



Do We Need to be a 501(c)(3) Tax Exempt Organization?

By Carol L. Topp, CPA

As the homeschooling movement grows, so do our homeschool groups! More people usually means more organization and more structure. Perhaps you are thinking about being officially recognized by the federal government. You may have heard terms like non-profit, tax-exempt and 501(c)(3). You wonder what tax exempt status might mean for your group. What are the benefits? What will it cost in dollars and time? Is your group ready?

The IRS Grants Tax Exempt Status

The IRS grants 501(c)(3) tax exempt status to qualified non-profit organizations. The IRS is seeking to discover if the charity is legitimate before they grant tax exempt status. They will check for a Board of Directors, bylaws, a mission statement and a budget that does not seek personal gain for the founders. The IRS an application form called Form 1023 and a shorter version called the Form 1023-EZ. The IRS requires a \$275 application fee for the Form 1023-EZ and \$600 application fee for the full length Form 1023 and annual reporting, based on the size of the organization. It is frequently suggested that organizations get legal and accounting assistance in preparing the Form 1023 or 1023-EZ application.

Becoming a 501(c)(3) tax exempt organization involves some IRS paperwork and fees. HomeschoolCPA has helped over 200 homeschooling organizations obtain 501(c)(3) tax exempt status with the IRS. First an organization must ask if they desire the benefits of 501(c)(3) status and if they are prepared to carry out the responsibilities

Benefits of 501(c)(3) status

Tax Exemption

The IRS will allow 501(c)(3) to avoid paying federal income tax on their profit or surplus. States usually grant exemption from state income tax to a nonprofit with 501(c)(3) status from the IRS. Some states grant sales tax exemptions too! This is a tremendous benefit because it allows the organization to reinvest their surplus into their mission rather than paying taxes.

Benefits of Obtaining 501(c)(3) status:

- Tax exemption
- Contributions are tax deductible to donors.
- Federal and charitable grants more easily obtained
- Business, state and postage discounts
- Prestige

Please be aware that if your organization does not have tax exempt status, it should be paying income tax to the IRS and your state every year.

Contributions

One of the greatest benefits of 501(c)(3) status is not for the charity, but for its donors. Any contributions of cash or property to a qualified charity are tax-deductible. This is an important benefit and many organizations pursue the paperwork of 501(c)(3) status simply to receive more donations. If you have individuals or businesses that wish to make donations, but will not unless they are tax deductible, you will need the IRS's coveted 501(c)(3) status. Also, if you are seeking government or charitable foundation grants, you will need 501(c)(3) status. And, finally, some fundraisers are only open to 501(c)(3) organizations.

Discounts

There are other benefits of 501(c)(3) status also. These include discounts for rent, software, or equipment offered to charities by businesses. Some states offer special status to non-profits such as sales-tax exemptions on purchases made by the nonprofit or property tax exemptions. Check with your state's Attorney General's Office to see if 501(c)(3) status is required for these benefits.

Prestige

One intangible benefit of the 501(c)(3) status is the prestige. When a non-profit organization lists that they are "a 501(c)(3) non-profit organization," it means that they are serious in their mission, expect to be around awhile and went to extra effort to be accountable. It gives the public assurance that the nonprofit is trying to run a responsible organization.

Here's a checklist to see if you would benefit from 501(c)(3) Status:

Do you have a financial surplus?

To avoid being assessed income tax, your organization should file for tax exempt status with the IRS.

Do you have donors who want a tax deduction?

Only organizations that have been approved by the IRS can tell donors that their gifts are tax deductible. The coveted 501(c)(3) status granted by the IRS is essential if you begin accepting donations and someone asks for a receipt.

Does your group wish to apply for or receive grants?

Usually granting organizations require 501(c)(3) status.

Does a fund raising program require 501(c)(3) status?

Some programs like Box Tops for Education, Amazon Smile and local grocery rewards programs require that a group be a 501(c)(3) tax exempt organization. These reward programs are easy fundraisers and many homeschool groups wish to participate.

Carol L. Topp, CPA homeschooled both her daughters through high school graduation. She enjoys using her accounting skills helping nonprofit organizations. She and her family live in Cincinnati, Ohio. Her website is www.HomeschoolCPA.com

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