

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