

Background

“Sunshine Funds” refer to a local PTA unit’s effort to provide assistance to an individual or family in the case of a catastrophic event, such as fire, or other disaster. While these efforts are extremely well intentioned and admirable, using the funds of a local PTA for such a cause could result in that local PTA losing their tax-exempt status with the IRS. This is due to the “inurement of benefit rule,” which states the following:

A section 501(c)(3) organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests. No part of the net earnings of a section 501(c)(3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.

However, there are programs that a local PTA can operate that address a need that do not put their tax-exempt status in jeopardy. These programs have to benefit a “class” or group of individuals, rather than a specific person or family.

Examples

Montgomery County District School Coat Drive

The media has been making it well known that there are a number of children in the Montgomery County school district without winter coats. The state PTA is keenly aware of this issue and has decided to launch a “Winter Coat Drive” that will benefit any child attending one of the district’s public schools.

In this example, any child can benefit from the effort and the program would NOT endanger the state PTA’s tax-exempt status.

Lincoln Heights Elementary School Shoe Fund

Lincoln Heights Elementary School is in an economically depressed area. The Lincoln Heights Elementary School PTA (“LHES PTA”) has been informed that there are many children attending school that need new shoes. The LHES PTA has started a special fund that will benefit the children of Lincoln Heights E.S., whether or not their parents are members of the PTA. Local businesses donate to the fund and the LHES PTA is successful in helping children that attend the school new shoes.

In this example, any child that attends Lincoln Heights E.S. can benefit from the effort and the program would NOT endanger the local PTA’s tax-exempt status.

John F. Kennedy High School Fundraiser

The Bower Family recently had their home destroyed by fire. Dave Bower attends John F. Kennedy H.S. and he and his family are now living in a motel. The John F. Kennedy H.S. PTA used their reserve funds to help the Bower family in this time of need. These funds were given to the family and were a welcomed gift in this difficult time.

In this example, the program exclusively benefits a family and the program would endanger the local PTA's tax-exempt status. An alternative could include the PTA contacting a disaster relief organization, such as the American Red Cross, to provide assistance to the family.