

FORM 990 OVERVIEW COURSE: Text Version

Page 1 – Welcome to the Form 990 Overview Course

Welcome to the Maintaining 501(c)(3) Tax-Exempt Status Overview course. This course is presented by the Tax Exempt & Government Entities division's Exempt Organizations office.

Page 2 – Introduction

Leagle: I'm Leagle, the EO Eagle, and I'll guide you through the courses here at StayExempt. During this course, you'll engage in several Knowledge Checks. These questions will reinforce your learning experience.

Page 3 – Form 990

Bobby: Hi, I'm Bobby! I just received a determination letter from the IRS granting tax-exempt status for my new non-profit. *The Tribal Cancer Awareness Society* has official exempt status!

Leagle: Hi, Bobby! Congratulations on achieving tax-exempt status. That was a big step.

Bobby: Thanks! I already reviewed the StayExempt course on [Applying for Tax Exemption](#) - and the [Maintaining Tax Exempt Status](#) course showed me how to keep from jeopardizing my organization's exempt status, but the course mentioned yearly returns. Where do I start? The form looks pretty long

Leagle: The two courses you mentioned are very helpful. You should refer to them as your organization grows.

And yes, [Form 990, Return of Organization Exempt From Income Tax](#), can be a bit intimidating – but there are ways to make it easier.

Page 4 – Objectives

Leagle: In this course, I'll explain 990-series forms and show you how to prepare during the year so much of the work is done well before filing time.

This will include when and how to file, public disclosure of your return, how the IRS uses the information and Auto Revocation for failure to file an annual return.

I'll also show you five things you can do during the year to make Form 990 filing easier, seven tips to save time when filling out the form, three common misconceptions about Form 990 – and I'll offer some general instruction for filling out the form.

Page 5 – Which Form?

Bobby: How do I decide between the [Form 990](#) and [Form 990-EZ](#)?

Leagle: The form you file will depend on your organization's financial activity during each year. If your finances change, so could your form requirements.

I see that your organization isn't a private foundation. If it were, you'd have to file the [Form 990-PF, Return of Private Foundation](#), regardless of asset or income size. For most 501(c)(3)s, the 990-series forms will be used.

Let's start with the longest form – [Form 990](#). It's for organizations with \$200,000 or more in gross receipts **or** total assets of \$500,000 or more.

Bobby: I see: Form 990 is required when **either** of these conditions applies. So if an organization has **less** than \$200,000 in gross receipts, but its asset total is **higher** than \$500,000, it still has to file the full Form 990.

Leagle: Exactly. But, we have a shorter form, the [990-EZ](#), for organizations that fall below the limits in **both** categories – meaning those with gross receipts **under** \$200,000 **and** total assets **below** \$500,000. Most organizations that meet these requirements can file Form 990-EZ, but they have the option to file Form 990.

Bobby: The [Applying for Tax Exemption](#) course mentioned that gross receipts are the total amount received from all sources - **before** I deduct any costs or expenses.

Leagle: That's right. You should keep supporting documents to show the amounts and sources of your income.

Page 6 – Form 990-N

Bobby: My organization is tiny compared to most. Is there an easier way for organizations with small incomes to report?

Leagle: Yes. Although smaller organization may file one of the longer forms, most organizations with \$50,000 or less in annual gross receipts can submit [Form 990-N](#), a very short electronic notice that only takes a few minutes to complete online.

Bobby: Great! That will really help!

Leagle: To complete the 990-N you need to:

- Include the annual tax period.
- Show if you're still in business
- Verify your gross receipts are normally \$50,000 or less.
- Add your organization's **legal** name
- And its EIN

The notice also asks for:

- Any "doing-business-as" names;
- Your mailing address;
- Your website, if your organization has one;
- And the name and business address of a principal officer

You'll find the link under "How to File" on the [Form 990-N page](#).

Page 7 – Electronic Filing

Bobby: I've heard there are electronic filing requirements. If I file a Form 990, can I just mail it in?

Leagle: In your case, because your organization is still small, you probably can. But organizations filing more than 250 returns of **any** type each year and that have assets of \$10M or more must file Form 990 [electronically](#).

That means very large organizations with lots of employees probably have an electronic filing requirement because "Returns" - for this purpose - include information returns like Forms W-2, 1099; and 941. Those can add up to 250 quickly.

Page 8 – Where to Send, Deadlines and Extensions

When I've completed my Form 990, where do I send it?

Leagle: If you don't submit your return electronically – you can mail it to our processing center at Internal Revenue Service Center, Ogden, UT 84201-0027

Bobby: I heard that May 15 is the normal due date for annual tax-exempt returns.

Leagle: That's correct for any organization using a **calendar** year as its tax year. The rule is that 990-series returns must be filed by the 15th day of the 5th month **after** the end of the organization's tax year. That means if your organization uses the calendar year as your **tax** year, the deadline for 2014 was the 15th day of the fifth month after December 31, 2014 – which would be May 15, 2015.

Fiscal year filers whose 2014 tax year began on October 1, 2013, and ended September 30, 2014, had a deadline of February 15, 2015.

Bobby: What if an organization needs a little more time?

Leagle: Any Form 990 or 990-EZ filer can file [Form 8868](#) to receive an automatic 6-month extension. Form 8868 is available in the "Forms and Publications" section of IRS.gov.

If your organization fails to file by the due date or the approved extension date, it may incur failure to file penalties.

Page 9 – Filing Incorrect Information

31 Bobby: So what happens if I forget to file – or file a report with incorrect information? Or, what if I just skip the parts I don't want to fill out?

Leagle: If questions aren't answered or required schedules aren't submitted, we'll send the return back to the filer and request a complete return including the missing information. Failure to file penalties could apply.

The filer is expected to complete **all** applicable line items; answer each question on the return unless instructed to skip a line; make an entry – including a zero when appropriate; and provide required explanations as instructed.

Bobby: So, if I file an incomplete form, I could receive failure to file penalties?

Leagle: Yes, and the failure to file penalty for most small and mid-sized organizations is \$20 per day, with a maximum of \$10,000 - or 5% of the organization's gross receipts for the year - whichever is less.

Penalties for organizations with annual gross receipts exceeding \$1,028,500 are \$100 per day, with a maximum of \$51,000 for **each** return. The penalty applies each day after the form's due date. This penalty applies to filers of Form 990, 990-EZ and 990-PF.

Page 10 – When to Begin Filing

Bobby: After we formally organize, how soon should our organization begin filing returns?

Leagle: That's a good question, Bobby. The answer is that organizations **intending** to apply for tax exempt status should file the Form 990 or 990-EZ for every fiscal period after their **date of incorporation**. They shouldn't wait until after they've submitted an application for exemption.

To properly file a return before you receive tax-exempt status, you need to mark Item B - the "Application Pending" box - on your Form 990 or 990-EZ so the form will be accepted by the IRS.

Bobby: What if I file a Form 990-N?

Leagle: There's no "Application Pending" box on Form 990-N, but if you're eligible and wish to file a 990-N before receiving a determination letter, an officer from your organization can call the TE/GE Customer Account Services at 877-829-5500 to request permission to file Form 990-N. It usually takes about two weeks for the IRS to set up the filing permission, so if you don't want to wait that long, you can file a Form 990 or 990-EZ, but don't forget to check Box B.

Also, if an organization is applying for recognition under 501(c)(3) and wants its tax exemption to be retroactive back to its formation date, it generally must file Form 1023 or 1023-EZ within 27 months of the end of the month it was legally organized.

Page 11 – Automatic Revocation

Bobby: OK, I understand that there are financial penalties for not filing - or not filing correctly - and that I should file a 990-Series return every year after my organization is formed.

Leagle: Remember that if an exempt organization fails to file for three consecutive years, it will lose its exemption on the due date of the third annual return or notice. It's called "automatic revocation."

Automatic revocation happens to Form 990-N filers, too, even though they aren't subject to late filing penalties.

Bobby: That's good to know! So, if my organization was formed back in 2012, but I didn't apply for exemption until this year – and I've **never** filed an annual return, is it possible that my organization's exemption could be automatically revoked right after I received my determination letter?

Leagle: Actually, it is – and that's why it's important to start filing returns right after your organization has formed. The automatic revocation process looks all the way back to the organization's formation date to determine the three year non-filing period.

You can find more information on Auto Revocation in [Publication 4991](#).

Page 12 – Knowledge Check

Annual filing requirements for private foundations are different from other 501(c)(3)s. Which of the following is true of private foundations?

- A. Private foundations must file Form 990-N or Form 990-EZ.
- B. Private foundations must file Form 990.
- C. Private foundations must file Form 990-PF.

Pause to consider your answer

If you chose C, you are correct. Private foundations are required to file Form 990-PF annually, regardless of asset or gross receipt amounts at the end of the year.

Page 13 – Knowledge Check

For small and mid-sized organizations (annual gross receipts <\$1,028,501), the penalty for failing to timely file complete Forms 990, 990-EZ or 990-PF is _____ per day, with a maximum of _____ of the organization's gross receipts for the year whichever is less.

- A. \$10; \$10,000 or 5 percent
- B. \$20; \$20,000 or 10 percent
- C. \$20; \$10,000 or 5 percent

Pause to consider your answer.

The correct answer is C. Small to mid-sized organizations could receive a penalty of \$20 per day with a maximum of \$10,000 or five percent of the organization's gross receipts for the year whichever is less.

Page 14 – Knowledge Check

True or false? An organization should wait until it receives a determination letter from the IRS before it begins filing the appropriate 990-series return.

Pause to consider your answer.

The correct answer is FALSE. Organizations that intend to apply for tax-exempt status should file a Form 990-series return for every fiscal period after their date of incorporation.

Page 15 – Knowledge Check

Which of the following is true concerning automatic revocation?

- A. Automatic revocation is not applicable to 990-N filers.
- B. If an organizations fails to file the applicable 990-series return for three consecutive years, it will lose its exemption on the due date of the third annual return or notice.
- C. The automatic revocation process looks back to the 1023 application date to determine the three-year non-filing period.

Pause to consider your answer.

The correct answer is B. Organizations that fail to file the correct 990-series return for three consecutive years will lose their exemption.

Remember that automatic revocation also applies to 990-N filers and that the auto revocation process looks back at the organization's formation date to determine the three-year non-filing period.

Page 16 – Form 990 – How it's Used

Leagle: Unlike most IRS forms, Form 990-series returns are **not** tax forms; and their primary purpose **isn't** to report financial information. They're intended to provide the IRS and the public information about your organization's programs, activities, relationships, transactions and governance, in addition to revenues, expenses and assets.

Bobby: What does the IRS do with all the information?

Leagle: It's used to ensure exempt organizations abide by tax laws. Because the law requires filers to report full and accurate information, it's important that you understand how to complete Form 990 correctly.

Also, because most Form 990 data is open to public inspection, a properly filed Form 990-series return can show the public how your organization:

- Is organized and operated as a tax-exempt entity;
- Is in compliance with applicable tax laws;
- Is well-governed and managed;
- Furthers its mission through its exempt activities; and
- Provides valuable services to the public.

Page 17 – Public Disclosure

Bobby: The [Required Disclosures](#) course at StayExempt said the IRS will provide a copy of our annual filing to anyone who asks for it – but they'll remove certain information on Schedule B, *Schedule of Contributors*, first.

Leagle: That's correct. The same is true for your organization. If anyone asks for your three most-recent information returns, you have to provide them or there could be penalties.

Bobby: What else do I have to disclose when asked?

Leagle: Other IRS filings from your organization have to be made available, too, like your original Form 1023 or 1024 application and Form 990-T, if you're a 501(c)(3) organization and you file any.

And, because the information on your application for exemption and your annual filings are open to the public, be careful **not to** include **any** Social Security numbers on these forms. If included, that information isn't removed from the public records. Personal addresses aren't removed, either, so you may want to use business addresses, instead.

Bobby: So, are there any organizations that **don't** have to file a Form 990?

Page 18 – Does Every Organization Have to File?

Leagle: The largest category of tax-exempt organizations that **doesn't** have to file a Form 990-series return is "churches" - and certain other religious organizations affiliated with a church, like seminaries or mission societies.

Also, churches aren't **required** to apply for tax exemption. But if they do - and are recognized as exempt by the IRS - they still don't have to submit an annual Form 990 like most other exempt organizations. However, churches must file 990-T to report unrelated business income if they have more than \$1,000 of gross unrelated business income in any taxable year.

Bobby: Are there other organizations that don't have an annual filing requirement?

Leagle: There are a few others, but that's a very small category compared to churches. If you're interested, take a look at Page 3 of the [Form 990 instructions](#).

Page 19 – Knowledge Check

Richard loves animals and wants to make a contribution to a local animal shelter but doesn't know very much about it. He knows the shelter is an exempt organization and it files Form 990.

Which of the following can Richard obtain by reviewing the organization's Form 990?

- A. Activities and programs conducted to accomplish its exempt purpose
- B. Relationships and governance of the organization
- C. Financial activities
- D. All of the above

Pause to consider your answer.

The correct answer is D: All of the above. By reviewing an organization's Form 990, Richard will be familiar with its activities, programs, relationships, governance and financial activities.

Page 20 – Knowledge Check

True or false? All tax-exempt organizations must file a Form 990-series return.

Pause to consider your answer.

The correct answer is FALSE. Churches aren't required to file a Form 990-series return, although they may choose to do so.

Page 21 – Knowledge Check

Which of the following is my 501(c)(3) required to disclose to the public?

- A. Schedule of contributors
- B. Three most-recent 990-series returns, Form 1023 application, Forms 990-T if submitted
- C. Social security numbers and personal addresses of officers and directors.

Pause to consider your answer.

The correct answer is B. 501(c)(3) don't have to provide contributors' names or the social security numbers and personal addresses of officers and directors.

You must disclose the following: three most recently filed 990-series returns (except names, addresses and amounts on Schedule B); Form 1023 or 1024 application, all information submitted with the application except pre-approved "trade secret" information, and all correspondence to or from the IRS about the application; and Form 990-T if you are a 501(c)(3) organization and filed one.

Page 22 – Progress Check

Leagle: Congratulations! You've learned about filing Form 990, public disclosure, how the form's information is used, Automatic Revocation and what form you should file.

Page 23 – Form 990 Preparation Step 1 - Delegation

Leagle: Before we look at the Form 990, you may want to [download a copy](#). The webpage also includes instructions and the various schedules you may need to complete.

Bobby: I see there are a lot of schedules. Will I have to fill out each one?

Leagle: Most organizations will fill out only a few of them. Smaller organizations shouldn't have to fill out many at all.

Bobby: How do I make this form easier to complete?

Leagle: Well, first, you need to share the burden - through **delegation**.

Bobby: I suppose that with the amount of information required, I can't rely on just my treasurer to complete the form. It sounds like preparation is best done as a group effort.

Leagle: Exactly. You'll save time by **delegating** different portions of the form to those with knowledge about what each part asks. Maybe you can send the governance questions to your Board or executive committee; and send the financial portion to your CFO, treasurer, or CPA; then send program and activity-related questions to the CEO or program staff.

Page 24 – Form 990 Preparation Step 2 – Related Organizations

Bobby: If my organization works with a "sister" organization, should I keep track of those transactions?

Leagle: Definitely. Before preparing the 990, determine if you have any **related** organizations. You'll use [Schedule R](#) of the Form 990 to report them, as well as any compensation, sales of goods or services, leases, loans, shared resources and transfers of cash and property to or from your related organizations.

Remember that a “related organization” is an organization with one of the following relationships to your organization at **any time** during the tax year:

- A Parent organization, which controls your organization;
- A Subsidiary – or one that’s controlled by your organization
- Brother or Sister organizations,
- Sponsoring organizations and contributing employers to voluntary employees’ beneficiary associations or a
- Supporting organization

For more on related organizations, see the [Schedule R instructions](#).

Page 25 – Form 990 Preparation Step 3 – Key Employees

Leagle: Another effective preparation step is to determine your key employees.

Bobby: Which workers are considered be “Key” employees?

Leagle: Anyone who received over \$150,000 in reported compensation by your or any related organizations - **and** had control of 10 percent or more of the organization’s assets, income, expenses, activities, budget, expenditures, or employee compensation - is a key employee.

Knowing who falls into this category is important because the Form 990 asks:

- If your organization engaged in any business transactions with key employees;
- How much key employees were compensated; and
- Whether any of your key employees had business or family relationships with other key employees, officers, directors or trustees.

Bobby: That’s good to know. I’ll determine who our key employees are this week so I don’t have to do it while filling out the form.

Leagle: That’s a good start. While you’re doing that, you should also determine your officers, directors, and trustees because the same questions apply to them.

Definitions:

Officer: A person having administrative or managerial authority in a corporation. As classified by statute, an officer of a corporation is an employee unless he or she performs no services or only minor services, and neither receives nor is entitled to receive any remuneration, directly or indirectly. The president, vice president, secretary, and treasurer of a corporation are corporate officers.

Director or Trustee: Unless otherwise provided, a member of the organization’s governing body at any time during the tax year, but only if the member has any voting rights. A member of an advisory board that does not exercise any governance authority over the organization is not considered a director or trustee.

Page 26 – Form 990 Preparation Step 4 – Gather Other Detailed Information

Leagle: Certain questions on the Form 990 ask for information you may not have easy access to. For instance, you’ll need to report:

- Compensation paid to your officers, directors, trustees, and key employees by related organizations;

- Family and business relationships between your officers, directors, trustees, and key employees;
- Grants and other assistance provided to your officers, directors, trustees, key employees, and their family members; and
- Business transactions between your organization and its officers, directors, trustees, key employees, their family members, and businesses they own or control.

Bobby: How can I get all the information on these transactions and relationships?

Leagle: Well, you don't need to hire a private investigator, but we do expect 990 filers to make reasonable efforts to obtain this information.

Page 27 – Form 990 Preparation Step 4, Continued – Strategy for Gathering Detailed Information

Leagle: An effective way to gather facts and figures for your Form 990 is to send a questionnaire to each director, officer, and key employee asking them to reply with:

- Their compensation from related organizations;
- Their relationships to, and business transactions with, related organizations;
- Any transactions between those persons' family members and related organizations, or between related organizations and businesses that those persons or their family members own or control;
- Any family or business relationships between those persons and other officers, directors, trustees, or key employees; and
- Grants or other assistance (other than compensation) those persons or their family members received from the organization.

Bobby: I guess I should also ask our related organizations to complete a similar questionnaire, too.

Leagle: Yes, great idea!

It's easiest to copy the relevant questions and definitions from the Form 990 and its instructions, then ask each officer, director, trustee, key employee, and related organization to return the questionnaire in plenty of time for you to complete your 990.

Page 28 – Form 990 Preparation Step 5 – Keep Good Records

Bobby: I have the feeling that keeping good records throughout the year is the **best** way to save time filling out my Form 990.

Leagle: And you'd be right! Keeping good records of information for your Form 990 - and organizing so it's easily accessible is the key. Keep records supporting the information reported on your Form 990 for at least three years, too, because the IRS can examine returns up to three years old.

State law may specify other record retention rules, so check your local requirements.

Page 29 – Knowledge Check

What can Bobby do throughout the year to ensure her Form 990 is easier to complete?

- A. Increase wages for your board.
- B. Review your Form 1023 application.

- C. Decide which schedules to complete.
- D. Maintain detailed records.

Pause to consider your answer.

The correct answer is D. Maintaining detailed records throughout the year will make completing the form easier and faster.

Page 30 – Progress Check

Leagle: Congratulations! You just learned some helpful steps to make completing your Form 990 easier. Now let's go over seven tips that will save you time when filling out the form.

Page 31 – Seven Form 990 Tips to Save You Time

05 Leagle: My first suggestion for filling out Form 990 is to use the tools provided in the instructions:

First, the sequencing list on page 7 of the Form 990 instructions walks through what we think is the most efficient order to fill out the Form. An example is to complete Parts I and II **last**, even though they are the first parts you see—because Part I is largely a summary of information reported elsewhere on the Form, and Part II is the signature block.

The compensation charts on pages 30-33 tell you what types of compensation and fringe benefits need to be reported on Form 990, what persons they need to be reported for, and where to report them.

The Glossary defines over 100 key terms used throughout the Form 990. Whenever you see a word or phrase in bold type in the instructions, you can check the Glossary to find out what that word or phrase means.

The instructions also contain 11 appendices that provide helpful explanations and background information on topics such as:

- How to determine gross receipts;
- Requirements for public disclosure of Form 990-series returns;
- What is an excess benefit transaction; and
- Rules for receiving and receipting charitable contributions.

Page 32 – Seven Form 990 Filing Tips - #2, Electronic Filing

Bobby: I assume electronic filing may save some time, too.

Leagle: Right! First, e-filing reduces IRS processing time—saving taxpayer funds. Because the e-File system and commercial software include error detection, e-Filing also reduces errors, which results in more accurate and complete reporting, which lowers the risk of penalties.

The error rate differential between e-filed returns and paper returns is startling: We've identified, in the initial stages of processing, filing errors in approximately 22% of Forms 990 (and 31% of Forms 990-EZ) filed by paper during the 2015 filing season.

In contrast, we've identified errors in only about 1% of Forms 990 and 990-EZ filed electronically during that same period. So we encourage you to e-file.

Bobby: Wow! E-Filing makes sense!

Page 33 – Seven Form 990 Filing Tips - #3, Highlight Accomplishments

Leagle: It also makes sense to include your organization's accomplishments. You should use the form to brag about what you do.

For instance, Part III allows you to describe your three largest program services accomplishments - measured by total expenses.

If you have **more** than three program services, you should describe them on Schedule O. Schedule O is the only one of the 16 schedules that must be filed by all Form 990 filers.

Bobby: How specific should I be?

Leagle: You should use specific measures to describe your accomplishments, such as the **number** of persons you provided assistance to during the year, the number of events held, or the number of publications issued.

You can also describe donated services or the free use of materials, equipment or facilities because these types of donations can't be reported as revenue anywhere else on the return.

Page 34 – Seven Form 990 Filing Tips - #4, Governance/Management Questions

Leagle: The IRS believes there's a close link between **good governance** and tax compliance. Organizations that implement sound risk-management policies really improve their ability to be tax compliant.

One purpose of Form 990, Part VI, *Governance, Management, and Disclosure*, is to help organizations consider which policies and procedures can help them manage legal risks most effectively.

For example, if you adopt conflict of interest and compensation policies, you'll reduce the risk of prohibited private inurement.

Bobby: Do I have to adopt every procedure the 990 points out?

Leagle: No. Policies and procedures that are appropriate for your organization will depend on its size, type, governing structure, culture, and unique legal risks. So if your organization hasn't adopted a particular policy or procedure that appears in Part VI, you have two options: just answer "No," or consider adopting the policy by the end of the tax year.

In general, a governing board that's proactive, informed, engaged, and independent will manage an organization more effectively. Adopting sound risk management policies and procedures will help your organization comply with the law and achieve its mission more effectively, whether or not it is required to file a Form 990.

Bobby: Is there anything else you want to highlight in Part VI of Form 990?

Leagle: Yes! Line 1b asks how many of the governing body's **voting** members are independent.

A voting member is defined as being "independent" if he/she meets all three of the following conditions at all times during the tax year:

- First, the voting member was **not** compensated as an employee/officer of the organization or a related organization;
- The voting member **didn't** receive total compensation or payments exceeding \$10,000 during the tax year from the organization or a related organization, unless those payments were reasonable compensation for services provided as a governing body member; and

- Neither the voting member, nor a family member, was involved in a transaction with the organization – or with a related organization – that's reportable on Schedule L, *Transactions with Interested Persons*, including a loan, grant, or business transaction.

Page 35 – Seven Form 990 Filing Tips - #4, Governance/Management Questions

Leagle: Form 990, Part VI, line 2 is also important. It asks about relationships among directors, officers, trustees, and key employees of the organization.

Your organization should report any **family** relationships between these people in Schedule O. For instance, report relations like a husband and wife - or siblings who serve on the Board of Directors, or when one serves as a director and the other serves as an officer.

Bobby: I guess that includes **business** relationships.

Leagle: Yes - for instance, if two of your directors are also directors or owners of a for-profit entity, or if one of your directors is employed by another director.

There are three important exceptions that should significantly reduce the number of business relationships you need to report in Part VI and Schedule O:

- First, relationships resulting from transactions in the ordinary course of either party's business; like a fair market value sale of goods or services;
- Second, the privileged relationships of attorney-client, physician-patient, and priest-penitent; and third
- Business relationships arising from transactions of less than \$10,000 in value.

Another item to point out is Part VI, line 4.

Bobby: It looks like that's where I report major changes to organizational documents, like Articles of Incorporation or Bylaws.

Leagle: Yes. These also include changes to the organization's name, purposes, the role or authority of any governing members, the composition or authority of the board, and how its assets are to be distributed upon dissolution.

Examples of changes that **don't** need to be reported include changing the registered agent or the time and place of board meetings. Any significant changes to the organization's activities should be explained in Part III of the Form 990.

Page 36 – Seven Form 990 Filing Tips - #4, Governance/Management Questions

Bobby: I see that Form 990, Part VI, line 12 asks whether my organization has a written conflict of interest policy.

Leagle: Right. If you answer "yes," it asks whether your officers, directors, trustees, and key employees are required to annually disclose any potential conflicts. Also, Line 12c asks you to describe whether and how you monitor and enforce compliance with this policy on Schedule O.

Other policies and procedures addressed in this section include a policy regarding oversight of local chapters, branches, or affiliates; a whistleblower policy; a document retention and destruction policy; and a process for determining the reasonableness of compensation of officers and key employees.

Page 37 – Seven Form 990 Filing Tips - #4, Governance/Management Questions

Leagle: The last section in Part VI (lines 17-20) asks about **disclosure**. It includes whether and how your organization publicly discloses certain documents that are required by federal law to be disclosed upon request, including Form 1023 and Form 990-series returns; and certain documents that generally are not required by federal law to be provided to the public, including governing documents, a conflict of interest policy, and financial statements.

Bobby: Do all 990 filers use Schedule O to show if they make their governing documents, conflict of interest policy, and financial statements available to the public?

Leagle: Once again, you're correct! That's also where they show how they make them available.

Bobby: Thanks! So, what's your fifth tip for filling out Form 990?

Page 38 – Seven Form 990 Filing Tips - #5, Form 990 as a Roadmap

Leagle: Tip number 5 is to use the Form 990 as a roadmap for running your organization through the year – which will make completing the form easier.

The Form 990 asks about most areas of tax-exempt law that might apply to an organization — things like excess benefit transactions, unreasonable compensation, unrelated business income, lobbying and political campaign activity, and employment tax. It's valuable for the organization's board and staff to become familiar with the 990 so they can better understand activities that could potentially jeopardize tax exemption.

Bobby: You said we don't have to adopt every policy in Part VI, right?

Leagle: Right. The policies and procedures in Part VI are not required by law, but they're generally regarded as "best practices" of good governance - and help you stay on the path of compliance.

Bobby: I see that line 11a asks if my organization provided a copy of its Form 990 to each voting member of its Board before filing the form.

Leagle: Right. To answer "yes" to this question, you must provide a copy of the completed Form 990 to all of your voting board members prior to filing it—whether or not any of the board members actually review the form.

But, if you redact the names and addresses of contributors in Schedule B from your board members' copies, then the answer to this item will be "no." Regardless of how your organization answers line 11a, it must describe the process that its board and management used to review the Form 990 in Schedule O. But don't worry, there's no right or wrong answer to these line 11 questions, and the IRS isn't trying to catch you doing anything wrong there.

Bobby: I agree a board review of the Form 990 could lead to better information. And, reading through our Form 990 will educate board members about our organization's activities, relationships, transactions, finances, and legal risks.

Page 39 – Seven Form 990 Filing Tips - #6, Compensation Reporting

Leagle: There are six categories of people to report in Part VII of Form 990. The first is officers and governing board members, like directors or trustees. Even if your organization didn't compensate officers and governing board members, you're required to report all of them in Part VII.

Bobby: What if we didn't compensate any officers or directors?

Leagle: You can simply check the box above the Part VII compensation table that reads, “neither the organization nor any related organization compensated any current officer, director, or trustee.” Then you won’t have to fill in compensation columns D, E and F with zeroes, and you’ll also let the IRS know you didn’t make a mistake by leaving the Part VII table blank.

The second category of persons to be reported are “key employees,” which we talked about earlier.

The third category of persons you should list in Part VII are your organization’s current top 5 highest compensated employees who received over \$100,000 in compensation reporting on Form W-2 or Form 1099 from your organization and any a related organizations, other than officers, directors, trustees or key employees.

The fourth category is former officers, key employees, and highest compensated employees your organization or any related organizations compensated over **\$100,000** for any type of service.

Bobby: The fifth category looks similar: and includes the former directors and trustees an organization or any related organizations compensated more than **\$10,000** in exchange for past services provided as a director or trustee.

Leagle: And by “former,” we mean they served in those positions any time during the prior 5 years, but didn’t serve in those positions during the tax year.

The last category of persons to report in Part VII are independent contractors; in particular, the 5 most highly-compensated independent contractors the organization paid over \$100,000 for services.

Independent contractors include both businesses and individuals, whether or not the organization issues them a Form 1099. These independent contractors are reported in Part VII, Section B.

Page 40 – Seven Form 990 Filing Tips - #6, Compensation Reporting Continued

Bobby: What’s tip number 6?

Leagle: It’s an explanation of what type of compensation to report in Part VII.

First, for each person listed in Section A, list “reportable compensation” from the filing organization in column (D). By “reportable compensation,” I mean the amounts found in box 5 of Form W-2, and box 7 of Form 1099-MISC.

Next, in column (E), report the person’s reportable compensation from all related organizations. There’s one significant exception for column (E)—the \$10,000-per-organization exception; you only need to list reportable compensation from a related organization that exceeded \$10,000 during the tax year.

In column F, your organization should estimate and report most types of “other compensation”—meaning compensation that doesn’t appear on Forms W-2 or 1099—from both your organization and other related organizations.

This includes housing benefits, split-dollar life insurance benefits, expense accounts, tuition assistance, travel and moving expenses, and sick and vacation leave cashed out. Certain de minimis and working condition fringe benefits don’t need to be reported.

However, column (F) has a \$10,000-per item exception: so you only need to report “other compensation” paid to a particular person that exceeds \$10,000 during the tax year. This does

NOT include health care benefits, retirement plan benefits, and other deferred compensation, which must be reported regardless of the amount.

Your organization must report compensation in Part VII for the **calendar** year ending within your organization's tax year. So, if the organization's 2013 tax year began on October 1, 2013 and ended on September 30, 2014, it will report compensation it paid during **calendar** year 2013 on its 2014 Form 990, Part VII. This is different from reporting in Form 990 Part IX, *Statement of Functional Expenses*, where the organization will report compensation paid during its actual tax year—not during the calendar year ending within that tax year.

Page 41 – Seven Form 990 Filing Tips - #6, Compensation Reporting Continued

Bobby: Schedule J says it's used for compensation reporting.

Leagle: It is. You'll complete Schedule J only if Part VII lists a person who received total compensation over \$150,000, a person who received compensation from an unrelated organization for services rendered to the filing organization, or someone who was reported in Part VII as a former officer, director, trustee, key employee, or highest compensated employee.

Schedule J includes a detailed breakdown of officer, director, key employee, and highest compensated employee compensation.

Page 42 – Seven Form 990 Filing Tips - #7, Exceptions to Filing Schedules

Leagle: My last tip is about filing schedules.

The Form 990 includes 16 schedules. But you only have to fill out a schedule if your organization participates in the activity the schedule asks about – and most organizations will only have to fill out a few.

Part IV, *Checklist of Required Schedules*, has a series of trigger questions that ask for a "Yes" or "No" answer – and, depending on your answer, may direct you to complete the corresponding schedule or schedule part.

Page 43 – Knowledge Check

Bobby is ready to prepare and file Form 990 for her charity. Because this is her first time, she's a little overwhelmed by the form and the 16 schedules.

Which tips will help her and save time?

- A. Explain activities and accomplishments in detail
- B. All 16 schedules must be completed and filed
- C. E-file the return for more complete and accurate reporting
- D. All of the above
- E. A and C only

Pause to consider your answer.

The correct answer is E: A (explain activities and accomplishments in detail) and C (e-file the return for more complete and accurate reporting) only. Chances are, not all of the 16 schedules need to be completed.

Page 44 – Three Common Misconceptions About Form 990

Bobby: The 990 has been around for a long time, so you must have a long list of common misconceptions about the form.

Leagle: Yes, we do. **Let's talk about the three most common misconceptions.**

The first misconception is that there's **always** a correct answer.

Bobby: How do I answer correctly when I'm not absolutely sure?

Leagle: Our most common answer is, "Review the instructions and let them be your guide."

The instructions can't address every single scenario. If the instructions seem ambiguous, use your best judgment to give a reasonable answer. If the instructions don't clearly address your scenario, you won't be penalized for making a good faith effort to answer correctly.

And, if you think a particular part of the instructions need clarification, please let us know. The Form 990 instructions are always a work in progress.

Page 45 – Form 990 Misconceptions #2 – Conform with GAAP

Leagle: A second common misconception is that Form 990 reporting must be consistent with GAAP (General Accepted Accounting Principles) and other accounting standards. It's not true.

In fact, in some cases, Form 990 reporting is inconsistent with some accounting standards.

For instance, donated services and the donated use of materials or facilities can't be reported as revenue on Form 990 or in Schedules A or B. Also, compensation reporting in Part VII and on Schedule **J** must be made on a **calendar** year basis, rather than on a fiscal year basis.

Bobby: I don't think that applies to my small organization.

Leagle: No, it probably doesn't, but select the continue button for the last common misconception. It might apply to you.

Page 46 – Form 990 Misconceptions #3 – Reporting Government Grants

Leagle: Will your organization receive grants?

Bobby: I hope to receive some later this year - or next year.

Leagle: Then be aware that some organizations **incorrectly** treat their so-called "grants" as contribution revenue when reporting on the Form 990's *Statement of Revenue* - and on Schedule A. But just because they call a payment a "grant" doesn't mean it's a contribution.

When an organization gets paid for providing a service, facility or product that primarily benefits the group paying, those payments should be reported as **program service revenue**, not as contributions.

Bobby: Is that true even if the payment comes from a government or foundation.

Leagle: Yes. Payments from government units or foundations should only be reported as contributions if their primary purpose is to enable the organization to provide something for the direct benefit of the public – not to serve the needs of the government unit or foundation.

Page 47 – Knowledge Check

Can you name the three common misconceptions about the Form 990?

- A. There's always a "right" answer.
- B. Grants from governmental units and foundations are always treated as contributions.
- C. Form 990 returns are filed by exempt organizations.
- D. Form 990 must conform with GAAP and other accounting principles.
- E. Form 990 is due by the 15th day of the 5th month after the end of the tax year.

Pause to consider your answer.

The correct answers are A, B and D.

First, there's not always a "right" answer. Read the instructions and use your best judgment.

Next, grants from government unit/foundations aren't always treated as contributions. If funding from a governmental unit/foundation is for services rendered only to the government/foundation, then report the money as program service revenue.

Finally, some Form 990 reporting doesn't have to conform with GAAP and other accounting principles. For example, in-kind contributions are not reported in Section VIII, Statement of Revenue.

Page 48 – General Instructions

Bobby: Is there anything else I need to know when filling out Form 990?

Leagle: Yes, just two more things. First, remember that **every** line of the core form must be completed unless the form specifically instructs you to skip a line.

Bobby: And what if there's not enough room to fill in all the answers.

Leagle: If you can't answer a question in the space shown, you can continue your answer on Schedule O. That's its main purpose.

Also, please don't attach anything to the form that isn't requested in the instructions.

Page 49 – Progress Check

Congratulations! You learned all of the objectives for this course, including:

- When and how to file
- Public disclosure of your return
- How the IRS uses the information
- Auto Revocation for failure to file an annual return.
- Five things you can do during the year to make Form 990 filing easier
- Seven tips to save time when filling out the form
- Three common misconceptions about Form 990, and
- General instruction for filling out the form.

Page 50 – Important Links

Bobby: Thank you for explaining so much about the Form 990!

Leagle: You're welcome, Bobby! We've gone over a lot of information, so here are some helpful links to remind you of what we discussed.

Remember that IRS.gov has specific information about exempt organizations. You can get to the exempt organizations section of IRS.gov by going to www.irs.gov/charities.

To keep up to date on developments in the tax-exempt world, subscribe to the [EO Update](#). Don't worry – we won't spam you, and you can unsubscribe any time.

If you have any questions on how to complete the [Form 990](#) or [990-EZ](#), please refer to the instructions—we've worked hard to make them helpful. If you still have questions about exempt organizations issues, including questions about filing requirements and how to fill out forms,

please call the EO Customer Account Services line at 877-829-5500. We can't answer tax questions via email. The phone line is your best option.

Also, [Publication 557, Tax Exempt Status for Your Organization](#), is a valuable reference guide for tax-exemption law and issues. It can also be ordered by calling 1-800-829-3676.

[Form 990-PF](#), *Return of Private Foundation*

[Form 990-N](#), *e-Postcard*

[Electronic Filing](#)

[Form 8868](#), *Extension of Time to File an Exempt Organization Return*

[Form 990](#), *Return of Organization Exempt From Income Tax*

[Form 990-EZ](#), *Short Form Return of Organization Exempt from Income Tax*

[Form 1023](#), *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*

[Form 1023-EZ](#), *Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*

[Publication 4991](#), *Automatic Revocation of Tax-Exempt Status*

[Form 990-T](#), *Exempt Organization Business Income Tax Return*

[Required Disclosure Course](#)

[Form 990, Sch. R Instructions](#)

[IRS Tax Form Feedback Link](#)

Page 51 – Closing

Leagle: On behalf of everyone in the IRS Exempt Organizations division - thank you for taking the Form 990 Overview course.

Before you leave, please take a minute to send us an email with your [feedback about the course](#). The information you provide will ensure that this and other courses at StayExempt provide a valuable learning experience.

Please remember that this email is only for sending your opinions of the courses and to notify us if there's an issue with a course, a form or the instructions. For all tax questions, please call the Customer Account Services Line at 877-829-5500.

Thank you for taking the Form 990 Overview Course.