

# A History of MOVITE'S Tax Deductible Scholarship Fund

by Earl E. Newman, Past President, 1984

On March 1, 1985, the Internal Revenue Service approved the MOVITE Section Scholarship Fund as exempt from Federal Income Tax. Contributions made to the Fund by donors were approved as tax deductible by IRS under the then current tax laws. This ruling by IRS fulfilled a dream conceived by the MOVITE Executive Board on September 28, 1983 when the Board voted to initiate a Voluntary Contributions Program to support the cash award for the annual Student Paper Competition.

At the MOVITE Executive Board meeting on September 28, 1983 in Omaha, Nebraska, the Board was facing a budget crunch. We were facing the possibility that MOVITE would have about \$50.00 in cash reserves at the end of 1983. The Board considered dropping the one cash award of \$500 for the Student Paper Competition for 1984 as a cost saving measure. The 1983 Student Paper Award Winner, Mr. A. Jay Fisher, a student at University of Missouri-Rolla, was in attendance at the Board meeting. Jay spoke of the importance of this funding to the students and suggested that funds for the award be raised through voluntary contributions.

Board Members voted unanimously to initiate a Voluntary Contributions Program to build a fund which could support the \$500 cash award with interest earned on principal. Further, the Board directed President Rich Klatt to do whatever was necessary (within reason) to qualify the fund with ITS to insure that contributions would be income tax deductible. Vice-President Earl Newman was given the responsibility of contacting IRS. A goal was set to build the fund to at least \$5,500.

As an interesting note of trivia, Jan Kibbe was the winner of a \$100 cash door prize at the Omaha meeting and Jan immediately turned the \$100 over to the treasurer as the first contribution to the student award fund. Members were challenged to match Jan's contribution. Over \$1600 were contributed during the first year of the fund even without the assurance of tax deductible status which was to be obtained at a later date.

There was a lot of confusion among Board Members and others as to what our Tax I.D. Number really meant. Many felt that MOVITE already had tax deductible contribution status because we were a Professional Organization. What followed was an education.

On November 16, 1983, an application for recognition of MOVITE as a tax-exempt organization under Section 509(c)(6) Business League, etc. was submitted to IRS. MOVITE was required to show in its application that it is not organized for-profit or organized to engage in an activity ordinarily carried on for profit. MOVITE had to demonstrate that it is an organization primarily supported by membership dues and other income from activities related to our tax exempt purpose.

IRS responded by requiring additional information be submitted about our Journal and its advertising. IRS was concerned about the size of the ads, rates, who could advertize and

discounts (if given) for members versus non-members. IRS was given assurance that "Only those companies which provide a product utilized in traffic and transportation engineering or a company or firm providing an engineering or planning consulting service are permitted to advertize." Further, advertisers do not have to be members of the organization. Cost of ads and any discounts are the same for members and non-members.

On January 20, 1984, IRS approved the Federal (Income) Tax Exempt Status for MOVITE under Sec. 501(c)(6) of the IRS Code. All that this meant was that interest earnings on deposits/investments would not be subject to Federal Income Tax. It did not grant MOVITE exemption from sales taxes or be eligible for special bulk mailing rates or cause donations received to be eligible for income tax deduction. Only dues could be considered for deductions on personal income tax returns. However this step was necessary to be able to create the MOVITE Scholarship Fund.

MOVITE was considered a Tax Exempt Organization not considered charitable. Under IRS provisions Sec. 501(c)(3), an organization that is income tax exempt, if it desires, may establish a fund, separate and apart from its other funds, exclusively for . . . educational purposes. If the fund is organized and operated exclusively for such purposes, it may qualify for exemption as an organization described in Sec. 501(c)(3) and contributions made to it will be deductible as provided in Sec. 170 of the IRS Code. A fund with these characteristics must be organized in such a manner as to prohibit the use of its funds upon dissolution, or otherwise, for the general purposes of the organization creating it.

There was a lot of concern registered by ITE regarding MOVITE's attempt to gain tax deductible status for the student award fund. ITE Headquarters called at Fayetteville just prior to the Spring MOVITE Meeting in 1984 to try to discourage pursuit of this effort. They felt the need to protect MOVITE from direct scrutiny by IRS which was otherwise protected under the ITE umbrella. MOVITE Board Members could see only good to be accomplished by continuing the process, so we plowed ahead. At the Executive Board meeting in Fayetteville, the Board approved naming of the Student Paper Award after Tom Seburn, first President of MOVITE and Past President of ITE. Also the Board approved a special election to amend the By-Laws.

On June 1, 1984, MOVITE members approved By-Laws Amendments in the special election to do the following:

- A. Define the purpose of the fund.
- B. Dedicate all contributions to the fund solely to our defined purpose.
- C. Method of distribution of the fund to the students in the Paper Competition.
- D. Specify the manner of distribution of the fund upon dissolution which will insure usage for the original purpose.

Although the By-Laws amendments were not absolutely necessary for IRS approval of tax deductible status of the fund, it was a necessary step for MOVITE. IRS would not accept By-Laws as "Articles of Organization" for the fund. IRS advised MOVITE to create a Constitution for the separate fund to serve as "Articles of Organization". Because of the commitments to be professed in the Constitution, the Executive Board members wanted the vote of affirmation of

the membership given with approval of the By-Laws Amendments.

On October 17, 1984 at the Executive Board meeting in Springfield, Board Members signed the "Constitution" document creating the MOVITE Scholarship Fund. On November 15, 1984, MOVITE submitted an application for recognition of MOVITE Scholarship Fund as a tax-exempt organization under Sec. 501(c)(3) to IRS.

IRS responded with a request for more information. They wanted the following assurances:

- A. The cash award would be given to the student while he/she was still a student. (This required a change in policy to change the submission date for the Paper Competition from April 15 to February 1).
- B. Students submitting papers cannot be related to any member of the selection committee.
- C. Students must submit an application form with the Student Paper to insure eligibility requirements of the competition are met.

On March 1, 1985, the IRS approved the MOVITE Scholarship Fund as exempt from Federal Income Taxes and all contributions to be tax deductible for donors.

Many said it couldn't be done. Others said it shouldn't be done. MOVITE accomplished the "impossible" dream. And it was done without the help of an attorney! In truth, it was a matter of responding to IRS with the information they wanted and . . . a lot of patience.