

Have You Renewed Your Nonprofit's Corporate Status?

Resource Type: Articles, Risk eNews

Topic: Governance

Most states require nonprofit corporations to file an annual report with the state in order to maintain the nonprofit corporation's good standing in that state. If you fail to submit the annual report, the state is unlikely to remind you. Instead, you may discover down the road that unbeknownst to you, the corporation's good standing was revoked, resulting in penalties — and funders or other partners who won't do business with you until the nonprofit corporation is back in good standing.

In 2008, the same sort of renewal will be required by the IRS for small tax-exempt organizations. Until now, small public charities with gross annual receipts of less than \$25,000 did not have an annual filing requirement with the IRS. But last year the Pension Protection Act of 2006 changed all that. In an attempt to keep track of the growing number of start-up and small charitable organizations, the U.S. Congress directed the IRS to develop a procedure to gather annual information from charities recognized as tax-exempt that previously were too small to file an IRS Form 990, or 990-EZ. The Pension Protection Act also includes a penalty provision for those small organizations that fail to file for three consecutive years: loss of tax-exempt status.

In late August, the IRS issued the following notice about the new annual electronic filing requirement for small charities starting in 2008:

Don't Throw Away Your Tax-Exempt Status

Beginning in 2008, small tax-exempt organizations will have a new filing requirement. It's short, easy and electronic; it's the new e-Postcard. If you are a tax-exempt organization that normally has annual gross receipts of \$25,000 or less and does not have to file Form 990 or 990-EZ, you must file the e-Postcard. The e-Postcard is due by the 15th day of the fifth month after the close of your tax year. Therefore, if your organization operates on a calendar year [January 1–December 31], the e-Postcard is due by May 15 of the following year.

When Is the e-Postcard Due?

If your fiscal year ends on December 31, 2007, the first annual electronic notice will be due May 15, 2008. If your organization's current tax period started in June or July 2007, the first annual electronic notice will be due in the fall of 2008.

What Information Will the e-Postcard Include?

The notice will require you to provide the following information:

1. The organization's legal name (and any other names the organization uses) its mailing address, Web site address (if applicable) and employer identification number (EIN);
2. Name and address of a principal officer of the organization, and verification of the organization's annual tax period (fiscal year);
3. Verification that the organization's annual gross receipts are still normally \$25,000 or less, or
4. verification that the organization has terminated (is no longer in business).

What Happens if We Neglect to File?

If an organization fails to file for three consecutive years, the IRS will revoke the organization's tax-exempt status. The only way to reinstate the status will be to re-apply for tax-exemption, which will require paying the IRS tax-exempt application fee again.

More Information

Go to www.irs.gov/pub/irs-tege/cp299.pdf to read the full details of the letter the IRS issued recently that describes the new e-filing requirement.

And here's another risk management tip. The IRS has an e-mail newsletter, just for exempt organizations. Subscribing is good risk management! To subscribe, go to www.irs.gov/eo and click on EO Newsletter.