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New rules could affect tax-exempt status of nonprofits

By: Michael Pound
Beaver County Times

When Congress adopted the Pension Protection Act of 2006, it did more than take steps to protect pensions — it also changed tax rules for small, nonprofit businesses, and those changes are catching many of those groups by surprise.

The biggest change is the one that's causing the problems. Before the act, federally designated nonprofits that had less than \$25,000 in annual gross receipts were not required to file a tax return; the act changed that, and many small nonprofits were becoming aware of the change just as their deadline passed last week.

And if a nonprofit group hasn't filed a return of any kind in the last three years, the law says it loses its nonprofit status. The deadline for groups that ended the 2009 fiscal year on Dec. 31 was May 17.

"This is the first thing I'd heard of it," Karl Boak, president of the Beaver River Rails to Trails Association, said Thursday. "I know we didn't talk about this at our meeting last month; it's something we're going to have to get straightened out quickly."

Boak's group is not alone. Officials at the National Center for Charitable Statistics, a Washington, D.C.-based group that tracks data for nonprofit businesses, identified nonprofits that hadn't filed returns since the act was adopted; it found 963 nonprofits in Beaver, Allegheny and Lawrence counties that had not filed returns as of April.

"There has been a lot of publicity about the change, but for many of the smallest groups, it's gone unnoticed," said Suzanne Coffman, communications director for GuideStar, a Washington-based group that aids nonprofit groups. "In the days leading up to the deadline, we had a ton of inquiries about what needed to happen to avoid a problem."

Problems posed

Groups that don't heed the warnings about deadlines could encounter some significant difficulties, Coffman said, starting with the IRS.

"The immediate thing to worry about is the possibility of financial penalties associated with filing late or not filing at all," she said. "And if we're talking about groups with a budget under \$25,000, that could add up to be a big chunk of money."

Revocation of nonprofit status also means problems.

"The first thing that would mean is that a group has to start paying taxes," Coffman said. "And as is the case with the penalties, we're not talking about groups with a lot of money to throw around."

Boak said he had other worries about the loss of nonprofit status.

"I don't know what it would mean for our ability to receive grants," Boak said. "And I know the donations we receive would no longer be tax-deductible."

There is some good news, though. A day after the deadline passed, IRS Commissioner Doug Shulman issued a statement saying the IRS recognized that the deadline had taken many groups by surprise.

"These organizations are vital to communities across the United States, and I understand their concerns about possibly losing their tax-exempt status," Shulman said in the statement. "I want to reassure these small organizations that the IRS will do what it can to help them avoid losing their tax-exempt status."

"The IRS will be providing additional guidance in the near future on how it will help these organizations maintain their important tax-exempt status — even if they missed the May 17 deadline. The guidance will offer relief to these small organizations and provide them with the opportunity to keep their critical tax-exempt status intact."

Shulman and Coffman said the first step should be to file a return, even if a group has missed the deadline.

"We'll know more when the IRS issues the guidelines, but it looks like the IRS is willing to work with these groups," Coffman said. "That they recognize that this is a problem is great news."

Boak said his group would start looking into the change immediately.

"I'm glad to know about it when we might still have some time to do something about it," he said. "It would be devastating for us to lose that nonprofit status."

MANY GROUPS AFFECTED

The National Center for Charitable Statistics, a division of the Washington-based Urban Institute, compiled a list of groups that need to file a return this year to avoid losing their tax-exempt status. The lists can be found at www.nccs.urban.org

Allegheny County: 828 organizations.

Beaver County: 87 organizations.

Lawrence County: 48 organizations.