

Notice: This guide is for informational purposes only and does not provide legal advice or create an attorney-client relationship. You should contact an attorney to obtain advice with respect to any particular issue or problem.

## **Nonprofit Tax Reporting Obligations: Understanding Federal and Massachusetts Tax Filings**

Navigating the ongoing tax reporting obligations for nonprofits is essential for maintaining tax-exempt status and ensuring compliance with federal and Massachusetts regulations. Even though tax-exempt organizations are not subject to income tax, they must still file annual reports with the IRS and often with state agencies to demonstrate transparency and accountability. Failure to meet these obligations can lead to penalties, loss of tax-exempt status, and reputational harm. This guide provides an overview of key filing requirements, deadlines, and best practices to help nonprofits stay compliant and continue serving their missions effectively.

### **What annual federal tax reporting obligations do nonprofits have?**

Nonprofits must file an annual tax return with the IRS. Most tax-exempt organizations will use Form 990 to file. There are multiple versions of the form, so to determine which one to use, it is essential to look at the business's gross receipts and total assets.

- Form 990 is required for larger nonprofits that have over \$200,000 in revenue or \$500,000 in assets.
- Form 990-EZ is a simplified return and is used by medium-sized nonprofits that have gross receipts between \$50,000 and \$200,000 and total assets less than \$500,000.
- Form 990-N is for basic filing for small nonprofits that have gross receipts of \$50,000 or less.
- Form 990-PF is for private foundations.

All the various 990 forms have a filing deadline of **May 15<sup>th</sup>** for calendar-year nonprofits, but for fiscal-year nonprofits, the deadline is **five months after the fiscal year ends**.

#### *Unrelated Business Income*

In addition to federal filings, nonprofits that generate “unrelated business income” must report and pay taxes on that income. “Unrelated business income” arises when a nonprofit engages in activities that (1) constitute a trade or business, (2) are regularly carried out, and (3) are not substantially related to the organization's tax-exempt purpose. For example, if an animal rescue charity opens a public café that is unrelated to its rescue mission, the profits from the café may be considered “unrelated business income”. Nonprofits must pay the Unrelated Business Income Tax (UBIT) on net income from such activities at corporate tax rates, which is reported using IRS Form 990-T. This requirement ensures that tax-exempt organizations do not gain an unfair competitive advantage over for-profit businesses.

## *Penalties*

Failure to file annual reports on time can result in financial penalties, including daily fines of up to \$60,000 for large organizations and \$12,000 for smaller ones. Incomplete or incorrect filings can incur similar penalties. If a nonprofit fails to file for three consecutive years, the IRS will automatically revoke its tax-exempt status, requiring a costly reinstatement process.

Additionally, nonprofits that generate “unrelated business income” must report it using Form 990-T; failure to do so may result in interest charges and failure-to-pay penalties.

## **What annual state tax reporting obligations does a nonprofit have?**

In addition to federal obligations, nonprofit organizations must comply with various state-level filing requirements to maintain their legal standing and tax-exempt status. While specific obligations vary by state, common requirements include (1) Annual Corporate Filings, (2) Charitable Solicitation Registrations for organizations that solicit donations, (3) State Tax Filings, and (4) Employment-Related Filings for organizations with employees.

### *Massachusetts*

In Massachusetts, nonprofit organizations must fulfill several annual filing requirements to maintain compliance and good standing. First, all nonprofit corporations must file an Annual Report with the Secretary of the Commonwealth’s Corporations Division within *two and a half months after the close of their fiscal year*. For example, if the fiscal year ends on December 31, the report is due by March 15. Failure to submit this report can lead to the corporation’s administrative dissolution.

Second, charitable organizations are required to file Form PC with the Attorney General’s Non-Profit Organizations/Public Charities Division. This filing, which includes the appropriate IRS Form 990 and financial statements, is due *four and a half months after the end of the organization’s fiscal year*. For instance, if the fiscal year concludes on December 31, the due date is May 15. Late submissions may incur civil penalties, but extensions of up to six months may be granted if the organization is otherwise compliant.

Additionally, nonprofits with a gross income of \$1,000 or more from unrelated business activities must file Form M-990T to report and pay the state’s UBIT. This form is due on the 15th day of the fifth month after the close of the organization’s fiscal year; for calendar year filers, this means May 15. Late filings and payments may result in penalties and interest.

Furthermore, organizations that solicit funds in Massachusetts must renew their Charitable Solicitation Registration annually with the Attorney General’s Office. The renewal deadline coincides with the Form PC filing deadline—four and a half months after the end of the fiscal year. Non-compliance can lead to penalties similar to those for late Form PC filings. For more information, check out the NONPROFIT SOLICITATION REQUIREMENTS Q&A.

Compliance with state payroll tax obligations is essential for nonprofits with employees. Quarterly returns are due on or before the last day of the month following each calendar quarter—April 30, July 31, October 31, and January 31. Late filings and payments may result in penalties and interest.

## **Are there any potential tax reporting obligations beyond federal and state tax reporting obligations?**

Yes, some *local* governments require annual filings or fees for operating in their jurisdiction. Additionally, nonprofits that own real estate may need to apply for and periodically renew property tax exemptions.

If a nonprofit operates *internationally* or receives *foreign funding*, it may have to file additional forms, which can be found on the IRS website.

## **What reporting obligations do nonprofits have to their donors?**

Nonprofits have tax reporting obligations to donors to ensure compliance with IRS and Massachusetts regulations while allowing donors to claim tax deductions.

For donations of \$250 or more, nonprofits must provide a written acknowledgment that includes the organization's name, the donation amount, or a description (if non-cash), and a statement on whether any goods or services were provided in exchange. *Without this acknowledgment, donors cannot claim a tax deduction!*

If a donor receives something in return for a contribution over \$75, the nonprofit must disclose the donation amount, a good faith estimate of the goods or services received, and a statement clarifying that only the excess amount is tax-deductible.

There are further requirements for donations that are in-kind or above \$500. Check with the IRS website if you have questions about specific types of donations.

Additionally, nonprofits must comply with Massachusetts reporting rules. Massachusetts nonprofits must provide a written acknowledgement for all donations of \$250 or more. The acknowledgement must include: (1) the amount of the contribution and (2) a statement that no goods or services were provided in exchange for the donation (if applicable).

## **What are the best practices to ensure compliance?**

To ensure compliance with tax reporting obligations, nonprofits should adopt best practices that promote transparency and accuracy.

- Keep track of annual filing deadlines and prepare the necessary documents well in advance of the deadline to avoid late filing penalties.
- Maintain detailed records. Organizations should track all donations, including cash, non-cash, and in-kind contributions, while documenting donor details, dates, amounts, and purposes.
- Promptly acknowledge donations. Nonprofits should send written acknowledgments for contributions of \$250 or more *by January 31* and provide clear disclosures for quid pro quo donations over \$75.
- Have strong internal controls by designating a compliance officer and monitoring filing deadlines. Additionally, regular internal and external audits can ensure proper financial

oversight and staying informed about IRS and Massachusetts regulations helps nonprofits navigate evolving tax laws.

Furthermore, providing ongoing training for staff and volunteers on recordkeeping and donor acknowledgment ensures that everyone involved understands their reporting responsibilities.

**Looking for legal help? Contact the following legal organizations to see if you qualify for free legal assistance!**

**Legal Food Hub**  
**legalfoodhub.org**  
[legalfoodhub@clf.org](mailto:legalfoodhub@clf.org)  
**1-844-LAW-GROW (1-844-529-4769)**

**Northeastern University Community Business Clinic**  
<https://law.northeastern.edu/experience/clinics/community-business/>  
**617-373-6435**

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