



Written by [Bruce Walker](#) on May 17, 2010

IRS Stretches Deeper Into America

The 2006 Pension Protection Act, which passed and became law, has a provision that requires all non-profit organizations to file an annual income tax return with the IRS. Under federal law prior to that act, if a non-profit organization had revenue of less than \$25,000 per year, it did not have to file a tax return.

The law does exclude churches and church-related operations (which, of course, would include synagogues, mosques, and other religious centers as well.)

What this change in federal tax law has to do with protecting pensions is anybody's guess. Like so much federal legislation, this was tacked on to a big federal bill and moved through Congress as somebody's idea of a "reform," although if history is any guide, the reform will simply create more paper shuffling and more uncertainty in the minds of citizens trying to comply with the law.



How many organizations will this affect? The Urban Institute estimates that almost 400,000 non-profits are in that category. If an organization fails to file a return for three straight years, the penalty for failing to file is the loss of tax-exempt status. May 2010 will be the third year for these non-profits to file returns. The IRS will publish a list of non-profits that have failed to file returns, and if these comply this year, the non-profits will not lose its tax-exempt status.

The new federal requirements highlight just how driven our nation has become with tax and other federal regulations. These very small non-profit organizations lack the resources to even hire a full-time staffer, and much of the work is necessarily done by volunteers. Annual incomes that small would typically not require an individual to file an income tax return, and the money which theoretically could be recovered from these tiny non-profits could hardly pay for the tax enforcement efforts.

These also represent the type of non-profit organizations that would appear to do the most good. Some huge charities have big bureaucracies, slick advertising campaigns, legal departments, finance divisions, and so forth. Small non-profits tend to be located in a particular community and focused on a special and clear purpose. Some may be raising money for a child's transplant costs or helping a local hospital. The very sorts of activities which a goliath federal healthcare system is supposed to undertake are often very quietly handled by neighbors helping their fellow neighbors without a lot of paperwork and rules.

Not all charities are good and not all raise and spend funds prudently, but the voluntary nature of the fundraising and the large numbers of volunteers who donate their time to charitable activities makes



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this freely given help — whose goal is not to perpetuate bureaucracies but to do good — much more effective than any social welfare program could ever be. And so, in the weird world of Washington, these small charities need to be regulated more closely.



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