

Using the Federal Tax Exempt Rules to Increase Funding for Sailing Education

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- How clubs and sailing centers efficiently use tax savings available under federal law?
- Do state and local tax savings sometimes follow?
- Can any other risks be reduced or eliminated by use of the tax exempt rules?

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ISN'T OUR CLUB ALREADY TAX EXEMPT?

- Yacht clubs are generally tax exempt under 501(c)(7) as Social Clubs but pay tax on “non-member activities.”
 - These include non-member sailing school tuition, seminar fees, regatta entry fees and sponsorship income.
- Net profit of the yacht club from these activities is subject to federal income tax .



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WHAT ARE THE OTHER RISKS YOU MENTIONED?

- Yacht clubs are also limited in the amount of non-member income they can receive. This is generally 15 percent of gross income (up to 35 percent including investment income).
- Yacht clubs that exceed this limit are subject to loss of tax exempt status, making the club taxable on all net income.
- The yacht club may also lose favorable leases and other community driven benefits.

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WHAT CAN WE DO?

- Most Community Sailing Centers and Sailing Schools are qualified for tax exempt status under 501(c)(3) as charities.
- Charitable status must be approved by the federal government
- Charities may accept tax deductible contributions and are not taxed on program income including tuition, entry fees for amateur athletic events such as regattas or sponsorship.

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- Taking advantage of tax benefits provides funding for sailing education, competitive regattas and more.
 - This is not “aggressive tax planning.”
- These tax benefits are what was intended by congress for activities that are educational or foster amateur athletics.

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- Many schools, including major universities, are organized as educational charities.
- Many **sailing schools** and most **community sailing centers** in the US are tax exempt under these provisions.
- This structure increases cash flow by eliminating or reducing tax and allowing tax deductible charitable contributions.

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- A sailing educational charity may be established as a stand alone entity or as a subsidiary of a yacht club
- The latter allows more control due to liquidation rights.
- Note that charitable funds must always be used for the charitable purpose!
- In addition to tax exemption on tuition and sponsorship, benefits include the ability to attract new students through advertisements, to raise funds through tax exempt charitable contributions, and to reduce or eliminate real estate taxes and sales tax.

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- Tax deductible contributions may fund exempt educational purposes including acquisition of boats and other equipment, instructor salaries and facilities expenses.
- The charity may use boats, facilities and even employees of a related entity such as a yacht club as long as the charity pays no more than fair market.
- The yacht club may allow the sailing school to use its assets or the charity may acquire its own assets.
- The yacht club may recover costs and even make a profit by renting assets to the charity OR the yacht club may donate the use of assets to the charity.

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WHAT ABOUT REGATTAS AND OTHER LARGE EVENTS?

- Most clubs organize and host regional, national and international competitions in sailing.
- Charities are permitted to foster regional, national or international amateur sports competition, including sailboat racing and regattas, even those not associated with a sailing school.
- If a yacht club uses a charity to run regattas it will not be subject to tax on non-member regatta entry fees or sponsorship income.
- In addition, a yacht club may avoid the non-member income limitations.

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THANK YOU AND PLEASE CALL OR EMAIL WITH QUESTIONS.

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