

# Mandatory Electronic Filing Requirements for Tax-Exempt Organizations

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In today's digital world, tax-exempt organizations should be aware of the electronic filing mandate applicable to information returns and related forms. As part of the IRS' Modernized e-File (MeF) project and its re-engineering efforts, the electronic filing mandate is aimed at modernizing its technology, streamlining the filing process, and improving tax compliance in the tax-exempt sector. Organizations that previously filed their tax returns utilizing the paper method should take action now – and plan accordingly – in order to comply with the electronic filing mandate in advance of their tax return filing deadlines.

The IRS Tax-Exempt & Government Entities (TE/GE) Division recently issued its [Fiscal Year 2021 Program Letter](#) which speaks to the IRS' goals and priorities for the upcoming year. Among the priorities for 2021, the IRS will use noncompliance research and data analytics to detect emerging issues. The IRS has enhanced its systems to enable it to use data-driven approaches, query sets, and models to allow the IRS to more easily identify high risk areas of noncompliance. With these technological advancements, tax-exempt organizations may be exposed to a higher risk of an examination or audit if certain flags are present on electronically filed returns – such as identifying returns filed incompletely or those with omissions and errors.

## Mandatory Electronic Filing

Enacted July 1, 2019, the Taxpayer First Act (Act) mandates electronic filing of the following information tax returns and related forms for taxable years beginning after July 1, 2019:

- Form 990, *Return of Organization Exempt for Income Tax*
- Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation*
- Form 8872, *Political Organization Report of Contributions and Expenditures*

## On the Horizon

The following returns will be subject to the electronic filing requirement in 2021:

- Form 990-T, *Exempt Organization Business Income Tax Return*
- Form 4720, *Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code*

Forms 990-T and 4720 are currently pending conversion into electronic format. Paper-filed returns will continue to be accepted until IRS programming enables electronic filing of these forms. Mandatory electronic filing for the 2020 tax year is expected to begin in February of 2021 for Form 990-T and March of 2021 for Form 4720.

## Relief for Small Organizations

Using Form 990-EZ, *Short Form Return of Organization Exempt for Income Tax*, small tax-exempt organizations are allowed transitional relief under the legislation and will be required to file electronically for tax years ending July 31, 2021 and later. The IRS will continue to accept paper filing of Form 990-EZ for tax years ending before July 31, 2021.

## Exemption Applications Go Electronic

- Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*. As of January 2020, Form 1023 is required to be submitted online via the IRS portal.
- Form 1024-A, *Application for Recognition of Exemption Under Section 501(c)(4)*. Beginning January 5, 2021, electronic filing is available and applications for recognition of exemption can be submitted online via the IRS portal. The IRS will provide a 90-day grace period during which it will continue to accept paper versions of the form through April 5, 2021.

## Technical Requirements

To comply with the electronic filing mandate, tax-exempt organizations who do not engage the services of an outside tax professional should be sure to use an IRS-authorized e-File provider with e-filing software capabilities. Alternatively, tax-exempt organizations should consider engaging a tax professional that exclusively specializes in this area to assist in the preparation and filing of their tax returns.

## Closing Remarks

There is an increased focus in the tax-exempt sector with regard to the expansion of public access to data in order to increase compliance and promote greater transparency, oversight, and accountability. Among the many provisions of the Act, the IRS is required to make electronically-filed return data available to the public in a machine-readable format. The increased accessibility to return data in a more user-friendly fashion will allow the public, donors, regulatory authorities, watchdog organizations and other interested persons to better understand, analyze, and compare tax-exempt organizations across industries. For these reasons, it is now increasingly important – more than ever before – that tax returns be prepared accurately and free from errors and omissions.

## Contact Us

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