
The New IRS Form 990

what's the impact on your organization?

Richard Pon, CPA, CFP®
Lautze & Lautze CPAs & Financial Advisors

Jeff Nguyen, Esq.
Manatt, Phelps & Phillips, LLP

manatt



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

The Revised Form 990

11 page core form (up from 9 pages) & 16 possible schedules (up from 2)

Among the highlights of the new form are the following:

- A summary page providing the organization's identifying information and a snapshot of the organization's key financial (2 year), compensation, governance, and operational information.
- A portion of the form requires governance information including the composition of the board, and certain other governance practices.
- Schedules that will focus reporting on certain areas of interest to the public and the IRS: grants, fundraising, compensation, hospitals, tax exempt bonds and non-cash charitable contributions.
- Revamping of public support test to include 5 years (rather than 4)

Implementation of New Form 990

- New Form 990 effective for 2008 tax year (for many organizations this will be FYE: 2009)
- Revised 990-EZ filing thresholds for 3 years!
- Schedules H (Hospital) & K (Bonds) phased-in
- No changes for Forms 990-T (UBI) or 990-PF (IRS will probably revamp 990-PF by 2012)

Action Plan

- Take advantage of the higher 990-EZ filing thresholds for 2008-2010.
- Identify the schedules that need to be completed (990 Part IV)
- Discuss with key internal stakeholders, including finance, program leaders, fundraisers, public/government relations, and human resources.
- Discuss with key external stakeholders, including grant makers or fundraisers, accountants, and lawyers.
- Identify those required to be listed in the compensation tables (990 Part VII & Schedules J & L)
- Review the questions on governance, management, and disclosure. (990 Part VI)

Action Plan (continued)

- Involve the board and management team, and make them aware of the new reporting rules. Review the questions on 990 Part VI with management.
- Establish or modify internal systems, if necessary, to prepare for additional disclosure. Review new categories on 990 Part VIII & Part IX. Review Schedule D supplemental disclosure.
- Review disclosure for fundraising/gaming (Sch G).
- Review disclosure for foreign (Schedule F) & domestic grants (Schedule I).

New Form 990-EZ Filing

- For 2008 tax year: Gross receipts over \$25,000 and under \$1,000,000, and assets under \$2,500,000;
- For 2009 tax year: Gross receipts over \$25,000 and under \$500,000, and assets under \$1,250,000;
- For 2010 and later tax years: Gross receipts over \$50,000 and under \$200,000, and assets under \$500,000.
- New Form 990-EZ contains up to 7 schedules:

Schedule A, Public Charity Status and Public Support

Schedule B, Schedule of Contributors

Schedule C, Political Campaign and Lobbying Activities

Schedule E, Schools

Schedule G, Fundraising or Gaming Activities

Schedule L, Transactions With Interested Persons

Schedule N, Liquidation, Termination, Dissolution

The Revised Form 990 Schedules

A Public Charity Status and Public Support

B Schedule of Contributors

C Political Campaign and Lobbying Activities

D Supplemental Financial Statements

E Schools

F Statement of Activities Outside the US

G Fundraising and Gaming

H Hospitals

I Grants Inside the U.S.

J Compensation

K Tax Exempt Bonds

L Transactions with Interested Persons

M Non-Cash Contributions

N Liquidation, Termination, Dissolution or Significant Disposition of Assets

O Supplemental Information

R Related Organizations & Unrelated Partnerships



Form 990 Part I Summary

The summary page includes:

- Mission or most significant activities
- Number of members of governing body
- Total # of employees & total # of volunteers
- Financial information, including revenue, expenses, total assets, total liabilities, and net assets for the current and prior year
- New: (a) type of entity, (b) year formed, (c) state of domicile

Form 990 Part III Program Accomplishments

- Requires reporting of the organization's new, ongoing and discontinued exempt purpose achievements and related revenue and expenses.

- For 501(c)(3) or 501(c)(4) filers, report the organization's 3 largest programs & include:
 1. Grants and allocations to others
 2. Total expenses
 3. Revenue

Form 990: Part IV - Checklist

- Used by the organization to determine which schedules it must complete and file with the IRS as part of the Form 990.

ACTION ITEM: Have management & accounting staff review Part IV as soon as possible to identify new filing requirements. Start a methodology for reporting & saving required information.

Form 990 Part V: IRS Compliance

- Used by the organization to report its compliance with other federal tax reporting (i.e. UBIT, gambling) and substantiation requirements.
- Two new questions on the revised 990 focus on gaming & special events that may be targeted by an IRS auditor. These questions are:
 1. Number of Forms W-2G filed for certain gambling winnings?
 2. Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?

Form 990 Part VI: Governance, Mgmt & Disclosure

Form 990 asks many “Yes/No” questions on governance:

- Does the organization have a written conflict of interest policy?
- Does the organization have a written whistle-blower policy?
- Does the organization have a document retention & destruction policy?
- Did the process for determining compensation include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?
Note: process must be described on Schedule O.
- Is there documentation of minutes at board & committee meetings?
- Describe in Schedule O how the organization makes its governing documents, conflict of interest policy and financial statements public

Note: Negative answers may unduly influence the reader.

Form 990 Part VII Compensation

Reporting of:

- current officers, directors, and trustees (no minimum compensation)
- current key employees (over \$150,000 of reportable compensation)
- current 5 highest compensated employees other than officers, directors, trustees, or listed key employees (over \$100,000 of reportable compensation)
- former officers, key employees, and highest compensated employees (over \$100,000 of reportable compensation, with special rules for former highest compensated employees)
- former directors and trustees (over \$10,000 of reportable compensation in the capacity as a former director or trustee)

Form 990 Part VII Compensation (cont)

The officers of an organization are determined by reference to its organizing document, bylaws, or resolutions of its governing body, or as otherwise designated consistent with state law, but at a minimum include those officers required by applicable state law.

For purposes of Form 990 reporting, treat the organization's top management official and top financial official (the person who has ultimate responsibility for managing the organization's finances) as officers.

Form 990 Part VII Compensation (cont)

A key employee is defined as an employee, other than an officer, director, or trustee, who:

1. received reportable compensation of more than \$150,000 for the year (the \$150,000 Test);
2. had or shared organization-wide control or influence similar to that of an officer, director, or trustee, or managed or had authority or control over at least 10% of the organization's activities (the Responsibility Test);
AND
3. ranked among the organization's 20 highest-paid employees for the year who satisfied both the \$150,000 Test and the Responsibility Test (Top 20 Test).

Under this new definition, an organization will report a maximum of 20 key employees.

Form 990 Part VII Compensation (cont)

- Compensation is from W-2 (box 5 Medicare) or Form 1099-Misc (box 7) on a calendar year-basis and therefore not likely to match financials
- “Former status” applies to individuals reported as current on any Form 990 from 5 previous years
- Continued on Schedule J-2 (if extra space needed)
- Part VII Section B reports (a) 5 highest paid independent contractors (includes organizations) over \$100,000 and (b) total # over \$100,000

Prior form: 501(c)(3) filers with a \$50k threshold

Form 990 Part VII Compensation (cont)

Other compensation in Column (F) must include:

1. Tax-deferred contributions by the employer to a qualified defined-contribution retirement plan.
2. The annual increase in actuarial value of a qualified defined-benefit plan, whether or not funded or vested.
3. The value of health benefits provided by the employer, whether or not qualified, that are not included in reportable compensation.
4. Tax-deferred contributions by the employer and employee to a non-qualified defined contribution plan, whether or not funded, vested, or subject to a substantial risk of forfeiture.
5. The annual increase in actuarial value of a non-qualified defined benefit plan, whether or not funded, vested, or subject to a substantial risk of forfeiture.

Other compensation (not listed above) excluded if under \$10k per item.

Form 990 Part VIII: Revenue

Revenue now includes reporting for

- Federated campaigns (such as United Way)
- Revenue from related organizations
- Income from investment of tax-exempt bonds
- Royalties
- Gross income from gaming activities

Form 990 Part IX: Functional Exp.

Functional Expenses now includes reporting for:

- Lobbying
- Investment management fees
- Advertising and promotion
- Information technology
- Royalties
- Payments to affiliates
- Insurance

Also the new form clarifies that misc expenses may not exceed 5% of total expenses.

Schedule A: Public Support Test

- Separate public support test schedules for 509(a)(1) and 509(a)(2) organizations
- Changes public support computation period to five years (4 prior years & current year)
- Eliminates requirement to use cash method. Now required to use same overall accounting method throughout the entire return.
- 10% facts & circumstances test shown on form
- Advanced ruling process eliminated.

Schedule J: Impact on Compensation

Supplemental Compensation Info

- Types and amounts of taxable and non-taxable compensation
- Discloses information about policies regarding certain benefits and travel/entertainment expenses
- Discloses incentive compensation based on gross revenues, net earnings, or other factors
- Amounts reported on Schedule J are CALENDAR year W-2/1099

Schedule J Compensation (cont)

- Former officer, director, trustee, key employee or 5 highest compensated on 990 Part VII, Section A
- Current or former officer, director, trustee, key employee or 5 highest compensated (if > \$150k combined benefits & income on 990 Part VII)
- Individuals on 990 Part VII who receive comp from unrelated organizations for services rendered to exempt organization

Schedule J: Impact on Compensation

Part I Question 1a asks for:

- First-class or charter travel
- Travel for companions
- Tax indemnification & gross-up payments
- Discretionary spending accounts
- Housing allowance or residence for personal use
- Payments for business use of personal residence
- Health or social club dues or initiation fees
- Personal services (e.g. maid, chauffeur, chef)

Report Detail on schedule J Part III

Schedule J Compensation (cont)

Part II requires a five-part breakout of compensation:

1. base compensation included in reportable compensation,
2. bonus and incentive compensation included in reportable compensation,
3. other amounts included in reportable compensation,
4. deferred compensation not included in reportable compensation,
5. nontaxable benefits

Plus previously reported deferred compensation (intended to address double-reporting issue - year of deferral vs. year of receipt)

Schedule L: Transactions with Insiders

- Disclosure of identity (not status or title) of person with excess benefit transactions
- Loans to and from interested persons
- Grants or assistance benefiting interested persons (including name of interested person, relationship, amount of grant or type of assistance)
- Business transactions involving interested persons (including description, relationship, amount)

Other Form 990 Schedules

Schedule B – Contributions

- No changes

Schedule C – Political & Lobbying

- Applies to all 990 filers (if applicable). Previously only required for 501(c)(3) filers.
- Requires estimate of volunteer hours
- Section 501(h) lobbying election disclosure unchanged
- Political activities of 501(c)(3) NOT allowed
- Lobbying parts required of 501(c)(3) filers only.

Other Form 990 Schedules

Schedule D – Financial Statement Detail

- Detail on investments, fixed assets, liabilities
- Reconciliation of revenue and expenses with audit
- Detail on donor advised funds
- Detail on endowment fund history
- FIN 48 disclosure. [FIN 48 delayed for non-public companies for years beginning after 12/15/08.]

Schedule E – Schools

- No changes to questions shown on prior Sch. A

Other Form 990 Schedules

Schedule F – Foreign Activities

Requires details of your international activities if you conduct any of the following activities abroad:

- Grant making, fund raising, or conducting a trade or business;
- Maintain exempt activity programs;
- Maintain an office, employees, or agents

Foreign grant reporting required if total revenue or expenses exceed \$10k

Other Form 990 Schedules

The information required on Schedule F includes:

- The activities and amount spent in each region.
- Purpose of grant & description (cash, noncash)
- The identity of organizational and individual grantees.
- Organization's procedures for monitoring the use of grant funds outside the U.S.

Other Form 990 Schedules

Schedule G - Info Regarding Fundraising Activities

- Applies if fundraising events gross more than \$15,000
- Detail about payments to individuals or organizations for fundraising services
- List of the states in which they solicit contributions
- Detail of (a) revenue from and (b) expenses incurred for special events (i.e. dinner, auctions, golf) and gaming
- Schedule listing the two largest fundraising events and total fundraising events, as measured by gross receipts

Other Form 990 Schedules

Schedule H - Hospitals

- For 2008, only Part V (Facility Info) required

Schedule I – Grants & Assistance Within U.S.

- Applies if total grants (including scholarships) > \$5,000 to organizations or individuals in the United States.
- Description of procedures for monitoring the use of grants
- Detail of the amounts, forms (cash or non-cash), and purpose
- Total number of grants must be reported
- Grants separated into individual vs. organization grants

Other Form 990 Schedules

Schedule K – Tax-Exempt Bonds

- Only Part I required for 2008
- Bonds issued before 2003 or bonds with outstanding principal under \$100,000 are not reported.

Schedule M – Noncash Contributions

- Required if aggregate noncash over \$25,000 or
- Required if art, historical treasures or qualified conservation contributions received
- Do not report donations of services or use of facilities

Other Form 990 Schedules

Schedule N – Liquidation, Termination, Dissolution

- Required for all filers, not just 501(c)(3)s

Schedule O – Supplemental Information

- No attachments, all supplemental info on Schedule O
- Many forms ask for detail to be reported on Schedule O
- Efiling limitations (vendors may have limitations)

Schedules P & Q – Nothing yet! Colleges & Universities?

Sample Governance Policies

- Independent Sector (www.independentsector.org)
- Panel on the Nonprofit Sector
(www.nonprofitpanel.org)
- American Society of Association Executives
(www.asaenet.org/)
- National Council of Nonprofit Associations
(www.ncna.org)
- Center for Philanthropy (www.philanthropy.iupui.edu)
- BoardSource (www.boardsource.org)

THANK YOU

Richard Pon, CPA, CFP®

Lautze & Lautze CPAs & Financial Advisors

303 Second Street, Suite 950N

San Francisco, CA 94107

(415) 543-6900

www.lautze.com

Jeff Nguyen, Esq.

Manatt, Phelps & Phillips, LLP

One Embarcadero Center, 30th Floor

San Francisco, CA 94111

(415) 291-7400

jnguyen@manatt.com

www.manatt.com

manatt

