

# THANK THE IRS FOR SMALL MERCIES

## Filing Small Nonprofit Tax Notices are Quick and Easy

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The Internal Revenue Service isn't known for compassion and forgiveness. On the contrary, those three simple dry words, "Internal Revenue Service," have come to epitomize dread and oppression, especially for those individuals who have fallen behind in filing returns or paying taxes. The IRS is after all a law enforcement agency as well as a revenue collection service. In the fiscal year 2010, the IRS (1) collected \$2.3 trillion Dollars from taxpayers, (2) processed 230 million tax returns,<sup>1</sup> (3) assessed \$114 billion dollars in additional tax, penalties and interest, (4) opened about 2.3 million taxpayer delinquency investigations, (5) filed over 1 million Federal tax liens, and (6) filed over 3.6 million notices of levy. It's not the kind of organization that exudes a warm and fuzzy feeling.

On the positive side, the IRS does its job well. It is one of the world's most efficient tax administrators. In 2009, it spent only 50 cents for every \$100 Dollars it collected. The IRS also strives to provide quality service. The IRS mission is to:

"Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."<sup>2</sup>

When it comes to small nonprofit organizations, the IRS has done truly laudable work providing educational materials online and making the filing of required tax notices quick and easy for hundreds of thousands of organizations. Tax-exempt organizations with gross annual receipts of \$50,000 or less can complete their annual filing requirement by filing Form 990-N electronically in less than five minutes.

If you consider the alternative of filing Form 990 or Form 990EZ, the Form 990-N offers considerable time-savings. The estimated time to prepare a Form 990 according to the Paperwork Reduction Act Notice is about 23.5 hours.<sup>3</sup> The estimated time to prepare a Form 990EZ is about 14.5 hours.<sup>4</sup> For this reason, Form 990-N, also known as the e-Postcard, is a small mercy for which we can be thankful.

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<sup>1</sup> <http://www.irs.gov/taxstats/>

<sup>2</sup> <http://www.irs.gov/irs/article/0,,id=98141.00.html>

<sup>3</sup> <http://www.irs.gov/pub/irs-pdf/i990.pdf>

<sup>4</sup> <http://www.irs.gov/pub/irs-pdf/i990ez.pdf>

## Filing Requirement for Small Exempt Organizations

Before 2008, tax-exempt organizations with annual gross receipts of \$25,000 or less were not required to file a tax return. There were about 714,000 public charities with less than \$25,000 in gross receipts in 2010, which constitutes about 45% of all nonprofit organizations.<sup>5</sup> Beginning in 2008, the Pension Protection Act of 2006<sup>6</sup> requires that most of these tax-exempt organizations file a return with the IRS each year even if gross annual receipts do not exceed \$25,000. Churches, group return filers, and auxiliary groups are still exempt from this filing requirement. In 2010, almost 422,000 tax-exempt organizations filed the 990-N.<sup>7</sup>

For tax years ending on or after December 31, 2010, tax-exempt organizations with gross annual receipts that are normally \$50,000 or less may file the 990-N (unless they choose to file the Form 990 or 990 EZ). The 990-N must be filed electronically and is due by the 15<sup>th</sup> day of the fifth month after the close of your organization's tax year. So if your organization operates on a calendar year, the 990-N is due by May 15 of the following year.

It is important to take this filing requirement seriously. Many nonprofit officers and directors ignore this and other government requirements under the mistaken assumption that it does not apply to their organization or it is not their responsibility. I have heard many excuses in this regard, including:

1. We're tax-exempt, so we don't have to file.
2. We have never filed that form before, so we don't need to do it now.
3. The treasurer handled that.
4. The president handled that.

As the officers and directors of an organization, you are responsible for the organization's compliance and should take steps to determine whether your organization has fulfilled all requirements. If an organization is required to file an information return (Form 990) or annual electronic notice (Form 990-N) and fails to do so for three consecutive years, the organization will [lose its tax-exempt status](#) as of the filing due date of the third year.<sup>8</sup> For the organization to have its tax-exempt status reinstated, it must apply (or reapply) for tax-exempt status and pay the appropriate user fee.

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<sup>5</sup> <http://www.urban.org/publications/412197.html>

<sup>6</sup> See [full text of Pension Protection Act of 2006](#).

<sup>7</sup> See ["Small Nonprofit Organizations: A Profile of Form 990-N Filers" by Katie L. Roeger of The Urban Institute for more information](#).

<sup>8</sup> <http://www.irs.gov/charities/article/0,,id=217087,00.html>

## How to Check Your Status and File the 990-N

The first step in becoming compliant is to check what has been filed in the past. You can visit the IRS 990-N search page at <http://www.irs.gov/app/ePostcard/> to see if your organization has filed the 990-N before. If your organization does not appear on the list, it may have filed a Form 990 or Form 990-EZ in years past.

Visit [www.guidestar.org](http://www.guidestar.org) to see if copies of the Form 990s have been posted online. You can also request paper copies of past filings directly from the IRS by sending in a request (Form 4506) and a fee of \$57 per tax year.

Even if your organization did not file the 990-N in a previous year, you can do so for the current year if the organization normally has gross receipts of \$50,000 or less. The gross receipts test is based on an average of gross receipts over the immediately preceding three tax years, so it is conceivable that you may have more than \$50,000 in gross receipts in one or two years and still qualify for the 990-N. See the [IRS page](#) for more details regarding the gross receipts test.

To file the 990-N (e-Postcard), you will need to have the following eight pieces of information:

1. Employer identification number (EIN)
2. Tax year
3. Legal name and mailing address
4. Any other names the organization uses
5. Name and address of a principal officer
6. Web site address if the organization has one
7. Confirmation that the organization's annual gross receipts are normally \$50,000 or less
8. If applicable, a statement that the organization has terminated or is terminating

You must then visit the e-Postcard site at <http://epostcard.form990.org/> and register as a new user. File the e-Postcard, and you will receive an email indicating whether the e-Postcard was accepted or rejected by the IRS. You can also view the "Check Filing Status" page where you can view and print and image of the e-Postcard for your records.

## Don't Qualify for the 990-N?

If your annual gross receipts normally exceed \$50,000, you cannot file the 990-N, but you may be able to file the 990-EZ. Organizations with annual gross receipts of less than \$200,000, and total assets of less than \$500,000 may file either Form 990-EZ or Form 990. Organizations with gross receipts of \$200,000 or more or total assets of \$500,000 or more must file Form 990.

## Heads Up California!

While the focus of this article is the IRS e-Postcard, it is important to know that effective January 1, 2011, small California tax-exempt organizations must file a similar e-Postcard with the Franchise Tax Board. If your organization's annual gross receipts are normally \$25,000 or less, you can file Form 199N (California e-Postcard). This form is filed online at [http://www.ftb.ca.gov/online/199N\\_ePostcard/index.asp](http://www.ftb.ca.gov/online/199N_ePostcard/index.asp) and is due by the 15<sup>th</sup> day of the 5<sup>th</sup> month after the close of your tax year.

## More IRS Information

Visit the IRS website at [www.irs.gov/eo](http://www.irs.gov/eo) for more information about exempt organization filing requirements. You can also sign up for a Exempt Organization's free email newsletter, EO Update, to receive up-to-date information posted on the charity pages of [irs.gov](http://irs.gov).



### For more information:

IRS-Exempt Organizations requirements

[www.irs.gov/eo](http://www.irs.gov/eo)

IRS-Exempt Organizations Newsletter Subscription

<http://www.irs.gov/charities/content/0,,id=154838,00.html>

Guidestar

[www.guidestar.org](http://www.guidestar.org)

Franchise Tax Board

[www.ftb.ca.gov](http://www.ftb.ca.gov)

Internal Revenue Service

[www.irs.gov](http://www.irs.gov)

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