

Form 990: A Snapshot of Key Revisions

After extensive revision, the IRS has released a redesigned Form 990, as well as related Instructions, effective for tax year 2008. The new Form 990, which is the first major revision in almost 30 years, will be required for filing in 2009 for years ending on or after December 31, 2008. The IRS developed the new form with the goals of enhancing transparency, promoting tax compliance, and minimizing the reporting burden on filing organizations. For larger organizations, however, many anticipate the new form to be more cumbersome than the old one.

Starting with the 2010 tax year the IRS will increase the filing threshold for organizations required to file Form 990-N (the e-postcard) from \$25,000 to \$50,000.

The previous Form 990 included nine pages, two schedules and several potential attachments. The new Form 990 includes an 11-page "Core" Form and 16 additional schedules. The number of schedules each organization is required to complete is dependent on information reported in the core form.

Information About The Organization

Organizations will need to provide details about their activities and governance. This includes the organization's mission or most significant activities, and who governs the organization. The IRS also requires disclosure as to how duties are delegated and whether the Board is provided with certain documents (e.g., Form 990) before they are filed.

The form retains the disclosure of a conflict of interest policy, but adds two new questions concerning the organization's compliance with the policy. There are also new questions whether or not the organization has a:

- Whistle blower policy
- Written document retention and destruction policy
- Joint venture arrangement policies

The IRS believes it has the authority to ask for these policies under the presumption the existence of an independent governing body and well-defined governance are good indicators an organization is likely to be operating in compliance with federal tax law.

Business Income & Compensation

Organizations are required to indicate whether financial statements were compiled, reviewed or audited by an independent accountant. If so, the organization must indicate whether or not it has a committee that assumes responsibility for oversight of the financial statements and selection of the independent accountant.

The previous version of the Form 990 included reporting the compensation paid to the top five highest compensated employees and independent contractors on Schedule A, which was only required to be completed by 501(c)3 organizations. With the new Form 990, all tax exempt organizations are required to report this information.

The disclosure requirement for payments to independent contractors has been revised. Previously, the disclosure requirement included the five highest compensated independent contractors over \$50,000 for both “professional” and “other” services, and was reported on Schedule A. With the new Form 990 only the five highest compensated independent contractors who received more than \$100,000 of compensation from the organization is reported on the core form.

Note: The definition of “related organization” has been broadened. The new standard not includes organizations with a “close connection” to the reporting organization. The IRS indicates a close connection includes direct or indirect ownership, but can be broadened in some cases.

Another change involves the reporting of compensation paid to officers, directors, trustees, and key employees. With the new Form 990, “reportable compensation” must now be reported for the calendar year ending with or within

the organization’s tax year. “Reportable compensation” is now defined as the compensation reported on Form W-2 and Form 1099-Misc. Organizations must report compensation from themselves and from related organizations. In addition, the compensation disclosure threshold has increased to \$150,000 of reportable compensation for key employees. There is still no minimum compensation threshold for officers, directors and trustees.

The core form retains the “Statement of Program Service Accomplishments.” This includes, along with the organization’s mission, a description of any new significant program service changes. Detailed descriptions of the top three tax exempt activities, including expenses, grants awarded, and direct revenue, need to be reported.

Schedule Highlights

Schedule A – Public Charity Status. In reporting all amounts on Schedule A, the filing organization must now use the same method of accounting that the organization used to complete its financial statements.

Schedule D – Supplemental Financial Statements. Along with requiring the supplemental disclosure of certain financial statements, Schedule D may also be required to be completed by conservation organizations, museums and other organizations maintaining collections, credit counseling organizations and others holding funds in escrow or custodial arrangements, and organizations maintaining endowments or donor advised funds and similar funds or accounts.

Schedule M – Non-Cash Contributions. This Schedule, among other items, requires reporting of the quantity and reported financial statement amount of non-cash contributions received by type of property. This includes any non-cash donated items which were sold immediately after being received.

Although the revisions to Form 990 can be seen as expansive, the Form is broken down into definable sections. Definitions of key terms (e.g., reportable compensation is defined as that in excess of \$150,000 from the organization and all related organizations) are available so the organization is clear on what information is being requested.

The material presented in this article is merely a “snapshot” of the new requirements. If your organization is subject to the revision standards we highly encourage you consult with your advisors for further guidance on how to complete the 2008 Form 990 prior to IRS submission.

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