

### Nonprofit Organizations May Have Tax Obligations

If you are an officer or on the board of a community organization, you may wonder about the tax requirements that apply to your group. Generally, an organization will not owe taxes if two things are true:

- \* It has registered as an exempt nonprofit organization with the IRS, and
- \* It has no business income from activities unrelated to its exempt purpose.

Registration is quite straightforward. The IRS grants exempt status to groups organized for charitable or mutual benefit purposes. You must submit your application within the first 15 months of the group's existence. The package consists of an application form, a copy of your Articles of Incorporation or similar document, and a user fee. Some groups, such as churches or those with annual receipts of less than \$5,000, don't even have to register to be considered exempt.

More questions arise on the definition of unrelated business income. Generally, you will owe tax on income from any trade or business that is not substantially related to the organization's exempt purpose. Fortunately, the definitions are quite favorable in this area. The business really has to be quite distinct from the primary purpose of the organization before income becomes taxable. For example, a charity does not pay tax if it runs a thrift shop and uses the proceeds for its charitable work. Generally, rents from leasing out real property, interest income, and dividends are not subject to tax.

Once it is registered, an exempt organization will have to file an annual information return on Form 990 or 990-EZ unless its yearly gross receipts do not exceed \$50,000. Those exempt organizations with receipts of \$50,000 or less must still file an annual return electronically on Form 990-N. Just as with a tax return, there are penalties for filing Form 990 or 990-EZ late or failing to file. There is no penalty on an organization that is required to file Form 990-N but fails to do so; however, if an organization fails to file an annual return for three consecutive years, its exempt status is revoked.

Generally, the filing deadline is the 15th day of the fifth month after the organization's year-end. **For 2013 returns, the deadline for calendar-year organizations is May 15, 2014.** For assistance with this or any of your tax filings, contact our office.