

## Tax Issues

## GuideStar cautions thousands could lose tax-exempt status

Recent visitors to GuideStar's Web site were warned that this spring, nearly half a million nonprofits could lose their tax-exempt status.

"The IRS suspected for years that there were a lot of dead organizations registered on their master list," said Suzanne Coffman, director of communications at GuideStar. "One provision of the Pension Protection Act of 2006 required smaller organizations to file a new return, the Form 990-N."

Unfortunately, it's estimated that 500,000 of these organizations have not filed the Form 990-N since nonprofits began using it last year to report on tax years ending on or after Dec. 31, 2007. The IRS created the form for organizations that don't meet the income thresholds for Form 990 or 990-EZ.

### Getting the house in order

The new form was a part of the IRS' overall strategy for charity reform, and Congress hoped it would help get a better handle on how many small organizations they are dealing with. "They wanted to know whether these organizations were still in business and if they were, whether they were doing their job," Coffman said.

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. "There are no extensions," Coffman said. A nonprofit that loses its exemption because of failure to file will have to reapply to the IRS for exemption.

If nonprofits aren't careful, she said, 18 months from now they could find themselves required to pay federal income taxes. Charitable organizations that lost their exemptions would no longer be able to accept tax-deductible contributions.

Coffman said the IRS made a concerted effort to inform smaller nonprofits about the 990-N, and the requirement is a necessary step to improve the

overall health of the nonprofit sector. It will:

■ **Provide an improved picture of the sector as a whole.** It will answer questions regarding the scope of nonprofit activities, innovations at work in the industry, and the successes organizations are experiencing.

■ **Advance IRS enforcement efforts.** Filing requirements will keep IRS lists up to date and make it easier to determine sooner if a nonprofit has strayed from its original mission.

■ **Assist donors who want to make contributions.** Donors will be able to check whether an organization is recognized by the IRS, and be assured certain standards of accountability have been met by the organization they want to contribute to.

### Pass it along

So what can nonprofit professionals do right now to help? Coffman said everyone should be spreading the word. "We all know an organization that is run by one or two people, who perhaps don't have the time or savvy to know about the Form 990-N. Be sure to tell them about it."

She also said nonprofit leaders should know the form doesn't ask for a lot of critical data, so small organizations shouldn't worry about using the public library or home computer to send it in. And Coffman said the form isn't long. "It's short, just 16 fields."

### For more information

GuideStar USA, Inc. is a leading source of information on the nonprofit sector. Since 1994, the 501(c)(3) public charity has worked to revolutionize philanthropy and nonprofit practice by providing information that advances transparency, enables users to make better decisions, and encourages charitable giving. For more information, visit [www.guidestar.org](http://www.guidestar.org). To read Coffman's full article, visit [http://www.guidestar.org/news/features/half\\_a\\_million.jsp](http://www.guidestar.org/news/features/half_a_million.jsp). ■