IN PART ONE OF THIS ARTICLE, we discussed the rules applicable to web sites for tax-exempt organizations, particularly in relation to lobbying and political activities, UBIT, and linking to other organizations' sites. In this concluding part of the article we discuss tax issues relating to sales of goods and services over the Web, fundraising, and serving as an Internet Service Provider.

SELLING GOODS AND SERVICES OVER THE WORLD WIDE WEB • Tax-exempt organizations have begun using the Internet as a new means for selling goods and services that previously were available only on their premises, at gift shops, or by mail-order catalog. Museums sell books and reproductions. Public broadcasters sell recordings. Colleges and universities sell courses. The Internet can be a cost-

Catherine E. Livingston and Amy R. Segal

The Internet can be a marvelous way for tax-exempt organizations to further their missions. It can also pose qualification and UBIT traps, among other problems.
effectiveness and highly efficient system for marketing these goods and services, taking orders, and, in some instances, fulfilling orders. However, this kind of activity raises a number of important tax and other legal issues.

UBIT

The FY00 CPE Text reminds exempt organizations that the principles used to determine whether UBIT is owed on sales made in stores or through catalogs will also apply in determining whether UBIT is owed on Internet sales of merchandise. Articles must be examined one at a time to determine whether their sale is related to the seller’s exempt purpose. FY00 CPE Text, 140. See also, TAM 9720002.

Auctions

The IRS has offered a somewhat peculiar comment on income derived from selling items at auction. Some charities are turning to well-established Internet auction sites to help them sell donated items—like celebrity memorabilia—and raise funds. The FY00 CPE Text says, “Unless the event is sufficiently segregated from other, particularly non-charitable auction activities, and the exempt organization retains primary responsibility for publicity and marketing[,] the Service may be more likely to view income from such auction activities as income from classified advertising rather than as income derived from the conduct of a fundraising event.” FY00 CPE Text, 141. The IRS also warns that the auction house may be viewed as a professional fundraiser subject to state regulation. It is hard to parse what the IRS means here. The income the exempt organization receives is still income from sale of the article, not income from running an advertisement. It may be reasonable to see the auction house as the equivalent of a newspaper running a classified ad, rather than as an agent making the actual sale, but in either case, it seems the IRS should be asking whether selling donated merchandise generates UBIT, regardless of how the charity reaches potential buyers.

Perhaps the more difficult issue is when sales become regularly carried on. Internet auction houses add convenience so that charities may sell a small number of items more frequently rather than waiting for one auction fundraising event each year. If periodic sales, separated perhaps by weeks or months, or if selling only one or two items at a time, but always having at least one thing for sale, will cause a charity to be regularly carrying on a trade or business, that could cause it to have UBIT it would not have with non-Internet based auction sales.

Sales Tax and the Internet Tax Freedom Act

As organizations that conduct mail order sales have known for some time, determining when state and local sales taxes are owed, how they are to be collected, and how they are to be paid is a complex task. The key test has been whether a “substantial nexus” exists between the organization selling the material and the state in which the sale is made. See Quill Corporation v. North Dakota, 504 U.S. 298 (1992). Congress recognized that applying the nexus test to electronic commerce on a state-by-state basis would be extremely complicated and, therefore, enacted the Internet Tax Freedom Act, which imposes a three-year moratorium on any tax that discriminates against electronic commerce or that is on Internet access. Pub. L. No. 105-277, 112 Stat. 2681-719. (The relevant title is buried in what is principally a transportation appropriations bill.) The moratorium expires October 21, 2001, three years after the date of en-
Tax-Exempts and the Internet

between the taxing jurisdiction and the party being taxed, tax rates, and mutual recognition of exemptions.

The Organization for Economic Cooperation and Development ("OECD") is undertaking a thorough study of the principles and administrative practices that should apply when applying tax to revenues from electronic commerce in an international context. The papers produced to date are available on the OECD Web site, www.oecd.org. The hope is to have all the member countries of the OECD (principally developed industrial countries) subscribe to uniform principles that could be memorialized as interpretations or applications for the existing model OECD tax treaty.

A private group, the National Tax Association, has been running a telecommunications and electronic commerce project for approximately two years looking for a possible solution to the question of taxing Internet transactions. Tax-exempt organizations selling goods or services over the Internet should stay informed of the progress being made by the various efforts to develop a unified system for state taxation and, in particular, the debate over exemptions and how they are to be administered.

International Tax

If a tax-exempt organization is generating income from sales of goods or services over the Internet, and some of that income comes from foreign sources, the organization may need to evaluate any liability it has for foreign income or sales taxes. Foreign countries are not necessarily required to honor income tax exemptions granted under U.S. tax law, though mutual recognition is sometimes the subject of provisions in tax treaties between the United States and other countries. Whether foreign countries have jurisdiction to tax income from electronic commerce conducted by U.S.-based organizations is a difficult issue subject to largely the same analysis that has been applied to the question of jurisdiction to impose sales and use tax among the 50 states. Key questions include the type and extent of connection that must exist

Collecting a Portion of Revenues from Commercial Sales

Some Internet-based businesses offer charities and others the opportunity to raise funds by providing referrals or making other alliances. For example, Amazon.com, best-known as an Internet book seller but now branching into other types of merchandise, offers an "Associates program." (See www.amazon.com for the specific details.) The operating agreement for the program—which Amazon makes available for review over the Internet—provides that participating organizations receive "referral fees" for each customer sent to Amazon from the participating organization’s Web site who makes a purchase. The referral fee is equal to a percentage of the sale, with a slightly higher percentage for sales of individually linked books.

For exempt organizations participating in this program, the IRS is likely to characterize this referral fee as compensation for services rather than a royalty because it is provided in exchange for a referral service rather than the
right to use intellectual property. Therefore, whether the fee is subject to UBIT will depend upon whether the referral function is related to the exempt organization's exempt purpose. If the link is designed to help visitors to the organization's Web site purchase a book that the organization recommends for its educational or other programmatic value, then the organization could argue that the referral fee is related. However, if the referral simply facilitates shopping at Amazon.com, does not relate to any particular book or organizational program, and is calculated in part based on sales to the customer of wholly unrelated merchandise, then the organization will have difficulty arguing that the referral service is related to its exempt purpose. The IRS has commented that these fees might be analogized to the fees some charities earn on affinity credit card purchases. FY00 CPE Text, 142. If that analogy holds, it would support the view that the fees are royalties not subject to UBIT given the IRS's recent concession of the issue after losing multiple court decisions. See Fred Stokeld, IRS Litigation of Affinity Card Cases Likely to Stop, Owens Says, 26 Exempt Org. Tax Rev. 176 (November 1999). However, the IRS has advised that payments that are in part royalties and in part payment for services should be divided and taxed accordingly.

A number of Web sites offer on-line shoppers the opportunity to have a portion of their purchase price donated to a charity. Reed Abelson, Give and Take: When Charity Begins On Line; Pitfalls for Internet Shoppers with Charitable Bent, The New York Times, March 31, 1999. (The appeal to consumers is similar to that of affinity credit cards.) Payments received from these sites should be treated as contributions and not royalties or UBIT provided that shoppers at the site initiate the direction to send the contribution to the charity and the organization does not become active in selling goods and services unrelated to its exempt purposes. However, non-tax consequences can be significant. Some of these sites are using the names of charities that shoppers have selected as their donees without the permission of the charities. Charities that become aware of such use of their names should be vigilant against the creation of any impression that they are involved in the sales activity to prevent any question about whether amounts received constitute UBIT. Furthermore, unauthorized use of the charity's name may raise questions about unauthorized fundraising on the charity's behalf that violates state law.

The Necessity of Vigilance

The e-commerce world has somewhat of a Wild West atmosphere at this stage. Tax-exempt organizations will not be able to police all of the activity done on the Internet using their names. Search engines will generally find material on sites that have registered, but a site can intentionally make itself hard to find. However, because an organization's credibility can be affected by these electronic entrepreneurs, and because activities in cyberspace done under the guise of the organization's blessing raise important liability concerns, organizations should investigate the measures they can take to identify how their names or other identifying words or images are being used on the Internet and to lodge objections to unauthorized attempts to use the organization's intellectual property or borrow its reputation for business purposes. This kind of vigilance is important for preserving rights to trademarks and servicemarks. For more on this topic, see John D. Muller, Selected Developments in the Law of Cyberspace Payments, 54 Bus. Law. 403 (1998).
Registering To Do Business in Multiple Jurisdictions

It is unclear whether the existence of a Web site that reaches multiple states and countries causes the organization posting the site to be treated as doing business in those states and countries. In some states, an organization could be subject to state sanction if it does business without first registering with appropriate state authorities. See, e.g., Mich. Comp. Laws Ann. §450.2011 (West 1999) (Michigan's statute). Organizations doing business in a state may also be required to register or file returns with the state tax authorities, even if they do not owe tax in the state. Organizations whose Web sites get many “hits” from multiple jurisdictions should follow the development of this issue. See Michael Dunne and Anna Musacchio, Jurisdiction over the Internet 54 Bus. Law. 385 (1998).

FUNDRAISING OVER THE WORLD WIDE WEB • More and more organizations are soliciting contributions over the Internet. Again, the ability to reach a large audience for a low cost has proved very inviting. Although it may seem like a simple matter, fundraising in this fashion raises a number of legal concerns that can easily be overlooked. The most important of these may be a non-tax matter: registration with the states. Most states require charities and charitable fundraisers to register with state authorities before soliciting state residents for contributions. See, e.g., Mich. Comp. Laws Ann. §400.273 (West 1997). From a tax perspective, it is important that contributions received in response to Internet solicitations be processed as all other contributions are, with proper attention to the requirements for providing acknowledgments and disclosures with respect to any items that may be provided in return.

The IRS has observed that some for-profit firms are offering secure online donation services where they collect contributions from taxpayers, deduct a fee, and then transfer the balance to the taxpayer’s designated charity. The IRS believes it would be necessary to see the agreement between the charity and the service to determine whether the service is acting as an agent for the charity. If so, the fees deducted from the contribution are a cost to the charity and the full amount of the contribution would be deductible. If not, presumably the service is acting as an agent for the donor. In that case, the fees are a cost of the donor and only the net amount would be deductible as a contribution to the charity. Open questions like these should cause exempt organizations to be very cautious of anyone raising funds for them without their explicit permission.

Acknowledging Contributions and Disclosing Value of Goods and Services Provided in Return

A donor who makes a charitable contribution of $250 or more may not take a charitable contribution deduction for that payment unless he or she has a written acknowledgment from the charitable donee on or before the date the donor files his/her income tax return (or the due date, if earlier). §170(f)(8). The acknowledgment is required regardless of whether the contribution is made in cash, by check, by credit card, or by some other electronic means. Therefore, charitable organizations that receive contributions over the Internet must be sure to provide acknowledgments for them as they would for contributions received by any other route.

If a donee charitable organization solicits or receives a payment in excess of $75 that is part contribution and part payment for goods or services, the organization must inform the donor
in writing that only the amount of the payment in excess of the goods or services provided in return is deductible and must provide a good faith estimate of the value of the goods and services provided. §6115.

**Disclosure Required**

If a tax-exempt organization that is not described in section 501(c)(1) or 501(c)(3) solicits gifts in written or printed form, by television or radio, or by telephone, it must include an express statement in the solicitation informing the potential donor that contributions to the organization are not deductible as charitable contributions. IRC §6113. The IRS has questioned whether an e-mail solicitation is considered a written solicitation or more akin to a telephone solicitation, and, therefore, exempt from this requirement if the organization makes 10 or fewer such solicitations during the calendar year. FY00 CPE Text, 127. The IRS has established safe harbors in Notice 88-120, 1988-2 C.B. 454, for how to comply with section 6113. It recommends that such a statement, if provided on the Web or in e-mail, appear “on the same page as, and in close proximity to” a request for funds to comply with the requirements of section 6113.

The IRS has yet to confirm whether providing those disclosures and acknowledgments by e-mail or other electronic means will satisfy the requirements of these statutory provisions. The most recent statement from the Service says that the answer to this question is still uncertain. FY00 CPE Text, 125. Other than the IRS's need to be comfortable with the materials that will be available to it during an examination, there appears to be no policy reason for objecting to the use of e-mail for these purposes. Moreover, at a time when the IRS is trying to lessen the administrative burden of compliance, permitting electronic disclosures and acknowledgments could save substantial mailing costs and allow for better compliance through automated procedures.

**Registration and Other Legal Issues**

There has been significant debate about whether an organization that posts a fundraising request over the Internet, either on a Web site or by e-mail, must register in each of the states it reaches. Samples of this debate can be found at the Cyber-Accountability list serv at www.byway.net/~hbograd/cyb-acc.html. See also Paul Monaghan, Charitable Solicitation Over the Internet and State-Law Restrictions, available at http://www.byway.net/~hbograd/monaghan.html.

The Pennsylvania Attorney General’s Office recently sent a letter to at least one charity, Survivors and Victims Empowered, that had been raising funds with the help of an Internet company, telling the charity that it and the Internet company might be in violation of Pennsylvania law for failing to register and submit certain materials. The charity wrote back asking for clarification of what makes someone a professional fundraiser and whether links between other charities’ sites and this charity’s site made those other charities professional fundraisers as well. Check the cyber-accountability list-serv noted above for updates on this issue.

If an organization intends to accept contributions over the Internet, it will want to receive the relevant information over a secure server to protect its donors against unauthorized use of their financial information and to protect itself against liability.

**SERVING AS AN INTERNET SERVICE PROVIDER OR HOSTING WEB SITES FOR OTHERS** • An ISP (and for purposes of the Digital Millennium Copyright Act, maintaining
an interactive Web site makes one an ISP) is much like a local telephone or utility company. It provides service to a customer—often called an “end user”—that enables the customer to access a worldwide network. In addition to providing end users with this service, an ISP may also host an end user’s site on the World Wide Web. If an organization hosts Web sites, it maintains the computers necessary to make it possible for users around the globe to access the data on the Web sites at any time, regardless of whether the individuals who collected the data and designed their display are in their offices or on their computers.

Tax-exempt organizations may elect to provide certain groups of end users with Internet access or to host Web sites for those end users. They may offer these services in addition to other exempt purpose activities or as their organization’s primary activity. They may be offered the opportunity to resell a commercial ISP’s services to the organization’s members at competitive prices. The tax and other legal consequences will vary depending upon the group of end users being served and the context in which the services are offered.

Qualifying for Tax-Exempt Status
Although there is no published guidance directly addressing these issues, the IRS did produce an article in the FY98 edition of the Exempt Organizations Technical Instruction Program for FY99 that discusses exemption for ISPs that gives some insight into its perspective on this subject. In the article, the IRS expresses the view that providing Internet access for a fee on a regular basis “is carrying on a trade or business for a profit.” Although that characterization seems fair, it does not necessarily mean that serving as an ISP is an unrelated trade or business. There is legal authority for how to determine whether an activity ordinarily carried on by commercial entities can be conducted exclusively for a charitable purpose. In B.S.W. Group v. Commissioner, 70 T.C. 352 (1978), the Tax Court held that a consulting firm that planned to serve only nonprofit clients and charge fees at or above cost failed to serve charitable purposes not simply because its consulting activities were the same as those typically found in a for-profit business, but also because:

- The organization was funded entirely with market-rate fees and not at all by gifts or grants;
- The clients included not only section 501(c)(3) nonprofit organizations but a larger unspecified group of nonprofit organizations; and
- The organization failed to explain in detail how its consulting activities would further exclusively exempt purposes.

The decision in B.S.W. Group implies that an ISP that served an exclusively charitable class composed either of disadvantaged individuals or other section 501(c)(3) organizations, attracted gifts and grants, charged fees below cost or no fees at all to a significant portion of its subscribers, and provided additional services such as training or research that furthered charitable and educational services could qualify as a section 501(c)(3) organization.

Other Avenues for Qualification
The article acknowledges two other scenarios under which an ISP could qualify as a section 501(c)(3) organization. The ISP could function as an integral part of another section 501(c)(3) organization or of a state or local government entity. The example given is a separately incorporated ISP formed and controlled by a university that is exempt under section 501(c)(3). The ISP provides free service to the university’s students and service at a “substantially reduced
fee” to others in the community where it is located, including elementary and secondary public school students, the community’s library, and the community’s government offices. The theory here is that the activities of the ISP further the university’s exempt purposes and could be conducted directly by the university without affecting its tax-exempt status or constituting an unrelated trade or business. As long as the university controls the ISP entity, that entity should qualify for exemption on the same basis as the university itself. (Integral part arguments generally rely on Treas. Reg. §1.502-1(b), which has been possibly obscured by recent case law, e.g. Geisinger Health Plan v. Commissioner, 30 F.3d 494 (3d Cir. 1994).)

Section 501(c)(12) may offer another route to exemption for certain ISPs. The IRS CPE article states that if an ISP is operated on a truly cooperative basis with proportionate sharing of costs and profits, the ISP could be exempt from federal income taxation under section 501(c)(12), which applies to rural telephone cooperatives, mutual ditch or irrigation companies, or like organizations. In addition to the requirement that it operate on a truly cooperative basis, the organization must derive 85 percent or more of its income each year from members for the sole purpose of covering losses and expenses. Revenue Ruling 72-36, 1972-1 C.B. 151, sets forth the requirements an organization must meet to show that it operates on a truly cooperative basis.

These two avenues, section 501(c)(3) and section 501(c)(12), are the two categories of exemption that a freestanding ISP would most likely seek. The former covers instances where the ISP intends to get subsidies from third parties to cover part of its costs, and the latter covers the instance in which users who are not otherwise members of a charitable class seek to minimize the cost of access by joining together to acquire service on a cooperative basis. That leaves the situations in which an existing tax-exempt organization wishes to offer ISP services to or host Web sites for its members as an additional benefit of membership. The organization may well be approached by commercial ISPs that offer to make their service available to the organization’s members at discounted rates.

For trade associations described in section 501(c)(6), offering these services may jeopardize exemption because section 501(c)(6) organizations must conduct activities that support the line of business common to all members and will fail to qualify for exemption if they are offering particular services to members. See Treas. Reg. §1.501(c)(6)-1. (Note that, by contrast, offering a list-serv, chat room, or bulletin board to facilitate communication among members on issues of common concern is likely to comply with this standard.) However, for organizations in many other section 501(c) categories, the principal issue in these arrangements will be whether any income the organization earns from selling the service to its members will be subject to UBIT.

UBIT

Whether income generated by serving as an ISP or Web site host for members—or others for that matter—will be subject to UBIT depends upon whether those services are related to the basis for the organization’s tax-exempt status. Providing a service simply for the convenience of members is not necessarily related to furthering an organization’s exempt purpose. For example, a business league that makes group health insurance available to its member business owners and their employees has been held
Tax-Exempts and the Internet

To be engaged in an unrelated trade or business. See Professional Insurance Agents of Michigan v. Commissioner, 726 F.2d 1097 (6th Cir. 1984); Long Island Gasoline Retailers Association v. Commissioner, 43 T.C.M. (CCH) 815 (1982). If providing Internet access can be analogized to providing individual insurance coverage, then these cases make it likely that earning a profit from providing Internet access to members may constitute an unrelated trade or business. (Obviously, if service is provided at or below cost, it will not constitute a trade or business, and UBIT will not be a concern.)

Therefore, before looking to the provision of Internet service as a source of income, exempt organizations should carefully investigate whether serving as an ISP will produce taxable income for them.

DISCLOSING REQUIRED TAX INFORMATION ON THE WORLD WIDE WEB • Since 1987, tax-exempt organizations that file an annual information return (Form 990) have been required to make their three most recent returns as well as their exemption applications available for public inspection at their principal offices during their regular business hours. See §6104(e). (Organizations that are not required to file annual information returns, such as churches, have no responsibility for compliance with these rules.) The filing requirement applies to most organizations that are exempt under section 501(a), including charities, labor unions, trade associations, social clubs, and veterans’ organizations. See §6033.

With the 1996 enactment of intermediate sanctions for section 501(c)(3) and 501(c)(4) organizations, Congress expanded the disclosure rules to require tax-exempt organizations to provide copies of the their three most recent information returns and/or their exemption applications in response to requests made in person or in writing. See id. The statute relieves organizations of the duty to fulfill individual requests if they have already made the documents “widely available.” §6104(e)(3). Organizations are permitted to charge a reasonable fee to cover the costs of copying and mailing the documents requested.

Treasury issued final regulations implementing these requirements on April 8, 1999. See Treas. Reg. §301.6104(d)-3,-4,-5 (as amended by T.D. 8818). The new requirements for providing copies will go into effect June 8, 1999 (60 days after the final regulations were issued). Many organizations feel uncomfortable with this required disclosure, particularly because it makes public details about the compensation paid to the five most highly compensated individuals in the organization. However, the requirement for disclosure of the Form 990 information, including compensation, is quite clear. Penalties are imposed for failure to comply with these requirements. See §6652. One of the few exceptions permits organizations to leave off the lists of contributors that they otherwise provide to the IRS. §6104(e)(1)(C).

Web Posting as “Widely Available”

In 1997, Treasury and the IRS issued proposed regulations, which were adopted by T.D. 8818, providing that an organization will have made the documents widely available “by posting the document on a World Wide Web page that the tax-exempt organization establishes and maintains or by having the document posted, as part of a database of similar documents of other tax-exempt organizations, on a World Wide Web page established and maintained by
another entity.” Treas. Reg. §301.6104(d)-4(b)(2).

The organization must have procedures for ensuring the reliability and accuracy of the information on the Web page. Also, it must be posted in the same format used by the IRS to post forms and publications on the Web, and when downloaded and printed in hard copy, the application or return must be in substantially the same form as the original. Finally, members of the public must be able to download the information for free. If an organization elects to make its documents widely available, it must give the exact address of the site where they are posted to anyone who asks for it.

The final regulations permit an organization to use any format that “when accessed, downloaded, viewed and printed in hard copy, exactly reproduces the image of the application for tax exemption or annual information return as it was originally filed with the Internal Revenue Service, except for any information permitted by statute to be withheld from public disclosure.” Treas. Reg. 301.6104(d)-4(b)(2)(i). The preamble to the final regulation notes that Portable Document Format (PDF) is capable of meeting these criteria and that HTML may not be.

Wider Dissemination

Although disclosure requirements are not new, organizations understandably may be concerned about the effect of the new regulations combined with the increased availability of documents posted on the Internet. A publicly available return or exemption application posted on the Internet is for all intents and purposes much more widely available than the same publicly available document on file at a state Attorney General’s office or the IRS. Although organizations must comply with disclosure requirements, tax-exempt organizations will not want to include unnecessary personal information about officers, directors, and others whose names must appear on the form. For example, an organization may wish to use business addresses and telephone numbers for individuals listed on the return rather than home addresses and telephone numbers.

The Internet may offer many tax-exempt organizations a way to comply with these new disclosure requirements that will avoid the administrative burdens that may arise if individual staff members are required to fulfill an unknown number of individual requests for copies. At least one organization, Philanthropic Research, Inc., has established a Web site called GuideStar (www.guidestar.org) that contains a great deal of information about nonprofits. GuideStar would like to include Form 990 information on the site and may ultimately be able to assist organizations that cannot or do not want to do their own Internet postings.
PRACTICE CHECKLIST FOR
Tax-Exempt Organizations and the Internet

Tax-exempt organizations are using the Internet more and more heavily. The wide array of uses for the Internet is generating an ever-growing list of tax questions for these organizations.

• Is the organization’s exempt status being jeopardized by Web-based activities? Check for the following:
  □ Is material being posted or other communications being made that could be considered lobbying?
    If so, is the activity substantial? (If the organization has made the section 501(h) election, substantiality will be measured by expenditures.)
  □ Is material being posted or other activity being conducted over the Web that could be considered political campaign intervention? If the organization is hosting electronic discussions via the Web that may relate to political campaigns, be sure to include adequate disclaimers to prevent an appearance that the organization is endorsing any of the participants’ views.

• Is use of the Web leading to unrelated business income tax (“UBIT”) issues?
  □ Check that acknowledgments of corporate sponsors do not shade over into advertisements. Consider in particular whether a link to a corporate sponsor’s page is acting as an advertisement.
  □ If goods or services are being sold over the Web, is their sale related to the organization’s exempt purposes?
  □ If the organization produces a Web-based periodical, is it following the special UBIT rules for periodical advertising income?
  □ Make sure fees received from cooperation with businesses can be treated as royalties that are not subject to UBIT rather than fees for services which likely are subject to UBIT.
  □ Income from charity-sponsored or co-sponsored Internet auctions may be treated as advertising income by the IRS rather than proceeds from a non-taxable fundraising event.

• Take care when establishing links to other entities’ Web sites.
  □ Always request permission to set up a link to another site.
  □ Consider electing under section 501(h) so that links that may be characterized as lobbying activities can be evaluated under the spending caps that determine permissible amounts of lobbying.
  □ Be sure to consider the consequences of having other sites link to the exempt organization’s site. Protect copyrighted and trademarked material.

• Consider the tax consequences of sales over the Internet.
  □ Currently, there is a congressional moratorium on sales taxes being applied to Internet purchases, but that is subject to change in coming years.

• Are you going to raise funds over the Internet?
  □ Is registration required in one or more states to conduct the planned Web-based charitable solicitation?
  □ Donors giving $250 or more need written acknowledgments that meet IRS standards. The IRS has yet to confirm whether electronic receipts are adequate.
• Are you going to function as an Internet Service Provider?

☐ Is that consistent with your exempt purpose?

☐ If it is your exclusive function, there are two possible avenues for tax exemption: sections 501(c)(3) and 501(c)(12).