

Automatic Revocation of Exempt Status

06.03.13 | Linda J. Rosenthal, JD



The requirements to maintain an organization's tax exempt status are actually relatively straight forward. The organization must keep accurate financial records, file an annual information tax return and pay any applicable taxes from "unrelated business income," and avoid engaging in prohibited activities.

Making sure that your organization filed the appropriate annual return every year is an absolute necessity because failing to file the appropriate return for three consecutive years will result in the **automatic revocation** of the organization's tax exempt status.

Once an organization's tax exempt status has been revoked, the organization will appear on the on the IRS' Auto-Revocation List which is available to the public via the [Exempt Organizations Select Check Tool](#). Revocation of an organization's tax-exempt status can have any number of negative consequences including the loss of the federal income tax exemption, the loss of state tax exemptions that are dependent upon a federal tax exemption, and your donors loss of the ability to receive tax deductions for donations made after the organization's tax exempt status has been revoked.

Reinstatement of Tax Exempt Status

An organization that has lost its tax exempt status for failing to file the appropriate annual returns must actually **reapply for tax exemption** using exactly the same process the organization completed when it initially sought tax exempt status. Organizations are encouraged to mark their applications and submission envelopes with "automatically revoked" to facilitate appropriate processing. Organizations also must, again, **pay the applicable user fee** – The appropriate user fee can be found on the IRS website (don't rely on the actual Form 1023 or 1024 user fee statement, as the user fee has since changed).

Reinstatement applications are not automatically retroactive; as a result, many organizations apply for retroactive reinstatement of their tax exempt status to avoid the consequences associated with automatic revocation.

Retroactive Reinstatement of Tax Exempt Status

If appropriate, a request for retroactive reinstatement of an organizations tax-exempt status can be submitted with the new application for tax exemption. Successfully complying with the retroactive reinstatement requirements can be quite challenging as the application requires detailed information and documentation to support the request.

The financial impact of an automatic revocation of an organization's tax exempt status can be extremely burdensome. The best way to avoid an automatic revocation is to ensure your organization is in compliance with the IRS' reporting requirements.

If your organization has received notification that your tax exempt status has been revoked, we strongly encourage you to contact a local nonprofit attorney to help you reinstate your tax exempt status to make sure the issue is resolved as quickly as possible.