

IRS RECOGNIZES THE ISSUANCE OF ERRONEOUS TAX-EXEMPT STATUS REVOCATIONS DUE TO COVID-RELATED COMPUTER ISSUE

Hodgson Russ Tax-Exempt Organizations Alert
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Recently, the Internal Revenue Service has acknowledged that a computer program issue caused the erroneous revocation of tax-exemption for thousands of nonprofits across the country. This statement from the IRS followed a letter from the Committee on Ways and Means to Secretary Mnuchin, inquiring why the tax-exemption of nearly 28,000 charities had been revoked just before the most popular time for charitable contributions.

Under Internal Revenue Code Section 6033(j)(1)(A), the IRS will revoke the tax-exempt status of nonprofit organizations automatically when organizations with a filing requirement do not file their required Forms 990 for three consecutive years. When such a revocation occurs, it is effective as of the filing deadline, which is typically May 15 for organizations filing on a calendar year basis. This year, however, the Form 990 filing deadline was delayed to July 15 due to the COVID-19 pandemic.

Apparently, the IRS was unable to update their systems to reflect the COVID-19 extended filing deadline, resulting in premature automatic revocations. Many of these revocations were effective as of May 15, 2020, even though the deadline was extended to July 15. Despite their inability to update the automatic revocation system with the deadline extension, the IRS was able to prevent organizations that attempted to electronically file their returns by July 15 from being listed on the IRS website as having had their tax-exempt status revoked.

The premature exemption revocations occurred across the country, with about 1,700 exemptions related to New York organizations. According to the letter sent to Secretary Mnuchin by the Ways and Means Subcommittee on Oversight, there was a 20 percent increase in automatic revocations of tax-exempt status across charitable organizations between May 1 and October 8 this year compared to that same period in 2019.

The IRS is currently reviewing cases and corresponding with organizations that received a premature revocation due to the automatic system failure. If you think that your tax-exempt organization has received a faulty notice of revocation or if you

Attorneys

Andrew Besch
Thomas Collura
Catherine Eberl
Kenneth Friedman
Elizabeth Holden
Kenneth Hunt
Adam Perry
Patricia Sandison
Valerie Stevens
William Turkovich
Marla Waiss
Sujata Yalamanchili

Practices & Industries

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need assistance with obtaining tax-exempt status reinstatement, please contact Marla Waiss (716.848.1203) or Patricia Sandison (518.433.2427).

Please check our Coronavirus Resource Center and our CARES Act page for more information about developments related to the COVID-19 pandemic.

If you received this alert from a third party or from visiting our website, and would like to be added to our Tax-Exempt Organizations mailing list, or any other mailing list, please email hrsocal@hodgsonruss.com.