**Business Failure in the Homeschool Market**

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What happens when a business fails? I don’t know details of Landry Academy, but others have observed there were problems with cash flow and reliable sources have said there was an IRS investigation into worker status.

IRS audit triggers for a worker classification investigation: 1. Randomly selected 2. IRS 1099 form instead of a W-2 3. A worker applies for worker’s compensation or unemployment 4. A worker requests IRS review (Form SS-8) 5. A worker states on tax return that they should be an employee (Form 8919)

What can parents (customers) do when a business fails? How can they avoid losing money?

* Consumers are the last to know if a business is having financial troubles
* Don’t buy too far into the future. You do not know what your life will be like tomorrow-James 4:14
* Be wary of deep discounts. A prudent man sees danger and takes refuge- Proverbs 22:3
* Avoid putting all your academic eggs in one basket. Divide your portion …- Eccl 11:2
* If it’s too good to be true, it probably is

Credit card refund…maybe…

Tax deduction? Probably not. Theft loss is deductible on Schedule A Itemized for the amount over 10% of your Adjusted Gross Income. For the average family a $6,000 loss means a reduction in tax of $135.

What should a homeschool organizations or businesses do? Could an IRS investigation happen to us?

Independent contractor or employee: Focus on Right to control (Behavioral control, Financial Control, Relationship) and Services provided were a key activity of the business. Read more at <http://homeschoolcpa.com/?s=independent+contractor>

**In education, it is very difficult to correctly treat teachers as independent contractors**

Carol Topp, CPA offers [Worker Classification Determination](http://homeschoolcpa.com/services/worker-classification-consultation/).

Consequences of misclassification: Back payroll (SS/Medicare) taxes, penalties, failure to file W-2 penalties, state unemployment and workers comp, employee benefits (healthcare, retirement, profit sharing etc.).

IRS Safe Harbor [IRS Publication 1976](https://www.irs.gov/pub/irs-pdf/p1976.pdf): Section 530 IRS Safe Harbor

IRS Amnesty Program Volunteer Classification Settlement Program [IRS Form 8952](https://www.irs.gov/uac/about-form-8952)

Your Options

1. Change nothing (bad idea)
2. Change your program
3. Change to employees and hope to use Safe Harbor if investigated
4. Use amnesty (VCSP), pay 10% of one year payroll taxes

Change your program:

Parents pay teachers directly.

Teachers pay co-op or business a rental fee, listing fee, advertising fee.

Change to Employees: Payroll is not that bad. One homeschool group saw payroll expenses increased 1.7%. They decreased teacher hourly rate 7.6%, but teachers’ compensation after tax was unchanged.

Email [Carol@HomeschoolCPA.com](mailto:Carol@HomeschoolCPA.com) for bookkeepers with payroll experience

What should teachers and tutors do? Are they at risk?

If you are concerned go to the leader/owners and (always) report all your income (even if you don’t get a W-2 or 1099-MISC). Carefully consider reporting employer to IRS (Form SS-8) and future employment with this organization.