Legal and Tax Issues

By Doug Schafer, Federation's 2026 Financial Advisor, a retired lawyer.

Form a Nonprofit Corporation. A square/round dance club should take steps to become a legal entity, distinct from the individuals who are members or officers of the club. A club that has not taken the steps to register as a corporation with Washington state officials is merely a collection of individuals, referred to as an unincorporated association, that Washington law does not recognize as a legal entity, though the laws of some other states do. So a Washington unincorporated club cannot properly obtain an IRS tax number (a/k/a/ EIN), open a bank account, or own anything. And its officers and possibly even members might be personally liable for injury, damage, or contract claims.

The process for a club to incorporate is simple. Corporate charters are issued by the WA Secretary of State, so go to https://www.sos.wa.gov/ and navigate to "Start a Nonprofit (NP) Corporation" and follow the instructions. An individual acts as an "incorporator" and completes a form called "Articles of Incorporation" or uploads such a form, and pays a $40 fee (in 2026). See the below discussion about language required for the club to be exempt from federal taxes. The incorporator may also submit an "Initial Report" identifyfing the club's leaders ("Governing Persons") for no added fee, but if the required Initial Report is submitted later, a $10 fee applies.

The incorporator and an individual designated as the corporation's "registered agent" will receive by email a "certificate of incorporation" and copy of the filed Articles of Incorporation. These and all later submissions are public at https://ccfs.sos.wa.gov.

To maintain its incorporated status, a club must submit an annual report listing its governing persons and some other information, with a modest fee. If it fails to do so, the club loses its corporate status, but can follow a process to reinstate it if few years have elapsed.

A square/round club need not register under Washington law as a charity, even it it later becomes recognized as a 501(3)(c) organization, commonly referred to as a charity.

Registration with the Washington Dept. of Revenue, that results in a business license, is only required of entities that will be required to collect and remit sales taxes or to pay business and occupation taxes. As discussed below under "Washington State Taxes," square/round dance clubs normally are exempt from collecting and paying those taxes, so they need not register with the Dept. of Revenue and obtain a business license. If a bank insists that your club obtain a business license before opening an account, go to a different bank.

The above discussion applies only to dancer-led clubs, not to caller-led or cuer-led clubs that would be for-profit businesses (even if not profitable) owned by the caller/cuer.

Federal Income Taxes. Once a club is incorporated, it should apply for a IRS tax ID (sometimes called an Employer Identification Number (EIN) or Taxpayer Identification Number (TIN)). This is most easily done online at no cost at: https://www.irs.gov/charities-non-profits/employer-identification-number

Being a nonprofit corporation under state law does not exempt a club from federal income taxes. But a club can become an "exempt organization," meaning exempt from federal income taxes, if it meets the requirement of a numbered subsection of Internal Revenue Code (IRC) section 501(c). The subsections potentially applicable to clubs are (c)(3) charity/education organizations, (c)(4) social welfare organizations, and (c)(7) social clubs. A club may itself assert (without applying on Form 1024 for an IRS determination) that it satisfies the (c)(4) or (c)(7) requirements, but an IRS determination letter is required for a club to claim (c)(3) status. Regardless of which subsection may apply, a club automatically loses its exempt status if it fails for three consecutive years to submit to the IRS a Form 990-N or other 990-series form, as discussed below.

501(c)(7). Historically, dance clubs claimed exempt status as "social clubs" under 501(c)(7), but since 1976 that has required them to maintain records showing that no less that 65% of their annual revenue is from their own club members. Failing to maintain such records, or to meet the 65% threshhold, means losing that exempt status, so clubs are advised not to rely on the 501(c)(7) exemption.
https://www.irs.gov/charities-non-profits/other-non-profits/social-clubs

501(c)(4). Some clubs have been determined by the IRS as exempt under 501(c)(4) as social welfare clubs, primarily promoting the common good and general welfare of the community as a whole. That requires being open to membership by the general public, as is the norm for square/round dance clubs. So even without an IRS determination letter, most clubs can claim to be exempt under 501(c)(4). The articles of incorporation should indicate that the club's purpose is the promotion of social welfare, and that upon its dissolution its assets shall be applied or transferred to be used for that purpose. But clubs incorporated after 2015 intending to be exempt under (c)(4) must within 60 days submit online IRS Form 8976 with its $50 fee. The penalty for failing to do so is $20 per day, up to $5,000. https://www.irs.gov/charities-non-profits/other-non-profits/social-welfare-organizations

501(c)(3). In recent years the IRS has determined some square/round dance clubs to qualify under 501(c)(3) as charitable or educational organizations. That exempt status affords many benefits to clubs – use of public facilities, receipt of individual and corporate donations, exemption from some local taxes or fees, and free or discounted goods/services from some providers. Clubs likely will be eligible to use the online IRS Form 1023-EZ to apply for an IRS Determination Letter confirming their 501(c)(3) status. That form is discussed below, after the (c)(3) Required Provisions.

(c)(3) Required Provisions. To qualify under 501(c)(3), an entity must include several provisions in its Articles of Incorporation. Some IRS approved language is in the instructions to Form 1023-EZ. Below is an example with the required provisions that a recently-formed square dance club submitted as part of its Articles of Incorporation:

The article titled "PURPOSE OF THE CORPORATION" shall read as follows:

> The purposes of the corporation shall be:
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> (a) To promote the art and culture of American traditional and modern forms of dance, especially square dance, round dance, line dance, clogging dance, and contra dance.
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> (b) To educate dancers and the general public in American traditional and modern forms of dance, through classes and public demonstrations, and to sponsor dance events for their practice and participation.
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> (c) To participate in and support the programs and activities of the Square and Folk Dance Federation of Washington, a Washington nonprofit corporation that is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

The article titled "ANY OTHER PROVISIONS" shall read as follows:

> (a) The corporation is organized and shall operate to qualify as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code ("the Code"). The provisions in this article are consistent with that exemption and shall preempt any inconsistent provision in the corporation's bylaws.
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> (b) The corporation is organized exclusively for charitable, educational, and/or scientific purposes under section 501(c)(3) of the Code, or corresponding section of any future federal tax code.
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> (c) No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its members, trustees, officers, or other private persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of its tax-exempt purposes.

(d) No substantial part of the activities of the corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of or in opposition to any candidate for public office.

(e) Notwithstanding any other provisions of these articles, the corporation shall not carry on any activities not permitted to be carried on (a) by a corporation exempt from federal income tax under section 501(c)(3) of the Code, or a corresponding section of a future federal tax code, or (b) by a corporation, contributions to which are deductible under section 170(c)(2) of the Code, or corresponding section of any future federal tax code.

(f) The corporation's bylaws shall address the internal affairs of the corporation, including its governing board, officers, and other governance matters, but subject to these Articles of Incorporation and applicable law.

The article titled “DISTRIBUTION OF ASSETS” shall read as follows:

Upon the dissolution of this corporation, its assets shall be distributed for one or more exempt purposes within the meaning of section 501(c)(3) of the Code, or to one or more organizations recognized as exempt under Section 501(c)(3) of the Code, or shall be distributed to the federal government, or to a state or local government, for a public purpose.

Form 1023-EZ. Clubs likely will be eligible to use IRS Form 1023-EZ to request an IRS Determination Letter confirming its 501(c)(3) status. Its instructions and a link to the form are at https://www.irs.gov/instructions/i1023ez. The filing fee is $275 (in 2026). That 3-page form is mostly check-the-boxes, and it does not require submission of Articles, Bylaws, or other documents. It requests a very brief description of the mission or most significant activities, for which the above-referenced club wrote, “To educate and train both youth and adult members in the art of dance (particularly square, round, and line dance), and to encourage active participation to promote and preserve the cultural heritage of American traditional and modern forms of dance.” The NTEE code describing its activities is A62 (Dance).

Annual Form 990-N Submissions. All tax-exempt organizations must submit a version of Form 990 to the IRS annually. Square/round dance clubs, not having annual receipts exceeding $50,000, may (and must) submit the online Form 990-N. https://www.irs.gov/charities-non-profits/annual-electronic-filing-requirement-for-small-exempt-organizations-form-990-n-e-postcard

But unless the club previously has filed a Form 1023-EZ or other form requesting confirmation of its exempt status, a club officer must actually telephone the IRS Exempt

Organizations office, 877-829-5500, to get the club added to the EO Database before the online system will accept its Form 990-N submissions. Once an IRS representative joins your long-on-hold call, s/he will request information about the club. Respond emphasizing the club's dance education purpose. It will then still be a few months before the IRS system will accept a Form 990-N from the club.

The Form 990-N is very simple, and should be submitted by the 15th day of the 5th month following the club's fiscal year. If a club (or any exempt entity) fails for three consecutive years to submit such a required form, its tax exemption is revoked. If a club's exemption has been revoked, it might be able to reinstate it using Form 1023-EZ, or it might simply dissolve and its dancers form a new club. An IRS website lets the public access all Form 990-N filings by any exempt organization and learn if its exemption has been revoked. https://apps.irs.gov/app/eos/

Reporting Compensation. Beginning in 2026, the law changed for reporting payments made to non-employees, such as callers and cuers. Now, if a club paid such a person $2,000 or more in a calendar year, the club is required to provide them and the IRS a Form 1099-NEC by the following January 31st reporting the amount paid. That threshhold amount will be adjusted annually for inflation. The club may file a required Form 1099-NEC on paper unless filing 10 or more 1099 information forms, in which case they must file them electronically. https://www.irs.gov/instructions/i1099mec. Paper submissions must be accompanied by a Form 1096. https://www.irs.gov/businesses/small-businesses-self-employed/reporting-payments-to-independent-contractors

Non-employee contractors (e.g., callers and cuers) must provide their IRS tax number (Social Security number) to the club or else that club must apply backup withholding at a 24% rate. https://www.irs.gov/newsroom/what-businesses-need-to-know-about-reporting-nonemployee-compensation-and-backup-withholding-to-the-irs

Washington State Taxes. Our state's laws direct the Dept. of Revenue (DOR) to collect sales taxes, business and occupation (B&O) taxes, and other taxes. Those laws can be looked up easily at https://leg.wa.gov/state-laws-and-rules/ if you have a citation to a section of the Revised Code of Washington (RCW) or the Washington Administrative Code (WAC). The rules of the DOR are codified in the WAC.

Admission charges for square/round dances are not subject to sales taxes. In 2015, the legislature repealed a provision in RCW 82.04.050 that would have defined such charges as retail sales subject to that tax, as the DOR previously had asserted. Accordingly, the DOR in 2018 amended its rule, WAC 458-20-183, to no longer state that "charges for the opportunity to dance" were retail sales subject to the sales tax. And the DOR website now states clearly, “Generally, charges for dance classes, competitions, or the opportunity to dance are subject to business and occupation (B&O) tax under the Service and Other Activities classification. Retail sales tax does not apply.” https://dor.wa.gov/education/industry-guides/recreational-and-fitness-services/dancing

Though the B&O tax technically may apply to a club’s revenue from such admission charges, it arguably is exempt as fundraising activity revenue, described below. And even if not exempt, a club normally need not file returns and remit B&O taxes if (a) it engages in no activity for which it is not required to collect and remit sales taxes, and (b) its non-exempt income in a year is less than $125,000 (increasing to $250,000 by 2026 legislation). RCW 82.32.030, WAC 458-20-101.

There is a broad exemption from both sales taxes and B&O taxes for fundraising activities by a nonprofit organization, provided it is not “the operation of a regular place of business in which sales are made during regular hours.” RCW 82.04.3651, RCW RCW 82.08.02573, WAC 458-20-169(5)(g).

And a square/round dance club is not even required to register with the DOR (thereby obtaining a business license) if (a) its non-exempt B&O taxable income is less that $12,000 per year and (b) it engages in no activity for which it is required to collect and remit sales taxes. RCW 82.32.030, WAC 458-20-101.

Local City and County Taxes. Club leaders might check with their city or county officials to learn if any local licenses or taxes are required. In 2019 after Rainier Council hosted the “Rainier Rendezvous” state festival at Puyallup’s fairgrounds, a city clerk sought to collect from Rainier Council a city tax of 5% on the admission charges for the event. Fortunately, the city provided an exemption for 501(c)(3) entities, so Rainier Council produced its recent 501(c)(3) IRS Determination Letter and avoided that tax.