

Issue at a Glance:

IRS Redesigns Form 990 for the 2008 Tax Year

The new Form 990 requires substantial changes in reporting requirements over previous years. Are you aware of what you can be doing now to limit the impact to your organization?

The new Form 990, to be phased in by the IRS starting with the 2008 tax year, marks a dramatic shift in direction that will give both the IRS and the public unprecedented insight into the inner workings of all tax-exempt organizations and the way in which virtually every aspect of the organization operates.

It is important that tax-exempt organizations prepare themselves now for the impact of the changes to Form 990. Completing the new Form 990 will require greater knowledge of technical and complex areas of the organization than ever before.

Unlike the old Form 990 – which was essentially a tax return where income and revenue were reported – the new Form 990 is an 11-page disclosure document that provides a vast store of readily available information about the activities of the filing organization.

A sampling of the major changes in Form 990's new 11-page Core Form includes:

- **Governance, Management, and Disclosure** is a new section that delves into an organization's governance structure, policies, and disclosure practices. Even though federal law does not mandate particular management structures, operational policies, or administrative practices, the IRS considers such policies and procedures generally to improve tax compliance. As a result, the absence of such policies and procedures – which preferably should be in writing – may lead to opportunities for excess benefit transactions, operations for non-exempt purposes, and other activities inconsistent with tax-exempt status.
- **Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors** has changed significantly. Those changes encompass new definitions for officers and key employees and extend reporting compensation for the top five highest paid employees to all organizations filing Form 990. Those organizations now include social welfare organizations, business leagues, trade associations, and social clubs.
- **A Conflict of Interest Policy**, preferably in writing, should define all conflicts of interest, identify classes of individuals within the organization covered, facilitate disclosure of information that may help to identify conflicts, and specify procedures to be followed in managing conflicts of interest.

Beyond changes to the core form, the new Form 990 contains up to 16 schedules. Each tax-exempt organization must fill out a checklist of required schedules to determine which schedules it ultimately must complete. Areas of significant change here include the following:

- Schedule A has been revised to emphasize reporting of public charity status, including satisfaction of applicable public support tests on an ongoing basis.
- Schedule D contains new reporting requirements for conservation organizations, museums, and other organizations maintaining collections of works of art and other items; credit counseling organizations and others holding funds in escrow or custodial arrangements; and organizations maintaining endowments.
- Schedule G requires reporting of certain information regarding arrangements with professional fundraisers, revenue from special events, and revenue from gaming activities.

Other new Schedules include those for reporting foreign activities (Schedule F), hospitals (Schedule H), tax-exempt bonds (Schedule K), non-cash contributions (Schedule M), and relations with other tax-exempt and taxable organizations (Schedule R).

So how do all of these changes affect your organization? Completing the Form 990 requires greater knowledge of both technical and complex areas of the organization than ever before.

It is also essential that the filing organization present a realistic picture of its activities. That may mean including an attachment in order to further explain the answer to a question in narrative form. It also underscores the need for consistency between how filing organizations report information and respond to questions since data from the Form 990 routinely will be utilized for financial analysis and comparison.

The changes to the Form 990 will be phased-in over a three-year period beginning with charities with gross receipts over \$1,000,000 and total assets over \$2,500,000. Organizations will be subject to filing the new Form 990 as defined by the phase-in parameters below:

<u>Tax Year</u>	<u>Gross Receipts</u>	<u>Gross Assets</u>
2008	\$1,000,000	\$2,500,000
2009	\$ 500,000	\$1,250,000
2010 and later	\$ 200,000	\$ 500,000

Organizations whose gross receipts and gross assets are less than the above amounts for the applicable year may file the Form 990-EZ.

Items to Keep in Mind

- Be prepared to provide extensive narrative disclosures under the new requirements.
- Additional administrative procedures may be required to gather accurate information.
- Assess the level of accuracy required for the reported information. Be aware of the high penalties the IRS may assess associated with incomplete or inaccurate returns.
- Determine who is responsible for signing Form 990.
- Develop written policies and procedures for:
 - Conflict of Interest
 - Annual Disclosure of Conflicts of Interest
 - Enforcement of Conflicts
 - Whistleblower and Document Retention
 - Compensation
 - Joint Venture

Please join us for a more detailed review of the significant changes to the new Form 990. For information about our upcoming seminars, or to reserve your seat, please contact Liz Ambrose, director of marketing, at 757-534-7452.