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IRS Identifies Organizations Losing Tax-Exempt Status and Announces Retroactive Reinstatement Program

In 2006, Congress passed the Pension Protection Act, which requires annual reporting by most tax-exempt organizations qualified as such by the Internal Revenue Service. As a result, the IRS has published a list of organizations which lost their tax-exempt status for failure to comply with such reporting for three consecutive years.

The value to a charitable or non-profit organization in maintaining its compliance with the Internal Revenue Service as a qualified 501(c) (3) organization or other qualified Public Charity, or Private Foundation is the ability for such an organization to offer certain tax deductions to donors for gifts to such organizations, and specific exemptions from taxes, depending on their classification by the IRS. One of the penalties for loss of exempt status which hits an organization the hardest, particularly in difficult economic times such as these, is that donations to those organizations are no longer tax deductible by the donor.

Compliance requirements to maintain tax-exempt status are complex, and range from basic governance documents and issues, specific accounting and recordkeeping requirements, State reporting and compliance, and ongoing filing requirements with the IRS. Larger organizations are typically well versed and in a better position to manage the many facets required to maintain compliance, which are more complex and more expensive for organizations which typically have higher annual gross receipts. Smaller organizations, however, do not always have the organization, staff, or recordkeeping procedures in place in order to ensure ongoing compliance.

Fortunately, along with the list of organizations that lost their tax-exempt status for failure to file a Form 990, 990 E-Z or 990-N, the IRS announced a retroactive relief program for those organizations to obtain retroactive reinstatement of their tax-exempt status. The rules and costs vary, depending on the organization's revenues and circumstances. Full details are available in IRS Notices 2011-43, 2011-44 and IRS Revenue Procedure 2011-36.

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