

# UOW Current Issues

## To be a 501(c)(3)?

**N**eighborhood Watch groups form for many different purposes. Most groups will hold weekly or monthly meetings to discuss crime prevention issues in the community. These groups may even start holding block parties or other social events. The more ambitious groups may decide to develop community projects that go beyond traditional crime watch meetings. These groups may choose to begin fundraising projects to finance the group's activities, including an expanded program. There is a lot of confusion surrounding the requirements and benefits of tax-exempt status and neighborhood watch groups frequently ask whether they should become a 501(c)(3) nonprofit corporation.



### Steps to Starting a 501(c)(3) Tax-Exempt Corporation

If you are starting a new Neighborhood Watch or looking for new ways to expand your existing group, you must establish **who will make decisions** for your group. There may already be a number of involved community members who meet regularly to make informal decisions. Potential leaders could be the Neighborhood Watch Coordinator and the Block Captains. But in order to apply for 501(c)(3) status, you must form an **official Board of Directors**. When gathering members of the community to discuss future goals, consider who would be good candidates to be on the Board. Remember to consider a good representation of the community.

Once the Board is established, a discussion needs to take place to consider what **plans the Neighborhood Watch has for the future**. If the community plans on holding huge **fundraisers and collecting donations** from the neighbors, it may be beneficial to have tax-exempt status. Then every individual that gave donations would be able to claim the donations on personal income tax. It might encourage community members to make donations if they are tax-deductible. In addition, 501(c)(3) may be eligible to apply for **grants and funding** from government and private organizations. This funding can be used to purchase material and for training. The Board will have to **create by-laws** for the organization. The by-laws may be simple, directing the number of Board members and a few other details, but it is a requirement to filing an application with the IRS.

The Board will have to **file for tax-exempt status** through the IRS. These forms are downloadable on the IRS website. After the IRS grants the group tax-exempt status, the Board will have to meet certain filing requirements every year, including **filing a tax return**. The Board must also ensure there is **ongoing compliance** so the group does not lose its 501(c)(3) status. For Neighborhood Watch groups in need of more assistance, the IRS offers help to those applying for tax-exempt status.

### Basic Definitions

**Nonprofit Organization:** With few exceptions, all Neighborhood Watch groups are informal nonprofit organizations because they do not exist to earn a profit. A formal nonprofit corporation is a state recognized organization established to serve a public interest. Unlike a for-profit organization, there are no shareholders and any income is used to further the mission of the nonprofit.

**501(c)(3) Organization:** Refers to the section of the Federal Tax Code that describes tax-exempt charitable organizations. The tax code defines what a charitable organization is by looking at the purpose of the group. A neighborhood watch that exists to prevent crime and encourage community involvement meets the charitable organization requirements.

### Benefits of Tax-Exempt Status

There are two main reasons to apply for tax-exempt status. The first is to be able to accept tax-deductible donations. The second is to be able to accept grants and other funds from outside sources, including government and private industry. Before jumping into the application process, the Neighborhood Watch group needs to consider whether these reasons will benefit their organization. Applying for 501(c)(3) status from the IRS can be a lengthy process. If tax-exempt status won't help the Neighborhood Watch meet the purpose it was originally formed to do, the board should probably rethink applying.



## Think Twice Before Applying for 501(c)(3) Status

When deciding to become a tax-exempt corporation, always keep in mind the purpose of your watch group. Every watch group is different. Some may gain benefit from filing for 501(c)(3) status, but most will decide it is not worth the complicated process.

If the Neighborhood Watch group keeps its activities limited to regular meetings and basic patrol, it may be more of a hassle than it is worth to become tax-exempt. Most Neighborhood Watch groups are started as informal groups and the occasional fundraiser is not going to make applying for tax-

exempt status worthwhile. One reason that most watch groups do not need to apply for 501(c)(3) is because of the partnership between the community members and law enforcement. The law enforcement agency that sponsors the watch group may have access through the department to pay for necessary supplies.

There are a few disadvantages to being a 501(c)(3) corporation. Filing requirements must be met each year with the IRS. A tax form will have to be filed. In addition there are limits to the activities in which the 501(c)(3) can participate including direct political campaigning. An option for watch groups that would like to offer the tax-benefit but do not want to go through the lengthy process is to find an existing 501(c)(3) corporation and become a sub group in that organization. The existing corporation may have to control any funds coming in, but it is an al-

### UOW Mission

USAonWatch(UOW)-Neighborhood Watch works to enhance, expand, and revitalize watch programs throughout the country. UOW provides information, training, technical support and resources to local law enforcement agencies and citizens about Neighborhood Watch.

ternative to gain the benefits but avoid the process.

Another alternative is an advisory board. If a partnership exists between several Neighborhood Watch groups, forming an advisory board is an excellent way to build a larger network of involved community members. This can also be the answer to establishing tax-exempt status. In many communities the advisory board has representatives from multiple watch groups. The advisory board can apply for 501(c)(3) status. Then donations can be made directly to the board and multiple watch groups can receive the benefit of tax-exempt status without the hassle of applying.

### Additional Resources

**www.IRS.gov** — The website for the Internal Revenue Service. All federal applications for tax exempt status must go through the IRS. Check out the *Charities and Non-profits* sections for more details.

**www.guidestar.org** — A website that provides information on non-profit organizations. You can also search for other 501(c)(3) organizations in your area on this website.

**www.lawyers.com** — A website to search for local attorneys who practice in nonprofit or tax-exempt organizations. In addition State and Local Bar Associations can be contacted to find an attorney in your area who may be able to provide the Neighborhood Watch with advice on tax-exempt organizations. However remember to explore the resources located in your own neighborhood. A lawyer or tax professional living in the neighborhood may be willing to donate his or her time for the 501(c)(3) process.

*Note: This is not intended to be legal advice. Consult the advice of an attorney in your jurisdiction regarding laws affecting your community.*

## Ideas for Creating Tax-Exempt Neighborhood Watch

**Citizens' Crime Watch of Miami-Dade County** is a 501(c)(3) organization that provides NW services to the entire county. The organization is tax-exempt, therefore receives donations from private and governmental programs. Over 400 watch groups are combined through one main office. There is an executive director as well as several other full-time employees. Because the organization serves such a large number of community members it is necessary to have the tax-exempt status in order to receive the funding that keeps the program going.

The **Lansing, MI Police Department** set up a Neighborhood Watch Advisory Board. The Advisory Board represents all of the watch groups in the city of Lansing. There are representatives on the Board from four quadrants of the city as well as law enforcement. The Board itself is a 501(c)(3) and can apply to for grants and other funding sources. Any funds can be passed along to the individual NW groups. In addition, the Advisory Board has set up a lock program. After a home has been burglarized, the Board will replace defective locks on doors free of charge.



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