

JANUARY 7, 2014

Reinstatement Reloaded: Revenue Procedure 2014-11 Provides Help for Organizations Whose Tax-Exempt Status Was Automatically Revoked

Since 2010, hundreds of thousands of tax-exempt organizations have lost their exempt status for failing to file the applicable return (Form 990, 990-PF, 990-EZ, or 990-N) three years in a row. While exempt organizations of all types have been affected, many were smaller Section 501(c)(3) charities that never had an annual filing obligation prior to 2007, and whose volunteer staff simply didn't understand the filing obligations. For these, reinstating exempt status is critical – otherwise they can owe income tax, can't offer a deduction to donors, and they become unattractive to government and foundation funders as well. Most charities also need their reinstatement to be retroactive, to eliminate any "taxable gap" between revocation and reinstatement.

In 2011, the IRS published reinstatement procedures – see [here](#) for details. These included a streamlined process for small organizations to seek retroactive reinstatement without having to show **reasonable cause** for missing their annual filings. Unfortunately, that streamlined process expired at the end of 2012; since then, all applicants have had to show reasonable cause or suffer a taxable gap.

Last week, the IRS published new and improved [guidance](#) revamping the entire process. Highlights include:

- › a **new streamlined process** for smaller organizations, allowing them once again to qualify for retroactive reinstatement **without having to show reasonable cause**
- › a new, **broader category** of organizations that can qualify for the streamlined process
- › more clarity on **what counts as "reasonable cause"** for those organizations that don't qualify for the streamlined process
- › **reduced burden** on those applying for retroactive reinstatement within 15 months of being revoked – they now only have to show reasonable cause for one of their missed filings instead of all three
- › clarity on how reinstated organizations can **avoid paying penalties** for the missed returns

RELATED CATEGORIES

- › Attorney General, IRS, Franchise Tax Board, and Property Tax Proceedings
- › Private Foundations
- › Public Charities
- › Unions, Associations, Clubs & Other Tax-Exempt Organizations

AUTHOR



Matt Clausen
Of Counsel

ABOUT OUR BLOG

Nonprofit Law Matters looks at legal issues in the nonprofit and tax-exempt organizations world. Written by the attorneys and paralegals of Adler & Colvin, it provides updates and analysis regarding philanthropy, charity, and other exempt organization issues.

EDITORS



Stephanie L. Petit
Principal



Eric K. Gorovitz
Principal

Perhaps best of all, the IRS says it will apply the new rules to **organizations that were already reinstated** with a taxable gap, but that would now qualify for retroactive reinstatement under the new rules. To take advantage of this IRS largesse, many organizations will need to make an additional filing on or before May 2 of this year, so if your organization (or one that you know) was reinstated with a taxable gap, **don't delay – seek retroactivity today!**