

The Problem of Non-Member Income and Why Curling Clubs Should Be Public Charities.

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More and more curling clubs across the United States are seeking 501(c)(3) tax-exempt status. What, exactly, is driving this trend? How does a curling club qualify as a nonprofit charitable organization? What are the possible benefits for a curling club to be recognized as a public charity? This article explores these questions and discusses some of the considerations involved in the process of deciding whether or not to form or reorganize your curling club as a public charity.

Many curling clubs organized as 501(c)(7) organizations are losing their tax-exempt status because they are receiving too much nonmember revenue. In the past, clubs were often formed as 501(c)(7) organizations because they fit the definition of a “Social and Recreation Club” and “are organized for pleasure, recreation and other nonprofitable purposes.” According to IRS rules, if a 501(c)(7) organization receives any more than 35 percent of its gross receipts from sources outside of its membership, it will lose its tax-exempt status. This causes problems for clubs that hold bonspiels and other events where nonmembers participate. Unlike 501(c)(7) organizations, 501(c)(3) organizations do not put their tax-exempt status at risk when they solicit or receive charitable donations from non-members.

One of the greatest benefits of 501(c)(3) status is the ability to receive tax deductible donations. Donors making charitable contributions to a 501(c)(3) organization will be able to deduct their gifts on their federal and state tax income returns. The availability of tax deductible donations is almost certain to help 501(c)(3) curling clubs attract much wider donor bases by creating strong incentives for individuals and institutions to make charitable contributions.

This increased fundraising capacity can have a huge impact on a curling club. It is especially important at a time when online services such as the Network For Good (www.networkforgood.org) have made it easier for donors to make contributions. As any curling club knows, curling is not a cheap sport. Financial difficulties often limit a club’s ability to grow. Many clubs are looking for more opportunities to host and participate in more bonspiels, to upgrade their equipment, or to purchase their own facility rather than renting ice time.

Apart from the fundraising advantages, 501(c)(3) status is advantageous to curling clubs in that it allows them to be exempt from property and income taxes and offers them certain benefits like discounts for bulk mail.

Many officers of curling clubs are surprised when they first learn that their organization is eligible for 501(c)(3) tax-exempt status. Most associate 501(c)(3) status with charities and social

services organizations rather than private sporting associations. Fortunately for curling clubs, 501(c)(3) tax-exempt status extends to a broader range of entities, including organizations with a mission “to foster national or international amateur sports competition.” Because curling is an Olympic sport celebrated across the world and because most curling clubs foster regional, national, and international competition through bonspiels, it is clear that curling clubs fit squarely within the range of entities deserving of 501(c)(3) tax-exempt status.

Like many other sporting associations, curling clubs have a social dimension to them. Many curling clubs maintain food and beverage services and have obtained liquor licenses so that their members can relax after a tough match or celebrate a big victory. These liquor licenses are usually obtained through the organization’s status as a 501(c)(7) organization. Some clubs worry that acquiring 501(c)(3) status will result in the loss of the club’s liquor license. Although 501(c)(3) organization should (usually) not hold a liquor license, curling clubs wishing to maintain their liquor license can simply be comprised of two separate corporate entities. There are two coming ways of setting up such a structure. The first is to have the 501(c)(7) private social club hold the liquor license and a separate 501(c)(3) organization to run the curling club and other charitable programs. The second is to establish a separate “for profit” corporation, often referred to as a para-organization, to hold the club’s liquor license and engage in noncharitable activities that donates its profits to its partner 501(c)(3) public charity that focuses on curling and charitable programs.

The reason that 501(c)(3) organizations should not get into selling alcohol is that they risk losing their tax-exempt status by engaging in transactions beyond the scope of their charitable purposes. In the case of curling clubs, selling food and beverages or merchandise is a common example of this sort of conduct. Generally, 501(c)(3) organizations should not derive a significant amount of their income from noncharitable sources. It is thus a good idea for 501(c)(3) curling clubs to keep these kinds of activities separate from the 501(c)(3) organization.

In addition to the aforementioned financial benefits, an emerging consensus among curling clubs is that 501(c)(3) status provides important value beyond financial advantage. Many 501(c)(3) curling clubs now primarily consider their club a charitable organization with the athletic or social nature of the organization a secondary description. These curling clubs have used their acquisition of 501(c)(3) status as a springboard into exciting new activities that demonstrate their commitment not only to the sport of curling but also to the communities that surround them. Some clubs have focused on educating youth about the sport of curling, setting up lessons and workshops as a way of sharing the sport with future generations. Others have focused on programs that allow persons living with disabilities to experience curling firsthand. And other still have simply opened their doors to the public at large, taking the time to teach the game to first-time curlers.

Regardless of their particular focus, curling clubs across the country are finding it immensely rewarding to use their 501(c)(3) status as a way to serve their communities. As Sandra McMakin

of the Potomac Curling Club put it, “our nonprofit status has focused our club on developing new and interesting programs, including an educational curling program for children in our community. It is exciting to be able to develop and share the sport of curling with future generations.”

Fried & Davis, LLC, is a Pittsburgh-based law firm that has helped numerous curling clubs with acquiring 501(c)(3) status. The firm has an extensive background in nonprofit law and particularly enjoys working with its curling club clients. For more information, please visit: www.fried-davis.com or call 412.434.4911.