



HB 122

State Aid – Nonprofits – Status

Hearing before the House Government, Labor, and Elections Committee

Jan. 27, 2026

POSITION: Unfavorable

Community Law Center (CLC) is a 501(c)(3) nonprofit organization, which is a legal partner to Maryland neighborhoods and nonprofits in pursuit of more just and vibrant communities. CLC provides direct legal representation to communities and nonprofits on issues like tax exemption and organizational governance, real estate, contracts, intellectual property, employment law, and more. We advocate on issues that impact our Maryland neighborhood and nonprofit clients, including nuisance and vacant properties.

CLC opposes HB 122 because it is an unnecessary regulation on state grants. The Maryland State Department of Assessments and Taxation (SDAT) and the IRS already provide oversight of nonprofits and their corporate and tax status, as well as consequences if organizations do not comply with legal and tax filing requirements: If an organization does not file its annual Maryland Form 1, SDAT will list it as “not in good standing,” and will eventually forfeit its incorporated status as a nonstock corporation. If an organization does not file its annual IRS Form 990, 990-EZ, or 990-N e-postcard for three consecutive years, its tax exempt status will be automatically revoked.

In CLC’s work with nonprofits, particularly small, grassroots, volunteer-led nonprofits, we have seen that organizations may miss these filings particularly when they are undergoing leadership transitions. When made aware of the oversight, they quickly complete the filings to correct the error and get back on track. If HB 122 passes, an organization might miss the April 15 filing deadline for their Maryland Form 1, quickly correct the mistake and file the Form days later, but still lose state funding if the state grantor checked the organization’s status within the brief window in which it was not in good standing.

In addition, **HB 122 does not define “good standing” in relation to the IRS.** While Maryland SDAT lists organizations as “not in good standing” if they have missed a single year of Form 1 filings, the IRS does not; an organization retains its 501(c)(3) or other tax exempt status until it misses three consecutive years of Form 990-series filings. Is an organization not “in good standing” with the IRS if it misses a single Form 990-N e-postcard? Or only if it misses three consecutive years and has its tax exempt status revoked?

Nonprofits provide critical benefits to Maryland residents and neighborhoods, and state aid to these organizations recognizes the contributions they make to our communities. This bill will make it more difficult for organizations to operate and for state grantors to provide appropriated funding, without a recognizable benefit, as state and federal agencies already have processes in place to ensure nonprofit compliance with their regulations. CLC opposes HB 122. Thank you for the opportunity to testify.

For the above reasons,
CLC urges a UNFAVORABLE VOTE ON HB 122.

Please contact Shana Roth-Gormley, Staff Attorney at Community Law Center, with any questions.
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