

Accounting & Tax Services

Classic Yacht Association
c/o 10203 47th Ave. SW D-4
Seattle, WA 98146

Dear Ladies and Gentlemen:

I have been retained by your organization to prepare your year end tax filing on Internal Revenue Service form 1120. During the process, I became aware of the fact that while you are a non-profit organization for the state of California, you are considered a for profit organization for federal tax purposes. The consequences of this can be expensive. For example, during 2007 you had a net income of \$9603 upon which you paid a tax of \$1515. Had Classic Yacht Association been a recognized 501 (c)(3) organization, there would have been no tax due. Further, as a for profit organization, there are limitations placed on the amount of charitable contributions you can deduct for tax purposes. Specifically, you are only allowed a deduction for contributions equal to 10% of your net income before the charitable contribution is taken. In your case, your net profit before contributions was \$10670 resulting in a tax deduction of only \$1067. However, you made donations totaling \$6791. Had the remaining \$5724 been deductible, you would have reduced your tax due for 2007 by \$859. In addition, by becoming a federally recognized nonprofit, any contributions made to your organization would qualify for federal income tax deductions on the tax return of the donor. This could be a benefit when seeking contributions.

In my opinion, the purpose of your organization clearly falls within the lines of non-profit status and I would recommend to you that you consider filing for recognition as a non-profit for the coming year 2009. It is too late to do so for tax year 2008 as the application must normally be filed with in 15 months of the formation of the entity. Should you have any questions regarding the application process or benefits of non-profit status, please feel free to contact me at any time.

Sincerely,

Jeffrey B. Vert, EA