

Chapter One: The IRS and Homeschool Organizations

I'm a homeschool leader and I'm wondering if my group is supposed to be paying taxes to the IRS.

What happens when a homeschool group makes a profit? Do they owe taxes? Is there paperwork with the IRS? Should we hire an accountant?

Homeschool leaders frequently ask questions like the ones above. They are concerned about paying taxes and filing forms, but unlike personal income taxes, homeschool leaders are in unfamiliar territory. They are unsure if their homeschool group is a business or a nonprofit organization and question whether being a nonprofit means they do not owe any taxes. Leaders wonder what their involvement should be with the Internal Revenue Service (IRS).

Homeschool Contact With The IRS

There are several situations when a homeschool organization should be in contact with the IRS:

Your homeschool group opens a checking account and needs a tax identification number.

Usually the first contact a homeschool organization has with the IRS is getting an Employer Identification Number (EIN). Most banks now request an EIN when a group opens a checking account. An EIN is similar to a Social Security Number for a business or nonprofit organization. They are available from the IRS at no charge at www.irs.gov.

Your homeschool group pays a worker.

Your worker may be an independent contractor or an employee. Either way, there are forms to file with the IRS at the end of the calendar year (typically a W-2 or a 1099MISC). Additionally, there are employer taxes, such as Social Security or Medicare taxes to pay in addition to worker wages.

Your nonprofit homeschool organization brings in income of more than \$5,000 in a year.

If your annual gross revenues are more than \$5,000 and you have an educational, religious or charitable purpose, your organization should file for tax exempt status as a 501(c)(3) charitable organization with the IRS. Approval of tax exempt status by the IRS means that your group will not pay income tax on its profit or financial surplus.

Your homeschool group is run as a for-profit business.

Most homeschool organizations are operated as nonprofit organizations governed by a board and bylaws, but increasingly some homeschool groups are for-profit businesses. They will need to have a tax number (called an Employer Identification Number or EIN) and file tax returns, such as the Form 1040 Schedule C Business Profit or Loss.

Your group makes money from fund raisers, selling T-shirts and other merchandise, or selling advertising on your website.

Homeschool groups often make money from activities not related to homeschooling. The IRS calls income from these activities “unrelated business income (UBI)” and will tax the profit from these activities. Usually homeschool groups avoid the UBI tax by using one of the IRS exemptions (volunteer labor, selling donated merchandise or unrelated business income of less than \$1,000 annually).

The remainder of this book or some of my other books (*Money Management in a Homeschool Organization* and *Paying Workers in a Homeschool Organization*) will discuss these IRS issues in more detail.

Government Intrusion into Homeschoolers' Lives

As a whole, homeschoolers avoid government intrusion in their lives. They have decided to turn down the public education offered to them by their local government and educate their children on their own, so naturally, many homeschool leaders are resistant to local, state or federal governments interfering with their right to homeschool. This resistance continues when they wish to band together in homeschool co-ops or support groups and find themselves facing taxes, IRS rules and employment regulations.

In general, a homeschool leader usually deals with a government agency on behalf of his or her group and not as an individual homeschool parent. In this book, I will be addressing the *group's* interaction with the IRS and state governments, not an individual's dealing with the government.

As a homeschool leader wishing to do things legally and correctly, you may feel as though the government agencies are “harassing” you. Sometimes the regulations seem overly complex for a small organization. That is frequently true, but do not misinterpret these rules and regulations as restricting your freedom to homeschool. There are usually established to keep unscrupulous people from committing fraud or self-dealing under the guise of a nonprofit organization. We all live with excess regulations put into place because someone going before us has been dishonest. Homeschool leaders are no different; they must play by the

rules of the game or they will be suspect of being dishonest also.

Historical Perspective on Charities and Taxes (or why the IRS is your friend, not your enemy)

Many homeschool leaders view the IRS like most taxpayers: as the big bad wolf coming to blow down their house and leave them penniless. But to a homeschool leader the IRS can be a friend and ally, and not the enemy.

Since the early days of the Puritans and Quakers in America, the United States has had a history of charitable organizations doing what governments cannot or should not do including founding hospitals, orphanages, schools, churches and libraries. Many charities were founded on the religious principles of helping others. Some early Americans feared that if the government provided charitable services, it would give rise to a rebirth of the monarchy. So they promoted private charities via the tax code. The Revenue Act of 1913 established the income tax system with tax exemption for certain organizations. It contained language allowing tax exemption for “charitable, religious and educational purposes” taken from legislation dating back to 1894. In 1927 tax deductions for charitable donations were allowed.¹

The US tax code allows most nonprofit organizations to apply for and be granted tax-exempt (i.e. tax free) status. That means that no income taxes are paid on your profits and therefore can stay with your group to be used in the future. For-profit businesses do not have this advantage. They pay income taxes of 15-35% (or more) of their profit.

¹A History of the Tax Exempt Sector. <http://www.irs.gov/pub/irs-soi/tehistory.pdf>

Additionally, most states follow the federal tax exemption and do not tax nonprofits on their surplus income. Some even grant sales and property tax exemption to nonprofits in their state.

This tax exempt status is something for which to be grateful and to participate in fully if your group is eligible. There is paperwork and a one-time IRS filing fee, but once tax exempt status is granted, it is a right and privilege to be appreciated, not avoided.

Several times I have had leaders tell me that they don't want to get involved with the IRS. So, I explain that unfortunately that might not be possible. Instead, I explain that the IRS tax exempt status should be seen as an *advantage* to their organization and not something to be avoided. It is not every society in the world that is so generous to its charitable and nonprofit organizations. For instance, in Austria, charities are mainly subject to tax, but are exempted from paying income tax if the given purpose of the charity is related to public welfare. Homeschool groups may not be tax exempt in Austria.² If Americans do not exercise their rights, we are in danger of losing them.

Does Tax Exempt Status Limit Homeschool Freedoms?

Via my website, HomeschoolCPA.com, I am frequently asked questions such as this one from a homeschool leader:

²http://www.oecdobserver.org/news/fullstory.php/aid/2954/Charities_and_tax_abuse.htm
1

Some of the people in our group that have had some experiences with 501(c)(3) status said that the government has made them open their group up to individuals that they would not normally allow in their group because they are a government entity (like permitting someone not in our faith to teach a class).

This leader has been misled. Receiving 501(c)(3) tax exempt status from the IRS does **not** make a homeschool organization a government entity; it simply means that the group is exempt from paying income tax on their profit and that donors can make tax-deductible contributions. It is a tax status.

Additionally, having 501(c)(3) status does **not** mean that a group must open up their membership. Some nonprofits, as private organizations, are not subject to the anti-discrimination laws which might apply to for-profit organizations. For example, the Boy Scouts of America do not allow girls as Cub Scouts or Boy Scouts, and the courts have held this does not violate anti-discrimination laws.

Americans still have religious freedom and freedom to assemble. While there are anti-discrimination rules in the United States, we still have the right to “discriminate” on the basis of religion. Homeschool organizations are free to choose their members and teachers or exclude members in order to maintain a common religious belief. Does a Catholic school have to allow non-Catholics teach their classes? Of course not.

The Boy Scouts won a very important Supreme Court case in 2000 allowing them to exclude homosexual men from being Boy Scout leaders. The Supreme Court determined that the Boy Scouts had the the freedom of association, which allows a private organization to exclude a person from membership when “the presence of that person affects in a significant way the group’s ability to advocate public or private viewpoints.”³

In summary, do not fear the IRS, but instead be thankful we Americans can exercise our rights and freedoms to homeschool and to assemble together in a support group, homeschool co-op, music or sports programs. In addition, many homeschool organizations may be exempted from paying income tax on their profits. The remainder of this book will discuss tax exemption for these organizations.

³http://en.wikipedia.org/wiki/Boy_Scouts_of_America_v._Dale.