



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 government recognition might mean for your group. What are the benefits? What will it cost in dollars and time? Is my group ready?

Becoming a formally recognized not-for-profit organization involves a lot of government paperwork. I have helped several homeschooling organizations obtain official not-for-profit status (known as 501c 3 status or “tax exempt status” to 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

The IRS Grants Tax Exempt Status

The IRS grants a “qualified charity” 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 tool the IRS uses is a 28-page application called Form 1023. The IRS requires a \$400-\$850 application fee based on the size of the organization and annual reporting, again based on the size of the organization. It is frequently suggested that organizations get legal and accounting assistance in preparing the Form 1023 application.

Benefits of 501(c)(3) status

Tax Exemption

The IRS will allow “qualified charities” to avoid paying income tax on their profit or surplus. This is a tremendous benefit because it allows the organization to reinvest their surplus into their mission rather than paying income tax.

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

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

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 "qualified charity" 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 special discounts on postage and some discounts for rent 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 quiz 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 organization require a 501(c)(3) status.

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

Some programs like local grocery "Rewards Programs" require that a group be a 501(c)(3) tax exempt organization. These reward programs are a great and easy fundraiser, 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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