



Establishing Your “Business” Status (Revision date 1-12-2013)

Many Tea Party groups wrestle with how they want to set. Some choose to keep it like a personal club and run all their financial transactions through their own personal checking account.

Others set up like a Sole Proprietorship or a small business. They get their Resale License, Business License and set up a separate checking account.

Still others go for getting their non-profit status to feel more protected. A few others take it the rest of the way to get their 501(c)3 or 4.

As I go into each of these options, I will also give you the plusses and minuses of each one.

Setting up like a “club”:

First, the most dangerous thing you can do is to co-mingle any Tea Party group income or expenses with your personal account. The IRS is watching all in the Tea Party movement like hawks. There needs to be a clear separation from your personal finances and any finances connected to your Tea Party activity.

It is also very difficult to maintain transparency with your other core leaders when everything is co-mingled with your own personal funds. You’ll never truly know where you stand with group expenses verses your personal ones. Even if you can keep track, it will create a tax nightmare for you.

Setting up like a small business:

The first thing you need to do is get a Business License from your City Hall. You will need to name your group and pay a small fee for your license.

Next, you need to get a re-sale number from the Franchise Tax Board and a Federal Tax ID number from the IRS (you can do that on line). This will facilitate your ability to have merchandise that will allow you to sell for income. You can get that by going on line to www.irs.gov. There is no charge and you can do it on line.

The plus to this option is that it can be done quickly and doesn’t cost much. The downside is that for any merchandise you sell, the profit is taxable. You are also required to charge sales tax. This means that you are liable to pay the sales tax that you have withheld to the Franchise Tax Board at the end of each quarter.

Cash donations are considered income and taxable. You will also be subject to Mill Taxes from your city, in addition to the state, federal and sales taxes.



Going for your Non-Profit status:

The first step to take is to apply for your Articles of Incorporation. You can begin that on line by going to www.ss.ca.gov. There will be a template under “non-profit” that you can download, print, fill out and send in. There is a \$20 charge for this.

You will need to go on line and get a Federal Tax ID number.

It will take from 30 – 60 days to hear back from them with approval and your Articles of Incorporation. At that time, you will need to pay the state \$850. That is your yearly fee for having a corporation. If you intend to remain a non-profit, you must take the next step or you will wind up in serious tax mess.

Filing for your 501(c)3 or 4

Before I go any further, there is a difference to 501(c)3 and 501(c)4. A (c)3 allows you to give a donation receipt, but you have to reveal who gives those donations. Also, a three is considered a charity.

A (c)4 is considered educational and does not have the same requirements with donors as the (c)3 does. However, donations are not tax deductible. Also, a (c)4 limits endorsement of political candidates. This is a plus if you are a group that wants to stay away from that sort of thing as most Tea Party groups prefer.

When you get your Articles of Incorporation, you can go to www.irs.gov and find the form you want. Download the form, follow the instructions and send it to the IRS. There is a \$20 fee when you submit your application.

This process can take 9 – 12 months to finalize (or as in our case, it took three years). It is not uncommon for them to send you a package asking for further or more information months after you submitted your forms. Go over their requests thoroughly and provide what they ask for – and wait.

The final step is to now file with the state. This is a rubber stamp once the IRS has approved you but you still have to do it. Go to www.ftb.ca.gov and download the proper form and send it in. Yes, there is a fee for this too, \$20.

The downside of doing this is all the paperwork and the \$850. You will also need to establish By-Laws and have a Board of Directors. However, most groups have a core leadership group that is really their “board” – they just don’t know it.

To get some ideas on establishing these, I recommend “Roberts Rules Of Order” – boring reading but very informative. You can also go on-line at www.lawmart.com/forms/fnp-b109.htm. You can view those and just re-type them.



The upside is that once you have your Articles of Incorporation and filed for a 501(c)3 or 4 you can function like a 501(c)3 or 4, no matter how long they take to give you their approval. Our group was one of the targeted Tea Party groups and it took almost three years and pressure from our Congressman, but we got it.

When you provide merchandise, you will get a donation for that item and you do not pay income tax or sales tax. When individuals help to sponsor your expenses or an event, it does not count as income. Nor do you have to divulge who the donation came from.

Bookkeeping is made easy with QuickBooks and will also provide you with your monthly reports for your board and end of the year report for the IRS.