



## Trusts & Estates Law Alert

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PENNSYLVANIA OFFICE OF

**NORRIS McLAUGHLIN & MARCUS, P.A.**

### PRESERVE YOUR FEDERAL TAX-EXEMPT STATUS

As of July 2010, over 100,000 small nonprofit organizations were at risk of losing their Federal tax-exempt status for not having filed a tax return for 3 consecutive years. Beginning with the 2007 tax year, most tax-exempt organizations with gross receipts of \$25,000 or less were required to file Federal tax Form 990-N. Before that time, these organizations were not required to file any such returns.

Fast forward to 2010, and these organizations, many of which were likely unaware of the change in law, are at risk of losing their Federal tax exempt status for failing to file a tax return for 3 consecutive years. This year is the first year in which these small nonprofit organizations could be adversely affected. The Internal Revenue Service (IRS) has published a [list](#) of organizations that may be at risk of losing tax-exempt status.

The IRS has initiated a one-time relief program for these small organizations. Normally, the deadline to file Form 990-N is the 15<sup>th</sup> day of the 5<sup>th</sup> month after the end of the organization's tax year. Thus, for organizations that have a tax year from January 1 until December 31, the tax return would be due on May 15 of the following year (May 17 in 2010 because May 15 was a Saturday). Because of the large number of organizations that are at risk of losing tax-exempt status, the IRS has extended the filing deadline for 2009 tax returns to October 15, 2010. If the return is filed by October 15, then tax-exempt status is preserved.

The IRS has also established a voluntary compliance program for larger nonprofit organizations that have not filed for 3 consecutive years. This program is for organizations with less than \$500,000 of gross receipts and less than \$1,250,000 of total assets in 2009. The filing deadline for these organizations was also extended to October 15, 2010, but with additional strings attached. These organizations must file Form 990-EZ for 2009 and the two prior tax years if they have not been filed. In addition, the relevant officers of the organizations must sign a checklist agreeing to the terms of the voluntary compliance program. Finally, these organizations must pay a fee ranging from \$100 to \$500, depending on the organization's gross receipts for 2009.

If an organization loses its Federal tax-exempt status, it can re-gain its status only by submitting a new application with IRS—a somewhat involved and costly undertaking. Any income received between the date of revocation and the date of reapplication may be taxed by IRS.

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