



Lessons From the Front Lines: The IRS And The AIS

AIS Spring Meeting 2017

Des Moines, Iowa

Veronica Johnson, General Counsel

Howard & Johnson, LLC

St. Louis, Missouri






Stand Alone Tax Exempt Status

- An organization files all the necessary paperwork with the IRS
- The IRS issues a determination letter granting tax exempt status
- The organization must file tax returns every year
- If the organization does not file a return for three consecutive years, the IRS will REVOKE the organization's tax exempt status.
- The organization must then apply to the IRS for reinstatement and pay a fee.



Group Tax Exempt Status

- A central or “parent” organization applies to the IRS for a “group exemption”
 - The IRS grants the parent organization a group exemption
 - The parent organization (instead of the IRS) then makes the determination of whether an affiliated organization (or “subordinate”) has tax exempt status
 - The subordinate organization has tax-exempt through the group
- 

- 
- 
- The parent organization then files the tax returns for every subordinate
 - The parent organization each year verifies each subordinate remains exempt
 - The parent organization adds new subordinates as they apply



Nothing is that simple.



Problem Number 1

- The subordinate organization that used to have stand-alone tax exempt status
- Time passes, officers change, tax returns don't get filed
- IRS revokes the stand-alone tax exempt status
- Applying to the AIS for inclusion in the group exemption DOES NOT fix this problem.
- Subordinate MUST apply directly to the IRS for reinstatement of its stand-alone tax exempt status.
- Subordinate can change its name, re-incorporate, re-constitute, and then apply for inclusion in the group exemption



Problem Number 2

- The IRS itself
- Fails to properly include subordinate organizations on Select Check
- Won't answer the phone
- Gives conflicting responses



What can we fix?

- Better information to the subordinates before they apply for the group exemption
- Require each subordinate to determine if it ever had tax exempt status
- If so, determine if that status is still valid
- If not, the subordinate must apply for reinstatement OR reconstitute itself
- Reduce the need to interact with the IRS



Final Fact

- The AIS - not the IRS - issues determination letters to our subordinate organizations
 - If a subordinate organization needs proof of tax exempt status (for donors, for banks, for vendors), it comes from the AIS
- 