for one or more of the following purposes: religious, charitable, scientific, literary, educational, testing for public safety, fostering national or international amateur sports competition, or preventing cruelty to children or animals.

**Expenses**

Financial burdens or outlays, costs of doing business, or business outlays chargeable against revenues.

**Fair Market Value**

The price at which property or the right to use property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell, or transfer property or the right to use property, and both having reasonable knowledge of relevant facts.

**FICA**

The Federal Insurance Contributions Act. FICA taxes go toward Social Security and Medicare.

**For-Profit Organization**

A business entity whose activities are conducted or maintained to make a profit (i.e., whose revenues are greater than its expenses).

**Foreign Country**

A country other than the United States, its territories and possessions, and the District of Columbia.

**Fundraising**

The organized activity of raising funds, whether by volunteers, employees, or paid independent contractors.

**FUTA**

The Federal Unemployment Tax Act. Taxes collected under this Act fund unemployment benefits. Organizations exempt under Code section 501(c)(3) do not have to pay this tax.

**Gaming**

Activities such as bingo, beano, lotteries, pull-tabs, pari-mutuel betting, Calcutta wagering, pickle jars, punch boards, tip boards, tip jars, certain video games, 21, raffles, keno, split-the-pot, and other games of chance.

**Gross Receipts**

The gross amount an organization receives from all sources without reduction for any costs or expenses. An organization should keep supporting documents that show the amounts and sources of its gross receipts.

**Group Ruling**

A determination letter to a central organization recognizing, as a group, the exemption of the central organization and its subordinate organizations.

**Independent Contractor**

A worker whose employer has the right to control or direct only the result of the work done, not the means or methods of accomplishing the result. Independent contractors are treated as non-employees for employment tax purposes.

**Insider**

A person having a personal and private interest in the activities of an organization.

**Intangible Religious Benefits**

Benefits that are for religious purposes only and are not usually sold commercially.

**Inurement**

A type of private benefit that occurs when any part of an organization's income or assets unduly benefit a person who has a close relationship to the organization (i.e., an insider). All tax-exempt organizations are prohibited from engaging in activities that allow inurement to occur.

**Keno**

A game similar to lottery or bingo. Players choose up to 20 numbers and mark them on a keno ticket of 80 numbers (1 to 80). Twenty numbers are drawn at random. Players are paid out against their original wager based on how many numbers match the ones they marked on their ticket.

**Legislation**

Legislation includes action by Congress, any state legislature, any local council, or similar governing body with respect to all acts, bills, resolutions, or similar items, or by the public in referendum, ballot initiative, constitutional amendment, or similar procedure.

**Lobbying**

The attempt to influence legislation for the purpose of proposing or advocating for or against the adoption of legislation. A 501(c)(3) can engage in some lobbying, as long as it is not a substantial part of the organization's activities.

**Lottery**

Any method of distributing prizes among persons who have paid (or who have been promised consideration) for a chance to win prizes, usually determined by the numbers or symbols on tickets drawn from a lottery wheel or other receptacle, or by the outcome of an event. Instant bingo, mini bingo, pull-tabs, and raffles are common forms of lotteries.

**Membership Benefits**

Annually recurring rights or privileges (benefits) that result from an annual membership payment of \$75 or less.

**Net Operating Loss**

Any loss or negative income generated by the operation of an income-producing activity.

**Officer**

A person having administrative or managerial authority in a corporation. As classified by statute, an officer of a corporation is an employee unless he or she performs no services or only minor services, and neither receives nor is entitled to receive any remuneration, directly or indirectly. The president, vice president, secretary, and treasurer of a corporation are corporate officers.

**Organizing Document**

The document that creates the organization. The organizing document depends on the form of the organization. For a corporation, the organizing document is the articles of incorporation. For a limited liability company (LLC), the organizing document is the articles of organization. For an unincorporated association, the organizing document is the articles of association or constitution. The organizing document of a trust is the trust agreement.

**Pickle Jar**

A form of pull-tab gaming that gets its name from the empty pickle jars in which the cards are placed.

**Political Campaign Activity**

Directly or indirectly participating or intervening in any political campaign on behalf of or in opposition to any candidate for elective public office. A 501(c)(3) organization is absolutely prohibited from engaging in political activity. Debates and nonpartisan voter education activities are not considered political activity.

**Private Benefit**

A 501(c)(3) exempt organization must be organized and operated so that no part of its net earnings inures to the benefit of any private shareholder or individual. Thus, the “private benefit” doctrine prohibits causing the income or assets of a tax-exempt organization from flowing away from the organization and to one or more persons.

When an organization’s insiders receive inappropriate private benefit, it is called “inurement.” Any amount of inurement, no matter how small, is grounds for revocation of exempt status. Private benefit to non-insiders is also prohibited, but the IRS must show that the prohibited benefit to non-insiders is substantial in order to sustain revocation.

**Private Foundation**

Organizations exempt under 501(c)(3) are private foundations unless they are churches, schools, hospitals, governmental units, entities that undertake testing for public safety, organizations that have broad financial support from the general public, or organizations that support one or more other organizations that are themselves classified as public charities.

Generally, a private foundation is a charitable organization funded by one or a small number of sources. Its ongoing funding generally comes from investment income, which it uses to make grants for charitable purposes to other persons or organizations.

**Public Charity**

Organizations that are exempt under section 501(c)(3) and are not private foundations. Public charity status is generally considered a more favorable tax status than private foundation status.

**Pull-Tabs**

Games in which an individual places a wager by purchasing preprinted cards that are covered with pull-tabs. Winners are revealed when the individual pulls back the sealed tabs on the front of the card and compares the patterns under the tabs with the winning patterns preprinted on the back of the card. Instant bingo, mini bingo, and similar scratch-off cards are all types of pull-tabs. None of these games qualifies for the “bingo exception” to UBI because none meets the definition of traditional bingo.

**Quid Pro Quo Contribution**

A contribution made by a donor in exchange for goods or services.

**Revenue Ruling**

An official interpretation by the Internal Revenue Service of the Internal Revenue laws and related statutes, treaties, and regulations that has been published in the Cumulative Bulletin. Revenue rulings are published for the information and guidance of taxpayers, IRS officials, and other concerned parties.

**Statute of Limitations**

The period of time in which an organization can amend its tax returns to claim a credit or refund without the IRS assessing additional tax.

**Subordinate Organization**

A chapter, local, post, or unit of a central organization. A central organization may be a subordinate organization itself, such as a state organization that has subordinate units and is affiliated with a national (central) organization.

**Supporting Organization**

A public charity that carries out its exempt purposes by supporting one or more other exempt organizations, usually other public charities.

**Tax Code (or “Code”)**

Shorthand names for the Internal Revenue Code, Title 26 of the United States Code. Title 26 contains the tax law of the United States.

**Tax-Exempt Organization**

A trust, association, or nonprofit corporation described in the Internal Revenue Code as exempt from Federal income tax.

**Taxable Income**

The portion of an individual’s or organization’s earnings that is subject to income tax.

**Taxable Organization**

Any organization that is required to pay income tax on its earnings.

**Taxpayer Identification Number (TIN)**

An Employer's Identification Number required of corporations, nonprofit organizations, associations, and partnerships. An individual's Social Security number is his or her TIN.

**Tokens**

Insubstantial goods or services that an organization provides in exchange for contributions.

**Wager**

The amount risked by a person placing a bet (not the prize amount).

**Withholding**

The regular deduction by an employer of income tax from an employee's pay. Employers use Form W-4, *Employee's Withholding Allowance Certificate*, to determine how much Federal income tax to withhold from an employee's pay; the amount depends on the employee's marital status, the number of withholding allowances the employee claims, any additional amount the employee wants to withhold, and any exemptions from withholding that the employee claims.

Withholding also occurs when an organization deducts an amount for income tax from prizes awarded in a gaming activity. The regular withholding rate for gaming prizes is 25 percent.

There are other types of withholding, such as backup withholding and nonresident alien withholding.

