

# Academy of Model Aeronautics

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## Insurance and Incorporation Information

There are many factors which affect a club's decision on whether to take the important step of incorporation. We will discuss herein those factors from the insurance point of view.

In the event of a loss resulting in a legal suit, a club may be held liable for varying amounts of monetary compensation for bodily injury and/or property damage. Incorporation restricts the exposure of a club to just its corporate assets, thereby protecting the assets of individual members. It does not in and of itself however, provide any additional resources beyond the club's assets. Both for the chartered club, which does not have substantial assets, and for the individual member, AMA liability protection provides financial protecting in case of a suit while likely preventing any personal loss to the club or its members. Furthermore, AMA's insurance covers the legal expenses of defending against a suit: incorporation does not. Thus AMA liability insurance protects the investment on both a club and an individual level to the extent that finances and other resources need not be depleted in the event of a liability suit.

Another advantage of AMA liability protection is coverage for others-- particularly important where flying sites are concerned. It's not unusual for the claimant in a lawsuit to name everyone in sight: the flyer, club members, the club itself, club officers, and flying site owner(s). AMA's insurance covers all of these persons whether the club is incorporated or not. Actually, incorporation can be a disadvantage in obtaining a flying site: from the flying site owner's viewpoint, incorporation limits the club's liability so that any seeking retribution in an accident may be more likely to sue the owner or anyone else in order to be sure of having the claim made good. To that landowner, then, AMA liability insurance protection can be the club's best asset! A landowner can be covered for as a little as \$60.00 annually.

The AMA club charter provides this outstanding liability protection and is recommended as the first step, with incorporation to follow when and, as the club feels ready for it. In other words, the club with AMA insurance is already protected against claim-related losses, and incorporation can provide other types of benefits.

Incorporation offers an advantage if a club can be incorporated as an educational, nonprofit organization approved by the IRS. In such a situation club income is not taxable (although a tax return must be filed annually). Additionally, donations (money, land, etc.) to the club are tax deductible for the donor.

Incorporation and attaining tax-exempt status can be quite a large undertaking. It took AMA's attorneys considerable work to document the AMA position. Unfortunately, AMA's tax exemption status does not accrue to the benefit of the individual clubs and no group exemption is available. Each club's status must be determined on the basis of its own activities and position. Therefore, reference should not be made to AMA's exemption status as basis for like treatment of a club. It may, of course, be stated that the club is chartered by the AMA and that the AMA has previously received recognition as tax exempt.

"Tax-Exempt Status for Your Organization" (IRS Publication 557) explains the rules and procedures governing a request for tax exempt status and is available from IRS locally or at [www.irs.gov](http://www.irs.gov).

Generally, a local attorney can offer the best assistance in completing the required paperwork.

We wish the best to any club interested in this undertaking. Should you need additional help, please call AMA at (765) 287-1256.