

## Nonprofit Notes

# 10 Tax Planning Tips for Nonprofit Organizations at Year-End

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Tax planning at year-end is essential for tax-exempt organizations to ensure [compliance](#) and optimize financial operations. Despite their exemption from income tax, nonprofit organizations still face various tax compliance matters that should be addressed as the year closes. Below are key areas to focus on.

### 1. File 1099s For Your Contractors

- If your organization has paid \$600 or more in compensation to independent contractors for services during calendar year 2025, you must file Form 1099-NEC. The reporting threshold increased to \$2,000 for calendar year 2026.
- If \$600 or more has been paid in rents, royalties, awards or prizes (as an example), Form 1099-MISC must be filed. The reporting threshold increased to \$2,000 for calendar year 2026.

### 2. Report Employee Wages on W-2s

- If your organization has employees, Form W-2 must be filed to report wages, tips and other compensation.

### 3. Report Raffle Winnings with Form W-2G

- Use Form W-2G to report gambling winnings that meet the IRS reporting thresholds for cash and noncash prizes. The form allows you to detail winning amounts, types of gambling activity (such as raffles) and personal information about winners.
- Your organization may also be required to withhold and remit tax if the winnings exceed certain IRS thresholds.

**E-FILING DEADLINES:** Beginning with the 2023 tax year, **1099, W-2 and W-2G forms must be filed electronically** (e-filed) if your organization files 10 or more information returns (in aggregate), which include any of the following forms: 1099 series, W-2, 990, 1042-S, W-2G and others. The **e-filing deadline is February 2, 2026**, to both the IRS and any independent contractors receiving a 1099.

### 4. Identify Your \$1M+ Executives with Form 4720

- Under Section 4960 of the Internal Revenue Code, covered employees paid more than \$1 million in total compensation or given excess parachute payments when terminated (severance or similar) must be identified by filing Form 4720. Those employees would be subject to a 21% excise tax on compensation exceeding \$1 million, with a potential additional excise tax on other payments made upon termination that exceed certain limits.
- Organizations should review their year-end W-2s to determine if any employees exceed the reporting thresholds and begin budgeting for the amount of tax due.

## 5. Use 5578 to Certify Nondiscriminatory Policies for Religious Schools

- If your nonprofit is a private religious school or operating under a group exemption where Form 990 is not required, you must still annually certify that your school has a racially nondiscriminatory policy in place.
- Certify each year by completing Form 5578, *Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax*.

**E-FILING DEADLINES:** The deadline to file Forms 4720 and 5578 is the same: the **15th day of the 5th month after your fiscal year-end**.

## 6. Complete Form 8822-B to Update Address or Responsible Person

- If your organization has moved during the year and has not yet notified the IRS, complete Form 8822-B to update your address to ensure that you receive all IRS communications in a timely manner (e.g., tax forms, notices, refunds, etc.).
- If your organization's **responsible party** changes (i.e., the person with authority to manage or control finances and operations), likewise complete Form 8822-B to provide the IRS with your current point of contact for tax matters.

## 7. File Form 1042-S for Foreign Tax Reporting

- Use Form 1042-S (*Foreign Person's U.S. Source Income Subject to Withholding*) to report income paid to and tax withheld from foreign persons or entities subject to U.S. tax withholding (e.g., non-resident aliens, foreign corporations/partnerships, etc.).

**E-FILING DEADLINE:** The deadline for filing Form 1042-S with the IRS and to the foreign party is **March 15** of the year following the calendar year in which the income was paid.

## 8. Ensure Proper Documentation for Cash and Non-Cash Contributions

- *Donor Acknowledgment* letters are required by your organization to substantiate all charitable donations of \$250 or more, including but not limited to:
  - Amount of the cash contribution.
  - Description of non-cash donations (e.g., clothing, vehicles or property).
  - Statement regarding whether the donor received any goods or services in exchange for their contribution and, if so, the estimated value of these benefits.
- Note that your organization may also be required to file Forms 8282 (*Donee Information Return*) or 1098-C (*Contributions of Motor Vehicles, Boats and Airplanes*) regarding noncash donations, as applicable.

## 9. File Form 990-T to Claim Investment Tax Credit for Energy Property

- If your organization is undergoing or planning construction for energy improvements (e.g., installation of solar panels on the facility roofs, wind and geothermal, heating, power and cooling systems, electric vehicles, installation of dynamic glass and other green energy), you may be able to take advantage of the expanded energy tax credits through direct pay.

**E-FILING DEADLINE:** The deadline to file Form 990-T to capture the credit is the **15th day of the 5th month after your fiscal year-end**.

## 10. Review Your 2025 Activities for Audit and Review Requirements

- If your organization is registered with any state Attorney General office (or equivalent), it may be subject to audit or review requirements in those states.
- Take the time now to review where your nonprofit is currently registered and determine what the thresholds are for audited or reviewed financial statements.
- Ensure a certified public accountant (CPA) is in place now to facilitate this process after year-end.

## We Can Help

As your nonprofit readies itself for year-end tax planning, our professionals can help you understand current tax requirements for nonprofits in general, assess your organization's specific tax obligations and gather the necessary documentation you'll need to comply.

## Contact Us

If you have any questions or need assistance, please contact your PKF O'Connor Davies client service team or:

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