

# Charity Can Be Taxing

By Reg P. Wydeven  
May 22, 2010

Earlier this month, my favorite celebrity, William Shatner, hosted his 20<sup>th</sup> annual Hollywood Charity Horse Show. Shatner conceived the event after watching an exhibition put on by Ahead With Horses, a charitable organization that works with handicapped children by using equine-therapy to help them learn to adjust to their challenging lives and become more mobile.

The Hollywood Charity Horse Show features world-class reining horses and riders in breathtaking slides and spins as they compete for top honors in their respective classes. It also has an auction and concert, with Grammy-winning Sarah McLachlan headlining this year's Show. The event raises money for various children's charities, including Ahead With Horses, Children's Hospital, and St. Jude's Children's Research Hospital, among others.

Because of Shatner's tireless efforts and his celebrity, this year's HCHS was a huge success. However, in this difficult economy, many donors have reduced contributions and countless charities are struggling to make ends meet. To make matters worse, many of these charities are facing the loss of their tax-exempt status.

Three years ago Congress amended the tax code, and as part of the revisions, it required that charities reporting \$25,000 or less in income must file a form 990-N. Charities are required to file the form, commonly known as the e-Postcard, by the fifteenth day of the fifth month after their tax year end. Most organizations have a fiscal year end of December 31, so they have until May 15 to file.

Charities that fail to file form 990-N for three consecutive years automatically have their tax-exempt status revoked. As this is the third year of the new rule, the first revocations will have occurred as of May 17, as May 15 was a Saturday. The revocations will not be announced until January of 2011. Accordingly, organizations may not find out until then that they have to pay taxes on donations they thought were exempt.

It may also take months for these outfits to restore their tax-exempt status. Without it, these charities may have a hard time receiving donations, as they will no longer be tax-deductible. Additionally, they will not be able to apply for grants that are only offered to tax-exempt organizations.

While large charities, like the United Way, have nothing to worry about, the tax-exempt status of many local charities and booster organizations may be in jeopardy. The Urban Institute's National Center for Charitable Statistics, which conducts economic and social policy research, estimates that 214,000 nonprofit organizations have not yet filed the form as required.

The Internal Revenue Service sent out press releases and letters to more than 500,000 nonprofit organizations to raise awareness of the 990-N filing requirement, which the agency claims is "the most extensive outreach" it has ever done. The IRS believes the filing requirement will help cull out defunct organizations from its records and provide more transparency for the public.

Form 990-N is pretty short and sweet, as it only asks for eight things about the organization: its Federal Employer Identification Number (FEIN); its legal name and mailing address; any other names it uses; the name and address of a principal officer; its web site address (if any); confirmation that its annual gross receipts are normally \$25,000 or less; a statement claiming the organization is going out of business, if applicable; and the tax year.

Hopefully Ahead With Horses has filed its 990-N, or else it may have to pony up some money for taxes.

*This article originally appeared in the Appleton Post-Crescent newspaper and is reprinted with the permission of Gannett Co., Inc. © 2010 McCarty Law LLP. All rights reserved.*