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Protect your nonprofit's tax-exempt status

Loss of tax-exempt status can have disastrous consequences for a charitable nonprofit. It is helpful for every nonprofit leader, whether board or staff, to be familiar with the importance of tax-exempt status, and with situations that put a charitable nonprofit's tax-exemption in jeopardy.

Below is a summary of the “hot button” issues that should be on your radar, and links to resources about protecting and maintaining tax-exempt status.

Hot button issues for charitable nonprofits

All charitable nonprofits recognized as tax-exempt under section 501(c)(3) of the Internal Revenue Code, including churches and religious organizations, must abide by certain rules. In exchange for the favored status of being exempt from many taxes, charitable nonprofits promise:

- Not to be organized or operate for the benefit of any [private interests](#);
- Not to devote a *substantial part* of their activities to attempting to influence legislation;
- Not to participate or intervene in any political campaign on behalf of, or in opposition to, any candidate for public office; and

- Not to be organized for or conduct activities that are illegal or violate fundamental public policies.

Charitable nonprofits can lose their tax-exemption or face stiff penalties called “[intermediate sanctions](#)” for engaging in the activities listed above.

- Read about [requirements for tax-exemption](#) (IRS)

Additionally, all nonprofits that are recognized as tax-exempt (with some exceptions) have an obligation to file an annual return with the IRS. Failure to file can result in automatic revocation of tax-exempt status.

- Read more about [annual filing obligations for all tax-exempt charitable nonprofits](#)

What is the significance of losing tax-exempt status?

[Losing tax-exemption means:](#)

- That a nonprofit is no longer exempt from federal income tax and will have to [pay corporate income tax](#) on annual revenue going forward;
- The organization may also be subject to back taxes and penalties for failure to pay corporate income taxes, as of the effective date of revocation.
- Any state tax exemptions that the nonprofit received – such as exemptions for income tax, property tax, or sales/use tax – that are dependent on federal tax-exempt status may also be revoked.
- The nonprofit will not be listed in the IRS’s [list of organizations eligible to receive tax-deductible charitable contributions](#).
- Consequently, donors will not be able to receive a tax deduction for their gifts to the organization after the revocation date.
- Finally, most private foundations are unlikely to give a grant directly to nonprofits that are not tax-exempt because their guidelines normally require grantees to be recognized as tax-exempt public charities.

More About Threats to Tax Exemption

- [Political Activity and Jeopardizing Tax Exempt Status](#)
- [What to do if your nonprofit's tax-exempt status is revoked](#)

Additional Resources

- [Compliance Guide for Public Charities](#) (IRS)
- [How to lose your 501\(c\)\(3\) tax-exempt status \(without really trying\)](#) (IRS)
- [Maintaining Tax-Exempt Status](#) online course (IRS, Stay-Exempt)
- Staying Nonpartisan: [Permissible Election Activities Checklist](#) (Nonprofit Vote)
- [Tax Information for Churches and Religious Organizations](#) (IRS)

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