
CHAPTER TWELVE

THE SUPPORTING ORGANIZATION: INCORPORATION AND TAXATION

Forming a supporting organization for channeling done by you or in your group is a frequent response to society's demand for organization, given that your work stabilizes and is productive. Your choices include the legally taxable corporation and the nonlegal, unofficial group. The latter option has the advantage of making it very easy to slide through the system. Until very recently there used to be a disadvantage to this choice in that contributions to unofficial groups, no matter how uplifting their inspiration, had no tax advantage. Beginning in 1987 the tax advantage is greatly lessened because of the changes in Schedule A, Itemized Deductions. This makes running your support group unofficially a more feasible alternative, though you still should keep books, as you will be personally responsible for declaring income.

If you wish to have freedom to do whatever is legal for any corporation to do, you may be interested in forming a legally taxable corporation and paying taxes using corporate tax forms. This would make the business tax-costly, but you could use any asset as you wish, within reason, whereas assets of a non-profit corporation can never become private property.

If one's group has an eleemosynary purpose, it does seem worth the trouble to attempt to get tax recognition of your charitable status. It certainly is some trouble. The IRS needs to be very careful in granting tax letters to 501(c)(3) organizations since the benefits of such standing are many, including not just reprieve from income tax but from sales tax as well, plus savings on mailing rates.

If you choose to incorporate, it is well to seek the advice of a lawyer. This is not to say that a well-intentioned, persistent and patient person cannot eventually learn enough to act as an attorney for the self and create one's own Articles of Incorporation, and then go about the process of applying to the Internal Revenue Service for tax-exempt status. It can be done; I have done it, although not with the formation of the Rock Creek Research & Development Labs., our group's supporting corporation, which has the status of a public charity (The organization whose articles I set up, Eftspan, also obtained public charity status in 1975). There is a lot to know about writing Articles of Incorporation that is not available in any concise form, due to the complexities of state and national laws. Each state has

requirements for incorporation, and if you are attempting to write your own Articles, the best beginning is a look at as many other Articles of Incorporation as you can coax other charities to divulge. Since it's illegal to give legal advice to another and since each state has peculiar characteristics, it is impossible for me to aid you if you wish to be your own attorney, except to tell you to be very cautious and careful about what you write. Copy the preferred liquidations clauses word for word, as there are tax code numbers and legal language that could not possibly be created by any amount of psychic intuition or even common sense. Do the same with the closing notary public statement, making sure that the requirements for your state have been fulfilled, and do not consider your work done until your organization's officers have sat down with a notary public and completed a notarized signing of the document. Do not think for a minute that you may take two out of three officers for one signing and the third for a separate one—all signatures must be gotten at the same sitting.

You really are better off if you can possibly afford to find a sympathetic and interested person who is also a lawyer. For one who has been through a lawyer's training, this document is not difficult to frame, and you would be saving yourself a good deal of frustration, as I understand that my experience of having to do everything over at least twice was, if anything, one of the more pleasant experiences available to those who attempt to joust with the world of documents, contracts and government agencies. Actually, my experience with the The Eftspan Foundation, which began in 1974 as a light center near St. Francis, KY., and is at this point more of a wildlife refuge than an active light center, netted me four gloriously beautiful trips through the countryside to our state Capitol, and many an hour of intriguing and fascinating conversation with those I met in the many offices of state government and over the phone with the IRS officers. I enjoyed myself very much throughout the experience. However, for a lawyer, the four trips would have been one, and the frustration level would have been somewhat less!

Whether you become, when you achieve tax-exempt status, a private foundation or a public charity, you will be reporting on Internal Revenue Service Form 990, which, by the way, you have to request from the IRS each year if you have received over a certain amount of donations. That amount is now \$25,000 but could change at any time. Actually, the IRS does not ask small organizations with receipts under \$25,000 to file 990s, perhaps in an effort to trim away unnecessary paperwork in the light of progressively expensive costs of doing business. However, we have, as a part

of the metaphysical principle of absolute honesty and clarity in all relationships, filed one anyway, even in those years when our receipts were under \$25,000. Indeed, even if you do not send the form in to the government, it is not a bad idea to fill it out at the end of the year and put it away in a permanent file so that if there is any question in the future, the pertinent facts will be as easy as possible to retrieve. With the advent of computers, this kind of care in record-keeping is far easier to come by, with software to create a tax document each year to be placed in your organization's tax file.

Your basic 501(c)(3) requirement is that monies never return to personal or private use. If you cannot swallow that simple requirement, then you need to stay taxable, whether as an individual or as a corporation. I have known people who are able to put close to 95% of all personal expenditures into the context of one non-profit project or another which is on-going in an eleemosynary organization and, therefore, I know it is possible. However, I don't recommend it for you at all because any gain that you may see due to the relief from personal income taxes is eaten up not only by the metaphysically questionable nature of such account-juggling but also by the amount of time that you must go through in the inevitable IRS questioning. Honesty, at least in my opinion, is always the best policy.

You will need books, a good stout ledger or series of duplicated floppy disc files which will contain certain information which may well be required by the IRS for one reason or another. Ledger books should include:

- list of donations received by contributor, date, and exact amount.
- ledgers for keeping track of assets and liabilities, income and expenses and balance sheets.
- car log, if the organization has an automobile
- appropriate tax forms (990 for a charitable institution).

Archives should include:

- Articles of Incorporation.
- tax letter from IRS which states your official status.
- state annual report.
- minutes of all meetings.

In your bookkeeping, the double entry method seems to be necessary only if you have a more active cash flow than we have ever experienced. If you have a computer, your way of entering data may end up being double entry bookkeeping because of your software, and as long as it is that simple, that's fine, but to keep books that elaborate for a small organization seems unnecessary if it's any extra trouble. You do need some good, sound books, however. Income and expenses can be kept by category. It is by far more productive to keep expenses in the same categories as does the Internal Revenue Service. Those categories include as expenses:

- grants and allocations.
- specific assistance to individuals.
- benefits paid to or for members.
- compensation of officers, members, directors, etc.
- other salaries and wages.
- pension plans.
- other employee benefits.
- payroll taxes.
- professional fund-raising fees.
- accounting fees.
- legal fees.
- supplies.
- telephone.
- postage and shipping.
- occupancy.
- equipment rental and maintenance.
- printing and publication.
- travel.
- conferences, conventions and meetings.
- interest.
- depreciation depletion, etc.

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—other expense.

Other expenses that we have experienced in the past are: auto expenses, Xerox copying, advertising, research materials, construction, cost of copyrights, safety deposit box rent and refunds. IRS breaks down income into:

—contributions.

—program service revenue.

—membership dues.

—interest dividends.

—sale of assets.

—fund-raising.

It figures the cost of goods as any other business does, taking gross sales minus the cost of goods equaling profit made. Income categories that show these sub-categories, if applicable, would be well to keep as it will save you trouble at tax time.

The IRS loves balance sheets. There is something warm, fuzzy and incompetent about my mind which I never notice until I look at a balance sheet. One likes to think of one's self as analytical, capable, competent and at least normally able to interpret the written word; balance sheets convince me that I have none of the above virtues but, rather, a head full of cotton wool. However, my personal feelings notwithstanding, a balance sheet is not difficult to fill out, if you have kept the records well and are willing to spend some time talking with the IRS about what some of their phrases might mean. I've worked with several different cohorts on filling out Form 990, part five, the IRS balance sheet, and not one of those with whom I have worked has been able to get through the entire thing without calling to ask questions of the IRS. The same question has never been asked twice! Not knowing what each of your relative weak points might be, I will leave you to it!

You will be receiving a government questionnaire having to do with the purposes of the organization. Our federal government allows for a total of three purposes for an organization and I recommend to you strongly that even if you have only one purpose that you know of, you put down as broad and varied a set of three purposes as you can without being dishonest. The reason for this is the uncertainty of personnel and energy over a long period

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of time. Had I, for instance, filled out the Eftspan Foundation's purposes as that of research and offering a spiritual or metaphysical center, and left out wildlife preservation, the Eftspan Foundation now would be obliged to report to the government that it was no longer active. This would mean that the land that so many people contributed to would be gone, unless the organization to which Eftspan had decided to donate the land had agreed to allow all Eftspan members free access to it. Because we had the land, the thinking of the Eftspan officers was that we might as well be a wildlife preserve since we all felt that this was an extension of being a light center, with love extended to animals and plants as well as humans. Try to think in terms of the worst scenario when setting up your Articles of Incorporation and stating your purposes.

Also to be avoided in the Articles of Incorporation is being restrictive in the bylaws. Three main functions need to be covered in the by-laws: officers, meetings and members. If you state that your officers will be three, and then later you discover that you wish to add another person to the Board, or perhaps two, you must then notify the IRS and your state of the changes in your bylaws, which means that you must come under the scrutiny of someone who has not previously been familiar with your organization and may have had very disheartening dealings with another charitable organization which was abusing its tax-exempt status. Therefore, write about your Board in as general a language as possible. For instance, if you feel that three is the proper number of officers for your corporation but you would consider any number possible up to nine, write it that way. Write to the limits of your desired room for expansion or contraction.

Similarly, with members, it is least trouble to have no members and simply to take donations. Each thing that you say about requirements for members limits more and more the scope of your organization. It is only necessary to have an annual meeting. Even if you wish to have weekly meetings, it would be better to write the Articles of Incorporation stating only the legal necessity of an annual meeting, the legal minimum for an organization, in order that if you stopped having weekly meetings, deciding to have fortnightly meetings, for instance, you would not have to come under the scrutiny of IRS and state officials over something relatively minor. Use your own judgment, and try to think like a lawyer if you are attempting to be one. Realize that the less restrictive language is, legally speaking, the more freedom you will have within the legal system and try to give yourself as much freedom as you can.

This is not to suggest in any way that you put yourself forward to do anything that is not aboveboard. But you will find—and probably have already found as a private person—that there are situations which one gets into in dealing with an organization of any kind and particularly with the IRS where, with all the good will in the world and with no dishonesty whatsoever, you can and will find yourself in sticky situations. Careful thinking and good record-keeping will be your allies in this area, which is perhaps more alien to a channel than to some people, since there is not a lot of room in a balance sheet for metaphysics.

Do try to keep your sense of humor because the IRS people are not big, bad guys. The tax laws do a very large favor for organizations with nonprofit motives and purposes such as yours, and they are to be appreciated, not cursed. It is easier to do that from afar than when one is in the middle of qualifying for a favorable tax determination or an audit, but try to keep your perspective no matter what. The people there have been uniformly caring and supportive throughout my experience with nonprofit corporations. When you must call the IRS and talk to them about your tax letter or your Form 990—and if you organize, you will make those calls—be sure and pick up the phone expecting to talk to a friend.

There are some things to avoid in setting up your organization. One of them is any accounting method except “cash.” Accrual is the other fairly widely used method of accounting, and it does require double entry bookkeeping and considerably more complex record-keeping. For a nonprofit organization, especially a small one, it’s just not necessary. In fact any overly complex bookkeeping system is to be avoided. But be sure that you can pull out, by some method of record-keeping, the amount that any one contributor has given within any calendar year as that information is sometimes helpful to the contributor.

If you are selling pamphlets, books or other publications and will have an inventory, try to think ahead and predict when you will have the least amount of inventory. Set up your tax year to coincide with that period so that your inventory-taking will be as easy as possible. Often, one cannot predict one’s future inventory with any accuracy, but there are some who publish once a year or periodically and if you fall into that category, do yourself a favor!

Try to avoid simple bad judgment in spending. It is tempting sometimes to want to pay someone who has done so much for an organization, but if you have only enough cash to cover the expenses that you already have, you

really can't afford to be paying yourself or anyone else a salary. If someone comes to you with a scheme for getting a lot of contributions for your organization, think carefully about what the ad campaign would cost the organization in relation to the amount of contributions it would generate. Consider, also, the metaphysical appropriateness of the ad campaign. The IRS will pick up on salaries and benefits and on the cost of the campaign. There are whole schedules in the Form 990 having to do with these points. There are some questions there that you want to be able to answer "No" to, unless you have a great deal of money coming in and can truly justify the amounts spent on salary and ad campaigns.

Although I have talked with government agencies about our research in years past, the government has never funded any of our research, nor do I think it likely that they would offer to fund yours! However, it does seem sensible to caution you about having any dealings whatsoever with the government, or, indeed, with any politically-motivated action, especially lobbying. There are many questions on Form 990 having to do with involvement with things political. The practice of channeling is profoundly nonpolitical and it would seem to me best to stay out of that fascinating earthly arena of action.

Lastly, avoid giving anything away if it has salvage value. Junk can, of course, be given to anyone who will take it off, but if it is useful and functional, and you want it, buy it from the organization. Don't just claim it.

For those of you just now beginning to consider writing your Articles of Incorporation, the present record-keeping necessity is great. Most organizations miss keeping proper records at first. Unfortunately, it is your first couple of years' records that the IRS will use to determine your tax status. And that precious tax status letter will be the result of your work at the beginning. Keep records of donors and of all:

- grants.
- contributions.
- membership fees (if you have decided to have members).
- interest.
- dividend income.
- business income (unrelated to your purposes as an organization, generated by a money-making project).

- taxes levied on your behalf (if you are a school).
- services of facilities provided by the government (such as a place to meet).
- and especially a careful record of all expenses (see above checklist).

They will be wanting to find out how much was given by large contributors for each year as well as how much was given in total for each year.

Consequently, a card catalogue filing system was the answer that we have come up with, pre-computer, to the question “How will we know how much each person has given?” The advent of the personal computer age means that this information can be kept on disks and retrieved and added to as needed, a vast improvement in the system.

Make sure that you do keep these records, one way or another, and good luck to you as you embark on what may seem at times to be an impossible scheme: the corralling of physical details to support metaphysical seeking. It is an unlikely thing for a mystic or a channel to be doing. Yet it needs to be done. If you are an instrument but find yourself incapable of paper work, I urge you to find yourself some help, for you will find, as unlikely as the combination of paper and metaphysics seems, that the world of paper is not actually out to get the psychic but rather wants to do everything it can to help charitable and lofty causes. Just keep thinking positively, and walk away from a desk that has grown too crowded with a day full of frustration. Books do have the advantage of being utterly nonpsychic. The mistake that you cannot find today will probably show up the next time that you show up at your desk. When in doubt, check your energy level. If you still have plenty, try to remember the last joke that you heard, and plunge back in. If you are running low on energy, patience and smiles, try to remember the last joke that you heard, find yourself unable to remember it, and go do something else that is wonderfully nourishing to heart and soul!