DECIPHERING THE IRS FORM 990

PSW PROFESSIONAL LEARNING WEBINAR

DATE/TIME WEDNESDAY, MAY 5 10 AM - 11 AM CT

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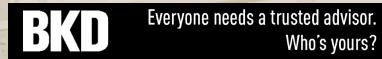












What Every Foundation Manager Needs to Know About Form 990

Philanthropy Southwest

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What is the Form 990?

- Annual Information Return for 501(c) orgs
- Reporting:
 - Exempt activities
 - Other activities
 - Finances
 - Governance
 - Compliance
 - Compensation
 - Other info as required (e.g., hospitals)

Various Forms of 990

Gross receipts normally less than \$50,000	Form 990-N
Gross receipts less than \$200,000 and total	
assets less than \$500,000	Form 990-EZ
Gross receipts equal to or greater than	
\$200,000 and total assets equal to or	
greater than \$500,000	Form 990

Private Foundations file Form 990-PF



Forms 990

- Form 990-N: Electronic postcard
- Form 990-EZ: 4 pages and up to 8 schedules
- Form 990: 11 pages and up to 16 schedules
- Which schedules are the same? (See Part IV)
 - Schedule A (Public Charity Status),
 - B (Contributors),
 - C (Lobbying/Political),
 - E (Schools),
 - G (Fundraising/Gaming),
 - L (Transactions with Interested Persons),
 - N (Liquidation, Termination, etc.) and
 - O (Supplemental Information)



Exceptions to Filing the 990

- Churches, their integrated auxiliaries, conventions of associations of churches, and the exclusively religious activities of a religious order
- Schools affiliated with a church or operated by a religious order
- Organizations that are part of a group exemption and included on a group return filed by the central or parent organization
- Government units and affiliates of governmental units.



Public Disclosure

- 3 years of Form 990 available upon request
- Copies
 - provided immediately for in-person requests,
 - within 30 days in the case of written requests.
- Schedule B Schedule of Contributors not for public disclosure
- Forms 990 available at <u>www.guidestar.org</u> or <u>https://apps.irs.gov/app/eos/</u>
- E-filing required for most

Who Reads the 990?

- Funders
- Donors
- Auditors
- Regulators
- Reporters
- Peers in the space
- Future employees
- The Board (we hope!)
- IRS

IRS 2021 TEGE Program Letter September 2020

- EO Exams using data-driven approach query sets
- Computer analysis to identify high risk targets
 - Use data for trends and emerging issues
- IRS Compliance DELAYED and REMOTE
 - Encourage voluntary compliance

Trick Questions

Did you endorse candidates for office?

Did you file Form 8282 when required?

Did you complete Schedule O (with a note that says all filers must complete Schedule O)?

Summary – Part I

- Critical information
- Significant amounts of information on first page
- Cross references to other sections in the Form beware of creating inconsistencies

Signatures – Part II

- Signed by an officer under penalties of perjury to the best of your knowledge, true, correct and complete.
- Signed by paid preparer based only on knowledge

Statement of Program Service Accomplishments – Part III

- This is the chance to tell Charity's story did they take advantage of it?
- Mission
- New programs
- Three largest program services
 - narrative
 - financial information

Checklist of Required Schedules – Part IV

- List of questions help determine which schedules to complete
- Schedules require more information about particular topics

Statements Regarding Other IRS Filings and Tax Compliance-Part V

- Have you completed the appropriate tax forms?
- Payroll tax issues not exempt; appropriate reporting
- Form 990-T for unrelated business income

Governance – Part VI

Why is the IRS asking about governance?

"A well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one with poor or lax governance." - IRS

- Are these trick questions? Yes and No.
- Meant to shame Do you have X Policy?
- Describe your governance structure

Compensation – Part VII

- Officers
- Directors/Trustees
- Key Employees
- Highest Compensated Employees, and
- Independent Contractors
- Schedule J
- All forms of cash and noncash payments/benefits
- Rebuttable Presumption of Reasonableness

Financial Information

- Part VIII Statement of Revenue
- Part IX Statement of Functional Expenses
- Part X Balance Sheet
- Part XI Reconciliation of Net Assets
- Part XII Financial Statements and Reporting

State of NFPs – Financial Storytelling ARA

- Stakeholders including donors, customers, volunteers, creditors, regulators, employees, and others rely on an NFP's financial story, as told through numerous outlets.
- An NFP's financial health and results of operations are depicted not only in its audited financial statements, but also in its Form 990, annual report, management's discussion and analysis (MD&A), website, and internal and external communications, as well as on external websites like GuideStar and Charity Navigator.
- Ensuring accuracy and consistency among so many information outlets can be overwhelming, but it is critical for an NFP's sustainability.

Schedule A

- Calculation of Public Support Test
- Donative charity or service provider charity
- Can switch back and forth
- Risk of tipping into private foundation status

Schedule O

- O is for Opportunity
- Space to respond to questions
- Space to explain items that may not fit elsewhere

State of NFPs – Financial Storytelling ARA

Form 990, Schedule O

- At first glance, Form 990 Schedule O appears to be just a bunch of blank lines. However, it offers an important opportunity to tell more of an NFP's story. At a minimum, Schedule O must include
 - (a) narratives addressing the process, if any, that the organization uses to review the Form 990 being filed and
 - (b) whether (and, if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.
- Schedule O also provides the opportunity to further explain information reported on the core form.

State of NFPs – Financial Storytelling ARA

Form 990, Schedule O

- Proactively, this could include explaining any perceived negative responses from Part VI, such as a lack of board committees or key employees.
- It also could include providing more information regarding new program service activities reported in Part III or prior-period adjustments reported in Part XI.
- When completing Schedule O, NFPs should think about all possible users of Form 990 and consider the type and extent of information that would be important to them, as well as any elements of the core form that could be misinterpreted, as this is another important opportunity for financial storytelling.

Form 990-T

- Unrelated Business Income Tax
- Silos IRC 512(a)(6)
- Recent final regulations give guidance

Failure to File

- Failure to file 3 years in a row = automatic revocation of tax exempt status
- Penalties for late filing (other than 990-N)

Questions?

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