



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

**Publication 4779**  
**(May 2009)**  
Catalog Number 53287F

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## **Facts about Terminating or Merging Your Exempt Organization**

Most tax-exempt organizations that end their operations, either through shutting down, transferring their assets or merging with another tax-exempt organization, must inform the IRS about the details of the action.

### **Organizations Other Than Private Foundations**

#### **How You Should Inform the IRS**

Usually this is done by filing a final Form 990, 990-EZ or e-Postcard (990-N). Which of these the organization files depends largely on its gross receipts and assets.

For the 2008 tax year returns (filed in 2009 or 2010) the filing guidelines are:

- Gross receipts normally less than or equal to \$25,000, file the e-Postcard (990-N)
- Gross receipts greater than \$25,000 and less than \$1 million, and total assets less than \$2.5 million, the organization can choose to file Form 990-EZ or 990
- Gross receipts \$1 million or more or total assets greater than or equal to \$2.5 million, file Form 990

A [summary table](#) is at [IRS.gov/charities](http://IRS.gov/charities).

#### **When the Return is Due**

If you are terminating your organization or effectively going out of business by merging with another organization, you will need to file a final form four months and 15 days after the date of the organization's termination.

#### **Information You Will Need to Disclose**

Form 990 filers should check the Termination box in the header area on page 1 of the return and answer yes to the question whether the organization liquidated, terminated, or dissolved (line 31 of Part IV) and, if applicable, to the question whether the organization engaged in a significant disposition of net assets (line 32 of Part IV).

Form 990-EZ filers should check the Termination box in the header area on page 1 of the return and answer yes to the question whether the organization liquidated, terminated, dissolved or substantially contracted (line 36 of Part V).

After you've indicated on the 990 or 990-EZ that you are terminating your organization or transferring assets, you'll need to file a Schedule N: *Liquidation, Termination, Dissolution, or Significant Disposition of Assets*. The information required on Schedule N includes a description of the assets and any transaction fees, the date of distribution, the fair market value of the assets and information about the recipients of the assets.

### **Relationship Between Your Organization and Transferee Organization**

Schedule N also asks specific questions about whether an officer, director, trustee, or key employee of your organization is, or is expected to be, involved in the successor or transferee organization by governing, controlling, or having a financial interest in that organization. If you answer 'yes' to any of the questions, you will need to provide the name of the person involved and an explanation of the circumstances.

### **Attachments to Your Return**

You will need to provide a certified copy of your articles of dissolution or merger, resolutions and plans of liquidation or merger along with your Form 990 or 990-EZ. You may also need to provide any other relevant documentation.

### **State Filings**

Organizations in certain states must notify the state attorney general or other appropriate [state office](#) of the organization's intent to dissolve, liquidate, or terminate. A list of state officials can be found on the Charities and Non-profits Web site at [www.irs.gov/charities](http://www.irs.gov/charities). Enter [State Nonprofit Incorporation Forms and Information](#) into the search window.

## **Private Foundations**

### **Termination of Foundation Under State Law**

For the short tax year in which your foundation is fully liquidated, dissolved, or terminated, you must file a final Form 990-PF, *Return of Private Foundation*. You should check the Final Return box in the header area on page 1 of the return, answer yes to the question whether the foundation had a liquidation, termination, or dissolution; and provide the information set forth in General Instruction T of the Form 990-PF instructions. This information includes the following:

- A statement attached to the return explaining the termination,
- A certified copy of any liquidation plan, resolution, etc., and all amendments or supplements that were not previously filed,
- A list of the names and addresses of all recipients of assets, and
- An explanation of the nature and fair market value of assets distributed to each recipient.

If you are terminating your foundation, you will need to file a final form four months and 15 days after the date of the foundation's termination.

You also must consider the special rules that apply to termination of private foundation status.

### **Termination of Private Foundation Status**

Once an organization is classified as a private foundation, it may only terminate that status under the provisions of Internal Revenue Code section 507. Under section 507, there are four ways to terminate private foundation status, two of which involve tax liability:

1. Voluntary termination by notifying the IRS of intent to terminate and paying a termination tax

To voluntarily terminate under section 507(a)(1), the organization must send a statement to the Manager, Exempt Organizations Determinations (Internal Revenue Service, Exempt Organizations Determinations, P.O. Box 2508, Cincinnati, OH 45201) of its intent to terminate its status under section 507(a)(1). The statement must provide, in detail, the computation and amount of private foundation termination tax. Unless the organization requests abatement, it must pay the tax at the time the statement is filed.

2. Involuntary termination for either willful repeated violations or a willful and flagrant violation of the private foundation excise tax provisions and becoming subject to the termination tax

3. Transfer of assets to certain public charities

A private foundation may terminate its status under section 507(b)(1)(A) by distributing all its net assets to one or more organizations with a ruling or determination letter described in section 509(a)(1). However, the organization to which the distribution is made must have been in existence and so described for a continuous period of at least 60 months before the distribution. A private foundation that terminates its status in compliance with section 507(b)(1)(A) is not required to notify the IRS of its intent to terminate, and does not incur any tax under section 507(c).

4. Operating as a public charity for a continuous period of 60 months after giving appropriate notice

An organization may terminate its private foundation status under section 507(b)(1)(B) if it meets the requirements of section 509(a)(1), (2), or (3) for a continuous 60-month period beginning with the first day of any tax year, and notifies the Service before beginning the 60-month period that it is terminating its private foundation status.

The notice of termination of private foundation status via operation as a public charity should include:

- The name and address of the private foundation,
- Its intention to terminate its private foundation status,
- The Code section under which it seeks classification (section 509(a)(1), (2), or (3)),
- If section 509(a)(1) applies, the specific type of section 170(b)(1)(A) organization for which it seeks classification,
- The date its regular tax year begins, and
- The date the 60-month period begins.

The organization also must establish immediately after the end of the 60-month period that it has met the requirements of section 509(a)(1), (2), or (3).

A foundation may also transfer its assets to another private foundation, commence voluntary termination, and pay no termination tax because it has no assets. In this case, the transferee acquires all of the aggregate tax benefits of the transferor associated with the transferred assets.

**References** (click to link to IRS.gov page)

[Form 990, Return of Organization Exempt From Income Tax](#)

[Form 990-EZ, Short Form Return of Organization Exempt From Income Tax](#)

[Schedule N: Liquidation, Termination, Dissolution, or Significant Disposition of Assets](#)

[Form 990-N, Electronic Notice \(e-Postcard\) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ](#)

[Form 990-PF, Return of Private Foundation](#)

[Form 990 Series, Filing Phase-In](#)

[State Non Profit Information](#)

[Life Cycle of a Public Charity](#)

[Life Cycle of a Private Foundation](#)

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