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What to do if your nonprofit's tax exemption status is revoked

It will likely be a shock and perhaps deeply discouraging to learn that your nonprofit's tax-exempt status has been revoked. There are some immediate steps to consider before rolling up your sleeves to re-apply for tax-exemption.

What now?

When a charitable nonprofit is no longer recognized as tax-exempt, it will be required to pay income taxes on revenue, including donations, and donors will no longer be able to deduct contributions to the organization. Additionally, private foundations may not be willing or able to make a grant to the organization. See our checklist below for suggestions on steps to take if the tax-exempt status of the organization has been revoked.

Practice Pointers

Governance: The board of directors needs to know. Convene the board of directors to explain what happened and the significance. The board may want to be involved in setting a course of action for the near term, as well as determining whether or not re-applying for tax-exempt status is appropriate. Consider the benefits of [fiscal](#)

[sponsorship](#) as an option.

Staff: Make sure all staff (and volunteers, as applicable) understand what has happened, and the significance of the revocation of tax-exempt status.

Communications: The nonprofit's website, and all other communications, should be transparent about the fact that the organization is not tax-exempt. Remove any messages that state that donations to the organization are tax-deductible to the donor, or that describe the organization as tax-exempt.

Donor relations: Designate a spokesperson to communicate with past and prospective donors. Be proactive about communicating with donors and transparent in explaining that while donations given *before* the effective date of revocation are still deductible, future gifts are not, until such time as the nonprofit receives recognition from the IRS that it is once again tax-exempt. If your donors need more information on the deductibility of their gifts, refer them to [IRS Publication 557](#).

Recordkeeping and tax compliance: Your organization's tax-exempt status at the state level is most likely dependent upon the IRS determination of tax-exemption. Contact the state agency responsible for issuing determinations of tax-exemption for state taxes, such as sales/use tax and property tax (as applicable to your organization), and be transparent about the IRS revocation with that agency. Make sure records are kept on revenue sources and amounts so that the nonprofit will be well positioned to file the appropriate tax return and pay income taxes for the period of time that the nonprofit is not tax-exempt.

What if automatic revocation happened in error?

If you believe that your nonprofit's tax-exempt status was automatically revoked in error, the IRS encourages you to contact its Customer Account Services (toll-free): (877) 829-5500. NOTE: Before calling the IRS, be sure to obtain copies of all documentation that you have showing a mistake was made (such as copies of correspondence to or from the IRS demonstrating that an annual return, IRS Form 990 was filed within the last three years). [What to do if you believe your organization is listed as revoked in error.](#)

Re-applying for tax-exemption: The IRS offers guidance on [applying for reinstatement of tax-exemption](#) (if regaining tax-exempt status is important).

- [Form 1023 Application for Tax-Exemption](#).
- Filing fees depend upon the organization's annual gross receipts during the preceding four years. Read about [exempt organization user fees](#).
- Read about requesting [retroactive reinstatement](#).

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