

Charitable Donations: A Chapter Guide

One of the questions we frequently get from Chapters is whether they can make charitable donations to organizations that are not directly related to risk management, safety, etc. but are more related to benefit organizations/activities in their local community. There are two issues. One is how a Chapter may raise funds for donations and the other is using chapter funds from dues and activities as charitable donations.

It is quite clear that if a chapter is raising money for a specific purpose (i.e., a scholarship) and publicizes that fact, then all funds garnered from the fundraising (or that percentage if a percentage is indicated in the promotion) must, in fact, be used for that specific purpose. For example, if you hold a walk-a-thon for educational scholarships and promote it saying that “all proceeds” will go to the scholarships, then all proceeds must be dedicated to the scholarships. If the chapter wishes to make a special collection from among its members and supporters for a specific purpose (for example, to support Toys for Tots), you may want to consider making an in-kind donation of products or services that promote risk reduction, safety or something related to RIMS’ mission.

When chapter general funds (such as dues and activity proceeds) are being used for charitable donations, Mark Prysock, RIMS general counsel, advises:

To mitigate any potential adverse implications for the tax-exempt status of the chapters, the following steps should be taken by chapters in providing donations. First, chapters must ensure that none of the organizations’ assets are being provided directly for the benefit of chapters’ individual members or individuals that could be considered “insiders” with respect to a chapter of RIMS. This includes chapter founders, directors, officers, key employees, members of the family of these individuals and certain entities controlled by them; contributions should not be made to any of these individuals or organizations. If a chapter wishes to make a donation, the donation should be provided directly to another organization and not for the benefit of a particular individual.

In addition, chapters should ensure that the amounts donated in this manner are minimal in comparison to chapters’ exempt activities and expenditures. The IRS has not established any specific parameters regarding the amount of charitable activities or contributions that may be conducted or made by a business league without putting its tax-exempt status at risk. Therefore, the primary purpose of chapters must remain to improve the common business interests of its members and to advance the professional standards of risk management, and any charitable or other donations should not be made on a regular basis and the amounts of such donations should be limited. Practically, it is unlikely that the IRS will question charitable donations, but if such donations become substantial, they could trigger review by the IRS. If chapters take the steps set forth herein, such donations should not threaten the organizations’ tax-exempt status under Section 501(c)(6).