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One-Fourth of Nonprofits Are to Lose Tax Breaks

By **STEPHANIE STROM**

As many as 400,000 nonprofit organizations are weeks away from a doomsday.

At midnight on May 15, an estimated one-fifth to one-quarter of some 1.6 million charities, trade associations and membership groups will lose their tax exemptions, thanks to a provision buried in a 2006 federal bill aimed at pension reform.

“It’s going to be an unholy mess once these organizations realize what’s happened to them,” said [Diana Aviv](#), president of the Independent Sector, a nonprofit trade group.

The federal legislation passed in 2006 required all nonprofits to file tax forms the following year. Previously, only organizations with revenues of \$25,000 or more — or the vast majority of nonprofit groups — had to file.

The new law, embedded in the 393 pages of the Pension Protection Act of 2006, also directed the [Internal Revenue Service](#) to revoke the tax exemptions of groups that failed to file for three consecutive years. Three years have passed, and thus the deadline looms.

Bill Solomon, who founded [Titan Youth Development](#) in Brooklyn to provide after-school youth sports programs, first learned about the law when a reporter called to inquire about his organization’s status. The charity received its tax exemption in 2005 — but it did not start operations until last year.

“It was merged with another nonprofit — or I guess more like operated under the other

nonprofit,” Mr. Solomon said. “I let this one be dormant for a while.”

He said Titan had brought in about \$100,000 in revenue in 2009 through fees for service and private donations, so although he did not know about the law, he has an accountant working to prepare tax forms.

The I.R.S. has long complained it lacks adequate data on nonprofit groups because so many of them did not file tax forms. Without basic facts about organizations, the agency has little chance of overseeing one of the most generous tax breaks the federal government offers.

Donors, whose appetite for information about nonprofit groups has increased exponentially in recent years, also struggle, said Robert G. Ottenhoff, who runs [GuideStar](#), an online database of nonprofit tax forms and analysis that many donors rely on. “This is a good thing for the nonprofit sector, even though it will no doubt create a hardship for a pretty significant number of organizations,” Mr. Ottenhoff said.

Ms. Aviv agreed, though she said she wished Congress had asked the I.R.S. to suspend, rather than revoke, the exemptions of nonprofits that miss the deadline.

“We need some way of tracking organizations,” she said. “The system we have right now gives you no real idea of who’s in and who’s not — and how can you manage a system if you don’t know who’s in or out of it?”

The I.R.S. would rather not revoke exemptions, either, and it has made a Herculean effort to let organizations at risk know it. For example, in 2007, it sent 665,000 letters to nonprofit groups that fell below the \$25,000 threshold and those above that level that had not filed.

Lois G. Lerner, director of the exempt organizations division of the I.R.S, said that while groups would lose their exemptions effective May 16, the I.R.S. would probably not send out notices until January to give nonprofits a chance to bring themselves into compliance with the law. Donors to affected groups will be able to take a deduction for gifts until formal notification is received by the recipient organization.

Small organizations are the most likely to be hit. Experts say it is likely that many of them are inactive and were unaware of the requirement that they inform the I.R.S. when they closed their doors.

“We are moving very cautiously,” Ms. Lerner said. “The last thing we want to do is revoke the exemption of someone who has already filed.”