

**International MOMS Club®
Fact Sheet**

**Frequently Asked Questions About
Chapter Party Expenses
& the 15% Rule**

1) Is the International MOMS Club a nonprofit organization?

Yes! The MOMS Club is recognized by the IRS as a nonprofit 501(C)(3) public charity under the educational and charitable categories. Although social support is a large component of our program, we are not organized as a social group.

2) Is our chapter a nonprofit organization?

Yes, all of our chapters are included under our group exemption with the IRS and are nonprofit organizations under the educational and charitable categories. Your chapter is covered under the same nonprofit status as the “mother” organization, as long as you follow the nonprofit rules of the International MOMS Club and the IRS.

3) How does that benefit us?

By being a nonprofit organization, recognized by the IRS, your chapter does not have to pay taxes on donations, gifts or income to the chapter. This is a very important benefit of being nonprofit. If you were not a nonprofit organization, most people and businesses would not make donations to your chapter and all chapter income would be taxed as if your chapter were a business.

If you use your chapter’s resources for our educational and charitable purposes, the activities of your chapter and its income should not be considered taxable by the IRS. An example of our educational purposes would include your monthly meetings when you have a speaker or topic for discussion that encourages mothers to stay home or that helps mothers-at-home raise their children.

Our charitable purposes include any service projects your chapter does to help children in your community (children outside your membership’s families), or that you do to raise money for the International MOMS Club’s Mother-To-Mother Fund.

4) What about parties? Can our chapter have parties?

Yes, your chapter can have parties, but there are limits to how your chapter can finance those parties and still be considered nonprofit.

The social support that our members receive from the other at-home mothers in their chapter is an important aspect of the MOMS Club, but the IRS does not consider that part of our nonprofit purposes. Since our most important nonprofit functions involve education and charity, that is where the IRS believes the bulk of our MOMS Club money should go.



Parties are not part of our nonprofit purpose, and since our chapters are only considered nonprofit if they use their money for their nonprofit purposes, we must be very careful to limit party expenses to show that those parties are only an aspect of building and retaining membership, not our main purpose.

5) What do we do to have parties that are ok with the IRS?

The IRS accepts that a small and reasonable part of your member's dues can be used for membership-building activities, so a small and reasonable part of your members' dues can be used for parties.

But, if you use too much of your members' dues for parties or things that could be considered gifts to members or their children, the IRS could decide that you are not fulfilling your chapter's nonprofit purposes, and it may revoke your chapter's nonprofit status.

Therefore, the IRS requires two things concerning party expenses, or money spent directly on members:

- 1) That any money spent on parties, or directly on the members, must come from the membership;
- 2) And, that the total amount spent on parties be small and not a significant part of the chapter's expenses for the year.

6) What does it mean that the money spent on parties or directly on the members must come from the membership?

What this means is that any money your chapter spends on their members – in any way that could be considered a gift or designed specifically to benefit your members only because they

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are members – must come from either membership dues, or money that the members paid specifically for the party or gift.

In other words, if you have a Halloween Party for your members and their children, all money for that party must come from either a small portion of your chapter's dues (*more on this in #7*) or from the members paying to attend the party. Any party that is paid for directly by the members – either by it being a pot-luck or by the members paying a small fee to attend the party – is allowed and is not a concern of the IRS.

But any party that is paid for out of your chapter's treasury will be considered part of your members' "benefit" from being a part of your chapter, even if your treasury is 100% made up of only your members' dues. The total benefit your members directly receive only from the fact that they are members must be "small and not a significant part" of your chapter's budget each year.

7) What is the IRS' definition of "small and not a significant part" of our chapter's expenses or budget?

The IRS does not define it – they do not state a specific limit on exactly where the line falls between "ok" and "too much." However, they *have* been very clear that any organization spending "too much" on parties or other activities that are not part of their nonprofit purpose will lose their nonprofit status.

Therefore, the International MOMS Club has had to determine what limit to set on chapter party expenses to ensure that there will be no question that all our chapters are fulfilling their nonprofit goals and are spending what the IRS should consider small and reasonable amounts on their members or for parties.

After extensive research, the International MOMS Club has determined that 15% of a chapter's yearly dues income is both a reasonable limit under the IRS' expectations, and a do-able amount for the social needs of any chapter.



8) Why 15% of Dues Income?

By tying the amount to the chapter's dues, we ensure that all the money for parties will be directly attributed to the members' contributions. By limiting it to 15%, we should be secure that the amount is modest and allowable by IRS standards.

Also, because our chapters vary greatly in membership size, setting the spending limit at a percentage of the dues income makes the limit fair for every chapter, whether it has 10 members or 50, and it fulfills the

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requirement that the amount be pegged directly to money received from the membership alone.

9) So, should 15% be our goal?

No! The 15% of dues income is an upper limit, *not a goal*.

10) But don't we need more treasury money than that for successful parties?

Parties do not need to be paid for by the chapter treasury at all. In fact, chapter parties ideally should be inexpensive pay-if-you-go, pot-luck or free get-togethers.

Most new chapters know this. When a chapter is new, they don't have enough money in their treasury to even think of paying for parties, yet new chapters have a lot of fun activities for their members and children. Members either sign up to bring refreshments and activities to the party, or they all pitch in a dollar or two per child to pay for any supplies that need to be bought.



It's only as a chapter gets older and has more money in their treasury that they start thinking of spending it on parties. But parties where the treasury buys the refreshments and entertainment aren't any more fun than ones where the members bring them.

In fact, those parties can be harder to organize and even *less* fun, because the members have less of a responsibility to help plan the party. They participate in just the "fun" parts, instead of working at the party, which is a team-building experience.

Having the chapter pay for things that should be pot-luck or paid for directly by the members gives the members the feeling that a chapter is a service "to" them, rather than something they are a part "of." Members feel more a part of a chapter when they actively participate in the planning and execution of a party – by paying for the costs directly or by bringing refreshments, childrens' activities/games, sharing trinkets for prizes, etc. – than when everything is provided for them.

11) It's our money... how can the IRS tell us that we can't spend it however we like?

Technically, once money has gone into your chapter's treasury, as far as the IRS is concerned, it's not your personal money anymore; it's the chapter's money. The IRS considers your chapter to be its own entity for the purposes of taxation. If you treat the money in your treasury

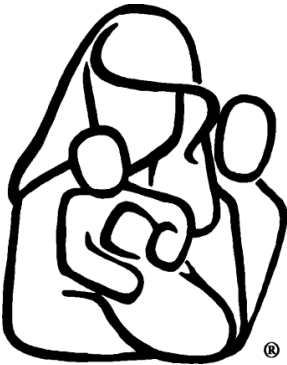
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as if it's your own personal money and not the chapter's nonprofit money, the IRS can tax both the chapter for not fulfilling its nonprofit purpose and it can tax you personally for income – the MOMS Club money that you treated as your own personal money.

12) Can we use advertising revenue from our newsletter for parties, to add to the 15% of dues money that we can use for parties? What about raffles at our meetings? Can we use that money to add to the 15%?

The original source of the money is not the point of the 15% Rule. The point is to keep your chapter out of trouble with the IRS. Therefore, *the maximum amount* of money your chapter may use for parties or gifts to your members is equal to 15% of the money your chapter brought in for dues.

Whether or not you designated dues money for parties, or set aside advertising money, raffle money or money left over from last year, the maximum amount you may spend on parties is equal to 15% of the amount your chapter brought in for dues this fiscal year, no matter where you got the actual money.



13) What about money paid for by the members coming to the party or things they donated for a party?

Money paid by the members to attend a party does **not** count in the 15%. Refreshments, entertainment, prizes donated by the members – anything the members donated to the party does **not** count in the 15%. Only money from the treasury counts in the 15%.

14) What about things that were donated by local businesses?

The IRS could consider those donations to be income to your members if they are used at parties for your members or members' children, and the IRS could consider those donations to be a violation of your nonprofit purpose because you didn't use them in a nonprofit way.

The IRS expects that all party and gift expenses will come directly from the members. Therefore, you should not be soliciting nor accepting donations to your chapter for member parties, not even items received in exchange for advertising. Also, while an outside business may *think* they've donated something to you because you're a nonprofit organization, actually, they have not made a donation to a charity, because if you use the items for your members' personal benefit, you have not used the items in a nonprofit way.

(The business can still deduct the cost of the donation as an advertising expense, but the IRS would not consider it a donation to a nonprofit cause because that wasn't how you used it.)

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[NOTE: You MAY accept donations for service projects. The definition of a service project is that it benefits the needy in your community, not your members. Therefore, for example, if your members host a party for needy children in your community who are not your members' children, you may ask for and accept donations. If the children at the party are your own children, however, it is not a service project, and you may not ask for nor accept donations for it.]

15) Can we charge our members a “party tax” to pay for parties and not have it count in the 15%?

No. You cannot charge your members an extra “party tax” and not have it count in the 15%. Any pay-to-attend money must be tied to a specific party, not to parties in general. If you charge all members a “party tax” to pay for parties in general, the IRS would consider that part of your chapter’s dues that should be used for your nonprofit purpose. You still could only spend up to 15% of your total dues for parties, so the additional “party tax” can’t be levied in addition to the dues, because it would be considered a *part of your dues* by the IRS.

16) Can we do fundraisers to pay for our parties and not have it count in the 15%?

No. You may not do fundraisers to pay for parties.

17) What about Open Houses? Do they count as part of the 15%?

Open Houses do not count in the 15%, **BUT** they have to be real Open Houses to introduce the MOMS Club to at-home mothers who may not have heard of us before, not just private parties called “Open Houses.” The event has to be advertised as an Open House and there have to be outside at-home mothers attending, not just the member mothers.

Also, Open Houses must be a reflection of what the MOMS Club is truly about. Therefore, they should not be an elaborate party with catered refreshments, clowns or bouncy houses, because such an elaborate party gives the wrong impression of what a normal MOMS Club meeting or activity is like.

If an Open House is expensive, with hired entertainment and bouncy houses, the presumption of the IRS will be that this was really just a party for the members, even if some outsiders came, too. Therefore, it would need to fall under the 15% Rule. If you don’t want your Open House to count as a 15% Rule party, then keep it simple and modest.



18) Can we hold a community event and not have it count in the 15%?

Yes, but it has to truly be an event for the whole community as a service project, and not just for the members. Just calling it a community event doesn't necessarily make it one. Any event that is predominantly for the members shall be considered by the IRS to be a chapter party, not a community event. If you are planning a community event and don't want it to be counted under the 15% Rule, ask your Regional Coordinator to review your plans before you vote on it to make sure that the event will qualify as a true community service project instead of a chapter party.

19) What about gifts to our members? When can we give gifts to our members or children?

In general, you can never give gifts to your members or your members' children that were paid for by your chapter's treasury or from donations from outside businesses.

Let's say that your chapter has voted to have Santa come to your holiday party and you want him to give books to the children so all the children will have similar gifts from Santa. If you pay for the books out of the treasury, the IRS would consider this to be giving your members a gift. As such, you cannot pay for the books out of the treasury without it counting in the 15%, and you cannot ask a local business to donate books to you for this.

What you can do is have each family that is coming to the party pay for the books themselves, even if the chapter is buying them in bulk. Better yet, have each family buy the books their children would be interested in reading and sneak them into the party and to Santa without the children knowing who the books really came from.

20) What about flowers if a member is seriously ill? Is that a gift?

Sending flowers to a member who is seriously ill is not a gift just because she is a member... it's a gift because she is seriously ill. As long as you treat everyone the same, and the price is low, it should be allowable to the IRS. If at all possible, include the cost in the 15%, but if you have many ill members, explain the situation on your year-end reports and if the cost is reasonable for the situation, it should be allowed.



Before you spend any money on flowers, though, think whether or not your chapter can afford to do this for all members in the same situation. If some members get flowers when they're ill and others don't, people's feelings will be hurt. Because of that, most chapters send cards instead of flowers, or if they do send flowers, they purchase them directly from someplace like Costco, where the price is much less than a regular florist.



21) Can we pay for year-end thank-you gifts for our Board and members who have helped our chapter a lot? Does that count in the 15%?

As long as you are truly giving the gifts as a thank-you for excellence in their offices, your chapter can give modest thank-you gifts to your outgoing Board and members who have gone above and beyond in helping your chapter, because you are giving those thank-you's for a reason, not just because the mothers happened to be members of your chapter.

If the thank-you gifts are modest and reasonable, they can be paid for out of your chapter's treasury and not count in the 15%. If the amounts are not modest or reasonable, then the amounts will count in the 15%.

If the thank-you gifts are donated by the members or paid for directly by the members, then the limits on the amounts do not apply. However, no member should be expected to contribute to any thank-you gift unless she is eager and has offered to do so. The chapter cannot vote to require that everyone pitch in for thank-you gifts to the board, for example. The chapter can ask, but it cannot require, expect nor punish members who do not want to contribute.

Also, just because a gift paid for by the members does not count in the 15%, that doesn't mean that the amount of the gift can be excessive. Spa treatments and get-aways are never reasonable, and set the bar too high for future thank-you gifts. Extravagant gifts can also be considered by the IRS to be taxable income to the receiving officer.

For Board thank-you gifts paid for out of the chapter's treasury, how much is modest and reasonable? We suggest that you look at our MOMS Club merchandise (available through the MOMS Club on-line newsletter at www.momsclub.org), and tie the amount to the cost of something nice, but reasonable, like a MOMS Club tote bag.

Any MOMS Club merchandise item should be both reasonable and modest, and acceptable for a nice thank-you gift. So, if you give tote bags to the Board members, you can give a mug or other smaller item to other volunteers in your chapter.

The thing to remember is that items do not have to be expensive to be effective thank-you gifts. It's not the cost of the item that they'll remember... *What they'll cherish is that you thought their contribution to the chapter was important enough to be remembered!*

22) How can we get around the 15% Rule?

You can't. The 15% Rule is to help your chapter plan parties and know it will not violate IRS rules. This rule has been in effect for many years, and there are no exceptions.

23) What happens if we go over the 15%?

Any chapter that spends more than 15% of their dues income on parties can – and will – be placed on probation. A chapter that exceeds that limit may find that its nonprofit status has been revoked for that year.

Any chapter that repeatedly exceeds that limit, or which does not take steps to follow the 15% Rule, will have their registration as a MOMS Club chapter terminated.

24) Why is it so serious?

When the IRS gave us a group exemption for our chapters, they were recognizing that we take our nonprofit status very seriously. They were entrusting us with the responsibility of vouching that all our chapters are truly operating as nonprofit organizations – not just “claiming” to be nonprofit, but truly *being* nonprofit.

The 15% Rule is easy to follow and every chapter can do all the parties and recognitions they need under these guidelines. There is no legitimate reason not to follow this easy rule, and we will not jeopardize the nonprofit status of all our chapters because of the actions of one.

25) What if we need help to follow the 15% Rule?

If you feel your chapter is having difficulty following the 15% Rule, talk to your Regional Coordinator. She can review your budget and make suggestions for ways to decrease the costs of your parties. Remember, pot-luck parties are fun and more meaningful than parties paid for by the chapter. If your chapter has gotten off track and is paying for more and more parties, it’s time to pull back and re-evaluate what’s really fun, and what’s just trendy. Contact your Regional Coordinator for ideas on fun, inexpensive parties that all your members can enjoy!

*If you have any questions
about your nonprofit status,
party expenses or the 15% Rule,
contact your MOMS Club
volunteer coordinator!*

