

Taxes and NA in the USA

In both the January and March 1993 issues of the *Conference Report*, the Tax Options Group promised the fellowship a report of the information gathered during its existence, specifically anything that might be helpful to elements of the NA Fellowship in the United States of America in making decisions about how to conduct their tax-related activities. There have also been several requests to answer a few specific, commonly asked questions about taxes. We believe this document performs both these functions. It was compiled on behalf of the Tax Options Group and hopefully contains information that is relevant to NA groups, service corporations, and local service committees in the United States as they consider how best to meet their obligations under USA state and federal tax codes.

Introduction

One of the marks of recovery is an ability to accept responsibility. As individuals, recovery gives us the wherewithal to start fulfilling our responsibilities as family members, neighbors, coworkers, and citizens. The same applies to our collective behavior as NA groups, committees, and service corporations. As collective citizens, our groups, service boards, and committees are obliged to obey state and federal tax laws like everyone else. The question is, what are those laws and how do they apply to us?

The meaning of "nonprofit" and its relation to tax exemption

Since our first NA meeting, most of us have heard NA defined as "a *nonprofit* fellowship or society of men and women for whom drugs had become a major problem." From that, an awful lot of us have jumped to the assumption that not only were NA groups, service boards, and committees exempt from taxes and tax laws but that contributions to NA at any level were tax deductible. Unfortunately for us, neither of these assumptions is warranted.

It's true that certified nonprofit organizations are generally exempt from state and federal taxes and that contributions to such organizations are often tax deductible. However, according to the tax people, it's not enough to operate in such a way that a group or committee uses whatever contributions or other income it receives solely to fulfill a charitable purpose. To be *certified* as a nonprofit organization, an NA group or committee must file official requests with both the state and federal governments for tax-exempt status. Until such a request is granted, an NA group, service board, or committee is not considered to be "nonprofit" by the government. Instead, it is treated for tax purposes as a taxable organization and is subject to the same income tax regulations other such organizations must abide by.

This leaves the NA group, service board, or committee with two alternatives: abide by regulations for taxable organizations, or file for tax exemption. Both alternatives have their benefits and their drawbacks.

Alternative 1: abide by regulations for taxable organizations

For many NA groups--and for some NA service committees--this alternative actually makes more sense than one might think at first glance. This is because US federal tax regulations and most state regulations do not require organizations with gross incomes under \$5,000 even to file tax returns, much less to pay income taxes. If your group or committee receives, as an average over a three-year period, less than \$416.67 a month in total contributions and income from sales of NA literature, event tickets, T-shirts, or other items, you're in the clear. (This means \$416 a month *before* expenses are taken out, not after!)

If this applies to your group or committee, all you need to do is make sure your treasurer maintains complete, accurate records of your group or committee's financial activities. The guidelines and record sheets your treasurer will need can be found in the *Treasurer's Handbook*, available from the World Service Office. So long as you maintain such records, you will be able to justify not having filed tax returns should state or federal authorities ever ask your treasurer about the matter.

Very, very few NA groups gross substantially over \$5,000 a year. However, if your group or committee does gross over \$5,000 annually, it may still be simpler and less expensive just to pay income taxes than go through the process of filing for tax exemption, incorporating (which usually goes along with the process of filing for tax exemption), and keeping up the records and reports required to maintain tax-exempt status once it's granted. If you believe your group or committee would be better off simply paying income taxes and being done with it, talk with a local tax consultant.

Alternative 2: file for tax exemption

If your service committee has a gross income substantially in excess of \$5,000 a year, it should probably incorporate and file for state and federal tax exemption. Incorporation will provide your service committee with the stability it needs in its legal identity to maintain tax exemption over the years, regardless of who the committee's officers are from one year to the next. Filing and maintaining tax exemption is a complicated process. Doing it incorrectly can bring about grave legal and fiscal consequences for your service board or committee. For this reason, we encourage you to consult with competent local legal and tax professionals who are familiar with the needs of small nonprofit organizations when preparing your corporation papers, filing for tax exemption, and maintaining your nonprofit tax reports.

This alternative may also apply to exceptionally large groups which host many meetings each week. In addition to having gross incomes substantially in excess of \$5,000 a year, such groups sometimes lease or purchase buildings for their meetings and activities and take out their own liability insurance policies. Such groups will want to incorporate their steering committees and file for tax exemption. These super-large groups, however, are quite rare. Most NA groups will be served best by simply maintaining good financial records and, in the few cases where it is necessary, paying the minimal income taxes they owe the state and federal governments each year.

If your group or committee has determined that it needs to file for tax exemption but is hesitant to incorporate, it can operate as an *unincorporated association of individuals*. Unincorporated

associations can apply for nonprofit tax exempt status, just like nonprofit corporations, without being bound by the corporate structure. However, be aware that incorporation can provide the group or committee with long-term stability that not only makes it easier to maintain tax-exempt status but actually helps ensure that our primary purpose continues to be fulfilled, year after year. Your local tax consultant can provide you with specific information on the pros and cons of operating as an unincorporated nonprofit association in your state.

Can members deduct their contributions to an NA group, service corporation, or committee from their tax bills?

No, not unless the group has been granted tax-exempt status by the state and federal governments. If you deduct your contributions to a group which has not been given tax exemption and are later audited by tax authorities, you may find yourself in serious trouble.

Can't we get government tax agencies to grant a joint exemption for all NA groups, service corporations, and committees in the USA?

In 1992, the Tax Options Group was set up by the World Service Conference to investigate this idea with assistance from an experienced tax attorney. The group found that, to be granted a blanket exemption for NA, we would have to establish a system of controls over the finances of all American NA groups, service boards, and committees that would ensure the use of all income solely for NA purposes and require regular, reliable reports to some central NA organization which would account to tax authorities for the activities of Narcotics Anonymous. In practical terms, such a system would be nearly impossible to manage. In spiritual terms, it would run directly against our tradition of group autonomy and our concept of service, not government, within our service structure. For these reasons, we are simply recommending that each individual NA group, service board, and committee in the United States take up its responsibility to abide by all applicable tax regulations, maintaining accurate financial records and either paying whatever state and federal taxes, if any, are due or filing official requests for exemption from taxation.

Tax Options Group