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Small Nonprofits Could Lose Exempt Status

FINDLAY, OH (February 18, 2009)— GuideStar, the leading provider of nonprofit information, reports that half a million U.S. nonprofits could find themselves stripped of tax-exempt status in May 2010. According to IRS estimates, that's how many smaller nonprofit organizations have failed to file a Form 990-N since the new requirement took effect in 2008 (for tax year 2007).

Previously, most small tax-exempt organizations (annual gross receipts under \$25,000), were not required to file annual tax returns with the IRS. Beginning in 2008 however, the Pension Protection Act began requiring these smaller organizations to file Form 990-N, an annual electronic notice form also known as the "e-Postcard." For organizations that have a December 31 fiscal year, the form was due for the first time on May 15, 2008.

The Pension Protection Act also directs the IRS to revoke the tax-exempt status of any organization that fails to file an annual return, including the 990-N, for three consecutive years. Revocations will happen automatically beginning in May 2010.

Congress imposed this new requirement because of concerns that small organizations, who have had no annual filing requirement in the past, have not kept the IRS up-to-date on address and other changes. Experts have long believed that many defunct organizations are listed as active in the IRS files. (Exempt nonprofits are required to inform the IRS when they go out of business, but many don't.) An up-to-date IRS database is important both for IRS administrative purposes, and for donors who want to make sure they are contributing to recognized organizations.

Nonprofits whose exemptions are revoked will suddenly be required to pay federal income taxes -- and subject to financial penalties if they fail to do so. Hundreds of thousands of charities, many operated on shoestrings, could find themselves no longer eligible to accept tax-deductible contributions. Nonprofits that wish to have their exemptions reinstated will be required to re-apply to the IRS for tax-exempt status, a process that can take several months.

It's estimated that smaller nonprofits make up as much as three-quarters of the nonprofit sector. Affected nonprofits are typically not major social service providers, such as homeless shelters or food banks which typically have over \$25,000 in gross revenues and must file full returns. They are the local animal rescue societies, the neighborhood groups that tutor elementary school students, or fraternal and civic organizations. "Collectively, these small organizations have a tremendous impact, and our community will be the poorer if these organizations lose their federal tax exempt status," said Katherine Kreuchauf, President of The Findlay-Hancock County Community Foundation.

According to the searchable database on the IRS website, more than 70 Hancock County nonprofits filed the 990-N in 2007. Some of those organizations include fraternal, civic and professional organizations. They also include nonprofit organizations that support specific areas of interest such as animals, gardening, athletics, and veterans.

The potential problem? A quick search on GuideStar.com, finds more than 450 tax-exempt organizations listed in Hancock County. And while some of these exempt organizations are larger organizations who are filing full 990 or 990-EZ returns, and even church-related organizations who are not required to file the 990-N, this still leaves many organizations who probably weren't aware of the new requirement.

"Our best advice is to consult a tax professional who can help you determine whether you need to file the 990-N. The IRS website also has a lot of good information, including frequently asked questions and instructions on how to file," said Kreuchauf. "It's really a very simple form to file... and beyond maintaining your tax-exempt status, it really is in the organization's best interest to file it. Keeping your registered information updated is a good way to show potential donors that you are a legitimate, well-run organization."

The 990-N (e-Postcard) is actually very easy to complete. The form must be completed and filed electronically by answering fewer than ten questions in an online form. There is no paper form. To complete it all you need is:

- Employer identification number (EIN), also known as a Taxpayer Identification Number (TIN).

- Tax year
- Legal name and mailing address
- Any other names the organization uses
- Name and address of current principal officer
- Web site address if the organization has one
- Confirmation that the organization's annual gross receipts are normally \$25,000 or less
- If applicable, a statement that the organization has terminated or is terminating (going out of business)

If you are a small nonprofit who did not file a 990-N last year, there is still good news. The IRS is not imposing any penalties for not filing the 990-N. However, an organization that fails to file for three consecutive years will automatically lose its tax-exempt status.

Who Must File

Most small tax-exempt organizations with gross receipts that are normally \$25,000 or less must file the 990-N (e-Postcard). Exceptions to this requirement include:

- Organizations that are included in a group return, and
- Churches, their integrated auxiliaries, and conventions or associations of churches.

The following organizations cannot file the 990-N (e-Postcard) but must file different forms instead:

- Tax-exempt organizations with annual gross receipts that are normally greater than \$25,000 must file Form 990 or Form 990-EZ;
- Private foundations must file Form 990-PF;
- Section 509(a)(3) supporting organizations required to file Form 990 or Form 990-EZ.
- IRC section 527 (political) organizations are required to file an annual exempt organization return must file Form 990 or Form 990-EZ;

About The Findlay-Hancock County Community Foundation

The Findlay-Hancock County Community Foundation is dedicated to improving the quality of life in the Hancock County area through collaborative leadership, responsible grantmaking, and the development of philanthropic giving. Established in 1992 as an outgrowth of a one-time gift from L. Dale Dorney, The Community Foundation has increased its yearly grantmaking total from \$456,734 in 1992 to \$3.3 million in 2008. Visit www.community-foundation.com or call 419-425-1100 to learn more about how The Community Foundation is helping our community.

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