



## **Do We Need to be a 501c3 Tax Exempt Organization?**

By Carol L. Topp, CPA

As the homeschooling movement grows, so do our support groups! More people usually means more organization and more structure. Perhaps you are thinking about being officially recognized by the federal government. You've heard terms like non-profit, tax-exempt and 501c3. You wonder what government recognition might mean for your group-good and bad. What are the benefits? What will it cost in dollars and time? Is my group ready?

Becoming a formally recognized not-for-profit organization involves a lot of government paperwork. Is it worth the effort? I have helped several homeschooling organizations obtain official not-for-profit status (known as 501c3 status or "tax exempt status" to the IRS). First an organization must ask if they desire the benefits of 501c3 status and if they are prepared to carry out the responsibilities

### **The IRS Grants Tax Exempt Status**

The IRS grants a "qualified charity" status to non-profit organizations. The IRS is basically seeking to discover if the charity is legitimate. They will check for things like a Board of Directors, by-laws, a mission statement and a budget that does not seek personal gain for the founders. The tool the IRS uses is a 28-page application called Form 1023. The IRS requires a \$300-\$750 application fee based on the size of the organization and annual reporting, again based on the size of the organization. It is frequently suggested that organizations get legal and accounting assistance in preparing the Form 1023 application. All this bureaucracy will surely cause the small homeschooling organization to ask-"Is it worth it?"

### **Benefits of 501c3 status**

#### **Contributions**

The greatest 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 an important 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 may not need to pursue the 501c3 status. But if you have individuals or businesses that wish to make

#### **Benefits of Obtaining 501c3 status:**

- Contributions are tax deductible to donors.
- Federal and charitable grants more easily obtained
- Business, state and postage discounts
- Prestige

donations, but won't unless they are tax deductible, you'll need the IRS's coveted "qualified charity" status. Also, if you are seeking government or charitable foundation grants, you will need 501c3 status. And, finally, some fundraisers are only open to 501c3 organizations.

### **Discounts**

There are other benefits of 501c3 status also. These include special discounts on postage and some discounts for rent or equipment offered to charities by 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.

### **Prestige**

One intangible benefit of the 501c3 status is the 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.

Here's a quiz to see if you would benefit from 501c3 Status:

#### **Do you have donors who want a tax deduction?**

Only organizations that have been approved by the IRS can tell donors that their gifts are tax deductible. The coveted 501c3 status granted by the IRS is essential if you begin accepting donations and someone asks for a receipt. Getting a 501c3 status is a lengthy, time-consuming process, but may be worth your efforts.

#### **Does your group wish to apply for or receive grants?**

Usually granting organization require a 501c3 status.

#### **Does a fundraising program require 501c3 status?**

Some programs like local grocery "Rewards Programs" require that a group be a 501c3 tax exempt organization. These reward programs are a great and easy fundraiser, and many homeschool groups wish to participate.

*Carol L. Topp, CPA is a home schooling mother of two daughters. She enjoys using her accounting skills helping non-profit organizations as well as serving as Treasurer on her home school coop board. She and her family live in Cincinnati, Ohio. Her website is [www.HomeschoolCPA.com](http://www.HomeschoolCPA.com)*

Copyright 2006. All right reserved.

*IRS CIRCULAR 230 DISCLOSURE: To ensure compliance with requirements imposed by the IRS, any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code. Furthermore, this communication is not intended or written to support the promotion or marketing of any of the transactions or matters it may address.*