

Organization Tech Sheet

Maintaining Your Nonprofit Status

This document is meant to give general information and resources on maintaining an organization's nonprofit status with the Internal Revenue Service, and it is not to be construed as legal advice. We <u>strongly recommend</u> that if there are specific issues regarding the state of your organization's nonprofit status, you contact a tax attorney, accountant and/or the <u>Internal Revenue Service</u>.

Why is it Important to Maintain Nonprofit Status?

If you are a downtown revitalization organization that operates as a 501c nonprofit, one of the most important things you need to do as an organization is maintain your nonprofit status with the Internal Revenue Service (IRS). This is important because organizations that meet the requirements of Internal Revenue Code section 501(a) are exempt from federal income taxation. In addition, charitable contributions made to some section 501(a) organizations by individuals and corporations are deductible under Code section 170.

What is Required?

A number of factors play into remaining compliant with the IRS's regulations for nonprofits. Those factors vary depending on under which type of nonprofit classification the organization falls. Most downtown revitalization organizations operating as 501c nonprofits generally have been granted nonprofit status under one of the classifications listed below.

- 501c3 charitable organizations
- 501c4 social welfare organizations
- 501c6 business leagues (trade associations)

Each has differing regulations on appropriate organizational activities as defined by its classification. However, since 2008 when the nonprofit reporting and filing regulations changed, one commonality among them all is that a nonprofit must file an annual return, either Form 990 or 990EZ unless the organization normally has annual gross receipts of \$50,000 or less (\$25,000 for tax years ending before December 31, 2010). Even at that threshold, the organization must at least file the annual electronic notice Form 990-N, also known as the e-Postcard. It is up to the organization to follow applicable filing procedures. If it does not follow the applicable filing procedures, it will fall into noncompliance, and its nonprofit status will be revoked. Restoring nonprofit status can be an expensive and lengthy process, and in the meantime, donor and sponsor relationships with the organization could be affected.

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The differences in appropriate organizational activities between 501c3s, c4s and c6s are more complex, but, again, failure to comply can result in a loss of nonprofit status and legal actions against an organization. The one subject most often mentioned is political activities an organization is allowed to undertake, with the most restrictions placed on 501c3s.

- Measuring Lobbying Substantial Part Test
- Measuring Lobbying Expenditure Test