

Noncompliant Nonprofits May Lose Exempt Status

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As required by the Pension Protection Act of 2006 enacted under the Bush administration, the IRS will begin to issue revocation notices in 2011 to any organization that has failed to file three consecutive annual returns (typically a Form 990-N, 990-EZ, 990, or 990-PF). The IRS will establish procedures in the coming months regarding the revocations. Any nonprofit organization that has its exemption revoked, will have to re-apply to the IRS to seek reinstatement. This process can be time consuming and result in unwanted additional costs.

The IRS will begin revoking exemptions on May 16, 2010, but will wait until 2011 to send revocation notices. This process will effectively give noncompliant nonprofits a grace period in which to file their required annual returns and cure any compliance issue.

The revocation process will ultimately benefit nonprofits across the board by eliminating those defunct organizations and nonprofits that are not meeting their reporting responsibilities. If you are involved with a nonprofit that has not fulfilled its tax filing obligations in recent years, it is recommended that you seek the advice of a professional to prevent interruption in tax exempt status and potential loss of the tax deduction that is coveted by donors. Previously, a nonprofit organization with revenues of \$25,000 or less was not required to file an annual return. However, now these nonprofits must file Form 990-N, which the IRS created in response to the Pension Protection Act.