

Excerpts from *Paying Workers in a Homeschool Organization*
2nd edition, 2017
by Carol Topp, CPA

Chapter 1: Can You Pay a Volunteer?

Homeschooling is growing and becoming more popular every year. As homeschooling grows, so do homeschool organizations, co-ops, and groups. Some homeschool organizations get so large that they can no longer be run solely by volunteers. It is not uncommon to find a homeschool group hiring teachers to run a class or paying other workers. This book discusses paying workers in a homeschool organization. Before I discuss hiring paid workers in the following chapters, let's start by discussing paying volunteers.

CAN YOU PAY A VOLUNTEER?

Most homeschool leaders put in many hours a week, all unpaid. That is the definition of volunteer—they are not paid. As soon as a volunteer is paid, they are no longer a volunteer. They are (probably) an employee. But I hear from many homeschool leaders who email me asking,

“Can we pay our homeschool co-op director? She works so hard.”

Yes, your homeschool organization can pay someone who works for the organization, but the pay must be reported to the Internal Revenue Service (IRS). The reporting responsibility will be on both the homeschool organization and the worker. Additionally, the organization will have to determine if the worker is an employee or an independent contractor. Other chapters in this book cover the required reporting and worker classification.

Many homeschool organizations, especially small or all-volunteer organizations, avoid paying workers. Instead of paying a worker, they show appreciation in a variety of ways such as:

- Reduced fees or tuition. Reduced tuition for classes or for a homeschool co-op fee is a nontaxable fringe benefit if it is *insignificant* (more on that later). If the tuition reduction is significant, the value of the tuition is taxable income to the volunteer.
- Gift cards, but they could be taxable income to the recipient if the cards are a replacement for payment for services and not a true gift.
- Non-cash gifts such as flowers, books, a coffee mug or chocolate are excellent ways to express appreciation and are tax-free to the volunteer.

I'll discuss each of these types of compensation (reduced fees, gift cards and non-cash gifts) to a volunteer in detail.

TUITION DISCOUNTS TO VOLUNTEERS

Schools, private schools, and homeschooling co-ops frequently offer tuition discounts or a reduction in fees to parents who volunteer. If a parent volunteers to teach a class at a homeschool co-op a few hours a week and receives a tuition reduction for this commitment, it could be considered taxable income to the parent.

Whether the tuition discount is taxable income depends on several factors. But let's start first with how the Internal Revenue Service (IRS) defines compensation and especially taxable compensation.

WHAT IS TAXABLE COMPENSATION?

In general, the IRS broadly interprets compensation. It is more than just wages paid. Taxable compensation can include free or reduced tuition given to a parent for their service to a homeschool organization.

A worker is no longer a volunteer if they receive something of value in exchange for their service. Therefore, free or reduced tuition given to a parent in exchange for their service would constitute taxable compensation.

Chapter 3: Employee or Independent Contractor? Worker Classification

Many homeschool organizations that hire teachers will pay them as independent contractors. Most homeschool groups are nonprofits or small businesses without accounting staff and do not want to deal with the paperwork of paying employment taxes, creating W-2s, etc. The tax paperwork involved in hiring an independent contractor is less complex than the taxes and paperwork for hiring an employee, but the IRS reminds us that the facts and circumstances of the relationship determine worker status, not the organization's preference.

RULE OF THUMB

This chapter goes into a lot of details on the factors you need to consider in classifying a worker in your homeschool organization as an employee or as an independent contractor. But I want to start out with a rule of thumb and then you can dive into the details, keeping in mind your specific organization.

Your organization's right of supervision and control over the worker is the critical issue. Many of the other factors covered in this chapter are tools to uncover evidence of control or lack of control. Always focus your attention on the control factor.

Start by determining whether the worker will be integrated into your organization's operations. If the worker is *not* integrated into your operations and the right of control is not obviously apparent (no training, no work hours, no reports), you are reasonably safe to classify him or her as independent contractors as long as the relationship is short-term.

This would be the scenario if you hired me or another CPA for some consultation or accounting work. I am not integrated into your operations. You will not supervise or control me. Our relationship will be short. I am an independent contractor.

Another example might be a homeschool co-op that hires one or two people from outside the co-op to teach a specific class, but the majority of the teaching is done by volunteers. Although the outside teacher may be slightly integrated into your activities, you can avoid overtly controlling him and have more confidence that he is an independent contractors.

If the worker is integrated into your operations, then your group is at risk of misclassifying him as an independent contractor when he really is an employee, unless several factors point strongly in the direction of independent contractor status. Look for evidence that the worker is truly independent from your organization. Avoid any overt expressions of control. This may mean you have to change some of your practices and policies.

This may be the scenario if all or a significant portion of your homeschool group's teachers are hired (and not volunteers). They are certainly integrated into your homeschool program; without them there would be no homeschool program! There is probably sufficient evidence that your organization is exerting enough control that they should be classified as employees. You may need to either drastically change your behavior and program or read Chapter 6 on how to set up a payroll system for your homeschool organization.

Chapter 6: Payroll Taxes for Employers

Did you know that both nonprofit organizations and for-profit businesses follow the same rules when it comes to employer payroll and taxes? Betty, a homeschool leader in Texas, didn't know this when she emailed me saying,

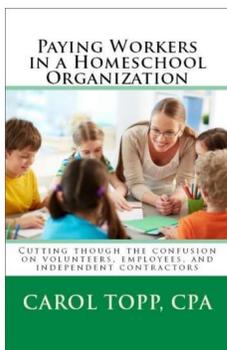
"Due to the expenses and paperwork involved with hiring employees, I would like to set up a 501(c)(3)."

I delivered the news Betty probably didn't want to hear: 501(c)(3) tax-exempt status only grants nonprofit organizations tax exemption from federal income tax, not payroll taxes. In other words, **nonprofit tax-exempt organizations still have to pay payroll taxes such as Social Security, Medicare, workers compensation and unemployment insurance premiums.**

This chapter will explain how to set up a payroll system and the various payroll taxes employers must pay. Chapter 9: Resources lists payroll services, books, videos and websites to help you navigate the tax and legal responsibilities as an employer.

SETTING UP A PAYROLL SYSTEM

1. **Obtain or find your Employer Identification Number (EIN).** Before hiring employees, you need to get an employment identification number (EIN) from the Internal Revenue Service (IRS). Your organization may already have one. Ask your treasurer or bank. The EIN is necessary for reporting taxes and other documents to the IRS. You can apply for an EIN online at IRS.gov.
2. **Obtain state and local employer IDs.** Some state and local governments require businesses (and nonprofits) to obtain identification numbers in order to process state and local payroll taxes. Intuit (makers of QuickBooks) has compiled a list of state tax agencies on their webpage payroll.intuit.com/state_agencies/.
3. **Decide on your pay period.** Setting up a pay period (usually monthly or bi-monthly) is sometimes determined by state law, with most favoring bi-monthly payments (twice a month).



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HomeschoolCPA.com/Bookstore

WORKER CLASSIFICATION DETERMINATION

Worker classification can be a confusing topic. The book *Paying Workers in a Homeschool Organization* can help clear a lot of confusion, but perhaps you want to discuss your particular situation in a private, individual phone consultation.

Carol Topp, CPA offers a service to help you determine if your homeschool organization's workers are employees or independent contractors. The service will include a phone interview and will be followed up with Carol's determination in writing, recommendations to actions you should take, and the consequences of misclassification.

To request a consultation, visit HomeschoolCPA.com/Services.