



Connecting people with nonprofit information

Half a Million Nonprofits Could Lose Their Tax Exemptions

Did you know that in May 2010, half a million nonprofits could find themselves stripped of their exempt status? The IRS estimates that that's the number of smaller organizations that have failed to file a Form 990-N.

The Pension Protection Act of 2006 requires exempt organizations that don't meet the income thresholds for Form 990 or 990-EZ to file a new return with the IRS. The IRS created Form 990-N for this purpose, and smaller nonprofits began using it last year to report on tax years ending on or after December 31, 2007.

The Pension Protection Act also mandates that the IRS revoke the tax-exempt status of any organization that fails to file a Form 990, 990-EZ, 990-PF, or 990-N for three consecutive years. Revocations will happen automatically beginning in May 2010. A nonprofit that loses its exemption because of failure to file will have to reapply to the IRS for exemption.

Experts have long believed that numerous defunct nonprofits are listed as active in the IRS files. (Exempt organizations are required to inform the IRS when they go out of business, but many fail to do so.) It is unlikely, however, that these organizations add up to half a million.

That means that 18 months from now, hundreds of thousands of charitable nonprofits, many operating on a shoestring, may no longer be able to accept tax-deductible contributions. It means that half a million charitable and noncharitable organizations could suddenly find themselves required to pay federal income taxes—and subject to financial penalties if they fail to do so.

The IRS has made a concerted effort to inform smaller nonprofits about the 990-N, including mailings to every organization that their records indicate is required to file the new return. It's not surprising, though, that some nonprofits haven't heard yet—think of how many of your holiday cards or business mailings come back as undeliverable.

Smaller nonprofits make up as much as three-quarters of the nonprofit sector. Collectively they have a tremendous impact. At GuideStar, we believe the sector—and society—will be the poorer if these organizations lose their exemptions. But we also believe that tax exemption is a privilege, and that this privilege carries significant responsibilities. One of the most important is to report to the public (via the IRS) on our activities.

There's something we all can do to improve the situation: spread the word. If you volunteer with, work for, or give to a smaller nonprofit, make sure the organization's leadership knows about the 990-N. Encourage acquaintances associated with other small nonprofits to do the same. If they want more information, refer them to www.irs.gov/charities/article/0,,id=169250,00.html.

And while you're at it, suggest that the organizations update their information on GuideStar. Updating is one more way for nonprofits of all sizes to reach out to new audiences. There's no charge for updating.

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