

Chapter Three:

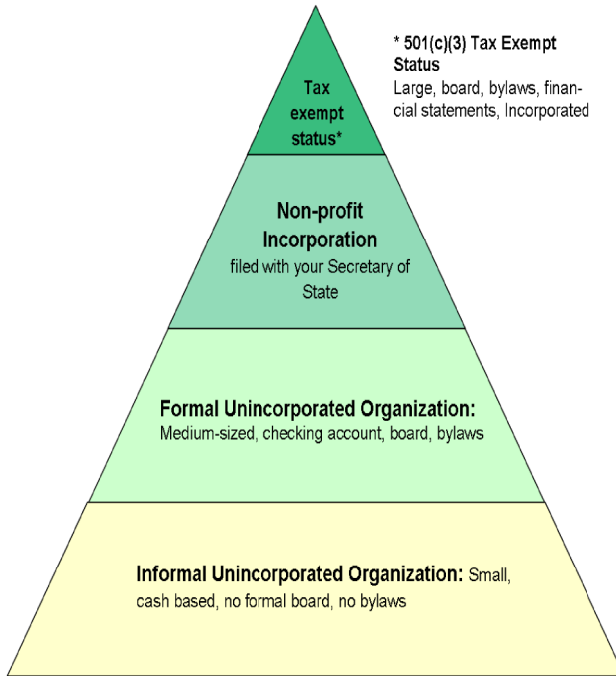
Benefits and Costs of Tax Exempt Status

A nonprofit organization can exist in several forms from a simple unincorporated, informal organization to a large, structured tax exempt organization. To help you sort out the various terms, I have created a diagram to explain the common nonprofit forms.

Common Non Profit Forms

A pyramid can visually explain the common forms a nonprofit homeschool organization can take. The bottom of the pyramid is the least organized type of homeschool group. They are usually small groups, without a formal board or bylaws. They may not even have a checking account in the organization's name because they deal in small amounts of cash.

The IRS and Your Homeschool Organization



As an organization grows, it may climb up the pyramid, to become a more formal unincorporated organizations. The organization increases in structure by adopting bylaws, forming a board, and opening a checking account.

Eventually, a homeschool group may become a nonprofit corporation and ultimately a tax exempt organization.

It is typical for homeschool groups to start at the unincorporated level (at the base of the pyramid). They can exist at that level for as long as they wish and only progress to another level as their program and membership demands increase.

The IRS and Your Homeschool Organization

An organization begins dealing with state government when they decide to become a nonprofit corporation.

A homeschool group may have minor dealings with the IRS when they apply for an Employer Identification Number (EIN) often needed to open a nonprofit checking account. Oftentimes homeschool organizations do not have any dealings with the IRS until they apply for tax exempt status.

Benefits of 501(c)(3) Status

There are several benefits of 501(c)(3) status tax exempt status. By far the most valuable benefit is the exemption from paying tax on your group's financial surplus. Additionally, many organizations consider the ability to provide a tax deduction to donors for their contributions as a significant benefit. Other benefits include discounts, prestige and participation in special programs.

Tax exemption

The IRS allows organizations that have applied for and received tax exempt status 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. Many states also allow exemption from state income tax as well as other taxes such as property, sales and franchise taxes.

Word of caution: IRS tax exemption applies to federal income tax. It does not apply to employer tax (Social Security and Medicare taxes). If you hire and pay employees, your organization must still file and pay payroll

The IRS and Your Homeschool Organization taxes. See my ebook *Paying Workers in a Homeschool Organization* for details on paying workers. It is available at <http://HomeschoolCPA.com>.

Contributions

A significant benefit 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 your homeschool group is not receiving donations (i.e., if you are funded by solely by member fees), you may not consider this as a significant advantage, but 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.

If you are seeking government or charitable foundation grants, you will need 501(c)(3) status. Competition for grants is stiff and grants are rarely awarded to organization without 501(c)(3) status.

Discounts

There are other benefits of 501(c)(3) status including special discounts on postage and discounts on rent or equipment offered by some businesses. Some states offer special status to nonprofits 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. Sometimes it is not required.