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January 7, 2025

Dear Kerch –

Thanks for your good questions about converting TEAE from a 501c7 to a 501c3. I am not a lawyer or tax code expert, but I have facilitated conversions and formed new c3's for numerous organizations. I speak from sometimes painful and informed experiences.

Here are some things to consider.

First – who are the potential donors to your proposed c3? Establishing and maintaining a c3 is an ongoing expense of money and time. Annual charitable registration costs vary from state to state, and many states require audited financial statements as part of that annual registration process. If you are perceived as a national/international organization, to solicit contributions, you will have to register in EVERY STATE as a charitable entity. I work with one specific nationwide 501c3 organization that spends around \$15,000 annually on state registrations and other compliance costs.

Note also that audit costs generally begin at around \$5,000 annually for small organizations. This would be in addition to the \$15,000 compliance costs referenced above.

It is my recommendation that if you're not looking at a minimum of \$100,000 in real dollars contributed annually, this will not pay off appropriately for the organization.

As an aside, you have shared with me that TEAE has no history of financial support being withheld because giving to a c7 is not tax deductible. You have, in fact, told me that generating even the smallest amount of donated support from businesses has not proven successful. Has something changed in this scenario?

Regarding individual contributions, historically contributed support to niche organizations comes almost exclusively from members. What would cause TEAE to suspect that your current members would offer contributed support in addition to the costs or membership and participation in TEAE events?

Second – why convert? Does TEAE now have a public purpose? Your website currently says that TEAE is

**TEAE: Dedicated to the preservation, restoration and enjoyment of all Rootes Group Vehicles.**

Your bylaws say this:

***II: Purpose***

- 1. TEAE is organized exclusively for social and recreational purposes under 501 (c of the Internal Revenue Code, or corresponding section of any future federal tax code.*
- 2. The purpose is to promote interest in all Rootes Group vehicles and Sunbeam Tigers and Alpines in particular; to aid in the restoration, preservation, and enjoyment of these vehicles; to promote cooperation among other similar Rootes Group and Sunbeam organizations and to increase communication and fellowship among those persons who are interested in this objective.*
- 3. Notwithstanding any other provisions of these articles, this corporation shall not, except to an insubstantial degree, engage in any activities or exercise any power that are not in furtherance of the purpose of this corporation.”*

These are not purposes that further the public interest. Tax exempt purposes set forth in section 501(c)(3) of the IRS code are defined as charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. Your educational component would most likely not qualify as the website content (behind the pay wall) and newsletter are inaccessible to the general public.

Further, to be tax-exempt under section 501c3 of the Internal Revenue Code, an organization must be organized and operated **exclusively** for exempt purposes.

Third – you may consider forming a supporting organization – a separate and distinct 501c3. It may be easier to form a new c3 than to try to convert your c7 to a c3. The new c3 could serve to receive contributions to further genuine purposes that serve the public interest. Then the new c3 could support any programs that TEAE might have that comport with the new c3's public charitable purpose.

If you believe TEAE should qualify as a c3 because you know of other similar organizations that currently have a 501(c)3 status, I'm happy to talk about how Hathor Associates can be helpful to you in your decision and application process. As a first step, I recommend that you look to

the Antique Automobile Club of America in Hershey, PA as an example of a similar organization that appears to effectively meet the 501c3 organization criteria.

Let me know how else we can help.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie Rehbein Marqua". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Leslie Rehbein Marqua