Rotary District 5080 has created a tax-exempt organization under Internal Revenue Code §501(c)(3), which is a charitable organization that is eligible to receive tax deductible contributions from U.S. taxpayers. This is in contrast to virtually all Rotary Clubs in the US, which are tax-exempt under §501(c)(4). As such, Rotary Clubs are exempt from paying tax, but contributions received are not eligible for deduction by the donor as a charitable contribution.

In order to provide a tax deduction to donors, a number of clubs have created separate entities established as §501(c)(3) organizations. This, of course, creates a 2nd entity for the clubs to maintain administratively and that must satisfy Internal Revenue Service and state reporting requirements. If federal reporting requirements are not met for 3 consecutive years the organization automatically loses its tax exempt status and would then be treated as a taxable entity. It would have to reapply and requalify as a charitable organization. This can be a time-consuming, and sometimes expensive, process.

Your Rotary district has decided to create a charitable organization with the sole purpose of providing a vehicle for U.S. clubs within the district to be able to accept tax-deductible donations and to be able to hold fundraising events under this charitable organization umbrella.

The Rotary District 5080 Charitable Fund will function as a "bank" to hold funds for any club in the district that wishes to participate (technically a donor directed fund), and to disburse those funds at the direction of the individual Rotary Club, as long as the distributions qualify for expenditures for a §501(c)(3) organization. The District Fund is not intended to fundraise or to establish charitable activities of its own.

Participating clubs will retain control of charitable funds raised by the club and will be able to support charitable projects of its choosing without any of the administrative burden of maintaining a separate legal entity.

The funds will be pooled, but separately accounted for with regular reconciliation and reporting. As the participation grows, there is the potential to take advantage of investment opportunities that would not be available individually. If an individual club has sufficient funds to warrant utilizing investment funds or portfolios, the decision as to where to place such investments and specific investments shall be at the direction of the club officers to fullest extent possible.

The District Charitable Fund shall be governed by a board consisting of 3 officers appointed at the district level and additional directors appointed by the board up to a maximum of seven (7). The current District Governor and District Treasurer shall be ex-officio members of the charitable fund board. The additional directors shall be appointed from clubs participating in the District Charitable Fund.

Beginning with calendar year 2022, clubs choosing to participate shall be charged an administrative or management fee. Rotary District 5080 has paid the cost of formation and filing fees incurred by the District Charitable Fund and continues to provide financial support. However, the District Fund does incur costs for liability insurance, accounting and/or tax preparation, and an equitable method of allocating those costs between participating clubs has been adopted. It is the intent and expectation that any allocated costs shall be less than what would be incurred by any club individually. Currently each participant is charged a base fee of $50.00. At the end of the calendar year, a total administrative fee is determined and the amount over the sum of the base charges is assessed ½ based on transaction volume and ½ based on individual average fund balance. For the 2022 calendar year, the total assessment for Administrative Fee was $2,000.

If at some future point, the District Charitable Fund is required to report as a private foundation due to participating clubs operating as endowments, any tax incurred shall be allocated only to funds qualifying as endowments. (Generally, endowments are charities receiving more than 1/3 of its income as investment income.) The tax liability for any clubs establishing endowment fund should be less than if operating as separate entities due to the inclusion of clubs accounts qualifying as Publicly Supported Charities.

In summary, the intent of the District Charitable Fund is to allow any district US Rotary Club to enjoy the benefits of utilizing a §501(c)(3) organization without incurring any of the burden of creating and maintaining its own entity. Participation is solely at the option of each individual club and each club is under no obligation to participate or continue participation with the District Charitable Fund. Each club raises its own funds and determines the purpose or activity for which to utilize its funds.