

## IS YOUR TAX-EXEMPT STATUS IN JEOPARDY?

What many tax-exempt organizations may not know is that the IRS requires them to file either a return or a notice every year in order to maintain their tax-exempt status. Most organizations must annually file Form 990, or Form 990-EZ. Even if an organization is exempt from filing one of those forms because its annual gross receipts are not normally more than \$50,000, it may still be required to file Form 990-N, also known as an “e-postcard.”

What happens if an organization fails to make the necessary filing for three consecutive years? Unfortunately, the IRS will automatically revoke its tax-exempt status.

The consequences of losing tax-exempt status are severe. For example:

- Donors lose the ability to deduct contributions to the organization (to the extent they otherwise would have been deductible)
- The organization becomes subject to tax on its income and must satisfy the filing requirements applicable to organizations without tax-exempt status
- Any existing sales tax exemption may be lost
- The organization’s “responsible persons,” a class of individuals typically comprised of its officers and directors, may be personally liable for certain unpaid taxes

In short, losing its tax-exempt status can be disastrous for an organization.

What can an organization do if it overlooks the filing requirements and its tax-exempt status is revoked by the IRS? Luckily, there is help available. The organization may seek to have its tax-exempt status reinstated by filing a new “Application for Recognition of Exemption” and paying a fee. If the organization shows reasonable cause for not filing and seeks reinstatement within the time period prescribed by the IRS, the reinstatement may even be retroactive to the date of revocation.

Certain qualifying small organizations may even qualify for automatic retroactive reinstatement as long as they properly seek reinstatement on or before December 31, 2012. If an organization does not qualify for retroactive reinstatement, it will have to fulfill all of the tax and filing requirements applied to non-exempt organizations for the time during which its tax exempt status was revoked.

If your organization has lost its tax-exempt status, consult an attorney with experience in this area of law to review your options.

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