

Comparison of 501(c)(3) Qualified Charity and 501(c)(7) Social Club

by Carol Topp, CPA HomeschoolCPA.com

	501(c)(3) Qualified Charity	501(c)(7) Social Club
Purpose	Religious, Educational, Charitable, Scientific, Literary,	Pleasure, recreation, social activities
Examples	churches, charities, private schools, homeschool co-ops with an educational purpose	Fraternities, sororities, country clubs, hobby clubs, homeschool support groups
Requirements	No private inurement allowed. Upon dissolution all assets must be distributed to another 501(c)(3) organization.	Personal contact, fellowship and co-mingling of members. No private inurement allowed.
Activities	Can hold programs, sell services and products as part of their exempt purpose.	Can provide meals or services only to members in connection with club activities
Tax deductible donations allowed	Yes	No
Tax exempt (no taxes on profits)	Exempt from Federal income tax unless the organization has unrelated business income	Exempt from Federal income tax on income derived from members; other income taxed
Source of Income	Membership fees, fees for services, donations, fund raisers, program fees	Primarily (65% or more) from membership fees.
Membership	Open to public	Limited membership and consistent with the purpose of the club.
IRS Application Required?	Yes, if gross revenues over \$5,000/year. File Form 1023	No. The IRS does not require 501(c)(7) organizations to file an application. They can "self-proclaim" tax exempt status.
Annual IRS Reporting	Form 990N, Form 99EZ or Form 990	Not required
Legislative Lobbying permitted?	Insubstantial lobbying allowed (less than 20% of total expenses). No endorsement of a candidate.	No limit on legislative activity as long as it furthers the exempt purpose

Sources:

http://www.irs.gov/publications/p557/ch04.html#en_US_2010_publink1000200325

<http://www.companiesinc.com/incorporate/glossary/501-nonprofit-status.asp>

http://www.irs.gov/irm/part7/irm_07-025-007.html