IRS Exempt Revocation and Reinstatement

by Bob Harris, CAE

On June 8 the IRS stripped nearly 275,000 organizations of their tax exempt status. Combining the list one sees the names of familiar chapters, chambers, associations and foundations.

When I ask parent and related groups, “Was it your intent to give up the tax exempt status?” they panic!

The IRS sent notices and publicized its intent to revoke tax exemptions for organizations that had not filed for three consecutive years. The impact means donors may no longer benefit from the charitable deduction, and federal taxes may be due.

It used to be that exempt status was continuous and organizations grossing less than $25,000 annually did not have to report. In 2006 the law changed, requiring all organizations to file annually.

Exempt status
The designation of “not-for-profit” is recognized by state government. The designation of tax-exempt is recognized by the Federal government.

An exempt organization is excused from paying income tax on revenue related to the tax-exempt purpose (mission statement). Unrelated business income tax (UBIT) may not be eligible for exemption.

Some organizations receive grants and contributions based primarily on having the IRS exemption. Certain states offer advantages to IRS exempt organizations such as local or state tax exemptions and reduced postal rates.

Taking action
First, check if your organization or related chapters is on the list at www.irs.gov/charities/article/0,,id=240099,00.html. Many of the organizations were already defunct and many are under-performing subordinate chapters in need of guidance.

Next, groups wanting to reinstate their exemption face the application process and filing fees likely to exceed $1,000. Certain small organizations may apply for a reduced application fee of $100.


The IRS indicates applications will take the normal processing time of several months and recommends the words, “Automatically Revoked” be on the envelope and top of the application.

There is no appeals process to the revocation according to the IRS. In some cases the IRS will consider retroactive reinstatement to cover the years the organization failed to file.

During the application process the organization may be liable for income and other taxes, plus future tax liabilities as a result of the revocation.

Rely on professionals
To fully understand the consequence and reinstatement process, be sure to rely on accounting and legal professionals. Help is available by calling the IRS Customer Service Center at (877) 829-5500.

One way to avoid omissions is to conduct an annual internal operating audit by staff or legal counsel. A 50-question assessment tool to inventory essential documents and processes (i.e., IRS documents, articles of incorporation, insurance coverage, trademarks, etc.) is available free at: www.rchcae.com/display/Search?searchQuery=inventory+assess&moduleId=4822940.

Bob Harris, CAE, facilitates organizational excellence, board development and strategic planning. His website, www.rchcae.com, offers free tools and resources. For accounting and legal concerns, be sure to reply on professional counsel.

Another benefit of referring new members
You already know that if a colleague whom you have refereed, joins WSAE as a new member you'll receive a $25 gift card and entered into an annual grand prize drawing for $300.

Now, WSAE is launching a new member referral drawing as part of our half-day educational programs. Write the contact information of a referral on the back of your business card and place it in the referral bowl at the program. You will be entered into a special drawing to be held at the end of meeting. The more referrals, the better your chances.