American Fisheries Society Unit IRS Filing Requirements
January 2008

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I. DIVISION, CHAPTER, AND SECTION (SUBUNIT) FILING RESPONSIBILITIES

Beginning in 2008, small tax-exempt organizations, including AFS Subunits, who previously were not required to file a return, will be required to file an annual electronic notice, Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ. This filing requirement applies to tax periods beginning January 1, 2007 and after.

Small tax-exempt organizations whose gross receipts are normally $25,000 or less have not been required to file Form 990 or Form 990-EZ, Return of Organization Exempt From Income Tax. With the enactment of the Pension Protection Act of 2006, these small tax-exempt organizations will now be required to file an electronic Form 990-N with the IRS annually. Exceptions to this requirement include organizations that are included in a group return, private foundations required to file Form 990-PF, and section 509(a)(3) supporting organizations required to file Form 990 or Form 990-EZ. AFS Units do not fall into these exception categories.

Each subunit must determine its own IRS and state filing requirements, based on gross annual receipts, each year. Gross annual receipts are all revenue before any expenses, including dues, special event revenue, advertising, meeting and seminar registration fees, raffle ticket receipts and contributions to scholarship funds. [ex. subunit collects $90,000 in dues. It spends $80,000 in 2007 on meetings, travel and other expenses. Its net income is $10,000. Because gross revenue exceeds $25,000 (but is less than $100,000) the chapter must file an IRS form 900-EZ.]

If your chapter has gross receipts of $25,000 or less, it is subject to this new IRS filing requirement. The e-Postcard will be due every year by the 15th day of the fifth month after the close of your tax period. For example, if your tax period ends on December 31, 2007, the e-Postcard is due May 15, 2008.

The e-Postcard must be filed electronically. There is no paper version. If your chapter prefers, the 990 or 990-EZ, can be filed in place of the e-Postcard on paper, but must be filled out completely.

If a subunit fails to meet the new filing requirement for three consecutive years, the IRS will revoke its tax-exempt status. The chapter must reapply and pay the related fees to regain that status. The IRS will notify AFS that your unit no longer qualifies

If your unit has gross receipts of $25,000 to $100,000, IRS Form 990-EZ (including Schedule A) must be filed. Units with gross receipts greater than $100,000 are required to file IRS Form 990 (including Schedule A).

AFS Units must also file IRS 990T if gross "unrelated business income" exceeds $1,000. Advertising revenue is usually considered unrelated business income. There are exceptions to this rule. If the sales of advertising or other unrelated activity is carried on by volunteers, then it is NOT unrelated business income.

The table below summarizes the filing requirements.

Annual Gross Receipts *	Unrelated Business Income	Filing Requirements
$25,000 and under	Under $1,000	Form 990-N e-Postcard
$25,000 and under	Over $1,000	Form 990-N e-Postcard & Form 990T
$25,000 - $100,000	Under $1,000	Form 990-EZ
$25,000 - $100,000	Over $1,000	Form 990-EZ & Form 990T
Over $100,000	Under $1,000	Form 990
Over $100,000	Over $1,000	Form 990 & Form 990T

*** Annual Gross Receipts includes dues, special event revenue, advertising, meeting and seminar registration fees, raffle ticket receipts and contributions to scholarship funds.**

II. SAMPLE IRS FORM 990-EZ AND LEGEND

AFS UNIT'S IRS FORM 990-EZ LEGEND

1. Your year end is probably December 31. If that is true then put nothing in this blank. Enter the name of your subunit as it appears with the IRS. Use the AFS headquarters address – 5410 Grosvenor Lane, Bethesda, MD 20814-2144.

2. Each Unit has their own FEIN (Federal employer ID number). You can use this number as an ID on chapter bank accounts. In addition, for the Parent Society the FEIN is 54-0683803. (if you do not know your FEIN, contact the AFS Unit services coordinator)

3. GEN 2378 = The Group Exemption number, all units are part of the AFS Group and therefore would use this number.

4. Typically, a small subunit would keep financial records on a cash basis – that is, what is the activity in the bank account? What cash came in? What cash went out? Alternatively, you could maintain an accrual basis set of books which require that you record receivables and payables.

5. AFS division, chapters, and sections (subunits) are 501c (3) organizations.

6. Complete after Part 1 completed.

7. This box should be checked if you <u>did not</u> receive a <u>contribution</u> of $5,000 or more from any one individual or entity. If you did receive such a contribution, you must complete Schedule B.

8. If your only asset is cash and you have no liabilities (books are on cash basis), then net assets equals your cash balance.

9. Must be completed

10. Must be completed

11. Must be completed

12. Must be completed

13. Must be completed

14. Must be completed

15. Not applicable to your organization

III. WHEN AND WHERE TO FILE

If your year end is December 31, file Form 990, Form 990-EZ or Form 990-N by May 15. If May 15 falls on a Saturday, Sunday, or legal holiday, then file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

If the unit is liquidated, dissolved, or terminated, file the return by the 15th day of the 5th month after the liquidation, dissolution, or termination. File a zero income even if unit is liquidated. This allows unit to restart without a new application.

If the return is not filed by the due date (including any extension granted), attach a statement giving the reasons for not filing on time.

Send the return to the Internal Revenue Service Center, Ogden, UT 84201-0027.

If you can't make the deadline – use Form 8868 to request an automatic 3-month extension of time to file. Use Form 8868 also to apply for an additional (not automatic) 3-month extension if the original 3 months was not enough time. To obtain this additional extension of time to file, you must show reasonable cause for the additional time requested.

IV. PENALTIES

If you don't file the IRS Form 990EZ, a penalty of $20 per day up to 5% of your gross receipts for the year may be charged unless you can show that the late filing was due to reasonable cause. The penalty begins on the due date for filing the Form 990-EZ. The penalty may also be charged if you file an incomplete return or furnish incorrect information. To avoid having to supply missing information later, be sure to complete all applicable line items; answer "Yes", "No", or "N/A" (not applicable) to each question on the return; make an entry (including a zero when appropriate) on all **total** lines; and enter "none" or "N/A" if an entire part does not apply.

If the unit does not file a complete return or does not furnish correct information, the IRS will send you a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of $10 a day, not to exceed $5,000, unless he or she shows that not complying was due to reasonable cause. If more than one person is responsible, they are jointly and individually liable for the penalty.

As Part I describes, if you are not required to file a 990 or 990EZ, you must file the 990-N. Failure to do so for three years will lead to revocation of tax exempt status.

V. DISCLOSURE REQUIREMENTS

You must make available for public inspection your IRS Form 990 or 990EZ, and must provide copies of such returns and applications to individuals who request them. Copies usually must be provided immediately in the case of in-person requests, and within 30 days in the case of written requests. You may charge a reasonable copy fee plus actual postage, if any.

_______________ SUBUNIT FINANCIAL REPORT

FOR THE PERIOD ________________________

Balance brought forward (Date)		$...........

INCOME

AFS dues allotment	$...........	
Savings account interest (date)	$...........	
Workshop	$...........	
Symposium sales	$...........	
Other (explain)	$...........	
TOTAL INCOME	$...........	
SUBTOTAL		**$...........**

DISBURSEMENTS

Newsletter	$...........	
Awards and certificates	$...........	
EXCOM Travel	$...........	
Workshop costs	$...........	
Symposium costs	$...........	
Continuing Education Workshop	$...........	
Bank service charges	$...........	
Mailing expenses	$...........	
Other (explain)	$...........	
TOTAL DISBURSEMENTS	$...........	
CURRENT BALANCE ON HAND		**$..........**

Prepared by (secretary/treasurer signature): ....

Approved by (subunit president): ....

Date: ....

cc: AFS, Executive Committee

***NOTE: FINANCIAL STATEMENTS ARE DUE AT AFS AT THE END OF YOUR OPERATING YEAR**

Information Returns that you May Need to File

(from IRS Publication 583)

If you make or receive payments in your business, you may have to report them to the IRS on information returns. The IRS compares the payments shown on the information returns with each person's income tax return to see if the payments were included in income. You must give a copy of each information return you are required to file to the recipient or payer. In addition to the forms described below, you may have to use other returns to report certain kinds of payments or transactions. For more details on information returns and when you have to file them, see the General Instructions for Forms 1099, 1098, 5498, and W-2G.

Form 1099-MISC. Use Form 1099-MISC, Miscellaneous Income, to report certain payments you make in your trade or business. These payments include the following items.

- Payments of $600 or more for services performed for your business by people not treated as your employees, such as subcontractors, attorneys, accountants, or directors.
- Rent payments of $600 or more, other than rents paid to real estate agents.
- Prizes and awards of $600 or more that are not for services, such as winnings on TV or radio shows.
- Royalty payments of $10 or more.
- Payments to certain crew members by operators of fishing boats.

You also use Form 1099-MISC to report your sales of $5,000 or more of consumer goods to a person for resale anywhere other than in a permanent retail establishment.

Form W-2. You must file Form W-2, Wage and Tax Statement, to report payments to your employees, such as wages, tips, and other compensation, withheld income, social security, and Medicare taxes, and advance earned income credit payments. For more information on what to report on Form W-2, see the Instructions for Forms W-2 and W-3.

Form 8300. You must file Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, if you receive more than $10,000 in cash in one transaction or two or more related business transactions. Cash includes U.S. and foreign coin and currency. It also includes certain monetary instruments such as cashier's and traveler's checks and money orders. For more information, see Publication 1544, Reporting Cash Payments of Over $10,000 (Received in a Trade or Business).

Recordkeeping

(Excerpted from IRS Publication 583)

This part explains what kinds of records you must keep, and how to keep them. It also explains how long you must keep your records for federal tax purposes. A sample recordkeeping system is illustrated at the end of this part.

Kinds of Records To Keep

Except in a few cases, the law does not require any specific kind of records. You can choose any recordkeeping system suited to your business that clearly shows your income and expenses.

The business you are in affects the type of records you need to keep for federal tax purposes. You should set up your recordkeeping system using an accounting method that clearly shows your income for your tax year. See *Accounting Method,* earlier. If you are in more than one business, you should keep a complete and separate set of records for each business. A corporation should keep minutes of board of directors' meetings.

Your recordkeeping system should include a summary of your business transactions. This summary is ordinarily made in your books (for example, accounting journals and ledgers). Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checkbook (discussed later) is the main source for entries in the business books. In addition, you must keep supporting documents, explained next.

Supporting Documents

Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain information you need to record in your books.

It is important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

Gross receipts. Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents that show gross receipts include the following.

- Cash register tapes.
- Bank deposit slips.
- Receipt books.
- Invoices.
- Credit card charge slips.
- Forms 1099-MISC.

Purchases. Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following.

- Canceled checks.
- Cash register tape receipts.
- Credit card sales slips.
- Invoices.

These records will help you determine the value of your inventory at the end of the year. See Publication 538 for information on methods for valuing inventory.
Expenses. Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following.

- Canceled checks.
- Cash register tapes.
- Account statements.
- Credit card sales slips.
- Invoices.
- Petty cash slips for small cash payments.

TIP

A petty cash fund allows you to make small payments without having to write checks for small amounts. Each time you make a payment from this fund, you should make out a petty cash slip and attach it to your receipt as proof of payment.
Travel, transportation, entertainment, and gift expenses. Specific recordkeeping rules apply to these expenses. For more information, see Publication 463.
Employment taxes. There are specific employment tax records you must keep. For a list, see Publication 15.
Assets. Assets are the property, such as machinery and furniture you own and use in your business. You must keep records to verify certain information about your business assets. You need records to figure the annual depreciation and the gain or loss when you sell the assets. Your records should show the following information.

- When and how you acquired the asset.
- Purchase price.
- Cost of any improvements.
- Section 179 deduction taken.
- Deductions taken for depreciation.
- Deductions taken for casualty losses, such as losses resulting from fires or storms.
- How you used the asset.

- When and how you disposed of the asset.
- Selling price.
- Expenses of sale.

The following documents may show this information.

- Purchase and sales invoices.
- Real estate closing statements.
- Canceled checks.

What if I don't have a canceled check? If you do not have a canceled check, you may be able to prove payment with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. These account statements must be highly legible. The following table lists acceptable account statements.

IF payment is by...	**THEN the statement must show the...**
Check	• Check number. • Amount. • Payee's name. • Date the check amount was posted to the account by the financial institution.
Electronic funds transfer	• Amount transferred. • Payee's name. • Date the transfer was posted to the account by the financial institution.
Credit card	• Amount charged. • Payee's name. • Transaction date.

Proof of payment of an amount, by itself, does not establish you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices, to show that you also incurred the cost.

Recording Business Transactions

A good recordkeeping system includes a summary of your business transactions. (Your business transactions are shown on the supporting documents just discussed.) Business transactions are ordinarily summarized in books called journals and ledgers. You can buy them at your local stationery or office supply store.

A journal is a book where you record each business transaction shown on your supporting documents. You may have to keep separate journals for transactions that occur frequently.

A ledger is a book that contains the totals from all of your journals. It is organized into different accounts.

Whether you keep journals and ledgers and how you keep them depends on the type of business you are in. For example, a recordkeeping system for a small business might include the following items.

- Business checkbook.
- Daily summary of cash receipts.
- Monthly summary of cash receipts.
- Check disbursements journal.
- Depreciation worksheet.
- Employee compensation record.

The business checkbook is explained next. The other items are illustrated later under *Sample Record System.*

TIP

The system you use to record business transactions will be more effective if you follow good recordkeeping practices. For example, record expenses when they occur, and identify the source of recorded receipts. Generally, it is best to record transactions on a daily basis.

Business checkbook. One of the first things you should do when you start a business is open a business checking account. You should keep your business account separate from your personal checking account.

The business checkbook is your basic source of information for recording your business expenses. You should deposit all daily receipts in your business checking account. You should check your account for errors by reconciling it. See *Reconciling the checking account,* later.

Consider using a checkbook that allows enough space to identify the source of deposits as business income, personal funds, or loans. You should also note on the deposit slip the source of the deposit and keep copies of all slips.

You should make all payments by check to document business expenses. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to cash. If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your records. If you cannot get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.

TIP

Use the business account for business purposes only. Indicate the source of deposits and the type of expense in the checkbook.

Reconciling the checking account. When you receive your bank statement, make sure the statement, your checkbook, and your books agree. The statement balance may not agree with the balance in your checkbook and books if the statement:

- Includes bank charges you did not enter in your books and subtract from your checkbook balance, or
- Does not include deposits made after the statement date or checks that did not clear your account before the statement date.

By reconciling your checking account, you will:

- Verify how much money you have in the account,
- Make sure that your checkbook and books reflect all bank charges and the correct balance in the checking account, and
- Correct any errors in your bank statement, checkbook, and books.

TIP

You should reconcile your checking account each month.

Before you reconcile your monthly bank statement, check your own figures. Begin with the balance shown in your checkbook at the end of the previous month. To this balance, add the total cash deposited during the month and subtract the total cash disbursements.

After checking your figures, the result should agree with your checkbook balance at the end of the month. If the result does not agree, you may have made an error in recording a check or deposit. You can find the error by doing the following.

1. Adding the amounts on your check stubs and comparing that total with the total in the “amount of check” column in your check disbursements journal. If the totals do not agree, check the individual amounts to see if an error was made in your check stub record or in the related entry in your check disbursements journal.
2. Adding the deposit amounts in your checkbook. Compare that total with the monthly total in your cash receipt book, if you have one. If the totals do not agree, check the individual amounts to find any errors.

If your checkbook and journal entries still disagree, then refigure the running balance in your checkbook to make sure additions and subtractions are correct.

When your checkbook balance agrees with the balance figured from the journal entries, you may begin reconciling your checkbook with the bank statement. Many banks print a reconciliation worksheet on the back of the statement.

To reconcile your account, follow these steps.

1. Compare the deposits listed on the bank statement with the deposits shown in your checkbook. Note all differences in the dollar amounts.
2. Compare each canceled check, including both check number and dollar amount, with the entry in your checkbook. Note all differences in the dollar amounts. Mark the check number in the checkbook as having cleared the bank. After accounting for all checks returned by the bank, those not marked in your checkbook are your outstanding checks.
3. Prepare a bank reconciliation. One is illustrated later under *Sample Record System.*
4. Update your checkbook and journals for items shown on the reconciliation as not recorded (such as service charges) or recorded incorrectly.

At this point, the adjusted bank statement balance should equal your adjusted checkbook balance. If you still have differences, check the previous steps to find the errors.

Table 3. Period of Limitations

IF you...	THEN the period is...
1. Owe additional tax and situations (2), (3), and (4), below, do not apply to you	3 years
2. Do not report income that you should report and it is more than 25% of the gross income shown on the return	6 years
3. File a fraudulent return	Not limited
4. Do not file a return	Not limited
5. File a claim for credit or refund after you filed your return	Later of: 3 years or 2 years after tax was paid
6. File a claim for a loss from worthless securities or a bad debt deduction	7 years

Bookkeeping System

You must decide whether to use a single-entry or a double-entry bookkeeping system. The single-entry system of bookkeeping is the simplest to maintain, but it may not be suitable for everyone. You may find the double-entry system better because it has built-in checks and balances to assure accuracy and control.

Single-entry. A single-entry system is based on the income statement (profit or loss statement). It can be a simple and practical system if you are starting a small business. The system records the flow of income and expenses through the use of:

1. A daily summary of cash receipts, and
2. Monthly summaries of cash receipts and disbursements.

Double-entry. A double-entry bookkeeping system uses journals and ledgers. Transactions are first entered in a journal and then posted to ledger accounts. These accounts show income, expenses, assets (property a business owns), liabilities (debts of a business), and net worth (excess of assets over liabilities). You close income and expense accounts at the end of each tax year. You keep asset, liability, and net worth accounts open on a permanent basis.

In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another.

Under this system, the total debits must equal the total credits after you post the journal entries to the ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

An example of a journal entry exhibiting a payment of rent in October is shown next.

Date	Description of Entry	Debit	Credit
Oct. 5	*Rent expense*	*780.00*	
	Cash		*780.00*

Computerized System

There are computer software packages you can use for recordkeeping. They can be purchased in many retail stores. These packages are very helpful and relatively easy to use; they require very little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce sufficient legible records to support and verify entries made on your return and determine your correct tax liability. To meet this qualification, the machine-sensible records must reconcile with your books and return. These records must provide enough detail to identify the underlying source documents.

You must also keep all machine-sensible records and a complete description of the computerized portion of your recordkeeping system. This documentation must be sufficiently detailed to show all of the following items.

- Functions being performed as the data flows through the system.
- Controls used to ensure accurate and reliable processing.
- Controls used to prevent the unauthorized addition, alteration, or deletion of retained records.
- Charts of accounts and detailed account descriptions.

See Revenue Procedure 98-25 in Cumulative Bulletin 1998-1 for more information.

Microfilm

Microfilm and microfiche reproductions of general books of accounts, such as cash books, journals, voucher registers, and ledgers, are accepted for recordkeeping purposes if they comply with Revenue Procedure 81-46 in Cumulative Bulletin 1981-2.

Electronic Storage System

Records maintained in an electronic storage system are accepted for recordkeeping purposes if the system complies with Revenue Procedure 97-22 in Cumulative Bulletin 1997-1.

An electronic storage system is one that either images hardcopy (paper) books and records or transfers computerized books and records to an electronic storage media, such as an optical disk.

How Long To Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support an item of income or deduction on a return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the IRS can assess additional tax. *Table 3* below contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as filed on the due date.

TIP

Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return.

Employment taxes. If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later. For more information about recordkeeping for employment taxes, see Publication 15.

Assets. Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction, and to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

Records for nontax purposes. When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

<u>Sample</u> Accounting System Categories for AFS Subunits

AFS Subunit Name
Statement of Income and Expenses, 2008

	January 1 to December 31, 2008	Amount Attributable to Grants
Beginning Balance January 1	$22,545	
INFLOWS		
Continuing Education Income	$1,345	
Contract & Grant Income	$81,845	
Dues Payment	$1,730	
Interest Income	$237	
Gross Book Sales	$2,306	
TOTAL INFLOWS	$87,463	$81,845
OUTFLOWS		
Cash Awards Given	$100	
Bank Charges/Fees		
Conference/Meeting expense	$380	$380
Continuing Education Workshop expenses	$500	
Contract & Grant Expense	$71,961	$71,961
Office Expense (copies etc)	$100	
Donations Made	$900	
Postage	$130	$2
Book Commissions	$1,464	
Supplies	$68	
Travel	$3,076	$2,949
per diem	$544	$544
TOTAL Travel	$3,620	$3,493
Website fees etc.	$334	
Miscellaneous	$100	
TOTAL OUTFLOWS	$79,683	$75,837
OVERALL TOTAL	$7,781	
Ending Balance December 31	$30,325	

<u>Balances From Bank Statements December 31, 2008</u>

Checking	$12,885