



Homeschool Groups as Social Clubs

By Carol L. Topp, CPA

The IRS offers more than a dozen different classifications of tax exempt status. The most popular by far with 80% of the total is the 501(c)(3) "Qualified charity status." I help homeschool groups file for tax exempt status with the IRS. Most of them want 501(c)(3) status as a "qualified charity" because they have an educational purpose and desire tax deductible donations, tax-free profits and sometimes other perks that come with 501(c)(3) status.

Social Clubs Status

But there is another type of tax exempt status that may apply to some homeschool organizations: **501(c)(7) Social Club**. This status allows an organization to be tax exempt (pay no taxes on their profit), but they cannot offer a tax deduction for donations.

Here's what it takes to be classified as a 501(c)(7) Social Club:

1. Purpose is for pleasure, social or recreation. A nonprofit motive and no part of the net earnings may inure to the benefit of any person having a personal and private interest in the activities of the organization

There must be an established membership of individuals, personal contacts and fellowship. A commingling of the members must play a major role in the life of the organization.

Common examples include college fraternities or sororities, country clubs, garden clubs, hobby clubs, etc.

2. Limited membership: membership is limited and consistent with the character of the club

3. Supported by membership fees. In general, your club should be supported solely by membership fees, dues, and assessments. A section 501(c)(7) organization can receive up to 35% of its gross receipts from sources outside of its membership without losing its tax-exempt status. For example, up to 35% of your total revenues can come from fund raising.

4. Business activities. If your club will engage in business, such as selling products or services, it generally will be denied exemption. However, your organization can provide meals, refreshments, or services related to its exempt purposes only to its own members or their dependents or guests.

5. Tax treatment of donations. Donations to exempt social and recreation clubs are not deductible as charitable contributions on the donor's federal income tax return.

Sources:

<http://www.irs.gov/pub/irs-tege/rr58-589.pdf>

http://www.irs.gov/publications/p557/ch04.html#en_US_2010_publink1000200325

http://www.irs.gov/irm/part7/irm_07-025-007.html

These criteria might fit a homeschool support group, a homeschool club, or a homeschool youth group. The members are limited to homeschool parents or students, meet for social reasons, are supported by membership fees (and maybe a little bit from fund raisers), do not sell products or services and do not collect tax deductible donations.

Most homeschool **co-ops** do *not* fit this description because they sell services (classes) and have an educational purpose, not a social or recreational purpose. They may qualify for 501(c)(3) tax exempt status as an educational organization.

No Application for Social Clubs

Here's the good news: If your organization fits the bill to be a 501(c)(7) Social Club, you do not have to file the IRS application like 501(c)(3) organizations must do. You are allowed to "self-proclaim" tax exempt status. This can save your group \$400-\$850 (the IRS filing fee).

But annual reporting still required (or else!)

But the IRS requires *all* tax exempt organizations to file an annual reporting form, the Form 990, its shorter version Form 990EZ, or the very short, on-line only Form 990N. The Form 990/990EZ/990N is due four and a half months after the end of the organization's fiscal year. Failure to file the Form 990N for three consecutive years will result in automatic revocation of your tax exempt status.

To learn more about the Form 990N, visit my 990N FAQ page here:

<http://homeschoolcpa.com/irs-form-990n-faq/>.

Compare 501(c)(3) Charity to 501(c)(7) Social Club

Confused about whether your organization is a 501(c)(3) "qualified charity" or 501(c)(7) Social Club? This chart may help:

In general, **homeschool co-ops** fall under 501(c)(3) "qualified charity" because they have an educational purpose, while **other homeschool groups** may fall under 501(c)(7) Social Club.

Comparison of 501(c)(3) Qualified Charity and 501(c)(7) Social Club

by Carol Topp, CPA HomeschoolCPA.com

	501(c)(3) Qualified Charity	501(c)(7) Social Club
Purpose	Religious, Educational, Charitable, Scientific, Literary,	Pleasure, recreation, social activities
Examples	churches, charities, private schools, homeschool co-ops with an educational purpose	Fraternal organizations, country clubs, hobby clubs, homeschool support groups
Requirements	No private inurement allowed. Upon dissolution all assets must be distributed to another 501(c)(3) organization.	Personal contact, fellowship and co-mingling of members. No private inurement allowed.
Activities	Can hold programs, sell services and products as part of their exempt purpose.	Can provide meals or services only to members in connection with club activities
Tax deductible donations allowed	Yes	No
Tax exempt (no taxes on profits)	Exempt from Federal income tax unless the organization has unrelated business income	Exempt from Federal income tax on income derived from members; other income taxed
Source of Income	Membership fees, fees for services, donations, fund raisers, program fees	Primarily (65% or more) from membership fees.
Membership	Open to public	Limited membership and consistent with the purpose of the club.
IRS Application Required?	Yes, if gross revenues over \$5,000/year. File Form 1023	No. The IRS does not require 501(c)(7) organizations to file an application. They can "self-proclaim" tax exempt status.
Annual IRS Reporting	Form 990N, Form 99EZ or Form 990	Form 990N, Form 99EZ or Form 990
Legislative Lobbying permitted?	Insubstantial lobbying allowed (less than 20% of total expenses). No endorsement of a candidate.	No limit on legislative activity as long as it furthers the exempt purpose

If you're still not sure, please feel free to contact me at Carol@HomeschoolCPA.com. We can arrange a personal consultation by phone to discuss your particular situation.



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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