

## **ADMINISTRATIVE VERSUS ACTIVITIES FUNDS**

### **What are the rules for raising these funds and which can be claimed as tax deductions?**

**By VDG Tony F. Reyes**

In an effort to clarify some recurring questions from various Lions Club members, especially from the newer Lions Clubs and their members, I contacted Lions International Legal Division to get some clear language as to what comprises administrative funds vs. activities funds.

I believe that it is important for all Lions members to know the difference between the two and how those funds are raised and how and where they can be expended.

International's response to my inquiry is explained in the attached (page 3) legal opinion of the International Board of Directors. It clearly states that Lions clubs may not use publicly raised funds for administration expenses. Administrative expenses are funded through club member dues, fines, and other monies from members as explained therein.

I believe that after reading the policy of the international board, you will all agree that all funds raised from the public must be returned to public use. The only deductions which may be made from activities accounts are the direct operating expenses of the fundraising activity. Money accumulated from interest must also be returned to public use.

Consistent with the above, Article VIII, Section 3(g) of the Standard Form Lions Club Constitution under the duties and powers of the club Board of Directors provides:

"It shall not authorize, nor permit, the expenditure, for any administrative purpose, of the net income of projects or activities of this club by which funds are raised from the public."

Some clubs sell ads in the club newsletter. If this publication is distributed only to Lions, the ad revenue may be used for administration expenses. A club may hold a fundraising activity confined solely to Lions and their spouses and may use the proceeds from the activity for administration. Once members of the public are invited to a Lions club fundraiser, it is governed by the rules for publicly raised funds. This type of activity becomes a public fundraising event and the revenue from Lions may not be separated or used for administration.

A Lions club may identify an opportunity in its area where members can work at the event of another organization. Any compensation received can be donated to the club's administrative account, as long as the members are not addressed or otherwise identified as Lions, but rather work as individual citizens. It is important that the organization that compensates the members understands and agrees with this usage of funds.

I want to further stress that donations received do not qualify as tax deductible donations for the donor, unless the club/charity foundation has applied for and received a 501(c)(3) determination letter from the IRS' Tax Exempt/Governmental Entities Division (TE/GE).

Below I have drafted some language and included some IRS information to hopefully explain what this means.

Presently we (Lions) are a 501(c)(4) under the umbrella of LCI and as such we are tax exempt and we don't have to pay taxes on the funds we raise. However some clubs and organizations in D24-A have applied for and received 501(c)(3) determination , so donations to them are tax deductible (see page 5 for a list of the twenty-two D24-A Lions Clubs and Organizations who have applied for and received a 501(c)(3) determination letter from the IRS). So what is the difference?

- All Lions Clubs and Districts in the United States are recognized by the IRS as being federally tax exempt under Section 501(c)(4) of the Internal Revenue Code, under LCI's group tax exemption. While this allows for the Lions Clubs and Districts to be exempt from federal taxation, it does not allow for tax deductible donations. The solution to this challenge is the establishment of a separate 501(c)(3) charitable foundation.
- The Internal Revenue Code requires that any fundraising solicitations including member assessment and dues invoices by or on behalf of various tax exempt organizations, including those formed under Internal Revenue Code Section 501(c)(4), such as Lions districts/clubs, must include an express statement that contributions or gifts to it **are not deductible as charitable contributions**. You may find further information on Section 10701 (Sections 6113 and 6710) of the Omnibus Budget Reconciliation Act of 1987 (OBRA) in "Notice 88-120, 1988-2 C.B. 454" on the IRS website at [www.irs.gov](http://www.irs.gov).
- ***Please note that a Lions district or club may establish a separate foundation, operated and controlled by the district/club, with purposes properly stated, which would be sufficient to secure federal income tax exemption under IRS Code Section 501(c)(3). Such an exemption would qualify a contributor's donation as tax deductible to the extent allowed under the law.***

I hope this information will be of assistance to you and to District 24A.



**LEGAL OPINION ADOPTED BY THE  
INTERNATIONAL BOARD OF DIRECTORS**

**FUNDS RAISED FROM ACTIVITIES**

**QUESTION:**

May funds raised from the public be used for administrative or other non-public purposes?

**OPINION:**

No. The Articles of Incorporation of The International Association of Lions Clubs state that the association is organized, among other things, "to govern all such chartered clubs so that they shall be nonpolitical, nonsectarian, not for profit of the individual club or its individual members."

Therefore, the Articles of Incorporation of The International Association of Lions Clubs expressly forbid that any part of the net earnings from activities shall inure to the benefit of any individual Lion or Lions club. Since districts are created by the association to facilitate its administration of individual Lions and Lions clubs, this proscription, by implication, runs to district administrative expenses as well.

The wisdom of this proscription is clear. To finance and fulfill their basic function of service, Lions clubs ask the public to patronize fairs, circuses, raffles, show and the like, and to purchase products infinite in variety. This public support is sought, and given, on the mutual understanding that the net funds raised thereby will go to finance some community need. Consequently, any diversion of such funds to other purposes constitutes a breach of faith with the contributing public. The proscription in the article quoted exists to prevent any such breach and to protect and preserve the image of Lions Clubs International. Therefore, the use of any such funds to finance convention trips, politics or candidates, or administration dues, deficits or expenses at the club, district, or international level is a breach of faith and an express violation of the basic document of the association.

This opinion shall be interpreted to mean that there shall be no public solicitation of funds to defray administrative expenses of a Lions club.



### Use of Funds Chart and Information Sheet

How Funds Are Raised	Use for Public Projects? (Activity Account)	Use for Administrative Expenses? (Administrative Account)
<b>Administrative</b> – dues, rental fees, fines, advertisement in newsletters to Lions	Yes	Yes
<b>Public</b> – any fundraising event open to the public, public contributions and bequests	Yes	No *
<b>Interest</b> – accumulated investments from money received from the public	Yes	No*
<p><i>*Direct expenses may be deducted from a public fundraiser to replenish the Administrative Account.</i></p>		

#### Activity Fund (Public)

All funds raised from the public must be returned to public use, including money accumulated from invested public funds. These funds may not be used for administration, to benefit a member, or for travel and meeting expenses for conventions.

#### Administrative Fund

Administrative funds are supported through contributions from Lions through dues, fines and other individual contributions. It is possible for Lions Clubs to fund their administrative account in the following manner:

- Private fundraising activity limited to Lions Clubs members and their spouses
- Advertisement proceeds for Club Newsletters
- Donated member compensation for work as individual citizens at non-lion events, while not dressed or identified as Lions
- Deduct direct operating expenses of a fundraiser
- If the Lions building is used to meet the needs of the community at large, the club may deduct an amount of the proceeds of each activity held at the clubhouse to go towards the operating expenses of the building.

Annandale Lions Club Charities Inc.
Arlington Host Lions Charities Inc.
Colonial Beach Lions Club Charities Inc.
Fairfax Host Lions
Falls Church Lions Charities Incorporated
Great Falls Lions Charities Inc.
International Association of Lions Clubs
Lake Ridge Lions Club Charities
Lions Club of Mason Neck Lorton Charities Inc.
Lions Club of Montclair Charities Inc.
Lions Club of Sterling Charities Inc.
Lions Memorial Scholarship Fund Inc.
Northwest Arlington Lions Charities Inc.
Park West Lions Charities Inc.
Purcellville Lions Scholarship Tr
Reston Lions Charities Inc.
Sight & Hearing Mobile Screening Unit Lions of Va District 24-A Inc.
Spotsylvania Lions Club Charities Inc.
Springfield Franconia Host Lions Club Charities Inc.
Virginia Lions Eye Institute Foundation
Virginia Lions Eye Institute Foundation
Virginia Lions Hearing Aid Bank District 24 A Inc.