

## **“I.R.S. Ends Exemptions For 275,000 Nonprofits”**

Such was the title of the article printed in the June 8, 2011 issue of the New York Times. That was the day that the I.R.S. announced that it had revoked the tax exemptions of 275,000 nonprofit organizations, after they did not meet the legal requirements to file annual tax forms. Unfortunately, nearly 300 of those affected by the automatic tax-exempt revocation, were elements (Locales and even Grandes) of the 40&8. Unbelievably, more than three years of formal and informal notices, reminders, media articles, letters, web announcements, 40&8'er articles and such, from BOTH the I.R.S. and the 40&8, had been ignored . . . and now the I.R.S. “hammer” has come down.

Until a change in federal law had been enacted in 2006, only tax exempt organizations with annual revenue of \$25,000 or more — roughly one-third of the 1.6 million I.R.S. recognized nonprofit groups — were required to file. The law passed in 2006, the Pension Protection Act, required all organizations to file returns, but because it was embedded in 393 pages of a law that otherwise dealt with pension issues, many nonprofit groups did not know that.

When the original deadline for complying with the law came last year, the I.R.S. realized as many as one-quarter of all nonprofit groups on the rolls, including charities and membership organizations such as the 40&8, and others, stood to lose their exemptions. The agency issued a reprieve and redoubled its efforts to alert nonprofit groups of the responsibility to file. It reached out to state nonprofit associations and umbrella groups, asking for their help in getting out the word about the new requirement, and made a big push to get local news media to report on it.

The complete list of the 275,000 organizations, by state, whose tax-exempt status has been revoked, is available on the I.R.S. website ([http:// www.irs.gov/autorevocationlist](http://www.irs.gov/autorevocationlist)). If you find your Locale or Grande on this list, **DON'T TAKE IT LIGHTLY!** The loss of an organization's tax-exempt status is a **SERIOUS SITUATION** which could have **DRASTIC** and **SEVERE FINANCIAL CONCEQUENCES**. If an organization loses its tax-exempt status, it is no longer exempt from federal income tax. It may, therefore, be required to file one of the following federal income tax returns and pay applicable income taxes:

- Form 1120, *U.S. Corporation Income Tax Return*, due by the 15th day of the 3rd month after the end of the organization's tax year. Or,
- Form 1041, *U.S. Income Tax Return for Estates and Trusts*, due by the 15<sup>th</sup> day of the 4th month after the end of your organization's tax year. Or,
- Form 1065, *U.S. Partnership Income Tax Return*, due by the 15<sup>th</sup> day of the 4th month after the end of your organization's tax year.

An automatically revoked organization is not eligible to receive tax-deductible contributions and will be removed from the cumulative list of tax-exempt organizations, Publication 78. The IRS will also send a letter informing the organizations of the revocation. Donors can deduct contributions made before an organization's name appears on the Automatic Revocation List. State and local laws may affect an organization that loses its tax-exempt status as well.

On June 14, 2011, shortly after the I.R.S. made its automatic revocation announcement, Voiture Nationale learned that the I.R.S. was going to allow any 40&8 organizational element that had lost its tax-exempt status, due to the automatic revocation, to regain its tax-exempt status, retroactive to the date of automatic revocation, by using an "abbreviated" reinstatement process. This process would allow a Locale or Grande to have its tax-exempt status reinstated, simply by submitting a "Re-Inclusion Letter" to Voiture Nationale. The "Re-Inclusion" letter would then be forward to the I.R.S. by Voiture Nationale, as part of its annual organizational EIN verification report. Shortly thereafter unfortunately, the I.R.S. changed its initial position on the "abbreviated" process. On June 28, 2011, Voiture Nationale was informed by the I.R.S. Tax Exempt Division located in Washington, D.C., that such an "abbreviated" reinstatement procedure was not allowed by the law, and that the only option available to a Locale or Grande, to have its tax-exempt status reinstated, was by formally filing IRS Form 1024.

**IF YOUR LOCALE OR GRANDE HAS LOST ITS TAX-EXEMPT STATUS DUE TO THE I.R.S.'s AUTOMATIC REVOCATION ACTION . . . YOU SHOULD INITIATE REINSTATEMENT OF SUCH . . . IMMEDIATELY!** The following related information has been provided by the I.R.S., to answer your questions about having your tax-exempt status reinstated, and to assist you in initiating the reinstatement process. Before you fill out Form, *Application for Recognition of Exemption*, look at IRS Notice 2011-43 for special instructions on questions that have to be answered and attached to the Form 1024. You will be requesting tax exempt status under Internal Revenue Code 501(C)19.

If further general assistance is necessary, you may contact Butch Miller, Voiture Nationale Program Coordinator, by phone at (317) 634-1804, or by e-mail at [bmiller@fortyandeight.org](mailto:bmiller@fortyandeight.org).

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#### **Automatic Revocation of Tax-Exempt Status -**

Tax-exempt organizations other than churches and certain church-related organizations are required to file an annual information return or notice with the IRS. Organizations that do not file for three consecutive years automatically lose their tax-exempt status. An automatic revocation is effective on the original filing due date of the third annual return or notice.

#### **The List of Automatically Revoked Organizations is Posted on the IRS Website –**

On June 8, 2011, the IRS published the initial list of organizations whose tax-exempt status was automatically revoked because of failure to file a required Form 990, 990-EZ, 990-PF or Form 990-N (e-Postcard) for three consecutive years. IRS has posted the list on [www.irs.gov/autorevocationlist](http://www.irs.gov/autorevocationlist). The list gives the name, employer identification number (EIN), organization type, last known address provided by the organization to the IRS, effective date of revocation and the date the organization was added to the list. IRS will post monthly updates with additional organizations whose filing dates have come due.

#### **Reinstating Tax-Exempt Status –**

The law does not give IRS authority to undo an automatic revocation and there is no appeal process. An automatically revoked organization must apply to have its status reinstated, even if

the organization was not originally required to file an application for exemption. It must: File Form 1023 if applying under section 501(c)(3) or Form 1024 if applying under a different Code section. Pay the appropriate user fee. The organization's annual gross receipts generally determine the amount of the fee. Write "Automatically Revoked" on top of the application and the envelope so the application goes to the proper personnel. Smaller organizations eligible for transition relief will instead write "Notice 2011-43" on the application and letter. Send the application and letter to:

Internal Revenue Service  
P.O. Box 12192  
Covington, KY 41012-0192

#### **The Effective Date of Reinstatement –**

If the IRS approves an organization's application, the date of reinstatement is the date of the application. An organization can ask to have its tax-exempt status reinstated retroactively, to the date of its automatic revocation. The organization must include a letter requesting retroactive reinstatement with its Form Released 6-8-11 - 1023 or 1024. The letter must show reasonable cause for the organization's failure to file.

#### **Special Transition Rules for Small Exempt Organizations -**

The IRS is providing transition relief for small exempt organizations that apply for reinstatement. To qualify, the organizations had to be eligible to file a Form 990-N (e-Postcard) in tax years 2007, 2008 and 2009. Applications must be postmarked by December 31, 2012. The transition relief includes: User Fee – Reduced to \$100.

Retroactive Reinstatement– Smaller exempt organizations eligible for the transition relief need only meet certain criteria to obtain retroactive reinstatement. So the application goes to the proper personnel, smaller organizations eligible for transition relief should write "Notice 2011-43" on the application and letter.

**More Information**

**www.irs.gov/eo** – Charities/Non-Profit page.

-Frequently Asked Questions (FAQs) –*Automatic Revocations* -Fact Sheet – *Annual Form 990*

*Requirements for Tax-Exempt Organizations* (PDF) -IRS News Release

-Exempt Organizations Annual Returns- Overview.

**EO Update Newsletter** – Sign up for the latest IRS news for exempt organizations.

**StayExempt.irs.gov** – Interactive web based workshops and mini-courses for exempt organizations.

**Life Cycle** – Explains how to establish and maintain an exempt organization.

Select the “Life Cycle” link at [www.IRS.gov/eo](http://www.IRS.gov/eo).

**877-829-5500** – IRS Toll-free Customer Account Services.