



October 15, 2010

## Today is Tax D-Day for Nonprofits

The deadline set by the IRS for non-profit organizations that have an annual income of less than \$25,000 to submit their annual returns with Form 990 is today, October 15. Any non-profit that fails to do so will automatically have their non-profit status revoked. This would mean they have to declare their income and pay taxes like any other company from now onwards.

This ruling does not apply to churches or church-related non-profits.

Re-applying for a tax-exempt status would take time and incur expenses. The best thing to do is to avoid it by submitting the annual returns. The ruling was made 4 years ago in the Pension Protection Act 2006 and states that all non-profit organizations that want to keep their status must submit annual returns declaring their income each year beginning from that year. This ruling was meant to eliminate non-profit organizations that have become defunct or gone out of business from the IRS rolls. That means if you have not submitted your Form 990 for 3 consecutive years by today, your organization will not be given tax exemption anymore.

As we all know, without a tax-free status, your donors cannot deduct their

contributions to your organization from their taxable income. This obviously would affect the non-profit organization's revenue.

Although the IRS has taken steps to contact the hundreds of thousands of small non-profits that are affected by the ruling, there are still some who do not know about the ruling. This can be due to many reasons such as the organization having moved to another location, the changing of workers (most of whom are volunteers), the death of key personnel like the chairman or founder of the organization etc.

There are also some organizations who found discrepancies in the IRS rolls. Some tax-paying organizations that make more than \$25,000 per year found themselves listed in the rolls.

Bearing in mind the deadline has already been extended once from May 17 to today, it is highly unlikely that there will be anymore compromise on the requirement. After today, those organizations that have not filed Form 990 will be deemed to be either defunct or tax-paying organizations from now on.