

What does 501(c)(3) mean?

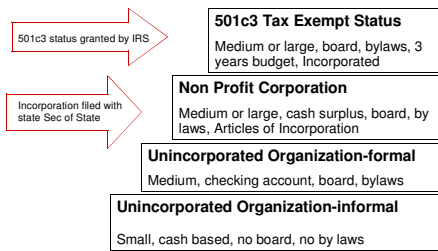
- Exempt from application
 - Churches and church auxiliaries
 - Under \$5,000 gross revenues
- Alternatives
 - Stay small. Split up
 - Pay taxes as corporation (15%) or sole prop or partnership
 - File for exemption within 27 months of formation

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Life of a Non profit



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Why seek Non Profit Incorporation?

- Hire employees, sign lease, buy property
- Protect leadership
 - Limited liability. Corporate shield
- Sales tax exemption
- 501(c)(3) tax exempt status

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How to get NPO Incorporation?

- Contact your state's Secretary of State office
- Get Board approval and money
- Write Articles of Incorporation
 - Special language from IRS (See Pub 557) on
 - purpose,
 - private inurement,
 - dissolution

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Pros to Tax Exempt Status

- Tax exemption
- Donations and grants
- Exemptions on sales tax, property tax
- Some programs & discounts
- Prestige
 - A 501c3 organization is accountable, organized, serious
- Fund raising opportunities
 - Some fund raisers restricted to 501c3s

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Cons to 501(c)(3) Tax Exempt Status

- Cost
 - \$400-\$850 to the IRS for application*
 - Also professional fees, state incorporation fees
- Paperwork
 - Application (Form 1023) is 24 pages long
 - Must have bylaws, Articles of Inc, 3 years financial statements

*IRS reduces fee to \$200 if applied online. Online system expected sometime in 2010

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Cons to 501(c)(3) Tax Exempt Status

- Limitations on political activity
 - No campaigning or endorsements. Lobbying legislation is allowed
- Annual Reporting
 - Form 990N electronic postcard
 - 990 EZ (Revenues \$25-\$100K)
 - or 990 (Revenues over \$100K)

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What's Involved?

- Get a board, budget & bylaws
- Get NPO Incorporation from your state
- File application with fee
- Wait...six months or more
 - 77.3 % of applicants get TE status
 - 0.7% are denied 22% drop out
 - (1994-2003 per <http://form1023help.com>)
- See www.HomeschoolCPA.com/Articles for checklist

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What does it Cost?

- Application (Form 1023)
 - \$400 if Gross Revenues under \$10,000/year
 - \$850 if Gross Revenues over \$10,000/year*
 - Also professional fees \$500-\$2,000+
 - State incorporation fees \$50-\$200+
- Annual Information Return Filing (Form 990)
 - No fee to IRS
 - CPA fee of \$250-\$1000+ per year
- Annual bookkeeping costs

*IRS reduces fee to \$200 if applied online. Online system expected sometime in 2010

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Is it worth it?

Do a Cost Benefit Analysis

Add up costs. Compare to benefits

Costs:

NPO Inc: \$150 (State fee) + \$50 (CPA fee) = \$200

Form 1023: \$850 (IRS fee) + \$500 (CPA fee) = \$1,350

Total: \$1,550

Benefit: \$3,000+ fund raiser per year

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What's Required in the Future?

- Annual reporting to IRS (Form 990) and public disclosure
- State requirements
 - Most accept Form 990
 - Sometimes additional Solicitation Registration and fee
- Donor receipts (see Pub 1771)

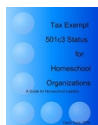
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Where can I go for help?

- Books
 - *Tax Exempt 501(c)(3) Status for Homeschool Organizations* ebook or print from www.HomeschoolCPA.com
 - Nolo Press *How to Form a Nonprofit Corporation*
 - *NonProfit Kit for Dummies*



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Where can I go for help?

- www.HomeschoolCPA.com
- www.IRS.gov/EO
 - Pub 557 Tax Exempt Status for your Organization
 - Pub 4220 & 4221 Brochures on applying and compliance for 501c3 organizations
- www.managementhelp.org Free Management Library
- www.Form1023help.com Ebook written by a former IRS employee
- www.HurwitAssociates.com Attorney website

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