

# Group Exemptions: New Procedure

05.02.19 | Linda J. Rosenthal, JD



For the many 501(c)(3) organizations around the nation that have group – rather than individual – tax exemptions, the Internal Revenue Service has announced an important, but not widely publicized, procedural change in the annual reporting requirements.

The parent – or “central” – organizations should take note of, and act on, this information immediately.

## ***Group Exemptions as Administrative Convenience***

A “group exemption letter” is a variation of the usual and customary procedure of recognizing tax-exempt status on individual organizations. In appropriate circumstances, the IRS will officially recognize “a group of organizations as tax-exempt if they are affiliated with a central organization.”

Under this format, which is popular with – among others – religious denominations and disease research and support groups, each subordinate member of the group is listed on the central organization’s group-exemption application. There is no need, then, for the any of the subordinate organizations to apply for tax exemption separately. “A group exemption letter has the same effect as an individual exemption letter except that it applies to more than one organization.”

The group exemption procedure was established as an “administrative convenience” both for the IRS and the many affiliated groups around the United States. The subordinates are saved the time and expense of filing individual tax exemption applications, and the IRS is saved the work of processing many separate applications for an affiliated group.

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## ***Annual Requirements Change for Group Exemptions***

Once the group exemption letter has been issued, there are important reporting and filing requirements each year to update and keep this group-exemption status current and in full force and effect. Under Revenue Procedure 80-27, the following information must be submitted:

- Revisions in its official subordinate roster, which includes the names, addresses, and EINs of each recognized subordinate;
- Any changes in the “purposes, character, or method of operation” of the subordinates included in the group exemption; and
- For any newly added subordinates, specific information that is sufficient to verify that each subordinate organization qualifies both for federal tax-exempt status and for inclusion on the group exemption.

The annual update is in addition to a central organization’s requirement to file an Form 990-series return each year, unless a filing exception applies.

The important changes involve the IRS’s elimination of a yearly “annual roster” known as the “List of Parent and Subsidiary Accounts,” that the agency has routinely generated for each group.

“Historically, about halfway through a central organization’s accounting year, the IRS would send a roster detailing the subordinates included on the group exemption ruling, and requesting that the organization return it with any appropriate updates written in by hand, in order to help facilitate the annual group exemption information update.”

This decades-long convenience, “completed entirely by correspondence, enabled the central organization to validate and annotate any changes, additions, or deletions and return the roster to the IRS for processing.” It was a “simple way to keep the IRS’s records of the subordinates included on a group exemption accurate and up-to-date” and also served as a useful “filing reminder.”

Of course, the information update is still due – as before – 90 days before the close of the group’s fiscal period, but without this (expected) roster sent out by the agency well ahead of this yearly deadline.

#### ***Why the Change?***

There is speculation that this unexpected procedural change is “part of a broader shift in reducing its administrative burdens.”

The change appears in the recently revised Publication 557 (January 2019), *Tax Exempt Status for Your Organization*. There it is at the bottom of page 2 of this important publication, at the very end of the “What’s New” section:

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*Group Exemptions: Beginning January 2019, the IRS will no longer send the List of Parent and Subsidiary Accounts to the central organizations . See Group Exemption Letter, later.*

“Rather, the IRS has directed central organizations to provide the IRS with a list containing only changes to names or addresses of subordinates on file and subordinates to be added or deleted from the group exemption letter. If there are no additions or deletions, the central organization is required to submit a statement to that effect. In other words, the IRS appears to want a separate, shorter list only reflecting changes to a roster previously submitted to the IRS.” This tidbit appears in the “Group Exemption” section of Publication 557, as revised in January 2019, on page 9, in a frankly not-very-clear instruction.

Other than buried inside the new Publication 557, this important administrative convenience for the affiliated groups around the nation was given little coverage or attention. And, for the organizations with a FYE June 30, January was just about the time that the “List of Parent and Subsidiary Accounts” ordinarily would have arrived in the mail.

There were blips of attention in various quarters, see – for example, [here](#) and [here](#) – near the end of March 2019. [The FYE June 30 groups suddenly faced a March 30, 2019 deadline to submit the annual update – without the benefit of the convenient roster.]

#### **Conclusion**

Beyond the information in the new Pub 557, there is no “further guidance on how the central organization should indicate updates without receiving the list from the IRS, or how inaccurate or incomplete IRS records can be discovered and corrected.” And, of course, while a central organization may request a copy of its earlier-filed roster, who knows when the already backlogged (from the January government shutdown) agency will be able to find and send it out.