

Client Advisory | *September 2010*

321,391 Nonprofits Scheduled to Lose Their Tax Exemption



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Unless action is taken by October 15, 2010, there are currently 321,291 nonprofit organizations that will lose their exemption from federal income tax. In 2007, the IRS set out to improve compliance and accountability of nonprofits by, among other things, revising IRS Form 990, the “Return of Organization Exempt From Income Tax,” a document submitted by nonprofits that have been determined by IRS to be exempt from federal income tax. This form provides the IRS, and the general public, financial and other information about nonprofits.

One of the most significant changes made by IRS relates to filing obligations of numerous “small” organizations. Prior to 2007, organizations with income (including donations) that was less than \$25,000 had no filing obligations. However, beginning with the year 2007, even these organizations became subject to filing obligations.

In the past, the consequence for failing to comply with the prescribed filing requirements was typically a large penalty, often reduced as long as there was reasonable cause for the failure to file. Under the new provisions, small organizations that fail to comply with the filing requirements for 3 consecutive years will now face automatic revocation of the organization’s exempt status.

In order to communicate the gravity of this situation, the IRS has posted on its [website](#), a list of organizations that are at risk of losing their exempt status for failure to file the required returns for 2007, 2008 and 2009. The IRS also is “providing one-time relief that will allow small exempt organizations to come back into compliance and retain their tax-exempt status even though they failed to file for three consecutive years.” This relief will expire on October 15, 2010. Those organizations still not in compliance will lose their exemption and will be required to reapply with the IRS to regain that status.

If you are involved in a nonprofit, you may want to check the list of organizations to ensure that your organization is not in jeopardy of losing its tax exemption for failure to file its returns.

Our firm’s Tax-Exempt Organizations Practice Group works closely with nonprofit organizations in complying with the myriad federal, state and local filing obligations and related compliance issues. For further information concerning our representation of nonprofit organizations please contact any member of our Tax-Exempt Organizations Practice Group.

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