

## NONPROFIT AND GOVERNMENT

### Act Now to Prepare for the New 990

by Karen A. Gries

The Internal Revenue Service has completely redesigned Form 990—the information return filed by charities and other tax-exempt organizations. You need to act now to make sure you understand the new form, including new policy disclosures and reporting requirements. The form is effective for tax year 2008, with returns due May 15, 2009, or after.

The 2008 Form 990 consists of an 11-page core form and 16 related schedules. All tax-exempt organizations must complete the core form, which contains questions intended to increase the transparency of tax-exempt organizations and present the IRS and stakeholders with a realistic picture of entities and their operations. The 16 schedules are required only if your organization participates in certain activities. For example, Schedule C will only be completed by those organizations participating in political and lobbying activities.

The 2008 form requires exempt organizations to report information never requested before. It also requires greater accounting detail than the current form. Here are some of the highlights.

#### **Governance**

The form asks questions about organizational policies such as conflicts of interest, whistleblowers, document retention, and joint ventures. The form also requests information about the composition and independence of the governing body and unrelated business income, documentation of board and committee actions, compensation practices for key individuals, and the board's review of the Form 990 itself.

#### **Compensation**

The form requests information about compensation of directors, officers, key employees, highly compensated employees, and independent contractors. A significant change is that compensation—including that from related organizations—will now be reported on a calendar-year basis through W-2s and 1099s.

Schedule J requires a description of specific types of compensation, including first-class travel, companion travel, gross-up payments to cover taxes, housing allowances, club dues, and personal services, such as maid or chauffeur services. Organizations must describe the process of approving executive compensation, including specific information about nontaxable benefits and deferred, incentive, and other compensation.

#### **Revenue and expense reporting**

The revenue and expense reporting format has changed. Organizations will now be required to disclose amounts paid for services such as management, legal, accounting, lobbying, professional fundraising, and investment management.

#### **Public charity status**

Schedule A is now limited to information concerning 501(c)(3) public charity status and details regarding supporting organizations. In addition, the public support calculation method must be the same method used within the tax filing. For example, an accrual-basis organization will complete the public support schedule on an accrual basis. And, for publicly supported organizations that are not meeting the 33 $\frac{1}{3}$  percent public support test, the form requires an explanation of how the organization meets the 10 percent facts and circumstances test.

#### **Schedule of contributors**

Schedule B remains unchanged from the current version; however, the instructions clarify the method of reporting contributions and the definition of “contributor.”



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### Supplemental financial statements

Schedule D requires detailed information concerning donor-advised funds, conservation easements, art, historical treasures, trust, escrow and custodial arrangements, endowments, and investments. Organizations also must report footnotes to the organization's financial statements that describe potential liability for uncertain tax positions.

### Fundraising and gaming

Schedule G is required for reporting fundraising and gaming revenue, expenses, and activities. It also requires information about payments to professional fundraisers and a list of the states in which the organization solicits contributions.

### Tax-exempt bonds

Schedule K requests information regarding identification of bond issues, proceeds, private use, and arbitrage.

### Transactions with interested persons

Schedule L requires organizations to report excess benefit transactions, loans, grants, and business transactions with directors, officers, and key employees.

### Non-cash contributions

Schedule M requests information about non-cash gifts, gift-acceptance policies, the number of Form 8283 filed, and the use of third parties or related organizations to process non-cash gifts.

### Related organizations

Schedule R requires organizations to identify and provide information about "disregarded" entities, such as single-member LLCs, related tax-exempt organizations, partnerships, and taxable entities.

### "Dry run" recommended before year-end

Now is the time to obtain the forms and complete a dry run for each required schedule to ensure you are prepared for the new Form 990. This will help you identify the policies that may need to be modified or adopted. It will also help you understand what new accounting information needs to be gathered to complete the forms.

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