Top 5 Nonprofit Filing Tips from BDO

This nonprofit filing tip sheet highlights key filing considerations and practical reminders to help organizations stay compliant.

990/audit necessities

- Be clear on your state's financial statement requirements and aim to complete within 6 months of your annual close. File annual state forms/registrations by the deadline.
- The fines for late submission of a 990 are assessed automatically and daily – prioritize timely submission. And always submit your 990 electronically!
- Pay particular attention to Form 990, Part VI (governance), Part VII (compensation), and Schedule J for leadership and compensation disclosures, which can be both an IRS and public focus area. Take care in applying IRS definitions for whose compensation to disclose and be prepared to substantiate executive pay.
- Be careful that the narrative disclosures around land stewardship, advocacy, education, and conservation easements align with financial reporting.

Personnel pitfalls

- Employee classification can cause big problems for organizations of all sizes, especially as more states focus this area. Make sure that you are not blurring the lines between contractors, interns, and employees, and that your Fair Labor Standards Act (FLSA) worker classification is aligned with both federal and state law, especially around exempt vs. non-exempt employees.
- Note that state laws can differ from federal regulations and ensure you comply with the laws of all states where employees live.
- And always file all W-2s and 1099s on time!

Exacting tax exemptions

- States have different property tax and sales tax exemption rules. Confirm that your state has formally approved your organization's exemption and that you use it only for qualified activities that further your exempt purpose and mission.
- Investigate how your state's nonprofit sales tax exemption applies to purchases and/or sales and pay close attention to the sales of goods or services that may create sales tax collection obligations.
- With real estate, review whether you are using land and/or buildings for unrelated business activity (e.g., space rentals for a for-profit business. See UBIT below).

What's UBIT with you?

- Regularly review revenue streams to identify activities that could generate Unrelated Business Income Tax (UBIT), which can come from a trade or business not substantially connected to the organization's mission. Common examples of activities that could result in UBIT include providing unrelated services, advertising, sponsorship with return benefits, facility rentals, merchandise sales, debt-financed passive income, and any activities that result in the receipt of a Schedule K-1.

Location, location, location

- Register to solicit donations or maintain physical presence in states where required.
- Pay sales tax in states where nonprofit organizations are not exempt from sales tax. Obtain exemption from sales tax where nonprofits are exempt from sales tax.
- With a remote workforce, you may need to perform a state-by-state review to confirm registration, payroll, HR, and tax obligations for your organization.
- Research whether you need to register as an employer in all states where employees live and work, set up state payroll tax accounts, and begin withholding state income taxes. Be sure to comply with state unemployment insurance, wage and hour rules, state disability insurance, paid leave laws, workers' compensation, and workplace posting requirements.