

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 26, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO #118: ADMISSION TAX - PROCESS FOR OBTAINING A STATE SALES TAX EXEMPTION

As previously indicated to City Council in the docket item on the Admission tax (page 3), one of the ways for a non-profit to gain an Admission tax exemption for its events is if the non-profit is state sales tax exempt and the net proceeds of the events go to charitable purposes. The sales tax exemption can be applied for on-line from the Virginia Department of Taxation. One additional piece of process information has come to light in order to obtain the state sales tax exemption.

In general, in order to obtain a state sales tax exemption, the non-profit organization [501 (c)(3)s and charitable 501 (c)(4)s] must be in compliance with the regulations of the Department of Agriculture and Consumer Services by being registered with the state. This is intended to be a consumer protection process.

Not all charitable non-profits are required to be registered with the state. Exempted are educational and health care institutions, organizations which raise less than \$5,000 per year, organizations which raise membership dues only, civic organizations (local service clubs, fraternal societies and associations), and a number of other classes of organizations.

The annual registration costs for consumer protection purposes beyond the initial \$100 registration fee are \$30 if the gross contributions do not exceed \$25,000, \$50 if the gross contributions do not exceed \$50,000, \$100 if the gross contributions do not exceed \$100,000, \$200 if the gross contributions do not exceed \$500,000, \$250 if the gross contributions do not exceed \$1 million and \$325 if the gross proceeds exceed \$1 million. Re-registration is then required annually after this initial registration.

This state law requirement for registration exists for charitable organizations regardless if the organizations apply for a state sales exemption or not. Some of the non-profits in the City are registered with the state (registered for consumer protection purposes, as well as for state sales tax exemption purposes), and some are not likely registered with the state at all because they are unaware of this state law consumer protection requirement, as well as the possibility of obtaining a sales tax exemption.

In order to register for consumer protection purposes, there is a registration statement which must be completed and additional information (such as bylaws, IRS filings/treasurer's reports, IRS tax exemption determination letter, etc.) filed with the state.

The nexus of the proposed Admission tax and the non-profit charitable fund raising has two major exemption outlets. One is the state sales tax exemption route described in the docket item and in this memo. The other is that fund raising dinner revenues are exempt because they represent donations and not admissions. The result of this may be that it will be the performing arts charitable non-profits who may most need to get a state sales tax exemption (which means meeting the consumer protection requirements). It is likely that some of these organizations have met these requirements and some have not. If Council approves the Admission tax, City Finance Department staff and Consumer Affairs staff will work with the non-profit community to understand this tax and its exemptions, as well as the state registration and state sales tax requirements.