

LEGISLATIVE ALERT
NEW FEDERAL TAX LAW AFFECTS
CHARITABLE ORGANIZATIONS:
“PENSION PROTECTION ACT OF 2006”

President Bush recently signed a new tax law that affects charitable organizations. Changes made by the new law include:

- Annual Information Notice Filings Required by Charities with Less than \$25,000 in Revenues
- Automatic Revocation of Exemption for 501(c)(3) Organizations that Fail to File Information Returns or Notices for Three Years.
- Limit on Deductibility of Donated Clothing And Household Items
- Required Public Disclosure of Unrelated Business Tax Return

In general, the new law takes effect for tax years beginning after August 17, 2006.

The following alert highlights some of the major changes made by the new law that affect charitable organizations. If you are a director or officer of a 501(c)(3) organization or responsible for tax filings by such an organization, you should familiarize yourself with these changes so that you can help your organization comply with these new laws.

Should you require further assistance or information, please call Public Counsel's Community Development Project at (213) 385-2977, extension 200. Our attorneys provide free legal assistance to qualifying nonprofit organizations.

This alert should not be construed as legal advice. This alert is designed as a highlight of the new law, and will not be updated. This alert does not provide a comprehensive discussion of all provisions of the new law that may be applicable to your organization. Please contact an attorney if you need legal advice about tax filing requirements, deductibility of charitable contributions, or otherwise.



H.R. 4: The “Pension Protection Act of 2006”

Summary

On August 17, 2006, President Bush signed into law the Pension Protection Act of 2006 (the “Act”). Although most of the provisions in this law relate to pension plans, the Act also makes several important changes to the tax law that affect 501(c)(3) organizations and the deductibility of charitable contributions. This Alert highlights some of these changes, which including the following:

New Annual IRS Notice Filing Requirement for Small Charities.

Until now, 501(c)(3) organizations with less than \$25,000 in gross receipts were generally exempt from filing IRS Form 990 information returns. For tax years beginning after 2006, these small organizations must make electronic notice filings providing identifying information to the IRS.

Automatic Revocation of Tax Exemption for 501(c)(3) Organizations that Fail to File Tax Returns or Notices for Three Years.

Any 501(c)(3) organization, whether required to file Form 990 or the shorter notice described in 1 above, that fails to file the required report for three consecutive years after 2006 will have its tax exemption automatically revoked.

Limit on Deductibility of Donations of Clothing And Household Items.

Donors of clothing or household items to 501(c)(3) organizations may only take charitable deductions for the value of such items that are in good used condition or better.

Donors Required to Have Substantiation of All Donations Regardless of Amount.

In past years, donors could deduct charitable cash contributions of less than \$250 without substantiating evidence such as receipts or bank records. In tax years beginning after August 17, 2006, donors will need to substantiate all cash donations of any amount.

Public Disclosure Requirements Apply to Unrelated Business Tax Return.

501(c)(3) organizations are now required to make available to the public the Form 990T unrelated business tax return. This form was previously not subject to public disclosure that has always been required for the general Form 990 information return.

Other Changes in the New Law That Affect Charitable Organizations.

The Act contains other law changes including:

- New requirements applicable to donor advised funds, supporting organizations and credit counseling organizations;

- New limits on deductibility of property donated for use by a 501(c)(3) organization if the property is later sold, and of donated fractional interests in property; and
- New benefits during the period ending December 31, 2007, including as the ability to make some charitable donations out of traditional IRA accounts and a change to unrelated business income tax rules for payments made by controlled entities.

When does this law take effect?

Many of the provisions of the new law apply to tax years that begin after August 17, 2006. For organizations that have a tax year that runs from January 1 to December 31, this will mean that these requirements begin in 2007. For example, a small organization with a December 31 year-end will have to file its first notice filing in 2008 for the tax year that begins on January 1, 2007 and ends on December 31, 2007.

Laws relating to the deductibility of clothing and household items are in effect immediately, beginning with contributions made after August 17, 2006.

Where can I find more information?

The full text of the provisions of the Act applicable to tax-exempt organizations can be found on the IRS website at: <http://www.irs.gov/pub/irs-tege/ppacharitableprovisions.pdf>

The IRS has also posted a brief summary of these provisions and the technical explanations of the Act at: <http://www.irs.gov/charities/article/0,,id=161145,00.html>