

Here Today, Gone Tomorrow: A Look at Organizations that May Have Their Tax-Exempt Status Revoked

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Over 292,000 nonprofit organizations may lose their tax-exempt status in the coming months for failing to file a tax return with the Internal Revenue Service (IRS). In an effort to keep better track of nonprofit organizations, the Pension Protection Act of 2006 mandated that the more than 714,000 organizations with gross receipts of less than \$25,000 needed to file the new Form 990-N, also known as the e-Postcard.¹ Previously, these organizations had no reason to contact the IRS on a regular basis as long as revenues were less than \$25,000 in gross receipts.

Organizations operating on the calendar year (January 1 to December 31) had three years, or until May 17, 2010, to comply with the ruling or risk immediate revocation of their tax-exempt status.² To date, just over 196,000, or 28 percent, of these organizations missed their deadline. Another 96,500 organizations have not completed the e-Postcard but their filing deadline is yet to come³ (table 1). Many organizations have filed before their deadline to ensure good standing with the IRS.

Form 990-N Quick Facts

There are **1,617,447** registered nonprofit organizations in 2010.

714,379 nonprofits are required to file the e-Postcard.

292,643, or **41 percent**, of these nonprofits have not yet filed Form 990-N.

As many as **18 percent** of the 1.6 million nonprofits could lose their tax-exempt status.

While we cannot gauge with certainty how many organizations are actually defunct or simply have not heard about the new requirement, we can provide a snapshot of those organizations that risk losing their tax exempt status. We explore these organizations by type, age, and location and provide some comparisons with organizations that have complied with the new law.

1. Organizations included in a group return, churches and their integrated auxiliaries, and conventions or associations of churches are not required to file.

2. May 15, 2010 fell on a Saturday so the deadline was Monday, May 17, 2010.

3. Almost a quarter of organizations with fiscal years ending after December 31st filed Form 990-N by the May 17, 2010 to ensure good standing with the IRS.

Table 1. Filing Deadlines for Organizations That Have Not Yet Filed Form 990-N or Other IRS Returns

| Accounting period end date | Deadline for filing Form 990-N | Organizations required to file Form 990-N | Organizations that missed their deadline to file Form 990-N | Organizations that need to file Form 990-N by their deadline | Organizations Filing Form 990-N |
|----------------------------|-----------------------------------|---|---|--|---------------------------------|
| December 31st | May 15th, 2010 | 445,181 | 194,798 | — | 250,383 |
| January 31st | June 15th, 2010 | 3,607 | 1,339 | — | 2,268 |
| February 28/29 | July 15 th , 2010 | 11,401 | — | 1,774 | 9,627 |
| March 31st | August 15 th , 2010 | 14,138 | — | 4,007 | 10,131 |
| April 30th | September 15 th , 2010 | 13,535 | — | 4,302 | 9,233 |
| May 31st | October 15 th , 2010 | 23,099 | — | 7,864 | 15,235 |
| June 30th | November 15 th , 2010 | 117,311 | — | 39,547 | 77,764 |
| July 31st | December 15 th , 2010 | 16,397 | — | 7,378 | 9,019 |
| August 31st | January 15 th , 2011 | 27,118 | — | 12,447 | 14,671 |
| September 30th | February 15 th , 2011 | 32,221 | — | 14,584 | 17,637 |
| October 31st | March 15 th , 2011 | 6,550 | — | 2,965 | 3,585 |
| November 30th | April 15 th , 2011 | 3,821 | — | 1,638 | 2,183 |
| Total | | 714,379 | 196,137 | 96,506 | 421,736 |

Sources: The Urban Institute, National Center for Charitable Statistics, Core Files (2007–2008), the Internal Revenue Service, Exempt Organizations, Exempt Organizations, 2010; The Urban Institute, National Center for Charitable Statistics, e-Postcard Files (2008–10).

Note: Deadlines highlighted in red have already occurred.

Types of Organizations Not Filing Form 990-N

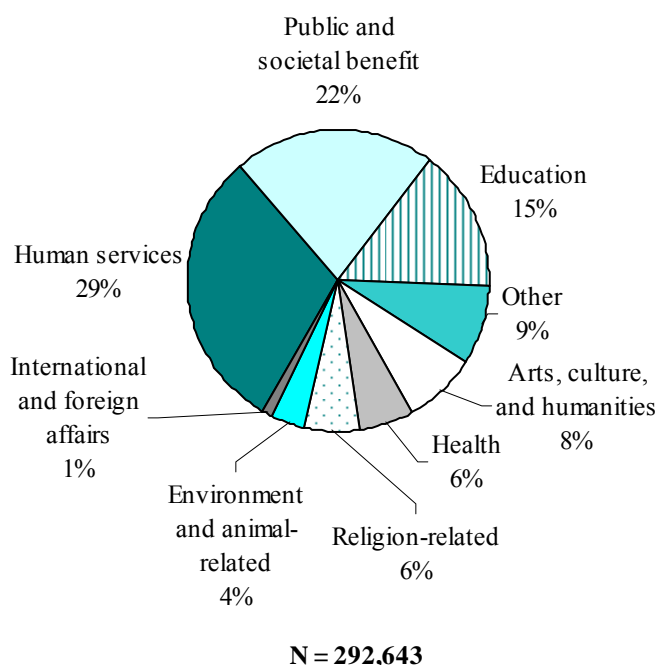
Human service organizations account for the largest percent of organizations that have not yet filed Form 990-N (29 percent) followed by public and societal benefit organizations (22 percent)⁴ and education organizations (15 percent) (figure 1). By delving into these categories a bit deeper, we can pinpoint groups of organizations that are more at risk of losing their exempt status.

- **Human services:** Recreation and sports clubs, including hobby clubs, country clubs, and amateur sports leagues account for over a quarter of human service nonfilers.
- **Other public and societal benefit:** Three types of other public and societal benefit organizations account for 65 percent of this group of nonfilers. Fraternal societies, such as Masons and Knights of Columbus, account for 23 percent, and military and veterans’ organizations account for another 22 percent. Community service clubs like Elks, Kiwanis, and Junior League account for 20 percent of the nonfilers.

4. The public and societal benefit category includes civil rights, social action and advocacy organizations, community improvement and capacity building organizations, philanthropy, voluntarism and grantmaking foundations, science and technology organizations, social science organizations and other public and societal benefit organizations like military and veterans’ organizations, public utility organizations, and consumer protections organizations.

- **Education:** Student sororities and fraternities account for 30 percent of education nonfilers. Parent and teacher groups, literacy organizations, homework hotlines, and after-school programs represent another 21 percent of the education organizations.

Figure 1. Organizations Not Yet Filing a Tax Return by Type



Sources: The Urban Institute, National Center for Charitable Statistics, Core Files (2007–2008), the Internal Revenue Service, Exempt Organizations, Exempt Organizations, 2010; The Urban Institute, National Center for Charitable Statistics, e-Postcard Files (2008–10).

While ranging wildly in scope and mission, these types of organizations have several commonalities. Usually, these organizations are run entirely by volunteers; rarely, with the exception of student sororities and fraternities, does the organization itself have a permanent address, and officers change annually. Most likely, the address of the person who was the treasurer or president when the organization first registered with the IRS could be several years removed from the organization or may have changed residences multiple times. Since the IRS first informed nonprofits about the new requirement by mailing letters to the address on file, many organizations may not be aware of the new requirement.

Currently, the organizations that have not yet filed the e-Postcard account for 18 percent of the entire nonprofit sector (table 2). Nearly 89,000, or 22 percent, of human service organizations have not yet completed Form 990-N; 16 percent of human service organizations missed their deadline and 6 percent need to file before their deadline. Education organizations could drop by 21 percent and arts and culture organizations could decline as much as 18 percent. Religion-related organizations have the lowest percentage of organizations not in compliance—just 7 percent.

Table 2. Number of Organizations Not Yet Filing a Tax Return by Type

| Type of organization | Total | Organizations that Missed Their Deadline to File Form 990-N | | Organizations That Need to File Form 990-N by Their Deadline | | Total number of Organizations Not Yet Filing Form 990-N | |
|-----------------------------------|------------------|---|------------------|--|------------------|---|------------------|
| | | Number | Percent of total | Number | Percent of total | Number | Percent of total |
| Arts, culture, and humanities | 125,170 | 17,031 | 14 | 6,119 | 5 | 23,150 | 18 |
| Education | 216,021 | 20,511 | 9 | 24,204 | 11 | 44,715 | 21 |
| Environment and animal-related | 58,209 | 5,977 | 10 | 5,036 | 9 | 11,013 | 19 |
| Health | 101,458 | 11,834 | 12 | 5,075 | 5 | 16,909 | 17 |
| Human services | 410,028 | 66,011 | 16 | 22,711 | 6 | 88,722 | 22 |
| International and foreign affairs | 20,737 | 2,384 | 11 | 669 | 3 | 3,053 | 15 |
| Public and societal benefit | 359,160 | 40,607 | 11 | 22,396 | 6 | 63,003 | 18 |
| Religion-related | 231,858 | 14,294 | 6 | 2,498 | 1 | 16,792 | 7 |
| Other | 94,806 | 17,488 | 18 | 7,798 | 8 | 25,286 | 27 |
| Total | 1,617,447 | 196,137 | 12 | 96,506 | 6 | 292,643 | 18 |

Sources: The Urban Institute, National Center for Charitable Statistics, Core Files (2007–2008), the Internal Revenue Service, Exempt Organizations, Exempt Organizations, 2010; The Urban Institute, National Center for Charitable Statistics, e-Postcard Files (2008–10).

Note: The “other” category includes insurance providers, pension and retirement funds, cemeteries, and unknown or unclassified organizations.

Age of Organizations Not Yet Filing Form 990-N

Organizations of all ages have not complied with the new law—not just older organizations that may be defunct. A quarter of the nonfiling organizations registered with the IRS during the last ten years, another 21 percent were registered in the 1990s, and 15 percent were registered before 1950.

Only 9 percent of organizations that may lose their tax-exempt status have ever filed a financial return (Form 990 or Form 990-EZ) over their lifespan. The last time most of these organizations filed was in 2004; about 5,000 organizations filed as recently as 2006, but some have not filed since 1989.

Overall, the age distribution of nonfiling organizations is similar to organizations that have already filed Form 990-N (table 3). Forty-four percent of both groups report registering with the IRS before 1980, with around 15 percent of both groups reporting a start date prior to 1950. However, twice as many organizations that registered since 2000 have completed the e-Postcard—about 136,000 compared with 70,000 that are not yet in compliance.

Various hypotheses could explain why more of the younger organizations have filed than older ones. Younger organizations may be more assiduous in following developments in the nonprofit world and therefore more aware of the new regulation. It is also possible that the contact person for younger organizations listed on the IRS roles still lives at the same residence and may be

actively involved with the organization or knows the person who is. However, many of the nonfiling organizations may be defunct nonprofits just sitting on the IRS Business Master File. When organizations terminate, they are required to notify the IRS, but if they fail to do so, they may remain on the list for many years.

Table 3. Organizations Filing and Not Yet Filing Form 990-N by Age

| Year registered with the IRS | Organizations Not Yet Filing Form 990-N | | Organizations Filing Form 990-N | |
|------------------------------|---|------------|---------------------------------|------------|
| | Number | Percent | Number | Percent |
| Before 1950 | 42,504 | 15 | 66,895 | 16 |
| 1950–1959 | 15,093 | 5 | 17,528 | 4 |
| 1960–1969 | 31,669 | 11 | 42,195 | 10 |
| 1970–1979 | 39,101 | 13 | 57,281 | 14 |
| 1980–1989 | 34,151 | 12 | 39,334 | 9 |
| 1990–1999 | 60,411 | 21 | 57,705 | 14 |
| 2000–2010 | 69,706 | 24 | 136,021 | 32 |
| Unknown | 8 | 0 | 4,777 | 1 |
| Total | 292,643 | 100 | 421,736 | 100 |

Sources: The Urban Institute, National Center for Charitable Statistics, Core Files (2007–2008), the Internal Revenue Service, Exempt Organizations, Exempt Organizations, 2010; The Urban Institute, National Center for Charitable Statistics, e-Postcard Files (2008–10).

Notes: The age of the organization is the date the organization received its tax-exempt status from the IRS, also known as ruling date. If the ruling date was unknown or invalid, then the year the organization first appeared on an IRS Business Master File was used to estimate the age of the organization.

In an effort to pin down the number that may be defunct, we attempted to contact a random sample of 100 nonprofit organizations that had not yet filed their e-Postcard prior to the May deadline. We were only able to confirm that 25 of the organizations were alive and well—just two of which were aware of the new requirement. About 10 organizations were local chapters of national organizations, such as Kiwanis or Toastmasters; we believe these organizations to be terminated since they are not listed in the national directories. The status of the remaining 65 organizations remains unclear; some had web sites but no phone or mailing address was provided to confirm their existence, many were listed in the yellow pages but the phone number was no longer in service, and many local chapters were still listed in the directories of the national headquarters.

Organizations Not Yet Filing by State

Nonprofits all over the United States are influenced by this new requirement, but some states may see more nonprofits lose their status than others (table 4). Over 30 percent of nonprofits in Mississippi and South Carolina risk revocation of their tax-exempt status and over a quarter of organizations in the District of Columbia, North Dakota, and Louisiana have also yet to file

Form 990-N. This is more than double the proportion of organizations in Minnesota and Rhode Island—each having only 12 percent of nonprofits in jeopardy. In Minnesota, organizations such as the Minnesota Council of Nonprofits were very active in reaching out to organizations in jeopardy through phone calls, e-mails, and letters, which helped alert many Minnesota nonprofits.

Conclusion

It is yet to be known how many organizations are no longer in existence or how many have simply not yet heard about the new filing requirement. However, it is inevitable that some organizations still in existence will lose their tax-exempt status; the mystery about the magnitude remains. Understanding that the immediate revocation of the tax-exempt status of these smaller nonprofits could be detrimental, IRS Commissioner Doug Shulman released a statement after the May 17th deadline recognizing that some organizations may only now be aware of the new requirement and urged organizations that had missed the deadline to go ahead and file their 990-N. He also stated that the IRS will be releasing guidance to help organizations maintain their tax-exempt status.

The efforts of the IRS in communicating the new requirements have been extraordinary with the multiple mailings to the addresses on file, public announcements on TV and the radio, pamphlets in libraries, and many presentations. They also collaborated with state associations and state Attorney General's offices to spread the word. However, the nature of these smaller all-volunteer organizations, with officers changing annually and few with permanent addresses, requires more effort by the general public to ensure that active organizations do not lose their tax exempt status.

We urge everyone to think of nonprofits with which you are involved and go to <http://nccsdataweb.urban.org/PubApps/statePicker.php?prog=epostcard&display=state>, a searchable site created by the National Center for Charitable Statistics, *Nonprofit Quarterly*, and the National Council of Nonprofits to check their status. If an organization is on the list, please have an officer go to the Urban Institute e-Postcard site (<http://epostcard.form990.org>) to file Form 990-N. These simple steps could save small nonprofits valuable time and money in getting their tax exempt status reinstated. To have tax-exempt status reinstated, organizations will need to re-apply (Complete Form 1023) and pay the \$400 application fee and may be subject to tax on income until their status is reinstated.

Table 4. Number of Organizations Registered with the IRS by Filing Status and by State

| State | Organizations required to file Form 990-N | Organizations filing Form 990-N | Organizations that missed their deadline to file Form 990-N | Organizations that need to file Form 990-N by their deadline | Total number of organizations not yet filing Form 990-N | Percent of organizations not yet filing |
|----------------------|---|---------------------------------|---|--|---|---|
| Mississippi | 7,484 | 3,010 | 3,506 | 968 | 4,474 | 32 |
| South Carolina | 12,225 | 5,063 | 2,729 | 4,433 | 7,162 | 31 |
| District of Columbia | 7,161 | 2,738 | 3,460 | 963 | 4,423 | 29 |
| North Dakota | 3,462 | 1,951 | 1,028 | 483 | 1,511 | 24 |
| Louisiana | 9,890 | 5,016 | 3,345 | 1,529 | 4,874 | 24 |
| Alabama | 10,943 | 6,078 | 3,299 | 1,566 | 4,865 | 22 |
| Kentucky | 9,682 | 5,322 | 2,848 | 1,512 | 4,360 | 22 |
| West Virginia | 6,428 | 3,881 | 1,641 | 906 | 2,547 | 22 |
| Georgia | 18,205 | 9,891 | 5,699 | 2,615 | 8,314 | 20 |
| Arkansas | 7,708 | 4,691 | 2,007 | 1,010 | 3,017 | 20 |
| Indiana | 17,699 | 10,097 | 4,709 | 2,893 | 7,602 | 20 |
| New Jersey | 17,893 | 9,030 | 5,643 | 3,220 | 8,863 | 20 |
| Kansas | 9,551 | 5,815 | 2,651 | 1,085 | 3,736 | 20 |
| Utah | 4,418 | 2,611 | 1,401 | 406 | 1,807 | 20 |
| Michigan | 23,361 | 13,279 | 6,698 | 3,384 | 10,082 | 20 |
| South Dakota | 3,928 | 2,523 | 1,076 | 329 | 1,405 | 20 |
| Texas | 49,647 | 28,803 | 14,045 | 6,799 | 20,844 | 19 |
| Wyoming | 2,352 | 1,436 | 620 | 296 | 916 | 19 |
| Oklahoma | 10,116 | 6,267 | 2,647 | 1,202 | 3,849 | 19 |
| Hawaii | 3,300 | 1,851 | 1,088 | 361 | 1,449 | 18 |
| Ohio | 32,322 | 19,669 | 8,542 | 4,111 | 12,653 | 18 |
| North Carolina | 19,531 | 11,225 | 5,403 | 2,903 | 8,306 | 18 |
| Illinois | 31,074 | 18,559 | 8,348 | 4,167 | 12,515 | 18 |
| Maryland | 14,789 | 8,662 | 4,409 | 1,718 | 6,127 | 18 |
| Missouri | 19,296 | 12,525 | 4,670 | 2,101 | 6,771 | 18 |
| Pennsylvania | 30,298 | 17,783 | 8,547 | 3,968 | 12,515 | 18 |
| Colorado | 13,039 | 7,847 | 3,281 | 1,911 | 5,192 | 18 |
| New Mexico | 4,820 | 2,928 | 1,322 | 570 | 1,892 | 18 |
| Florida | 30,743 | 17,202 | 9,043 | 4,498 | 13,541 | 17 |
| Idaho | 3,998 | 2,599 | 1,034 | 365 | 1,399 | 17 |
| Nevada | 3,691 | 2,236 | 1,105 | 350 | 1,455 | 17 |
| Virginia | 19,388 | 12,029 | 4,855 | 2,504 | 7,359 | 17 |
| Massachusetts | 14,279 | 7,622 | 4,046 | 2,611 | 6,657 | 17 |
| Tennessee | 12,609 | 7,303 | 3,417 | 1,889 | 5,306 | 17 |
| Washington | 17,426 | 11,182 | 4,663 | 1,581 | 6,244 | 17 |
| Connecticut | 8,472 | 4,945 | 2,105 | 1,422 | 3,527 | 17 |
| Wisconsin | 17,494 | 11,524 | 4,245 | 1,725 | 5,970 | 16 |
| Delaware | 2,357 | 1,368 | 657 | 332 | 989 | 16 |
| California | 64,272 | 37,583 | 18,657 | 8,032 | 26,689 | 16 |
| Maine | 4,915 | 3,339 | 1,041 | 535 | 1,576 | 16 |
| New York | 36,418 | 19,878 | 10,787 | 5,753 | 16,540 | 16 |
| Vermont | 2,967 | 1,975 | 687 | 305 | 992 | 16 |
| Arizona | 9,545 | 6,037 | 2,405 | 1,103 | 3,508 | 16 |
| Nebraska | 6,924 | 4,791 | 1,450 | 683 | 2,133 | 16 |
| New Hampshire | 3,894 | 2,589 | 877 | 428 | 1,305 | 15 |
| Iowa | 19,169 | 14,594 | 2,836 | 1,739 | 4,575 | 15 |
| Alaska | 2,255 | 1,446 | 593 | 216 | 809 | 15 |
| Montana | 5,108 | 3,584 | 1,180 | 344 | 1,524 | 15 |
| Oregon | 9,985 | 6,707 | 2,279 | 999 | 3,278 | 14 |
| Rhode Island | 2,388 | 1,364 | 638 | 386 | 1,024 | 12 |
| Minnesota | 15,460 | 11,288 | 2,875 | 1,297 | 4,172 | 12 |
| Total | 714,379 | 421,736 | 196,137 | 96,506 | 292,643 | 41 |

Sources: The Urban Institute, National Center for Charitable Statistics, Core Files (2007–2008), the Internal Revenue Service, Exempt Organizations, Exempt Organizations, 2010; The Urban Institute, National Center for Charitable Statistics, e-Postcard Files (2008–10).



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