

# The IRS and Your Homeschool Organization

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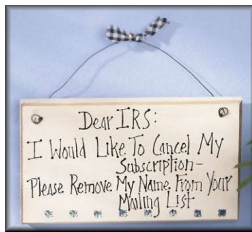
- The IRS and homeschool organizations
- What does 501(c)(3) status mean?
- Pros and Cons of 501(c)(3) status
- Alternatives to 501(c)(3) status
- Non profit incorporation



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## The IRS and Homeschool Organizations

- Your contact with the IRS
  - Checking account and EIN
  - Paying workers
  - Gross income more than \$5,000/year



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## The IRS and Homeschool Organizations

- History lesson
  - Religious roots
  - Income tax exemption for charities 1913
  - Tax exempt blessings from Uncle Sam
- Government intrusion and limitations
  - IRS protects citizens from fraud and self-dealing
  - Freedom to assemble
  - Freedom to discriminate on basis of sincerely held religious beliefs



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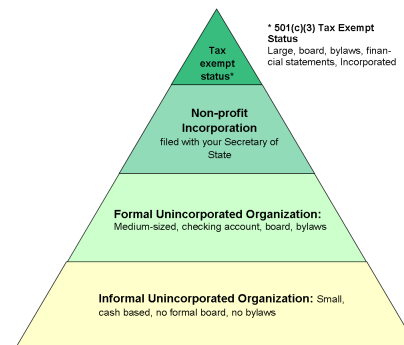
## What does 501(c)(3) mean?

- 501(c)(3) is a section of the US tax code that defines a special type of non-profit organization that is organized for "*religious, charitable, scientific, testing for public safety, literary, or **educational purposes**, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals.*"
- Non profits not automatically tax exempt
  - Tax exempt status granted by IRS after application.



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## Nonprofit Pyramid



## Pros to 501(c)(3) Tax Exempt Status

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- Tax exemption. No tax on surplus from exempt activities.
- Donations and grants
- Exemptions on sales tax, property tax
- Some programs & discounts
- Prestige
  - accountable, organized, serious
- Fund raising opportunities

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

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- Cost
  - \$400-\$850 (paper), \$200 (online) to IRS for application
  - Professional fees & state incorporation fees
- Paperwork
  - Application (Form 1023) is 24 pages long
  - Must have bylaws, Articles of Inc, 2-5 years financial statements

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## Alternatives to 501(c)(3)

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1. Stay small (gross income under \$5,000/year).
2. Pay taxes as corporation (15%) or sole prop
3. File for exemption within 27 months of formation
4. 501(c)(7) Social club for support groups

Chapter Four  
in The IRS  
and Your  
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## 501(c)(7) Social Club

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- Most homeschool support groups can qualify as social clubs
  - Purpose: pleasure, social, recreational
  - Limited membership
  - Supported by membership fees
  - No selling products or services
  - Donations not tax deductible

Page 19-23 in  
The IRS and  
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## Pros and Cons of 501(c)(7) Status

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- Advantages of 501(c)(7) social clubs
  - No filing requirement
  - IRS: "Self proclaim tax exempt status"
- Disadvantages
  - Donations are not tax deductible
  - No sale of services (i.e. co-op classes). Only meals and services to members in connection with club activities

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## Why seek Non Profit Incorporation?

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- Protect leadership
  - Limited liability
- Hire employees, sign lease, buy property
- Longevity and legal status
- 501(c)(3) tax exempt status



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## How to get NPO Incorporation?

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

Sample  
Articles of  
Inc in The  
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## 501(c)(3) Status: What's Involved?

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- A board, budget & bylaws
- Nonprofit Incorporation from your state
- File application with fee
- Wait...six months or more
- Visit HomeschoolCPA.com for check list



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## Where can I go for help?

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- *The IRS and Your Homeschool Organization* by Carol Topp, CPA
  - ebook or print \$9.95
- **HomeschoolCPA.com** Leader Tools page has articles, sample documents
- Phone consultation with Carol Topp, CPA



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