

ELECTRONIC FILING FOR CHARITIES AND NON-PROFITS
FREQUENTLY ASKED QUESTIONS

A. Modernized e-File, Description and Benefits

1. What is e-file for charities and nonprofits (tax-exempt organizations)?

IRS Modernized e-File (MeF) is the name for the electronic filing system for certain tax and information returns. When a nonprofit organization e-files, it sends its information return data to IRS electronically instead of on paper forms. MeF is a web-based system allowing electronic filing through the Internet. MeF uses the widely accepted eXtensible Markup Language (XML) format, a standardized way of identifying, storing and transmitting data. MeF currently accepts filings through IRS' existing Electronic Management System (EMS).

Exempt organizations can e-file:

- Form 990, *Return of Organization Exempt from Income Tax*;
- Form 990-EZ, *Short Form Return of Organization Exempt from Income Tax*;
- Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation*;
- Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*;
- Form 8868, *Application for Extension of Time to File an Exempt Organization Return*;
- Form 7004, *Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and Other Returns* (the extension form associated with the 1120-POL).

Certain tax-exempt organizations are required to electronically file as explained in these FAQs. With few exceptions listed later in these FAQ's, most tax-exempt organizations that file Forms 990, 990-EZ, 990-PF, or 1120-POL can file electronically. Form 990-T, *Exempt Organization Business Income Tax Return*, is not yet available for electronic filing.

IRS e-File is available to tax-exempt organizations that prepare and/or transmit their own returns and to those that rely upon a tax professional to prepare and/or transmit their returns.

2. What is the new electronic filing requirement for small tax-exempt organizations, called e-Postcard (Form 990-N)?

Beginning in 2008, small tax-exempt organizations that previously were not required to file returns may be required to file an annual electronic notice, Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ*. This filing requirement applies to tax periods beginning after December 31, 2006. Organizations who fail to meet their annual filing requirement for three consecutive years are subject to losing their tax-exempt status.

Small tax-exempt organizations, whose gross receipts are normally \$25,000 or less, are not required to file Form 990, Return of Organization Exempt From Income Tax, or Form 990-EZ, Short Form Return of Organization Exempt from Income Tax. With the enactment of the Pension Protection Act of 2006 (PPA), these small tax-exempt organizations will now be required to file electronically Form 990-N, also known as the e-Postcard, with the IRS annually. Exceptions to this requirement include organizations that are included in a group return, private foundations required to file Form 990-PF, and section 509(a)(3) supporting organizations required to file Form 990 or Form 990-EZ. In addition, this filing requirement does not apply to churches, their integrated auxiliaries, and conventions or associations of churches.

See [e-Postcard \(Form 990-N\)](#) for more information about this requirement.

3. What are the benefits of e-File?

E-file is faster, easier and more accurate than filing a paper return.

E-file makes compliance with reporting and disclosure requirements easier by eliminating the need to make copies, assemble all of the appropriate schedules and attachments, and pay for postage. Organizations can comply with public disclosure requirements by posting electronic forms on the web.

E-file results in benefits for both IRS and taxpayers, including:

- More explicit error conditions - New error code explanations pinpoint the location of the error in the return and provide complete information in the Acknowledgement File.
- Faster acknowledgements - Transmissions are processed upon receipt and acknowledgments are returned in near real-time, but no longer than 24 hours. No more waiting for once or twice daily system processing cycles.
- Built-in accuracy checks - Paper Form 990/990-EZ returns have an average error rate of more than 25 percent. Built-in accuracy checks in electronic return preparation software catch the majority of taxpayer errors before the return is submitted.

4. Are there tax-exempt organizations that cannot file Forms 990 or 990-EZ electronically?

Most tax-exempt organizations are able to file electronically. For tax year 2006 and later, exempt organizations can electronically file amended and final returns.

Exceptions to electronic filing for exempt organizations include the following returns:

- Short-year/short period returns
- MeF accepts the current tax year plus two prior tax years For example, an exempt organization could e-file its 2007 return, plus the 2005 and 2006 returns.
- Name change returns

5. Can my state return be filed electronically?

Although dependent upon each individual state's ability to receive electronic filings, Modernized e-File's Fed/State System for businesses and tax-exempt organizations was implemented in January 2006. The Fed/State System permits transmitters to submit multiple federal and state return types within one transmission.

States that choose to participate must complete a registration and testing process before opening Fed/State Filing. Participating states will be listed on the IRS Web site as they complete this process. Michigan is the first state to complete the process to participate in Fed/State filing; and the IRS is working with several other states who will offer Fed/State filing soon.

B. e-File for Exempt Organizations, Submitting an Electronic Return, Using a Tax Professional, or Preparing Your Own Return

6. How do I submit an electronic return? Does a tax-exempt organization need special software to file an electronic return?

Returns and extensions are filed electronically through an Approved IRS 990-e-file Provider. For a complete list of IRS approved e-File providers, go to [e-File for Charities and Nonprofits](#), then click on [Approved IRS 990 e-File Provider](#). Electronically filed returns will be accepted from either third parties or directly from tax-exempt organizations. This web page is continuously updated as new providers are approved, and includes links to companies who offer e-filing software for charities and non-profits. Tax-exempt organizations that purchase tax preparation software and prepare their own return should discuss the various electronic filing options with their software vendor as soon as possible.

If the tax-exempt organization uses a tax professional to prepare the return, it does not need special software to file electronically. The tax-exempt organization's tax professional will need to use software approved for electronic filing, and will also need to be an IRS Electronic Return Originator.

Tax professionals who plan to file Forms 990, 990-EZ, 990-PF or 1120-POL electronically must submit a new or revised electronic IRS e-File application. This is a one-time registration process and you must apply at least 45 days before you plan to electronically file. Log on to www.irs.gov/efile; click on e-Services, and then Registration.

Tax-exempt organizations who meet the definition of large taxpayer can file their own returns. See [Section D](#) of these FAQs.

7. How do I submit attachments, explanations, and schedules required with my return?

In those circumstances where you are required to provide an explanation or description and depending on the software provider, the software will prompt you for the necessary

information and automatically create the "attachment". We refer to this as a *structured attachment*. In all cases, the electronic Form 990 specifications provide more space than the paper return for required explanations and descriptions. In addition, the IRS electronic Form 990 specifications include up to ten General Explanation Attachments. Use of these is optional, but each provides approximately thirty pages that filers can use to provide any additional explanations or descriptions desired. Not all approved software developers have provided for all of the attachments and/or field sizes as allowed by the IRS. Please check with your software provider about any limitations imposed by the software.

Beginning with Tax Year 2006 returns, amended organizational documents and Articles of Dissolution can be attached as PDF documents to an electronically filed return.

8. How do I sign my return?

The most convenient way for you to sign your electronic return is to use an electronic signature Personal Identification Number (PIN) -- and it's completely paperless! Your tax preparer can answer any questions you have about electronic signatures. In addition, the IRS will accept a scanned Form 8453 signature document, which must be in PDF format. This option is available to filers who elect not to use a PIN to sign the return or who use an On-Line Provider to file. Filers who are filing for themselves and not using a third party provider must use Form 8453-EO to sign the return. The PIN option is available to those who use a third party provider.

9. How do I electronically file for an extension?

Form 8868 Part I, the automatic 3-month extension, can be filed electronically or on paper. Part II, the 'non-automatic' additional 3 month extension, must be submitted on paper. You must use an authorized e-file provider to electronically file Part I of Form 8868. The extension form can not be e-mailed to the IRS. A copy of the extension should not be attached to an e-filed return. Choosing to file an extension electronically does not require you to file your return electronically.

The e-file requirement for large exempt organizations applies to Forms 990 and 990-PF, and does not apply to the extension form. The extension may be filed electronically or on paper.

C. Large Tax-Exempt Organizations Required to e-File

10. Which large tax-exempt organizations are required to file returns electronically?

E-filing of Forms 990 and 990-PF is required for some large tax-exempt organizations. For tax years ending on or after December 31, 2006, the regulations require tax-exempt organizations with total assets of \$10 million or more (\$100 million in 2005) who file at least 250 returns annually to file Forms 990 electronically. In addition, private foundations and charitable trusts will be required to file Forms 990-PF electronically regardless of their asset size, if they file at least 250 returns annually. The electronic filing requirement does not apply to the extension Form 8868, even if the filer is required to file its return (Form 990 or 990-PF) electronically.

The electronic filing requirements apply only to entities that file at least 250 returns, including income tax, excise tax, employment tax, and information returns (including W-2's and Forms 1099), during a calendar year. All original returns filed by a tax-exempt organization during the calendar year are counted. Corrected or amended returns are not counted. Returns filed by the same practitioner or other third party, on behalf of other organizations, are not counted. For example, a bank may serve as trustee for many exempt organizations. The number of returns filed by the bank is irrelevant in determining whether any of its clients are required to file electronically.

Example of an organization meeting the electronic filing requirement: If a tax-exempt organization having \$10 million in total assets has 245 employees, it must file Form 990 electronically because each Form W-2 and quarterly Form 941 is considered a separate return. Therefore, the organization in this example would file a total of 250 returns (245 W-2's, four 941's, and one 990).

The controlled group provisions that apply to taxable corporations do not apply to tax-exempt organizations in this context. Thus, the 250 return threshold is determined by reporting entity only.

11. Will the IRS grant waivers releasing tax-exempt organizations from the e-File requirement?

[Notice 2005-88](#) establishes criteria under which tax-exempt organizations can request waivers from the electronic filing requirement:

- Where the exempt-organization can not meet electronic filing requirements due to technology constraints; *or*
- Where compliance with the requirements would result in undue financial burden on the filer.

12. What actions should a tax-exempt organization take to ensure it is ready for filing its return electronically?

That depends on whether the tax-exempt organization will use a tax professional to prepare its electronic return or the tax-exempt organization plans to prepare its own return.

A tax-exempt organization that plans to use a tax professional to prepare its electronic return should check whether the professional is an IRS Authorized e-File Provider.

A tax-exempt organization that plans to prepare its own return should discuss the various electronic filing options with its software vendor as soon as possible and take steps to register and apply for electronic filing.

13. What happens if a tax-exempt organization required to e-File fails to comply?

Tax-exempt organizations that are required to file electronically but do not are deemed to have failed to file the return. This is true even if a paper return is submitted. For organizations with gross receipts exceeding \$1 million, the penalty for non-filing is \$100 for each day the failure continues, up to a maximum of \$50,000 per return. The penalty begins on the due date of the return.

In addition, the person responsible for non-filing will be charged a penalty of \$10 a day up to a maximum of \$5,000, unless he or she shows that not complying was due to reasonable cause.

D. Tax-Exempt Organizations that Meet the Definition of Large Taxpayers

14. What is the IRS's definition of a large taxpayer?

For purposes of electronic filing, the IRS defines a large taxpayer as a business or other entity with assets of \$10 million or more, or a partnership with more than 100 partners, which originates the electronic submission of its own return(s).

15. How does a large taxpayer "originate" the electronic submission of its own return(s)?

After a large taxpayer finishes preparing and signs its return, tax preparation software approved for electronic filing will provide the necessary instructions to "originate" the electronic submission of the return and authorize the filing of the return via IRS e-File. During this process the electronic return data is converted into the format defined by IRS for electronic filing.

According to [Publication 3112](#), *Application and Participation in IRS e-File*, the taxpayer originates the electronic submission of a return by:

- Electronically sending the return to a transmitter who will transmit the return to the IRS;
- Directly transmitting the return to the IRS; or
- Providing a return to an Intermediate Service Provider for processing prior to transmission to the IRS.

16. Are corporate officers or principals of the firm required to complete the registration and application process required for large taxpayers to participate IRS e-File?

No. Tax-exempt organizations meeting the definition of large taxpayer may assign a responsible official who will complete the online registration and application process. The responsible official need not be a corporate officer or a principal of the firm.

17. If a tax-exempt organization meets the definition of large taxpayer will IRS perform the suitability checks discussed in Publication 3112?

No, these suitability checks are not performed on tax-exempt organizations meeting the definition of large taxpayer, or the responsible official, delegated official, corporate officer or principals of the firm because they are required to e-File their return and do not prepare returns for profit. IRS only performs the suitability checks discussed in [Publication 3112](#) on applicants that prepare returns for profit.

18. What additional information is available for large tax-exempt organizations – those that prepare their own returns?

IRS has a guide for corporations that meet the definition of large taxpayer, titled [IRS e-File for Large Tax-Exempt Entities Filing Their Own Information Returns](#).

E. Sources for Additional Information on Charities and Nonprofits e-File

19. Will the IRS respond to questions concerning e-File?

IRS provides e-mail addresses where interested parties can submit questions concerning exempt organization e-file. Tax-exempt organizations can e-mail questions about electronic filing to: te/ge-ee-file@irs.gov. Note: This e-mail service is for e-file related questions only, not account or tax law questions.

Note: Do not send forms of any kind to this e-mail address. Although individual responses may not be possible due to the volume of questions submitted, IRS will post answers to frequently-asked e-file questions on this web site.

For help in completing Forms 990, 990-EZ, 990-PF, call 1-877-829-5500.

For technical questions about filing your return electronically, call the IRS e-Help Desk 1-866-255-0654.