

Benefits of 501c3 Status

There are several benefits of 501c3 status tax exempt status. By far the most valuable benefit is the ability to provide a tax deduction to your donors for their contributions. Other benefits include discounts, prestige and participation in special programs.

Contributions

The largest benefit of 501c3 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 a huge benefit and many organizations pursue the paperwork of 501c3 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 probably don't need to pursue the 501c3 status. If you have individuals or businesses that wish to make donations, but won't unless they are tax deductible, you'll need the IRS's coveted "qualified charity" status. If you are seeking government or charitable foundation grants, you will need 501c3 status.

Discounts

There are other benefits of 501c3 status also. These include special discounts on postage and discounts on rent or equipment offered by some 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 501c3 status is required for these benefits. Sometimes it is not required.

Prestige

One intangible benefit of the 501c3 status is prestige. When I see a non-profit organization list that they are "a 501c3 non-profit organization" I know that they are serious in their mission. I know that they expect to be around awhile and they went to extra effort to be accountable. It gives me assurance that they are trying to run a responsible organization.

Special Programs

Some special programs, especially fund raising programs are only open to 501c3 organizations. Our local grocery "Rewards Program" requires that a group be a 501c3 tax exempt organization. Just being a non-profit corporation registered by the state as a charitable organization is not enough Non 501c3 organizations cannot participate. One homeschool co-op in my area applied for 501c3 status just to participate in a fund raiser.

In additions our community has a discounted office supply store only open to 501c3 organizations. It's a great place to but offer furniture and paper, but they only sell to 501c3 organizations. I have also seen large companies give away software and computers, but only to 501c3 organizations.

Disadvantages of 501c3 Status

The disadvantages of 501c3 tax exempt status include fees, paperwork, government imposed limitations and annual reporting to the IRS and your state.

Cost

The costs to apply for 501c3 tax exempt status can add up. The application fee to the IRS is \$300 for organizations with gross annual revenues under \$10,000. The fee increases to \$750 for organizations with gross annual revenues over \$10,000.

Add to the IRS fee, the fees for state incorporation which can vary widely. My home state of Ohio charges \$150 for nonprofit incorporation, while our neighboring state, Indiana charges \$30. Visit <http://www.hurwitassociates.com/> for a listing of incorporation fees for your state.

Many organizations hire professional assistance from either a lawyer or an accountant to help them with the IRS application (Form 1023). Fees can range from \$500 to \$1500 and up. On my website, I compare prices for several professionals that assist nonprofits in the 501c3 application process. Visit www.HomeschoolCPA.com and click on the Products and Services page. Naturally, my current fees are listed there also.

Paperwork

The paperwork to apply for 501c3 status can be daunting. The application form for the IRS (Form 1023) is 28 pages long! The instructions for Form 1023 are another 38 pages long! Form 1023 asks for these documents:

- Bylaws
- Articles of Incorporation or “organizing documents”
- Policy manuals
- Mission or purpose statements
- Explanation of activities
- History of your organization
- List of Board Members names and addresses
- Three years of financial statements
- List of donors and amounts donated

Some organizations may find they need to spend time assembling the paperwork before they can begin the 501c3 application process.

Limitations

One of the greatest detriments to 501c3 tax exempt status is the limitations the IRS imposes. Particularly limiting is the political involvement of 501c3 organizations. The IRS never intended for 501c3 organizations to collect tax deductible donations that could then be funneled to a political candidate. For that reason, 501c3 organizations are limited in their political activities. A 501c3 organization can lobby for legislation, but cannot endorse a candidate for local, state or federal office. Nonpartisan educational activities

are allowed. For homeschool groups this means you can write letters and inform your memberships about bills and referendums (i.e. legislation) that may impact their homeschooling or parental rights. You may not endorse or promote a candidate for office. Specifically not permitted are:

- Statements in support or in opposition to a candidate either verbally or in writing
- Candidate rating
- Receiving donations for a candidate
- Preferential treatment to a candidate (i.e., if you invite a candidate to address your homeschool group, you must give equal opportunity for the opponents to address your group)

Many groups find these limitation quite easy to live with because they mainly are active in educational lobbying and not political candidate endorsement. But occasionally a candidate runs for office that is so homeschool-friendly that a group wants to support him or her. In my own town, we had a formerly homeschooling mother run for school board. A homeschool group invited her to a meeting and prayed for her strength and wisdom. Was that in violation of the IRS rules? Yes, but the homeschool support group was not a 501c3 organization, so they were free to promote this candidate. Some groups find that they are uninterested in 501c3 status because they wish to endorse candidates and be active politically. One solution to these groups is to split off their political activities and form a separate 501c3 organization for their support group activities.

Annual Reporting

Another disadvantage of 501c3 status is the annual reporting. Your contact with the IRS isn't over when you get your letter of 501c3 status (called a determination letter). Most 501c3 organizations must file an annual information return called Form 990 with the IRS. This is not a tax return, because tax-exempt organizations are not generally required to pay income tax³, but it certainly looks like a tax return! The IRS asks detailed questions about activities, finances, fundraising, donations and board members. Exempt from filing this annual information return are organization with annual revenues under \$25,000. Your homeschool group may be small enough to avoid this filing requirement.

If you do need to file a 990, I recommend you get an accountant to assist you. The form 990 is more complicated than many corporate tax returns. Find a professional that is knowledgeable about nonprofit accounting. Many accountants focus on businesses and personal taxes, but not the specific laws for nonprofits. Through my accounting practice I offer 990 return preparation. I also will review a 990 return you prepare. Visit my website www.HomeschoolCPA.com for current prices.

Your state may also have reporting requirements, although many states accept the IRS Form 990. This avoids duplication of effort. Visit <http://www.hurwitassociates.com/> for a listing of reporting requirement for your state.

³ 501c3 organizations do not pay tax on the exempt function income. If they have income from sources unrelated to their exempt purpose, they may be subject to an unrelated business income tax (UBIT).