

in the news

Nonprofit Organizations



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Updated Procedures for Reinstating Tax-Exempt Status: IRS Issues Revenue Procedure 2014-11

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On January 2, 2014, the Internal Revenue Service (“IRS”) released Revenue Procedure 2014-11, which provides updated (and more lenient) reinstatement procedures for organizations that have had their tax-exempt status automatically revoked for failing to file annual information returns for three consecutive years. Revenue Procedure 2014-11, which modifies and supersedes the procedures described in IRS Notice 2011-44, provides some welcome relief to entities looking to restore their tax-exempt status.

What You Need to Know

Methods to Reinstatement Tax-Exempt Status

Revenue Procedure 2014-11 outlines four methods that an organization may use to have its tax-exempt status reinstated. Reinstatement may be granted either to the date that the organization files an application for reinstatement (its postmark date) or, more favorably, retroactive to the date that the IRS revoked its tax-exempt status (its revocation date).

Smaller Organizations Applying Within 15 Months of Revocation Date

A streamlined retroactive reinstatement process is available for an organization that (1) is eligible to file either a Form 990-N (an organization



may file a Form 990-N if its gross receipts are normally not more than \$50,000) or a Form 990-EZ (an organization may file Form 990-EZ if the organization has gross receipts of less than \$200,000 and total assets of less than \$500,000 at the end of the taxable year) for each of the three consecutive years that it failed to file; (2) has not previously had its tax-exempt status automatically revoked; and (3) applies for retroactive reinstatement within 15 months of its revocation date. Such an organization may have its tax-exempt status retroactively reinstated, effective from the revocation date, if it:

- Submits the appropriate tax-exemption application not later than 15 months after the later of the date of the revocation letter or the date that the organization's name was posted on the revocation list, and
- Includes the appropriate user fee with the application.

If the application is approved, the organization will be deemed to have reasonable cause for its failure to file, and the organization's tax-exempt status will be retroactively reinstated effective from its revocation date.

Organizations Not Eligible for the Streamlined Process Applying Within 15 Months of Revocation Date

An organization that is not eligible to use the streamlined process may apply to have its tax-exempt status retroactively reinstated effective as of its revocation date if it:

- Submits the appropriate tax-exemption application not later than 15 months after the later of the date of the revocation letter or the date that the organization's name was posted on the revocation list;
- Includes the appropriate user fee with the application;
- Includes a statement that establishes reasonable

cause for the organization's failure to file for at least one of the three years involved (see the reasonable cause standard discussed below);

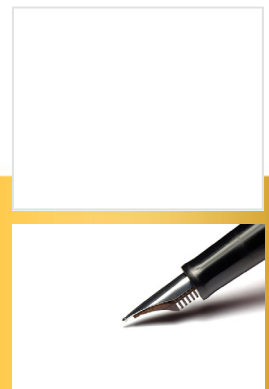
- Includes a statement confirming that it has filed the required annual information returns; and
- Files properly completed and executed paper annual returns for all tax years in the three years it was required, and failed, to file returns.

Organizations Applying For Retroactive Reinstatement 15 Months After Revocation Date

An organization that applies for reinstatement of its tax-exempt status more than 15 months from the later of the date of the revocation letter or the date on that its name was posted on the revocation list may have its exemption retroactively reinstated only if it satisfies all of the requirements listed above under *Organizations Not Eligible for the Streamlined Process Applying Within 15 Months of Revocation Date*, except that it must submit a statement establishing reasonable cause for the organization's failure to file for all three years involved, rather than just for one of the three years.

Organizations Not Applying For Retroactive Reinstatement

At any time, an organization may apply for reinstatement of its tax-exempt status effective from the





date the reinstatement application was filed, regardless of whether it is eligible for the other three retroactive reinstatement methods, by completing and submitting the appropriate tax-exemption application.

Reasonable Cause Standard

To establish reasonable cause for its failure to file, an organization must establish that it exercised ordinary business care and prudence in determining and attempting to comply with its reporting requirements. The reasonable cause statement must provide all the facts supporting a claim for reasonable cause for failing to file a return, including a detailed description of the facts and circumstances that led to the failure, discovery of the failure, and the steps taken to avoid or mitigate future failures.

Applicability of Revenue Procedure 2014-11

Revenue Procedure 2014-11 is effective for reinstatement applications submitted after January 2, 2014. The procedure also applies to applications that the IRS received prior to January 2, 2014 and that are currently pending.

Further, an organization that previously applied for, but did not receive, retroactive reinstatement, and that would have satisfied the streamlined retroactive reinstatement requirements outlined in Revenue Procedure 2014-11, will have its tax-exempt status retroactively reinstated without needing to file a new application.

Revenue Procedure 2014-11 also allows certain organizations that previously applied for and were granted reinstatement only from their postmark dates, but that would not have satisfied the streamlined retroactive reinstatement requirements, to reapply for retroactive reinstatement on or before May 2, 2014.

What You Should Do Now

If your organization's tax-exemption has been automatically revoked and not retroactively reinstated, you should determine if it is eligible for additional relief under Revenue Procedure 2014-11. Your organization should take further action under the appropriate method described above. Keep in mind that certain organizations that have been granted reinstatement only from their postmark date must reapply for retroactive reinstatement on or before May 2, 2014. ■



For More Information



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