



“How To Lose Your Tax Exempt Status (Without Really Trying)”

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Jeopardizing Exemption

- Inurement & Private Benefit
- Political Campaign Activity
- Substantial Lobbying
- Substantial Unrelated Business
- Failure to Comply with Reporting Obligations

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Private Benefit & Inurement

- Private benefit is not limited to insiders and must be substantial to jeopardize exempt status.
- Inurement to insiders such as board members, officers, key employees, etc., is absolutely prohibited.

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Intermediate Sanctions

- Excise taxes directed at insiders & organization managers
- Maximum penalties for organization managers recently doubled
- Exempt organizations must disclose transaction
- More info? “Lifecycle of Public Charity” @ www.irs.gov/charities

Lobbying Activities

- Attempting to influence legislation through:
 - Directly contacting members of a legislative body
 - Encouraging the public to contact members of a legislative body
 - Advocating a position on a public referendum

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Limited Lobbying Permitted

- Measured by:
 - “Substantial Part Test” – all activities considered
 - OR
 - “Expenditure Test”
 - Considers expenditures only
 - Organization must elect
 - Churches cannot elect

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Political Campaign Activity

- Direct and indirect candidate support:
 - Contributions
 - Participation in campaigns
 - Public statements for/against a particular candidate
- Absolutely prohibited!

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Acceptable Political Activities

- Leaders' Personal Statements – *but*
 - No partisan comments in organization's publications or at official functions
 - Outside the organization, leaders should clearly indicate that comments are personal
- Candidate speeches – *if*
 - Equal opportunity to all
 - Org. does not support or oppose
 - No political fundraising

Unrelated Business Income

- Three part test:
 - Trade or business activity
 - Regularly carried on
 - Not substantially related to organization's exempt purpose
- An organization with substantial UBI activities will **FAIL** the operational test

Filing Requirements

- Depends on organization's gross receipts
- Most public charities have to file Form 990 EZ, Form 990 or Form 990-N
- Failure to file may result in penalties and/or revocation of tax exempt status

Form 990-N (e-postcard)

- For tax years beginning after December 31, 2006, organizations with gross receipts normally less than \$25,000 must file Form 990-N
- Can only be filed electronically
- Automatic revocation if not filed for three consecutive years

More Information . . .

- IRS Web site: www.irs.gov/charities
- *Stay Exempt* Online Workshop:
www.stayexempt.org
- TE/GE Customer Account Services:
(877) 829-5500
- Subscribe to EO Update:
– eoupdate@subscribe@lists.qai.irs.gov

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