

Questions
and
Answers
for
Homeschool
Leaders

by
Carol Topp, CPA

Thank you to all the homeschool leaders, homeschool groups, and nonprofit organizations that have taught me so much.

Please visit www.HomeschoolCPA.com or e-mail the author at Carol@HomeschoolCPA.com

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About the Author

I, Carol L. Topp, CPA, am a homeschooling mother of two daughters. As a Certified Public Accountant (CPA), I have served on several nonprofit boards and especially enjoy working with homeschool organizations. My clients include several homeschool groups that have received their tax-exempt 501(c)(3) status with the IRS.

I am the author of *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out* (Aventine Press 2008), two electronic books for homeschool leaders and several articles on operating a homeschool nonprofit that have appeared in *The Old Schoolhouse*, *Homeschool Enrichment*, *The LINK* and *Home Education* magazines. I also enjoy conducting workshops on non-profit management to homeschool leaders.

My professional affiliations include the Ohio Society of CPAs, The Society of Non Profits, the National Association of Tax Professionals, the Ohio Society of CPAs Speakers Bureau and member of the Ohio Society's Non Profit Section.

Using my accounting skills to help non-profit organizations brings me a lot of joy, as does as serving on my homeschool co-op board. My family lives in Cincinnati, Ohio. My website is www.HomeschoolCPA.com

About This Book

The questions in this book were asked by homeschool leaders from across the United States. They came by e-mail, personal conversations, Internet forums, blog comments and from the audience at one of my workshops. As you will see by reading them, homeschool leaders have many of the same questions that you may have. I hope you find the help you need here.

If you have a question that is not answered here, there are several ways to get help:

- Visit my website www.HomeschoolCPA.com. I have a Frequently Asked Question page there and many articles. You may also reach me by e-mail via my website
- My blog, www.HomeschoolCPA.wordpress.com, addresses many important issues face by homeschool leaders
- My books are available at my website
 - Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*
 - Money Management for Homeschool Organizations*
 - Tax Exempt 501(c)(3) Status for Homeschool Organizations*

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Questions and Answers for Homeschool Leaders on IRS Issues, Nonprofit Incorporation and 501(c)(3) Tax Exempt Status

Most homeschool groups are run as nonprofit organizations. At some point every small nonprofit asks,

- When do we have to worry about taxes?
- Do we need to deal with the IRS?
- Should we be a nonprofit corporation?
- What are the pros and cons of having 501(c)(3) tax exempt status?

Many of these questions are answered on my website, www.HomeschoolCPA.com on the Articles page. Start there to get a basic explanation of nonprofit incorporation and 501(c)(3) status.

In this section of *Question and Answers for Homeschool Leaders*, I answer questions from groups that have concerns about the IRS, nonprofit incorporation and obtaining 501(c)(3) status .

Topics covered:

- What is the benefit of non-profit incorporation?
- Can my family's homeschool be a nonprofit?
- Apply on-line for EIN
- IRS on line training for small nonprofits
- IRS new e-postcard filling for small nonprofits
- Any tax breaks for homeschoolers?
- Group over the \$5K limit. What to do?
- What I learned from the IRS
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- Can my home school be exempt from federal taxation?
- How do homeschool groups identify their status as a public charity?
- Does new IRS 990N apply?

What is the Benefit of Non-profit Incorporation?

I am the treasurer of a large-ish homeschool group. Almost 40 families. I bought your book for our group. I read through it and passed it on to the president of our board. I am supposed to be filling out an application for non-profit corporation status through the Texas Sec. of State.

Because this is public record, we do not want our home addresses on the application. So we got a post office box. That's fine for the officers' addresses, but it is asking for a physical address for the registered office. We don't have an office, per se.

I forget, why do we want to do this? What is the benefit of non-profit status?

Thank you and we have found your book very helpful.

C

Dear C,

I'm glad you found the book, *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*, helpful. Sorry you've run into some road blocks. The state needs a physical address, so it can send notices, letters, "service of process," etc to a physical location. As you could imagine it might be too easy to set up a sham organization if all that is needed is a post office box.

Also, as a protection against consumer fraud, a business, even a nonprofit business, must be traceable to an individual (the registered agent). You can imagine the frustration of someone cheated by a small business only to find out they they cannot find the responsible individual or any physical address. So that's the reason why at least one physical address needs to be given.

The advantages of nonprofit incorporation include:

- limited liability for your leaders
- continued existence
- a step toward tax exempt status to avoid taxation on any surplus
- enter into leases or employment contracts

You can read more in the articles *Seven Great Reasons to Incorporate* and *Do We Need to Incorporate?* on my website, www.HomeschoolCPA.com/Resources.

Carol Topp, CPA

Can My Family's Homeschool Be a Nonprofit?

I see several articles on your website www.HomeschoolCPA.com on setting up as a not-for-profit for homeschool organizations (e.g. homeschool co-ops), but I wonder if I could set my own family's homeschool up as a non-profit. We're in Texas, so we are considered a private school.

Lauren in TX

Lauren,

You asked a good question and I've been asked it before in different ways. Nonprofit organizations have a lot of benefits including tax free income, discounts, and sometimes pay no sales tax!

I'm not a lawyer, nor familiar with Texas private school laws, but I'll try to explain how I see things. Briefly, a nonprofit organization exists to serve a *group*, not an individual. The IRS will not grant "recognized charity," 501(c)(3) tax exempt status to a group that is formed solely to benefit the founder's family. A tax exempt organization must serve a public good. The IRS forbids private "inurement" in 501(c)(3) tax exempt organizations. Inurement means to be beneficial or advantageous to a specific individual. Inurement occurs when an organization is formed or operates with an incorrect charitable purpose that allows individuals in control to profit from the organization. 501(c)(3) organizations can lose their tax exempt status for practicing inurement.

Inurement/Private Benefit - Charitable Organizations

A section 501(c)(3) organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests. No part of the net earnings of a section 501(c)(3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.

From the IRS website at <http://www.irs.gov/charities/charitable/article/0,,id=123297,00.html>

So, in short the answer is "No", even if your state classifies a homeschool as a private school.

Carol Topp, CPA

Apply On Line For Your EIN

How can I apply for an EIN and get it quickly?

Every once in a while the IRS does something good. Here's an example. Now you can get an Employer ID number (EIN) on-line immediately.

EINs are used by homeschool organizations to open a checking account, by a small businesses starting out and by WAHMs (work at home moms) or teenagers starting a business. The IRS hands out EINs like candy. I'm glad they made it quick and easy to get one.

I just used it myself recently. I was asked to handle the money for a homeschool graduation ceremony. I need to set up a nonprofit checking account at the local bank. I know the bank will ask for an EIN number. One of the parents on the committee and I discussed an "official name," she sent a check made out to that name ("PEP Graduation Ceremony Fund"). I went to the IRS website (www.irs.gov) and applied for an EIN. By the way, I called this group a nonprofit organization and chose Parent-Teacher Organization (like a PTO or PTA or Booster Club) when asked. I printed out the official IRS confirmation and I'm ready to head to the bank to open a nonprofit checking account.

From the IRS website:

Online Application for Employer Identification Number Now Available

No more need to file a Form SS-4! Use the new online EIN Assistant to obtain an EIN online <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html> quickly and easily. Simply answer the interview style questions and receive your EIN immediately after validation is complete. You can even download and print your EIN confirmation notice.

Here's the link to apply on-line

www.irs.gov/businesses/small/article/0,,id=102767,00.html

Carol Topp, CPA

IRS On Line Training For Small Nonprofits

We're now tax exempt! How can we learn more about the responsibilities and obligations of our new 501(c)(3) status?

The IRS has launched 5 new on-line training programs for small nonprofit organizations. The topics include:

Tax-Exempt Status. How can you keep your 501(c)(3) exempt?

Unrelated Business Income? Does your organization generate taxable income?

Employment Issues: How should you treat your workers for tax purposes?

Form 990: Would you like to file an error-free return?

Required Disclosures: To whom do you have to show your records?

These training modules are available free at www.StayExempt.org

I tried it and it is user friendly. Naturally, since it comes from the IRS it is full of jargon. Although they try and explain everything, you might still be a little confused. Don't hesitate to e-mail me via my website www.HomeschoolCPA.com with a question.

Carol Topp, CPA

IRS's New e-Postcard Filing For Small Nonprofits

We're a small homeschool group with 501(c)(3) status. We've never had to do any reporting to the IRS. Now I'm hearing that we have to give an annual tax return to the IRS. Is that true?

The IRS has a new form for small nonprofit organizations to file. It is an electronic notification called an e-Postcard . The IRS has a fact sheet about the new filing requirements at <http://www.irs.gov/charities/article/0,,id=169250,00.html>

The IRS wants an annual report from every 501(c)(3) tax exempt organization. It is not a tax return, because 501(c)(3) are tax exempt, but rather it is an annual notification of your groups continued existence. The IRS is asking for an electronic postcard with the following information:

- Organization Name
- Address
- Website
- Director's name
- EIN (Employer Identification Number)
- Statement that the organization had less than \$25,000 gross revenues.

If you are a small nonprofit group (under \$25,000 annual revenue) that has 501(c)(3) tax exempt status, you should know about the ePostcard. Be aware that sometime in your organization's past your group may have filed and received tax exempt status. Your small organization may have been exempt from annual financial reporting to the IRS in the past, but you now must comply with the e-Postcard notification beginning in 2008.

Check the IRS database of charities at <http://www.irs.gov/charities/article/0,,id=96136,00.html> to see if your organization has tax exempt status.

Do not ignore this requirement. Failure to report could mean you will lose your hard earned 501(c)(3) tax exempt status.

Carol Topp, CPA

Any Tax Breaks for Homeschoolers?

Do homeschoolers get any tax breaks for their homeschooling expenses? Can a homeschool family deduct any of their homeschool expenses?

The simple answer is "No; there are no tax credits for homeschool expenses from the federal government."

The longer answer is "Maybe, depending on what state you live in."

Several states have an educational tax credit. Iowa, Arizona, Minnesota and Illinois all have some sort of tax break for individuals. The credit is available to any public or private school student, so it is not unique to homeschoolers. Florida and Pennsylvania offer businesses tax credits if they sponsor a scholarship.

This document has a chart of education tax credits and deductions by state (updated November 2008). Scroll to page 6 to see the chart.

<http://www.house.leg.state.mn.us/hrd/pubs/feelaw.pdf>

Home School Legal Defense Association has an explanation of some states' tax breaks or credits:

<http://www.hslda.org/docs/nche/000010/200504150.asp>

Homeschoolers can get creative and think perhaps they can start a business or a nonprofit organization of their homeschool activities and then deduct their expenses. Ann Zeise of A to Z Home's Cool addresses these ideas:

<http://homeschooling.gomilpitas.com/articles/031401.htm>

You cannot contribute to your own child's K12 education and get any tax deduction for it, no more than if you sent him to a private school and tried to write off the tuition.

Carol Topp, CPA

Group Over the \$5K limit. What To Do?

Hi Carol,

I'm part of a homeschool organization that is considered an Unincorporated Non-Profit Association in the state of TX which by Texas law can not take in more than \$5000.

What should we do?

*Thank you,
Sandy in TX*

Dear Sandy,

I visited the State of Texas website to read about the Unincorporated Non-Profit Association laws. I could not find any restriction on the amount of money your organization can make.

I think I understand where you got the \$5,000 threshold. The **IRS** does state in the instructions to Form 1023 (Application for Recognition of Exemption under 501(c)(3)) that:

*The following organizations are excepted from the exemption application requirement: Churches, their integrated auxiliaries, and conventions or associations of churches; and an organization that is not a private foundation and the **gross receipts of which in each taxable year are normally not more than \$5,000.***

So as long as your organization stays very small, you are tax exempt. If you make more than \$5,000 gross revenues in a year, you need to file the Form 1023 to remain tax exempt with the IRS. So this is really an IRS/federal tax requirement, not a Texas requirement.

If you have gross revenues over the \$5,000 threshold, your group has three choices:

1. file the 1023 and become tax exempt
2. pay taxes
3. restructure your group to stay under the \$5,000 income limit.

Any of the options are workable. There are costs and benefits to all three options. Without knowing a lot more about your group, I cannot tell you which option is best for you.

Your group is not unique. Like many homeschool groups, you are finding that your organization is growing and doing more for homeschooling families. That's wonderful, but then you can run into road blocks like the \$5,000 income limits.

Carol Topp, CPA

What I Learned From the IRS

I recently attended an IRS workshop for small and medium tax exempt organizations. It was quite good; one of the best workshops I have attended. It is nice to see the IRS being helpful!

Here is just a smattering of what I learned:

Misclassified Workers:

The IRS is taking the employee/independent contractor status seriously. We discussed the recent IRS audit of a youth soccer league in Connecticut that misclassified coaches including teenagers as independent contractors instead of employees. The IRS was assessing the soccer club \$334,000 in back taxes and fine.

Lobbying:

There is a difference between lobbying and political campaigning. Lobbying for (or against) legislation is allowable for 501(c)(3) organizations. Endorsing a political candidate for local, state or federal office is not permitted. In other words, the IRS does not grant tax exempt status for political campaigning.

IRS leniency

The IRS is lenient if an organization is proactive in complying with the law. They are not so lenient if an organization is audited and found to be breaking the law.

The IRS sometimes loses

The IRS doesn't always win. The IRS agent was actually quite funny in telling us stories about cases the IRS has lost.

Carol Topp, CPA

Homeschool Group Part of Church Ministry

Hi Carol,

I am the leader of a 15 years old home education support group in Ohio. We are considered a ministry of our church and are under their tax-exempt status, however we currently have by-laws and our own checking account, we approve membership, and collect fees. We offer a lot of choices/activities for our families including Friday classes, field trips, concert & theater opportunities, history fair, science fair, geography bee, mom's nights, Stanford Achievement Tests, etc.

My questions/concerns: Since we are under our church's tax-exempt status, is it a conflict to have our own bylaws? Do we jeopardize our tax-exempt status or the church's by operating as a separate entity? Over the years, we have accumulated a fairly large balance in the checking account. Is there a maximum we should have? It's our desire to work hand in hand with the church and the protection of the church and it's authority has always been a blessing to the group.

Sharon W

Dear Sharon,

You are indeed fortunate to have such a supportive relationship with your church. It is one of the best possible situations that a homeschool group can find.

I read through your bylaws and although I am not a lawyer, I am quite familiar with nonprofit bylaws and homeschool bylaws in particular. I think your bylaws spell out your relationship with your church quite clearly. I do not think there is any conflict with the church in having your own bylaws. Church women's groups have been existing for years with bylaws for their specific groups. You are in a similar situation to these women's groups. I do not see a threat to the church's tax exempt situation. You are clearly part of their ministry.

I also think it is very wise to have a separate checking account. Congratulations on the surplus! If you carry a large surplus, I would normally recommend nonprofit incorporation and tax exempt status, but since you are a ministry of the church you do not need nonprofit incorporation and fall under their tax exemption.

There really is no maximum amount that you can have as a surplus. Some small groups find \$100 is a tremendous amount, but a nonprofit like the Red Cross needs millions in surplus to meet emergency needs. If you have a future need or a plan for the money (such as purchasing equipment or hosting a convention or a big event), you might consider reserving some money in a savings account. It is perfectly legitimate for a church or nonprofit to earn interest on their savings.

Carol Topp, CPA

Government Intrusion and 501(c)(3) status

Hi Carol,

I am part of a homeschool group in Colorado. We are trying to figure out what we are to do financially next year. We do not have a non -profit status and most people in our group do not want to organize that much. Some of the people in our group have had some experiences with 501(c)(3) status that the government has made them open their group up to individuals that they would not normally allow in their group because they are a government entity (like permitting someone not in our faith to teach a class).

Thank you so much for your help to the homeschool community and for whatever answers you can give us.

*Sincerely,
Michelle P*

Michelle,

Good for you in wanting to make sure that you are doing things properly in your homeschool group.

Your people are mistaken. Receiving 501(c)(3) tax exempt status does **NOT** make your organization a government entity; it simply means that you are exempt from paying income tax on your profit and donors can make tax-deductible contributions. It is a tax status.

501(c)(3) status does **NOT** mean you must open up your group. We still have religious freedom in American and freedom to assemble. Someone is misinformed. You are certainly free to choose your members and choose who teaches a class. Does a Catholic school have to allow non-Catholics teach their classes? Of course not.

The Boy Scouts won a very important Supreme Court case in 2000 allowing them to exclude homosexual men from being Boy Scout leaders. Read about it here http://en.wikipedia.org/wiki/Boy_Scouts_of_America_v._Dale.

God Bless America!
Carol Topp, CPA

Homeschool Basketball Organization and 501(c)(3) Status

Hi Carol,

We have been involved in this basketball organization for 6 years and it has been organized for 11 years. I would say we are a medium sized group with a cash flow of \$5,000 give or take depending on the year. We currently have less than \$2,000 in the bank as we ended this season and prepare for the next. It has been operated without any tax reporting and a little less than desired accounting practices. I am not an accountant, but have business accounting experience, and I see where we need to improve. We do not have an EIN of our own, but we do have a bank account; at the moment, 2 bank accounts actually.

My question: I understand we need our own EIN and begin issuing 1099s to our referees. Do we need 501(c)(3) status ONLY if we are seeking that type of fund raising with companies that require it? Or can we continue to operate without 501(c)(3), but just need to implement better tax reporting practices?

If we do decide to pursue the 501(c)(3), are you familiar with Indiana laws that we could secure your services if needed?

Thank you for your assistance.

*Blessings,
Shawna*

Shawna,

You may want 501(c)(3) status to participate in certain fund raisers that are only open to 501(c)(3)s or to accept tax deductible donations.

You can operate as 501(c)(3) status without filing the IRS application, *if* your annual gross revenues are under \$5,000. That's a big "if." It is not difficult for a sports organization to bring in more than \$5,000 a year. If your gross revenues are more than \$5,000 a year, you should file Form 1023 Application for Tax Exemption with the IRS in order for your surplus to be tax exempt. Please get professional assistance in filing this form. Start by visiting my website www.HomeschoolCPA.com.

I recommend that you also consider nonprofit incorporation, to protect your leadership.

You need an EIN to file 1099MISC to give to your referees.

I'm quite familiar with Indiana laws regarding nonprofits. I do the annual reporting (Form 990) for the Indiana Foundation for Home Schooling, a 501(c)(3) organization

Carol Topp, CPA

How Do Homeschool Groups Identify Their Status As a Public Charity?

Hello Carol

I am working with a homeschool group in MO. We need to complete our 1023 (Note: He means IRS Form 1023 Application for 501 Tax Exempt Status). The question I have is on Part X Public Charity Status. We are a small homeschooling group of about 45 families with revenue of less then \$5,000 per year. I need to know how homeschool groups identify their status as a public charity.

Do you have samples of other groups that have filed the 1023?

Thanks

Greg S, MO

Greg,

Homeschool groups are usually classified as 509(a)(2) organizations because more than 1/3 of their income comes from membership fees or "activities related to the exempt function" (box 5h on the Form 1023).

Form 1023 is a public information and you may request a copy from any 501(c)(3) organization. You can use the IRS website to find homeschool organizations with 501(c)(3) status. Go to <http://www.irs.gov/charities/index.html> and click on Search for Charities on the right column. Guidestar.org also posts Form 1023's for hundreds of charities.

I provide a review service for the Form 1023. From my website, HomeschoolCPA.com:

Buying Peace of Mind

A review of forms you have prepared yourself. Save money by doing much of the work yourself. I will review Forms 1023 or Annual Form 990 and offer my opinion and advice. Approximately \$100 -\$200. Time: 1-2 weeks.

I did a review for a homeschool group in KY and sent them two and a half pages of corrections or omissions they had made on their Form 1023 as well as suggestions on how to phrase their Part III Narrative to help the IRS understand their mission. Please contact me if you would like me to review your application before you mail it to the IRS. I am be happy to help.

Carol Topp, CPA

Can My Home School Be Exempt From Federal Taxation?

Dear Carol:

I am interested in writing proposals for grants for my family's home school. As an individual home school, not as a home school support group, I want to apply to receive small amounts of money for travel, museum entry, art gallery entry, books, posters, etc. More often than not, I find this statement :

"All applicant organizations or sponsoring agencies must be exempt from federal taxation under the Internal Revenue Code Section 501, in order to be eligible for funding."

What do I have to do to have our home school be exempt from federal taxation?

*Thanks.
Nancy H., Mississippi*

Nancy,

You asked an excellent question. You are correct that many fund raising and granting organizations now require 501(c)(3) tax exempt status. Some homeschool groups want to become 501(c)(3) tax exempt organization just so that they can participate in fund raisers and obtain grants.

A private individual or family cannot be a 501(c)(3) tax exempt organization. The reason is that the IRS does not allow tax exempt organizations to offer private benefits or what they call "inurement" (meaning "to become beneficial or advantageous") to individuals. Tax exempt organizations must benefit a group, preferably the general public.

Carol Topp, CPA

Does New IRS 990N Apply?

Hi Carol

Thanks so much for all your help in getting our group up and running. Things are going well so far. My husband brought a card he saw at the post office and handed it to me thinking it might apply to our group. It is about a new filing requirement for small tax exempt organizations.

Does this apply to us? I was unsure if this was just for 501(c)(3) organizations.

*Thanks,
Sharon*

Sharon,

The new IRS ePostcard (Form 990N) notification is for 501(c)(3) organizations. The IRS is trying to clean up its database by using this short electronic postcard. They hope to find any nonprofits that are no longer in operation. They are also looking for small nonprofits that have "grown up" to the \$25,000 gross revenues per year and should be filing a 990EZ or 990 Form annually. The ePostcard is a way for small nonprofits to acknowledge that they are still under the \$25,000 annual revenue threshold for filing the 990.

Your organization has not yet applied for 501(c)(3) status, so you do not have to file the ePostcard yet.

I recommend that you consider applying for 501(c)(3) status soon. The IRS expects nonprofits to file for 501(c)(3) tax exempt status within 27 months of formation (incorporation as a nonprofit). Otherwise, the IRS requests an explanation of why tax exempt status was not filed earlier and tax exemption is granted to the date of filing, not back to the date of formation. This could mean that a nonprofit might owe back income tax for the period that they were not tax exempt.

If your gross revenues stay under \$5,000 a year, you are granted an exception from filing the paperwork for 501(c)(3) status. If gross revenues get to be over \$5,000 a year you should file for 501(c)(3) tax exempt status or pay corporate income tax on any surplus (i.e. profit).

In a nutshell, a small nonprofit has three choices:

1. Stay under \$5,000 gross revenues per year
2. File for 501(c)(3) tax exempt status
3. Pay corporate income tax on any annual surplus.

Carol Topp, CPA

Questions and Answers for Homeschool Leaders on Boards and Conflict

If you put any group of homeschoolers together, you are going to have some conflict. I recommend that a board of leaders be established to help deal with conflict and set policies.

In this section of *Question and Answers for Homeschool Leaders*, I answer questions from leaders about boards and conflict.

Topics covered:

- Can a non-homeschooler be on a homeschool board?
- Why have a board when you can do it yourself?
- Founders syndrome
- New EIN for new officers?
- Conflict resolution policies
- Conflict in a homeschool group

Can a Non-homeschooler Be On a Homeschool Board?

Here's an interesting question from a homeschool group about a former homeschooler staying on their homeschool co-op board. This group is a nonprofit corporation and has 501(c)(3) tax exempt status with the IRS.

Hi Carol,

We were wondering if someone who is no longer a member of our co-op can be in a leadership position. Tina, our secretary, is considering sending her son to a Christian school next year but would love to remain on leadership if it is OK. Is that allowable? We love Tina and would love to have her stay but can see the other side. Could we let membership vote? Is there a definite rule that she couldn't be on leadership?

*Thanks for you insight and thoughts.
Jill Y, Ohio*

Jill,

I read your co-ops bylaws and they state that qualifications for membership include "Homeschooling in accordance with State of Ohio Laws." If Tina is not homeschooling, she would not be a member of your co-op and could not be on the board.

Your co-op can change their bylaws and eliminate the membership requirement. Your bylaws say that you need a 3/5 majority vote of the Leadership Team (not the general membership). You do not have to notify the State of Ohio when you make a bylaw change. You would have to notify the IRS on the Form 990 of a change to the bylaws, but you are not required to file a Form 990 because your annual gross income is under \$25,000.

You could create a position of non-voting "Advisor" to the board/Leadership Team. The bylaws do allow for Support Roles/Committees to be formed by the Leadership Team. If you make Tina a non-voting "Board Advisor" she still gets to share her opinion, wisdom, and advice, but has no official vote. It might be a nice alternative. Tina should not be one of the officers (Secretary, Treasurer, etc)

I hope that helps!

Carol Topp, CPA

Why Have a Board When You Can Do It Yourself?

The homeschool leaders at the Old Schoolhouse Leaders Yahoo Group http://groups.yahoo.com/group/TOSHSN_Leadership_Group discussed the benefits of having a board of directors (or leadership team). Lisa asked:

I've had a few members come to me suggesting that we have a board of directors so that all responsibilities don't fall on me. Seems some are concerned that I will burn out. Does anyone have any suggestions on how I go about starting something like that and even perhaps what you've found to be the "pros and cons" of doing so?

Here's some of the advice she received from other leaders:

It's imperative that you surround yourself with like-minded people.

There are lots of reasons why leaders have to leave besides burn-out - moving, children graduating, illness, needing to care for elderly parents, etc.

Having several people in leadership, and continually raising up new leaders among your members, ensures that your group won't dissolve because *the* person in charge has to step down for some reason.

We've had a "board" or a "leadership team" for all of those years, ranging from 3 to 8 members. Eight seems to be too many. Three is too small for what we do now.

There is a lot of advice to be had at the TOS Leaders Yahoo group: http://groups.yahoo.com/group/TOSHSN_Leadership_Group.

Carol Topp, CPA

Founders Syndrome

I think my group has “founder’s syndrome.” The founder, a wonderful, generous lady can be quite controlling and thinks that everything should go her way. What can we do?

Founder’s syndrome is when the group becomes more about the founder’s personality than its mission.

A member of our homeschool co-op asked why our founder and leader of four years resigned. She was surprised when I told her I thought it was a good idea for leaders to step away occasionally. Why? The group can stagnate and avoid fresh ideas if leadership never changes. Frequently the leader takes on too much and won’t delegate responsibilities. She can suffer from burn out and make finding a replacement impossible (who could fill her shoes?) The board becomes weaker, letting the leader make all the decisions.

I highly recommend you amend your bylaws to have term limits. I frequently see a 3 year limit placed on board membership in nonprofits. This brings in new energy and ideas and prevents founders syndrome. You can see sample bylaws at my website www.HomeschoolCPA.com under the Resources page.

Here’s an article <http://www.managementhelp.org/misc/founders.htm> entitled “Founder’s Syndrome: How Corporations Suffer—and Can Recover” (for nonprofit or for-profit organizations)

It may be that the founder’s greatest gift is converting a dream to reality by inspiring others with the ability to keep the dream real (and they will have their dreams, too!). In that case, the best thing for him or her may be to leave the organization once that dream is real, when the dream evolves an organization that others should take forward.

However, no great leader leaves without ensuring their organization survives their leaving. A sound transition plan, mutually developed with Board and staff, ensures the organization is passed on to capable hands.

Hopefully, the founder stays and goes on to see the organization become a stable and well-respected organization—an organization with a resilient and far-sighted leader who embraces change and, most importantly, knows how to manage it.

Carol Topp, CPA

New EIN For New Officers?

Hi Carol,

Thanks to your wonderful services in the past we have gone from a ministry under a church to an informal non profit support group within the community. Thanks so much for what you do for homeschool groups!

As the current director (board leader), I had been the person to apply for the EIN for our group. I am nearing my finish on the board and we will have new board leaders. Do we have to have a new EIN issued? I know this current one was opened with my name as the responsible party, so I don't know if that would "tie" me to the non profit for any thing down the road if I am no longer on the board?

Thanks so much for your help and/or direction.

Blessings,

Shawna B, CA

Shawna,

Thank you for your kind words. It was my pleasure.

You do not have to apply for a new EIN just because of a switch in officers. Nonprofits change leadership frequently.

If you are a 501(c)(3) tax exempt organization with more than \$25,000 in gross revenue annually, you should be filing the annual Form 990 with the IRS. On the Form 990, you list the new officers' names.

If your organization makes less than \$25,000 per year then you should be filing the 990N, an electronic postcard, with the IRS. The 990N requests only the name of the "principle officer" not the entire board.

Carol Topp, CPA

Conflict Resolution Policies

Our homeschool co-op director recently asked the board to adopt a conflict resolution policy. Do we need this?

Does your group have a conflict resolution policy? I hope you never have to use it, but more than likely you will need it at some point. Peacemaker Ministries <http://www.peacemaker.net> has this suggestion:

Put Conciliation Clauses in Organizational Bylaws

Many homeschool organizations, from the state level to the local level, are very reluctant to get involved in their members' conflicts, because they fear getting tangled in destructive lawsuits. Although such fears are often exaggerated, it is wise for these organizations to implement policies and procedures that direct their members toward Christian conciliation (rather than litigation) in the event of conflict. One of the best ways to make sure that conflict is resolved constructively is for an organization to include conciliation clauses in its contracts.

These clauses are legally enforceable and require that any dispute related to the contract be resolved through biblically-based mediation or arbitration rather than litigation.

For more information on conciliation clauses search the Peacemaker.net website for "conciliation clause" and read their *Guidelines for Christian Conciliation* under Get Help With Conflict/Dispute Resolution.

In my book *Homeschool Co-ops: How to Start Them , Run Them and Not Burn Out*, I discuss conflict resolution and offer several sample conflict resolution policies.

Visit www.HomeschoolCo-ops.com to order the book.

Carol Topp, CPA

Conflict In a Homeschool Group

Do you have any recommendation on how to deal with conflict in a homeschool group?

If you have not had conflict in your homeschool group yet, you probably will. As a friend of mine says, “We homeschoolers are so independent and opinionated, it’s a wonder that we get along at all!” Yet, it is true, we do usually get along by forming support groups and co-ops.

Annette Friesen, the Homeschool Advisor with Peacemaker Ministries (www.peacemaker.net), has suggestions for peacemaking among homeschool groups:

Be an Instrument of Change

As a leader in a Christian homeschool organization, and a homeschooler yourself, there are many ways you can help your board, your support group leaders, and the homeschoolers in your state learn to respond to conflict biblically. And in the process, you will strengthen your witness to Christ and improve your ability to minister to those you serve. Listed below are several steps you can take to start this process today.

Train Your Leadership

The way to be a good steward of your God-given responsibility to equip and encourage homeschoolers is to learn peacemaking yourself and introduce it to your organization’s leaders. Some of the following ideas may be helpful in this process:

Begin reading *The Peacemaker: A Biblical Guide to Resolving Conflict*. Set aside the time to read the Scriptures that are referenced. God will begin to deepen your understanding of how he desires to use conflict in the lives of his people.

For the rest of the article go to the www.Peacemaker.net site, search for “homeschool” and you’ll find an article titled “Preparing Home Schoolers for Conflict.”

Peace be with you,
Carol Topp, CPA

Questions and Answers for Homeschool Leaders on Money Management and Fund Raising

I receive many questions about money, budgets, checking accounts and fund raising from homeschool leaders. Leaders want their groups to be successful and they know that managing the money is an important part of running a successful group.

In this section of *Question and Answers for Homeschool Leaders*, I answer questions from leaders about checking accounts, taxes, what to do with a surplus and fund raising.

Topics covered:

- Checking accounts and EINs
- Getting an EIN
- Legal or DBA names
- Tax concerns when your homeschool group makes money
- How much money can a homeschool group earn?
- Group using personal Paypal account
- How much to keep in cash reserves?
- Fund Raisers for homeschool groups
- Individual fund raisers and homeschool groups
- Can my individual homeschool family have a fund raiser?
- Pizza day at our co-op
- The IRS and fund raising
- What constitutes private benefit or inurement?

Checking Accounts and EINs

Carol,

We have always had a checking account under a parent's name. We were adding a name to our account this year when (the bank) informed us we can no longer do this and we need to have our own Tax ID number. Will we need to file returns with the IRS if we get a tax ID number?

I strongly discourage using a parent's name on an organization's checking account. The organization should have a checking account in its own name and use an Employer Identification Number (EIN), not an individual's social security number.

Getting an EIN from the IRS does not necessarily mean your organization will have to report income to the IRS. If you are a small nonprofit organization with annual gross revenues under \$5,000, there are usually no reporting requirements to the IRS at all.

Nonprofits have to start filing tax forms when they

- bring in more than \$5,000 a year
- become a 501(c)(3) tax exempt organization
- do public solicitations (i.e. door-to-door selling or fund raising)
- pay workers either as employees or independent contractors

If you hire and pay workers, your organization will use the EIN to file either 1099MISC or W-2 forms for each worker.

Carol Topp, CPA

Getting an EIN

Hi Carol,

I am new to an existing homeschool co-op in VA. This co-op is more than 12-15 years old. We do not accept donations or need to; so far we have been handling the money through someone's personal bank account. We receive fees from students and then pay teachers and reimburse them for materials, generally we break even each year (or can if we need to). There are regular Board meetings; I do not know if they have bylaws or take minutes but I do know they have a mission statement. The bottom line is that we want to be able to have a business checking account.

Can we get an EIN in order to open a checking account in our co-op name without incorporating and without having a state or federal annual filing requirement? I seem to remember that once you get an EIN (that I think is required for a business bank account), you are on the radar screen with the IRS and will need to file some sort of return.

*Thanks so much
Nancy V in VA*

Nancy,

Usually the first contact a homeschool organization has with the IRS is getting an Employer Identification Number (EIN). Most banks now request an EIN when a group opens a checking account. Your group is doing things right by getting a checking account for their co-op instead of using a personal account.

Yes, you can get an EIN for banking purposes, but not have any other dealings with the IRS. You do not have to be a nonprofit corporation to obtain an EIN. If your organization later does incorporate they will need to apply for a new EIN. This chart might be helpful to explain common types of nonprofit organizations:

<http://www.homeschoolcpa.com/resources/CommonNPOTypesPyramid.pdf>

You will deal with the IRS if you become a 501(c)(3) tax exempt organization or pay workers. If you are paying teachers, then you have required reporting to the IRS and your state. You will have to pay payroll tax (Social Security and Medicare) and file a W-2 if they are employees or file a 1099MISC if they are independent contractors. You should read this entry: "Paying co-op teachers is a sticky issue."

Best of success to you!
Carol Topp, CPA

Legal or Doing Business As (DBA) Names

Hi Carol,

We have just started a homeschooling co-op this year and have already received an EIN and opened a checking account. We are known as the R___ Homeschool Educational Organization, which is quite a mouthful. We are called "D___ Academy" and would like our members to be able to write checks out to D___ Academy and have that printed on our checks.

However, when we opened our account the bank would not allow us to put D___ Academy on the checking account even though our EIN paperwork showed that our DBA was D___ Academy. We were told we needed to file for a fictitious business name. However, it has just confused me more and makes me wonder if there are other filings that we need to be doing such as a business license with the county or city. Any advice or guidance you may have would be much appreciated.
Angela S

Angela,

The bank is correct. You should file for a fictitious business name. There are at least two reasons for filing a DBA or fictitious name:

1. The citizens of your state are entitled to know who owns a business (or in your case, who runs a nonprofit organization). This protects consumers from getting ripped off. A business owner cannot hide behind his business name. Every business must be tied to a person or group of people.
2. The bank is also protecting its customers. If someone found a check made out to D___ Academy, but wanted it to be deposited into Joe's Bakery's checking account, the bank would be suspicious that someone had stolen the D___ Academy check. Unfortunately the EIN is an IRS document and very easy to obtain, so the bank won't put much merit in the EIN application. The state DBA or fictitious name filing usually comes with an affidavit or some type of certificate.

I understand your concern over other filings. It's not easy figuring out what to do and what you might be missing. In general you need a business license if your state requires it for your profession such as barbers, attorneys, doctors, dentists, contractors, insurance brokers, opticians, veterinarians. For example, as a CPA I am licensed in Ohio. Nonprofit groups do not usually need a business license.

Nonprofits may need a vendors license if they are selling merchandise and then they may owe sales tax also. The law varies with each state. This website is very helpful for determining the nonprofit requirements by state:<http://www.hurwitassociates.com/areas.php#tax-exempt>

Carol Topp, CPA

Tax Concerns When Your Homeschool Group Makes Money

What happens when a homeschool group makes a profit? Do they owe taxes? Is there paperwork with the IRS? Should we hire an accountant?

It's a myth that nonprofits cannot make a profit. Nonprofits exist to complete a mission (education in the case of most homeschool groups), not to make a profit. Whether or not a non profit's income is taxed depends on two issues: tax exempt status and whether the activities are related to the non profit's purpose.

If your annual gross revenues are more than \$5,000, your organization should file Form 1023 Application for Tax Exemption with the IRS. Approval of tax exempt status by the IRS means that your group will not pay income tax on its profit or surplus. Please get professional assistance in filing this form. Start by visiting my website www.HomeschoolCPA.com.

Nonprofits often make money from their activities and use it to pay their expenses. As long as a nonprofit's activities are associated with their purpose, any profit made from them is not taxed (assuming they have received tax exempt status from the IRS). The IRS *will* tax income from any *unrelated* businesses (called the Unrelated Business Income Tax or UBIT)

Here's an example: A nonprofit hospital's mission is to provide medical treatment. It also runs a gift shop. The gift shop is not related to the hospital's nonprofit mission, so the profit from the gift shop is taxable.

Homeschool organizations should watch out for income from unrelated activities such as:

- Fund raisers
- Selling tee shirts and other merchandise
- Selling advertising
- Income from affiliate websites such as Amazon.com

Usually nonprofits avoid the UBI tax by using one of the IRS exemptions..

- Volunteer labor
- Selling donated merchandise
- Business operated for the convenience of members (like a school cafeteria)
- Unrelated business income of less than \$1,000

You can read more about UBIT and exceptions in IRS Pub 598 available at www.irs.gov/pub/irs-pdf/p598.pdf

Carol Topp, CPA

How Much Money Can a Homeschool Group Earn?

Hi Carol-

I really appreciate your website. I have a question regarding leading a homeschool group. We have not filed for non-profit status as of yet, but we are considering it. We have a mission stmt, by-laws in place, an EIN, and a board. From what I seem to understand we would be considered a unincorporated association.

Does that title seem appropriate? We want to make sure we do everything "by the book". We were under the understanding that we could not exceed \$5,000 going through our group bank account before it becomes necessary for us to go through the process of becoming a non-profit org. and filing a tax return. Any help you can pass on would be appreciated.

Thanks so much.

Christina in CA

Christina,

Yes, you are correct, your organization is a unincorporated association.

See my Common Nonprofit Types Pyramid at

www.homeschoolcpa.com/resources/CommonNPOTypesPyramid.pdf

Your organization can have any amount of revenue and remain an unincorporated association.

The IRS does allow unincorporated organizations to operate as "tax exempt" if their gross revenues are under \$5,000 per year. The organization can accept donations and provide donors a tax deduction for their contributions.

If your organization has gross revenues over \$5,000 per year, you should apply to the IRS for 501(c)(3) tax exempt status. Otherwise your organization would owe income tax on its "profit" or surplus each year.

It sounds as if your group is well organized with bylaws, a board, etc. That's great! It may not be too difficult to file for 501(c)(3) status.

I hope that helps,

Carol Topp, CPA

Group Using Personal Paypal Account

Hi Carol,

Our (homeschool group's) yearbook is looking take in the money through my personal Paypal account, then deposit it into an separate bank account so that our Assoc. does cross over the \$5,000.00 mark. How is this done so that I don't have to claim the money as extra income?

Currently the association is trying to do a Paypal account not just for yearbook for membership dues, they are hesitant because they set up the a Paypal account under non-profit, Paypal is wanting proof of this and we don't have it. I suggested that they explain to Paypal that they we are a Unincorporated Non-Profit Assoc. and it should be fine.

Sandy in TX

Sandy,

The *ideal* way to operate is to set up a Paypal account for the association/homeschool group and not run anything through your personal Paypal account. I understand from other homeschool leaders, that Paypal expects to see proof from the IRS of tax exempt status. They may also accept a nonprofit incorporation certificate from your state. They told one homeschool group they would accept "certified Articles of Incorporation."

One homeschool registered with Paypal as "Category: Education, Subcategory: Elementary and secondary schools." While not as accurate as "Charitable/Nonprofit", it got the job done!

If your organization is not a nonprofit corporation or doesn't want to be classified by Paypal as as a school, then tell your board that you are using your personal Paypal account and have them record it in the minutes of a board meeting. ("Sandy agreed to allow use of her personal Paypal account for the yearbook project") Keep a very clear paper trail just in case you are ever audited by the IRS. Keep paper records of every transaction and especially the transfers in and out of the Paypal account. Make print outs from Paypal and file them away with wherever you keep your tax return information. Do not send them to the IRS with your tax return.

Carol Topp, CPA

How Much to Keep in Cash Reserves?

I am wondering whether you have any guidelines about a good amount of cash to keep in reserve, or what to use as a basis for determining the amount of cash. We have a substantial surplus, growing every year despite our efforts to price classes at a close to break-even rate.

Thank you!

Shaun S in Minnesota

What a wonderful position to be in—cash reserves growing each year! Many for-profit businesses are not doing that well!

It's a little difficult to be specific without knowing how you operate, such as do you collect all fees at the start of the semester or do you operate month to month. Can families drop out or join mid semester? Do you offer refunds of fees paid if a family drops out? etc...

Basically, the tighter you run your cash flow (ie only collecting a month at a time), the more you need in reserve.

I recommend that you look at your sources of income. Imagine any one item being eliminated, such as a major fund raiser. How would you run your co-op without that source of income? Sometimes when a nonprofit loses a major source of funding, it needs to fall back on cash reserves for a while.

Here are a few guidelines to help you determine the amount of cash reserves needed:

1. Have at least 10%, maybe 15% of your income in reserve for emergencies, damages or disasters.
2. Have at least one or two month's rent in reserve in case you need to move locations.
3. If you pay employees, have at least three months of their pay in reserve.
4. Consider creating wish list of future plans of major purchases (like a computer or software) or programs you'd like to offer. Your surplus could be applied to your "wish list."
5. Have at least enough in reserve to cover the deductibles on your liability and medical/accident insurance.

Here are a few ideas of what to do with your cash surplus:

1. Offer reduced fees to hurting families. In my homeschool co-op, we have a widow and another family with a disabled father, so they get free access to our co-op classes.
2. Offer reduced fees for significant volunteer efforts. We offer teacher discounts and discounts to our co-op director.
3. Make a contribution to the location you are renting if it's a church or community organization.
4. Have an end of year party with a catered dinner.
5. Give appreciation gifts to all your volunteers.

Carol Topp, CPA

Fund Raisers for Homeschool Groups

Is your homeschool group looking to raise some money? Jim Berigan, a former Christian school principal and non-profit director knows a lot about fund raisers and shares his knowledge at www.TopSchoolFundraisers.com and a blog of the same name. You will learn a lot by reading his blog. He even has an entry called: "6 Suggestions to Keep Uncle Sam Happy With Your Homeschool."

Here's some of what he advises:

Meet With an Accountant

I strongly recommend that you speak with a local accountant and explain to him or her what you are planning to do. And I stress the verb tense here. Consult with the accountant before you attempt a fund raiser.

Track Down Your Local Homeschool Association

I would reach out to the leadership of the local homeschool network in your area to ask their advice and learn from their experience. Perhaps they have an established fund raising event themselves, and you could participate in it.

Ask Detailed Questions of Any Fund raising Company You're Thinking of Using If you decide to go the route of a product sales fund raiser and you are considering using a professional supplier, I would recommend consulting with them before entering into an official agreement.

Find Out Exactly What Being a Non-Profit Really Means I would suggest doing a little reading on the exact nature of what a non-profit organization truly is. It is very easy to say that you would like to become a non-profit, but it is an entirely more difficult matter to actually do it.

Visit the HomeschoolCPA Online

I would read and become very familiar with the blog called HomeschoolCPA (www.HomeschoolCPA.wordpress.com). The author of this site is Carol Topp, and she is a certified CPA, who has become an authority in the field of homeschool fund raising. She answers direct questions online, so you can email her with your specific situation, if you like. After reading through her entire site, I highly recommend it.

Keep Thorough Records

When it comes to raising money, I strongly urge you to keep excellent records of everything you spend and everything you earn. This will make it much easier if you ever do have to go back and justify your actions.

Carol Topp, CPA

Individual Fund Raisers and Homeschool Groups

Hi Carol,

We have had fund raisers in the past (butterbraids, a frozen pastry) and have made approx. \$1,500 doing that fund raiser. We had a cooking class that prepared hot lunches and the co-op made money on those. We will have less than \$100 left in the check book. We have a Fed ID #. What do we do? What about next year? Is fund raising not a good idea for us as you say in your website? We thought about charging more for membership (we charge \$35/ yr now) and if people wanted to do individual fund raisers that would be up to each family. What do you think? Thank you so much for your help to the homeschool community and for whatever answers you can give us.

*Sincerely,
Michelle P*

Dear Michelle,

Did I say fund raising is not a good idea on my website? I didn't mean to. Hopefully I just warned groups that fund raising can be a lot of work. Also, if you sell products to the public (outside your own membership) you may need to report your "solicitation" to your state. I'm writing an article now on fund raising and I do say this:

"Your state may have reporting requirements if you are representing yourself to the public as a nonprofit organization. In my home state of Ohio, we have to file a Charity Registration form if we do fund raising to the public. One year we sold candles door to door and had to file a seven-page financial report with Ohio's Attorney General Office. That report was such a nuisance (and the fund raiser was so much work) that we no longer do sales to the public.

Investigate what your state requires from groups doing fund raisers. This website has nonprofit reporting requirements by state: <http://www.hurwitasociates.com>"

In general, I encourage groups to get most of their income from membership fees and not depend too much on fund raising. Fund raising can be very successful or turn out very poorly. It is also a lot of work with sometimes only a few people doing all the work.

I'm not sure what you mean by "individual fund raisers." I do know that it is not proper to "award" a family for raising more money than another family, nor is it proper to set up individual accounts. I know that scouts do this type of thing and the IRS frowns upon it (the troop sets up "cookie" accounts for each Girl Scout; she who sells the most cookies gets more in her troop account.) It is improper because it is not in keeping with the nonprofit motive or with the idea of a *group* benefit. In short, individuals are *not* supposed to benefit; the group is supposed to benefit.

Carol Topp, CPA

Can My Individual Homeschool Family Have a Fund Raiser?

Can we (an individual homeschool) be allowed to do fund raising similar to youth sports groups, scouts, etc?

What a good question. In general I say, "Yes, you can participate in a fund raiser if the fund raising organization allows it, *but*, the profit you make is taxable income and you'll need to report it on your tax return."

Another homeschooling mom e-mailed me with a similar question:

*With 6 children needing school curriculum, we are coming up short in finances. We contacted a calendar company that said it would be permissible for us to sell calendars as a fund raiser for our homeschool. We accepted personal checks made out to our homeschool name (that we registered with the state school board, considered a non-profit private school). We do not have a checking account with our homeschool name on it. Therefore, we have no way to deposit them. What is your advice to us? The checks amounted to \$90. Is this method acceptable to continue as long as we pay taxes on it?
Mrs. W*

Here's what I told Mrs. W to do:

By selling calendars you actually were actually operating a small *for-profit* business. You are free to use the profit of the small business for anything you wish, in your case homeschool books and supplies. Since you didn't mention what state you are in I cannot tell if your state requires business registration. Many do not require any type of registration if you are a sole proprietor using your own name. You may have to file a name registration with your Secretary of State to establish your business name.

To deposit these checks you'll need to open a checking account in the homeschool's name. You'll have to get an EIN number from the IRS at www.irs.gov (See the FAQ page on my website for details www.HomeschoolCPA.com) You can then spend the money in the checking account on homeschool supplies and close it or keep a small amount in it until next year.

You should report the \$90 as income on your tax return as either Other Income on line 21 of the 1040 or on Schedule C Business Income if you have expenses from the sale of the calendars (postage, mileage, etc...)

Quite a mess for a \$90 fund raiser, huh? Before you try a fund raiser for your individual family homeschool make sure it is worth the effort of getting a business name, EIN, and checking account. Try having a garage sale or sell something to bring in income instead!

Carol Topp, CPA

Pizza Day at Our Co-op

Carol,

How does your homeschool co-op raise money with a monthly Pizza Day?

We announce a week before that pizzas will be ordered next week. We take orders for whole pizzas for \$10. To keep it simple there are only two types: cheese and pepperoni. One time we allowed up to 5 types and lost money as we had to order a whole pineapple/ham specialty pizza and only sold two pieces! Also, it was too hectic matching special pizzas and people. We won't do that again.

We collect money and write down who ordered what. When they order, they pay. No ordering now and paying later. No money, no pizza! We stuff all the cash in an envelope and deposit the checks.

Parents have to get their order in by 10:00 a.m. We call in the pizza order at 10:30 a.m. for a 12:30 delivery time. We call the pizza place ahead of time to give them a heads up and arrange quantity pricing. When the pizza guy arrives, he's paid a tip in cash and we put the order on our co-op's debit card or pay by check.

Then families take what they ordered. Most folks are great about sharing leftovers with someone who forgot to order. We try not to order extra pizzas, but there are usually leftovers. Everyone brings their own drinks. We usually have paper plates and napkins on hand, but no drinks or cups (too expensive).

Pizza Day has been very popular. The kids love it; moms love it and our co-op makes about \$1.00 profit on each pizza. That can amount to \$40 -\$50 a month from the 40 families in our co-op. Not a lot, but it adds up every month!

That's it! We try to keep it simple!

Carol Topp, CPA

By the way, this easy fund raising idea and many others have been assembled in a tiny electronic book (called a WeEbook) titled *Easy Fund Raisers for Homeschool Organizations*. You can buy a copy for only \$1.95 at www.theoldschoolhousestore.com.

The IRS and Fund Raising

Several parent booster clubs in Kentucky were recently audited by the IRS and were fined for their fund raising practices. The issue was that the booster clubs were giving parents credit for their fund raising efforts. Like a lot of organizations, the parents worked at concessions stands, car washes, candy sales and bingo games. The booster club awarded parents monetary credit for working the fund raisers. The IRS fined one organization \$61,000! The group is even facing losing 501(c)(3) tax exempt status.

It is a common practice to set up individual accounts and split the fund raising proceeds among the parents that participated in the fund raising effort. If Johnny sold the most candy, he gets the largest share of the fund raising proceeds in his account. The IRS does not like this practice and is concerned about private benefits. They expect to see the entire group of students benefit from fund raisers, not individuals.

The booster clubs have appealed to their congressmen for help. But it appears the IRS is digging in its heels on this issue. From the Lexington (KY) Herald-Leader:

Lois G. Lerner, Director of Exempt Organizations for the IRS, explained in a letter to the booster clubs that any booster club that raises money to benefit an individual student rather than a group is in violation of federal law and stands to lose its tax-exempt status. Lerner said the practice was against federal law.

"The requirement that each parent/member of the club must participate in the fund-raising activities in direct proportion to the benefits they expect to receive toward their children's expenses directly benefits specific individuals and the parents instead of the class of children as a whole," she wrote.

If your organization is sharing, dividing or distributing fund raising proceeds to individuals or families, stop the practice and leave all fund raising proceeds in the general fund to benefit the group at large.

If you care to read more, do a Google search on : "*KY Booster IRS.*" The report from the Lexington Herald-Leader at Kentucky.com is most thorough in telling the story about Kentucky's booster clubs. (copyright prohibits me from a direct link)

Carol Topp, CPA

What Constitutes Private Benefit or Inurement?

Our group has a fund raiser which raises a fair amount of money (for us) \$600-\$1000. The question is in regard to spending the money. Does the money have to be spent on group activities as a whole, or can it be used to for individual educational activities (i.e. worldview camps, etc)? In a nutshell, the question is what constitutes private benefit/private inurement?

*Thanks,
Richard G, CPA*

Richard,
Good questions and difficult to answer in a nutshell, but I'll try!

Does the money have to be spent on group activities as a whole,
Yes, it does.

can it be used to for individual educational activities (i.e. worldview camps, etc)
Nope; that would be inurement (private benefit) to the individual.

what constitutes private benefit/private inurement?

From the IRS (GCM 39862 (11/22/91)):

"Inurement is likely to arise where the financial benefit represents a transfer of the organization's financial resources to an individual solely by virtue of the individual's relationship with the organization, and without regard to the accomplishment of exempt purposes."

And this from the IRS, again (1993 EO CPE Text "Athletic Booster Clubs: Are They Tax Exempt?" by Debra Cowen and Gerald Sack)

"In fact, the earnings of the organization are being used directly and specifically to pay for benefits to specific individuals rather than to a class (of competitive gymnasts) as a whole."

"Inurement of income is strictly forbidden under IRC 501(c)(3) without regard to the amount involved. Violation of the inurement proscription is sufficient to defeat exemption."

Inurement is a serious issue in the eyes of the IRS and an organization can lose its tax exempt status for violating the proscription.

Carol Topp, CPA

Fund Raising Do's and Don'ts

Carol,

My homeschool group does several fund raisers where we divide the proceeds to each family to reduce the parents' tuition. We have a shoppers reward program and I track how much of a tuition credit each parent earns by using their shoppers reward card. We also let students or parents work off some tuition by volunteering to work a shift at our city's major league baseball stadium concessions. The team makes a donation to our homeschool group (a 501(c)(3) organization). I'm having a hard time finding information on the IRS website about these types of fund raisers.

Susan in Ohio (paraphrase from a spoken conversation)

Susan,

I'm sorry you found it so difficult to find information about fund raisers like your group is running. Sometimes you have to know the correct language to use in a search. Search on the words "Booster Club" to see what the IRS has said.

Here's a wonderful link from a lawyer, Harvey Mechanic, that volunteers to answer nonprofit questions. He gets a lot of questions about booster clubs and fund raising like this one in particular: <http://en.allexperts.com/q/Nonprofit-Law-2266/Gymnastics-Booster-Club-5.htm>

Mr Mechanic frequently refers readers to an IRS document titled *Athletic Booster Clubs: Are They Exempt?* He summarizes and edits the IRS document here: <http://viewer.zoho.com/embed.jsp?f=aDebbe>

Here's the full text at 14 pages: <http://www.irs.gov/pub/irs-tege/eotopica93.pdf>

I've read this document several times. It is a document that the IRS uses to train their employees. While it addresses athletic booster clubs, the principles apply to school booster clubs also, including homeschool groups that do fund raising.

Finally, Mr Mechanic answers a question about fund raising by working concessions at MLB games here: <http://en.allexperts.com/q/Nonprofit-Law-2266/2008/6/credit-hours-worked.htm>

I hope that helps. Sorry there's not one paragraph at the IRS website to point you to! This is a collection of laws, rulings and cases over several years.

Carol Topp, CPA

Questions and Answers for Homeschool Leaders on Homeschool Co-ops

My book, *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out* is full of information for homeschool co-op leaders. You can read more about the book at www.HomeschoolCo-ops.com.

The table of contents includes:

- Chapter One: Benefits of Co-ops
- Chapter Two: Disadvantages of Co-ops
- Chapter Three: Different Types of Co-ops
- Chapter Four: Your First Planning Meeting
- Chapter Five: What's in a Name? Names, Missions and Purposes
- Chapter Six: Leadership
- Chapter Seven: Co-op Offerings
- Chapter Eight: Money Management
- Chapter Nine: Managing Volunteers and Conflict
- Chapter Ten: Ready for the Next Step?
- Chapter Eleven: Avoiding Burn out

In this section of *Question and Answers for Homeschool Leaders*, I answer questions from co-op leaders.

Topics covered:

- A homeschool building
- Tips from other homeschool co-op leaders
- Is it a co-op or Mary Poppins?
- Co-op director for a day
- A homeschool co-op franchise
- How to get people interested?

A Homeschool Building

Carol,

I attended your workshop at the Cincy convention and found it very useful. Do you know of any home school group that has their own building? That is our next step and I need help in knowing how to get started. We are already tax exempt and have about 200 students.

Our web site is www.christianconsortium.org, located in Louisville.

Thank you for any help you can give!

Beverly C

The Christian Educational Consortium

Bev,

I'm glad my workshop was helpful.

Most of the homeschool groups I know rent space and do not own a building. I remember reading about a homeschool building in an issue of Homeschooling Today magazine (I think), but that was years ago. The group bought the building with the help of a generous donor and hired a manager/maintenance man. His salary was paid for out of fees for building use. I think a church even rented space on Sunday morning.

I did an internet search and found this homeschool building in Michigan. I can't tell if this is the one from the magazine article. Could be...

http://www.homeschoolbuilding.org/HSBuilding/home_school_building.shtml

Maybe if you send them an e-mail, someone can answer your questions.
I hope that helps!

Carol Topp, CPA

Tips From Other Homeschool Co-op Leaders

I presented two workshops at the Midwest Homeschool Convention here in Cincinnati, Ohio. The session titled “Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out” was very popular and lively. Most of the participants were already running co-ops and were interested in the “Not Burn Out” portion of the workshop.

The participants were quite talkative and shared a lot of great information with each other. Here’s some tips I picked up:

- Use college students as co-op teachers. They may work for cheap or free if they need teaching experience.
- Yahoo has a group for homeschool leaders: TOS Leadership Group http://groups.yahoo.com/group/TOSHSN_Leadership_Group Use it to discuss sensitive topics, get advice, information and encouragement from homeschool leaders around the nation.
- Create term limits for your board members. A board member may serve two or three years, then step down for a year. This brings in new, fresh ideas and prevents burn out.
- Avoid founder’s syndrome, which is a condition where the founder is very dominate and controlling. She is unwilling to let others help her lead. She rejects any idea that is not her own. Term limits and holding elections for board members can eliminate founder’s syndrome.
- Have board meetings by e-mail, conference call or try an on-line conference service.
- Schedule board meetings during co-op hours when everyone is there anyway!
- Always use duplicate checks.
- Have the bank statement mailed to someone other than the treasurer.

Thanks to all the great leaders that shared their tips. I know I missed some.

A CD of the workshop is available at Rhino Technologies http://rhino-technologies.com/products/advanced_search_result.php?keywords=topp&=search for \$7.00. Click on item number MHC08 “Homeschool Co-ops” to order a copy.

Carol Topp, CPA

Is It a Co-op or Mary Poppins?

I started my website HomeschoolCPA.com to help homeschool organizations, but sometimes the lines between a family homeschool and a homeschool organization get a little fuzzy. Here's one example of the new and creative ways the people are homeschooling today.

I am considering starting a homeschool with a group of 5 children. They are all from different families and none of them is my own. I have a Masters degree in education and am comfortable working as an independent contractor. I plan on teaching these children in one of the boy's home with the parents' blessing. Is this legal? What do I need to do to set it up? Would the parents need to set up a homeschool co-op? I am having difficulty finding information about this for Maryland.

Thanks for your help!

Mrs. A in Maryland

Dear Mrs A,

Congratulations on your new venture. Teaching other people's children is certainly a legitimate business. You will be a modern day governess like Mary Poppins!

I do *not* believe the parents need to set up a homeschool co-op, but *you* need to set up a small business. I recommend these steps:

- Pick a business name, although you can use your own name
- Consider opening a business checking account to keep your business and personal expenses separate (it helps at tax time)
- Have a written agreement with the parents about your duties and your fees (i.e. how much and when will you be paid)
- Keep good records of all our expenses, especially mileage. Read my *Small Business Start-up Guide* available to download at www.CarolToppCPA.com.
- Set aside 30% of your income after expenses (i.e. 30% of your profit) to pay income tax and self employment tax. You will probably also need to make quarterly estimates payments to the IRS. Here's a great blog to help you learn more about being self-employed. <http://junewalkeronline.blogspot.com/>

I'm not familiar with Maryland's homeschooling laws, but here in Ohio we must notify if someone other than the parent does a majority of the instruction. Maryland may have a similar notification rule. You might want to do a little digging on-line and ask the families that are hiring you about Maryland's homeschooling laws.

Best of success to you!

Carol Topp, CPA

Co-op Director For a Day

I was a homeschool co-op director for a day and what a day it was! I've been a co-op member for 5 years and a board member for 4 years, so I'm not new to running a homeschool co-op. I even wrote a book about starting and running a homeschool co-op, *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*, but I've never been the director of a co-op until last Friday.

Our co-op leader, Maren, had e-mailed the board members early in the week to tell us that she had sick children and would not be at co-op on Friday. "No problem," I thought "Our number two leader, Cynthia, will be there." Then Cynthia called me Friday morning to tell me she had a sick child. I knew I had to help; we are a *co-op*, after all. Well, what a day Maren and Cynthia picked to be gone. Here's what happened:

- 5 mothers out sick or absent because of sick children. 3 had found substitutes, 2 needed to be replaced! Round up volunteers.
- One child lost during the class switch. Later found hiding in the choir room.
- Not enough money collected to pay the pizza guy. Who ordered but didn't pay?
- Pizza guy is 15 minutes late.
- Pizza guy doesn't answer the phone!
- Call another pizza place. Manager frantic. Will deliver our 39 pizzas in 45 minutes for free!
- Lunch delayed one hour while waiting for pizzas. Moved class schedule around to accommodate late pizzas. Hungry kids.
- Gave back pizza money since it was free. Now have extra money leftover! Go figure!
- A visiting family needed a tour guide.
- Vacuum cleaner smoking and smelling.
- Church's furnace leaking natural gas. Is the building gonna blow up?
- 6 sewing machines for Homes Ec class need extension cords. Do we have any?

My fellow board member summed up the day like this:

You 2 missed the most bizarre Co-op day that I have experienced in 4 years!!! (Perhaps there were stranger incidents before my time!) We will have to fill you in on the scrambling we were doing at the last minute to figure out why the \$ amount in the pizza envelope was not matching what was supposed to be in there (we were something like \$24 short!), and then the shock on Laura's face when she realized the pizza man was not on time for delivery and after making a phone call to Dominoes, the answering machine there said they were closed!

So that was my day as a co-op director. I went home, **ate chocolate** and took a short nap! Maren, you can have your job back. Your kids better be healthy this week!

Carol

A Homeschool Co-op Franchise

*I love the idea of starting a co-op, but it seems overwhelming. Has anyone already done the ground work for me?
(asked at a homeschool co-op workshop)*

Homeschool parents Jay and Heidi St John have started the *first* homeschool cooperative in the nation to franchise itself. It's called **First Class** and offers a leader handbook, workshops, a forum, database, area coordinators and has other projects in the works. All this is to help homeschool leaders start and run a successful co-op in their local area. I think it sounds like a great idea.

Here's what they say on their webpage:

At First Class, we believe that God has equipped you with /everything you need/ to educate your children at home. Our purpose is to come alongside you, connect you with other homeschooling families in your community, and offer you and your church the assistance and support that will help you go the distance.

As many of you know launching a homeschool co-op is not an easy task. I'm so happy to see there are organizations out there to help homeschool leaders.

Visit www.firstclasshomeschool.org for more information.

Carol Topp, CPA

How to Get People Interested

I put a co op posting up on my local yahoo group and no one is responding - how to let people know or cultivate interest?

Here's some advice:

- Offer food. People always seem to respond better when you offer to feed them.
- Did you set a specific time, date and location for an interest meeting? If it's just something general like, "Does anyone want to do a co-op?" then you won't get much of a response.
- Put up a notice for an interest meeting and include target ages for the co-op, as well as the general location. That should get a better response.
- Tell where do you plan on having the co-op. Location is important with high gas prices.
- Set up a webpage for the co-op so that others can read a summary of what it will offer.
- Try advertising it. Send an email out to everyone who would be interested or knows someone who would be interested. Put the website in your e-mail signature so it goes out to anyone who forwards your emails.
- Find at least two other interested people. That may involve some personal phone calls and e-mails. People seem to respond better to a personal invitation than to a general "call out," After you have three families, they can help you determine details like place and time. These other families can also help get word out.

In my book *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*, I discuss several ways to gather help and interest. Read a sample chapter at www.HomeschoolCo-ops.com

Carol Topp, CPA

Questions and Answers for Homeschool Leaders on Paying Workers and Volunteers

A homeschool group depends heavily on its volunteers. They work so hard and deserve appreciation. Some workers are paid for their efforts, but paying a homeschool parent for teaching a class or running your organization can raise a lot of questions.

In this section of *Question and Answers for Homeschool Leaders*, I answer questions from leaders about paying leaders or teachers, the tax ramifications and how to reward volunteers..

Topics covered:

- Can we pay an honorarium to a co-op teacher?
- Paying co-op teachers is a sticky issue
- Can you pay a volunteer?
- Is your hired teacher really an employee?
- Update on teachers as independent contractors
- W-2s and tax filings for homeschool co-op teachers
- Rewarding volunteers

Can We Pay an Honorarium to a Co-op Teacher?

If our homeschool co-op wants to give someone an honorarium for teaching a class, does that constitute an independent contractor with all of the tax implications?

Tawnya B. of Rapid City, SD

Tawnya,

Excellent question! Honorariums are considered income to the recipient. Your organization will have to give the teacher a form 1099MISC if you paid him or her **\$600 or more** in a year. A copy of the 1099MISC form is also filed with the IRS. 1099MISC forms are available from the IRS by mail (you cannot use the copy from the IRS website) or at office supply stores or via on-line filing service. Search on "1099 filing."

If you pay him or her less than \$600 in a calendar, there nothing for your organization to report. The recipient is still supposed to report the honorarium income on his or her 1040 tax return as Miscellaneous Income.

Carol Topp, CPA

Paying Co-op Teachers Is a Sticky Issue

Carol,

For the past several years, our group has spent more (thousands more) than we have charged our members. We're not technically "in the red" because of more prosperous years in the past. The reason we are spending so much money is that over 90% of our income goes to paying our parent-teachers (\$15-\$20/hour)! The rest of the money goes toward classroom supplies. I am sure that most parents are unaware of how the finances of this group are managed.

Have you heard of groups paying their teacher/parents? What do I need to understand about the various homeschool support and cooperative group structures that I don't currently comprehend? Help!

Amy

Amy,

Your situation sounds very familiar to me. I was treasurer of my 40 family co-op and found that 75% of our budget was going to pay four paid teachers. The other 20 teachers were volunteer parents, myself included. Not all the families were using a paid teacher, but all were chipping in to pay for them. We also were finding that people were offering to teach because they thought they could get paid. We were losing our cooperative spirit. I knew something needed to change.

About the same time I was helping another homeschool group with some independent contractor(IC)/employee issues with the IRS. My co-op decided to follow IRS guidelines and have the parents pay the teachers directly, like a parent would pay a piano teacher. *The co-op was no longer paying the teachers; the parents paid them directly.*

I did some number crunching and found that we could lower our co-op fee from \$150/family/semester to \$75/family/semester. In addition we offered a \$50 discount for teaching a class. What happened was amazing! Wonderful, talented homeschooling mothers volunteered to teach a class! *We had more volunteers than we could accommodate!*

This got us out of the sticky employee/Independent Contractor situation with the IRS. I'm writing fewer checks. It made my job as treasurer a lot easier and no 1099MISC forms at the end of the year. No one complained. The spirit of cooperation has returned.

I wrote a chapter in my ebook *Money Management for Homeschool Groups* on employee/IC status. You can find it all on my website, www.HomeschoolCPA.com. The issue of paying teachers as employees is too important to ignore. Your group may have to consider some big changes.

Carol Topp, CPA

Can You Pay a Volunteer?

Carol,

Can we pay our volunteer co-op director a small stipend? She works so hard.

I'm sure she does work hard and deserves some show of your appreciation, but volunteers are not paid. As soon as they are paid, they are not a volunteer. They are probably an employee. This means that your co-op will need to file W-2 forms, withhold Social Security and Medicare taxes, as well as federal and state tax withholding for one employee. Your co-op could also be responsible for unemployment taxes and workers compensation payments.

Do not try to avoid the employer tax filings by claiming she is an independent contractor. The IRS has a 20 factor test to determine independent contractor status. If your homeschool group is like most, you won't pass the test for independent contractor status. Read IRS Pub 1779 <http://www.irs.gov/pub/irs-pdf/p1779.pdf> regarding employee or independent contractor status.

What can you do to show your appreciation? Here are some ideas:

- Offer your hardworking volunteers a tuition discount or free membership.
- Give a gift such as a gift certificate, flowers or chocolate!
- Offer to babysit her children so she has a day or night out.

Avoid the cash payments if you can. They will be taxable income the recipient and may cause your organization to pay payroll taxes and file the required paperwork.

Carol Topp, CPA

Is Your Hired Teacher Really an Employee?

A homeschool nonprofit I work with called me quite frantic. They had received a letter from the IRS. It seems that a former teacher of one of their classes was asking for an examination of her status as an independent contractor. She had filed Form SS-8 with the IRS (<http://www.irs.gov/pub/irs-pdf/fss8.pdf>). She claimed that she should be classified as an employee of this homeschool nonprofit. If the IRS agrees with this worker, the homeschool organization may have to pay back taxes (Social Security and Medicare) and perhaps penalties.

Fortunately this homeschool group did many things right:

- They had all their paid teachers sign a Independent Contractor Agreement.
- They did not control the content of the class, nor dictate to the teacher what curriculum she must use.
- They offered no benefits to teachers.
- They did not train their teachers.
- They issued 1099MISC statements to all workers earning over \$600 a year.

How about your homeschool group? Would you pass an IRS examination? Do your hired teachers sign an Independent Contractor agreement? Do you avoid controlling their work as you might an employee? Are you issuing 1099MISC forms at the end of the year?

Here's a helpful brochure <http://www.irs.gov/pub/irs-pdf/p1779.pdf> regarding employee or independent contractor status (IRS Pub 1779).

Carol Topp, CPA

Update On Teachers As Independent Contractors

In “Is Your Hired Teacher Really an Employee?” I mentioned a homeschool group dealing with the IRS over teacher classification as an employee or independent contractor (IC). The IRS determined that the teacher was misclassified as an independent contractor and should be reclassified as an employee. The homeschool organization strongly disagrees and contacted a labor law attorney to help draft a letter back to the IRS. We’ll see what happens next.

The issue brought to light that many (perhaps most) homeschool organizations that hire teachers pay them as independent contractors. Most homeschool groups are small nonprofits without accounting staff and don’t want to mess with the paperwork of withholding paying employment taxes, creating W-2s, etc. It is easier to deal with an IC than an employee. The IRS reminds us the facts of the situation determine worker status, not the organization’s preference.

Most hired homeschool teachers are only teaching about one hour a week and are given a lot of freedom in how to conduct their class. This was true for my client, but the IRS still determined the teacher was an employee, even though she had signed a IC agreement three years in a row.

Here’s what I’m doing:

1. Telling my homeschool clients that hire teachers to carefully consider worker classification. Having a signed Independent Contractor agreement is not enough.
2. Advising some of my homeschool clients to reclassify teachers as employees and start withholding federal income tax, Social Security and Medicare taxes. These clients hire several teachers for several hours a week and exert a lot of control over what and how they teach. One group also does teacher training and evaluations so the workers definitely look like employees.
3. Change the way my small co-op pays teachers. The IRS letter stated , “if the worker had been an independent contractor, the parents would have directly paid the worker for the services she provided for their children.” Starting next semester we will have parents pay the hired teachers directly.
4. Get out the word to homeschool leaders about the potential problems of worker misclassification and the employment laws regarding hiring paid teachers.

Please pass on this information to homeschool groups that you know hire paid teachers. It doesn’t pay to be ignorant.

Carol Topp, CPA

W-2s and Tax Filings For Homeschool Co-op Teachers

I am the treasurer for a new co-op. We will have about 12 mentors, each teaching a class of 8-9 kids on Fridays. We follow a curriculum that the parents buy on their own. We try to keep the cost very low, so the mentors, which are all mom's of kids in the program get paid \$800 for the year.

We have already been setup as a South Dakota non-profit corporation, and would like to work towards a 501(c)(3) in the future, but not this year. Our main issue right now is we need to move forward with setting up a checking account, which requires an EIN, and to get that we need to know if we have employees. Also, I want to determine how I need to be paying them, as far as tax with holdings, etc.

*Thank you,
Doug M, SD*

Doug,

Congratulations on your new co-op. It sounds as if you are off to an great start! You should be very proud of all that you have accomplished.

As you described the co-op's relationship with the paid mentors, they should all be classified as employees. Your co-op exercises quite a bit of control by telling them what curriculum to use, so they are not independent contractors. IRS Publication 15 Employers Tax Guide has a nice checklist of forms and dates that you'll need to file. View it at the IRS website www.irs.gov.

You should collect a Form W-4 from each employee for their information and federal tax withholding. To make your job simpler you can tell your employees that the co-op will not withhold federal or state income tax since their wages are relatively small. The W-4 is kept by you and not mailed into the IRS. The co-op will be responsible for paying federal employer taxes (Social Security and Medicare) and filing quarterly statements with the IRS (called a Form 941). If you were 501(c)(3), your co-op would be exempt from Federal Unemployment tax. But the tax is rather small at 0.8% (Search for Form 940 at www.irs.gov)

At the end of the year you will issue a W-2 to each employee and mail copies of the W-2 and W-3 to the Social Security Administration. See IRS Pub 15 (above) for details. I go to an office supply store in January for the forms and usually a software program is included.

South Dakota may have unemployment tax requirements and workers compensation payments. Contact your state's department of taxation or employment for details.

Try not to be overwhelmed by all this. A lot of it is start up paperwork. You may want to see if there is a local CPA who can help you or at least check over the forms the first time you complete them. You could also consider using software such as Quickbooks and its payroll feature (an additional add-on).

Carol Topp, CPA

Rewarding Volunteers

Carol,

I'm on the board of a home education association. We hold an annual conference of about 800 - 1000 and need many volunteers to help us with the event. What are some appropriate ways to thank the volunteers? Can we give them a gift (e.g. mug)? Can we give them free parking? Can we give them a dollar amount off admission for each shift they work? From one of the answers you gave in your FAQ, it appears it is OK to give discounted admission to the conference, but I just want to confirm that.

Can we give more to key volunteers (ones who are responsible for key areas of the conference and will not be able to attend sessions)? Can we give key volunteers a complete set of CDs from the conference, hotel rooms and meals while at the conference? Do we have to report this on the 990 also?

*Thanks for your great help.
Dorothy K*

Dorothy,

You ask some excellent questions. As for the mugs, free parking and reduced admission: yes, yes and yes. All these are appropriate ways to thank your hard working volunteers.

As for the CD set, hotel and meals: yes, these are also appropriate ways to thank volunteers. If any of these volunteers are also board members, you should disclose these expenses paid by the organization on their behalf on Form 990 Part V-A Current Officers compensation. I recommend you include a note to the effect that the volunteer was given lodging and meals at the annual convention. This is not taxable income to the volunteer. Putting the information on the Form 990 is just a way of disclosing to the IRS and anyone reading your 990 that you pay expenses for volunteers. That is a completely legitimate and generous thing to do!

I hope that helps! Best of success in your future efforts!

Carol L. Topp, CPA

Questions and Answers for Homeschool Leaders on Insurance and Other Topics

In this section of *Question and Answers for Homeschool Leaders*, I share some information on insurance and other topics such as statements of faith.

Topics covered:

- Can I homeschool other children?
- Statements of faith
- Insurance for a homeschool sports program
- Insurance for homeschool groups

Insurance For a Homeschool Sports Program

Does your homeschool sports group need insurance? A homeschool leader in Indiana shares information on her insurance company.

Dear Carol,

I heard you speak at the Cincinnati Homeschool Convention and it was VERY helpful. At the end, I mentioned that we had sports insurance and you mentioned that you wanted that info. So, in keeping with my promise, I am responding to that request now.

We use USSFA which was established many years ago, as I understand it, to provide insurance for homeschool sports. There are only a few states in which they cannot insure, but you can contact Lew Owens for more information if needed.

email: ussfaoffice@comcast.net

USSFA Office

4150 Kildeer Drive, Ste 2-A

Indianapolis, IN 46237

Phone: 317-357-8908

Fax: 317-357-8791

We have used this for several years (our sports program is over 11 years old) and have been very happy with the program USSFA provides. With this insurance, we are able to show the schools and other rental locations that we have liability insurance and then we have the added benefit that our player/coach coverage picks up their existing medical coverage ends.

If you call Lew, please be sure to mention that you heard about him from me (Shawna Howell). Effective 3/15/08, I became the director the SEI Panthers Basketball (SE Indiana) program and he will know of me through that affiliation.

My prayer is that we can continue to network with one another for the benefit of the homeschool community across the country.

Thank you for all that you do to help our community and particularly for sharing your wisdom with us at the convention. I was truly blessed.

Blessings,

Shawna Howell

Insurance For Homeschool Groups

The church we are meeting at requires us to have our own insurance. What does this mean and what type of insurance do we need?

Beth S. in Ohio

This homeschool group had been told by the pastor of the church where they had been meeting that they didn't need insurance, the church would cover them. Well, the pastor had probably not checked with his insurance agent! I spoke to an agent that covers a lot of churches and he said only "ministries of the church" are covered by the church's policy. This group was independent of the church (although the church was verbally and financially supportive of the homeschool group). They were an independent 501(c)(3) tax exempt organization and not a ministry of the church. They were more like the Boy Scouts using the space as an independent organization.

So they need their own insurance, but what kind? In talking to a helpful insurance agent, I learned there are at least three types of insurance a homeschool group could possibly need:

General Liability

Medical Accident

Directors and Officers.

General Liability (sometimes called fire insurance). It covers the property an organization owns or rents. This is what the church is wanting from Beth's homeschool group. The church wants an insurance policy if the homeschool group damages their property. Beth could ask the church to add her group as a rider on to their policy. It might be cheaper than purchasing a separate policy. A homeschool group could consider "event" coverage if the group does not meet regularly in the church, but only for special events.

Accidental Medical coverage. This is for coverage if a child hurts him or herself while at a homeschool function. If your group holds gym classes or physical activities, you could consider this type of insurance. You should also ask the parents to acknowledge that they also have insurance to cover their children's medical expenses.

Director and Officer insurance: This is to protect the leaders if they are sued for liability. The agent said these policies start at \$1,000/year. Yikes! He said it is expensive because it includes provisions for employee issues such as termination and sexual harassment. Because of the expense to the organization, some small nonprofits without employees forgo D&O insurance. Non-profits board members may purchase their own liability insurance. Personal liability insurance, sometimes called an umbrella policy, can sometimes be added to a home owner's policy or a separate umbrella policy may be purchased.

Carol Topp, CPA

Statements of Faith

Does my homeschool group need a Statement of Faith ?

Many homeschool organizations require members to agree to a statement of faith. While many of these statements are rather generic, some people are reluctant to sign the statements. Perhaps they disagree with one point or they are anti-creedal.

In my book, *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out*, I discuss the pros and cons of having a statement of faith. Here's an excerpt:

Some groups require all members to sign a statement of faith, which are usually broad in nature and concur with the beliefs of most church-going Christians. Some groups compose a statement of faith for the organization as a whole but require only that the member acknowledge the statement's existence; individual members are not asked to sign the statement of faith. Because members recognize the group's religious beliefs, members of these groups should not be surprised or offended if specific religious beliefs are introduced in co-op classes.

Other groups require only their leaders to sign the statement of faith, meaning the general membership does not have to agree on religious issues. This can work well for some people but not for others, depending on the expectation of each member. If they expected that a co-op teacher would not introduce alternative religious views, then they will not be comfortable in a "open membership" group.

I met Mary Hood, author of *The Relaxed Homeschooler* (and other books), when she passed through Cincinnati recently and she told me a story about her homeschool organization and statements of faith.

Mary's group, called ARCHERS (<http://www.relaxedhomeschooler.com>), offered classes to high school students twice a week. The group had open membership, but desired to have Christians in leadership. As time went on the group attracted more and more non-Christian members. This was not the direction the group wanted to take, so the leadership discussed having members sign a statement of faith (SoF). They were very reluctant to require a SoF, so they got creative instead. *They required that any student enrolled in more than 3 classes take a mini Bible study.* This resulted in some families leaving the group and strengthened the faith of several students that remained. I really like when I hear creative solutions to a common problem.

Carol Topp, CPA

Can I Homeschool Other Children?

I am frequently asked, “Can I homeschool other children?”

Carol,

I'm in Texas. Can I homeschool other children in my home? It might be one or two classes. For instance, I'm a certified Math teacher. Could I be the math teacher for other children and then be paid as an IC (Independent Contractor) by the parents if I determine the curricula and completely control what I would be doing?

I've been prayerfully considering if I should continue on as a Mary Kay Sales Director or try to find other stay at home pay that might integrate in with my homeschooling better. I have had several people approach me about tutoring their children. Unfortunately, we depend on my income so I have to find some way to work but still be effective in my homeschooling.

Any advice would be helpful.

Deborah

Deborah,

You can certainly homeschool or tutor other children. You would be an Independent Contractor as you mentioned and actually be running a small home-based business. There is a lady here in Cincinnati that has been doing what you describe for years. She is excellent at teaching math, prefers to do it from her home and is very much in demand!

The laws about teaching other children in your home vary from state to state. In some states parents or guardians may give permission for another person to teach their child. However, there may be limits on the number of children or number of days. You may also need to consider local zoning ordinances. Some states may require a childcare license.

Whenever you make a “career shift” it’s recommended to take it in small steps. In other words, don’t quit your day job (Mary Kay in your case). Perhaps you’d be wise to teach only one class to see how you like it first and to see if you can manage both jobs (MK and tutoring). Do a cost-benefit analysis after a few months. Is the tutoring paying off? Is the cost of your time worth what you are making in income? Where is your time best spent? Is tutoring too disruptive to your family?

You might also want to visit my Tax and Small Business Accounting website www.CarolToppCPA.com where you’ll find a Small Business Start Up Guide and other articles on working from home.

Best of success to you and your endeavors!
Carol Topp, CPA

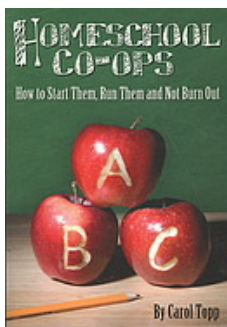
Visit my website www.HomeschoolCPA.com.



You can sign-up for a **monthly newsletter**, Homeschool Leader that answers more questions from homeschool leaders like you.

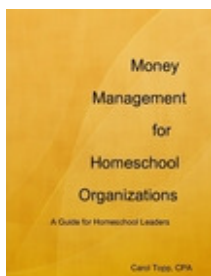
My **blog**, www.HomeschoolCPA.wordpress.com, addresses many important issues faced by homeschool leaders

My books are also very helpful:



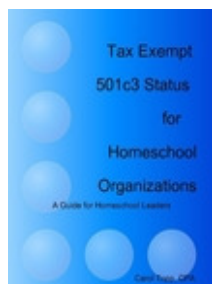
Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out (Aventine Press, 2008/\$12.50)

Available at Amazon.com and other on-line booksellers



Money Management for Homeschool Organizations

Available as ebook or in print at www.HomeschoolCPA.com



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