



New Form 990

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Don't be caught unprepared



While your organization may have three years to transition to the new Form 990, it may be more beneficial for your organization to start using the new Form 990 sooner.

Early use of the new form will ensure that your organization is thoroughly prepared for the new requirements of the changed 990. More importantly, early compliance will demonstrate transparency and accountability to the public and a strong commitment to your mission.

Who needs to file the new form?

All organizations required to file the old Form 990 will need to file the new Form 990, except for those organizations that meet the small organization exemption. They will have the option of using either the new 990 or the 990 EZ form based on the transition guidelines.

What are the major differences between the new form and the old form?

The new Form 990 was significantly redesigned in format and content. Essentially, the new 990 consists of the core form and a series of additional schedules. The core form replaces many of the frequently used parts of the old 990. The new 990 provides context before the form reports information on tax compliance, governance, compensation, and financial statements. For example, your mission is on the front page.

Why was the form changed?

The IRS has not significantly revised the Form 990 since 1979. The IRS recognized that the form was outdated and did not comply with its own standards. Also, the exempt sector was changing in size, diversity, and complexity. Because of these changes, the form did not meet the new tax compliance issues of the IRS or the transparency and accountability requirements from the states, general public, or local communities.

When is the new form required?

The new form is effective for your organization's fiscal year starting in 2008 for returns filed beginning in 2009. There are, however, special transition rules for smaller organizations. If you qualify for the small organization exemption (see the table below) you can postpone the use of the new form.

May file 990-EZ for:	If gross receipts are:	If assets are:
2008 tax year (filed in 2009)	>\$25,000 and <\$1 million	<\$2.5 million
2009 tax year (filed in 2010)	>\$25,000 and <\$500,000	<\$1.25 million
2010 and later tax years	>\$50,000 and <\$200,000	<\$500,000

Highlights of the Core Form

Front-page Summary:

Includes key financial and operating information, a governance section, and a revised section on compensation and other related organization reporting. It also displays a two-year comparison of summary financial information of the organization.

Program Service Accomplishments:

The New 990 adds the reporting of revenue from each of the three largest program services, as measured by total expenses incurred. You can enter additional programs in Schedule O. This section also requires additional information be entered on Schedule O of the form for any new program service, changes in program services, or discontinued activities. As required in the current form, it is important to remember to be very clear and concise in your description of the program service accomplishments through specific measurements and in relation to the organization's exempt purpose.

The new form and the instructions explicitly ask for the inclusion of evaluation data. The guidance provided focuses on quantitative data and activity measures, such as attendance or people served. The IRS also proposes the use of activity codes to capture information about an organization's activities in order to provide data for the IRS and public researchers. Activity codes will not be used for the tax year 2008 and not until the IRS has worked more with researchers and the nonprofit sector to find the best system.

Checklist of Required Schedules, Part IV:

Helps the organization determine what, if any, activities being conducted may raise tax compliance concerns. The checklist also assists the organization in determining what schedules are required with the new form. The number of schedules from the old form to the new form increased from two to sixteen!

Governance Section, Part VI:

This section was added to promote transparency, encourage compliance and accountability, and enhance public trust. This section is by far the biggest change from the old form and could require significant preparation that must be done before the end of your fiscal year.

Here are some questions to ask in order to prepare your organization for the governance section:

- ◆ Was a copy of the Form 990 provided to the organization's governing body before it was filed? All organizations must describe in Schedule O the process the organization uses to review the Form 990.
- ◆ Does the organization have a written conflict of interest policy and have a policy for annual disclosure



and otherwise disclosing conflicts of interest?

- ◆ Does the organization have a written whistleblower policy?
- ◆ Does the organization have a written document retention and destruction policy?

The policies must be in place for the year in which you are reporting.

Compensation Section, Part VII:

Not new to the form, but there are important changes to the new Form 990. Parts of the old form are now compiled into one table.

In Part VII, Section A, all current officers, directors, and trustees will be listed regardless of compensation. According to the glossary provided by the IRS, the top management official and top financial official of the organization should be treated as officers and listed in the table.

The definition of key employee has changed. According to the IRS glossary, a person must meet all of the following three tests:

- ◆ The employee must receive \$150,000 in total compensation from the organization and its related organizations.
- ◆ The employee should either have powers similar to a director or trustee or manage a segment or activity that accounts for 10 percent or more of activities, income, or assets, or the employee has the authority to control the above.
- ◆ The employee is one of the top 20 employees in total compensation from the reporting and related organizations.

Please note that reportable compensation is now reported using information from W-2s and 1099s.

Financial Section, Parts VIII and IX:

Consolidated in comparison to the old form. There are a few new categories of income and expense, such as management fees, lobbying, investment management fees, advertising, promotion, information technology, royalties, and insurance. In addition, the Statement of Functional Expenses and the Balance Sheet were minimally changed, and thus the IRS expects to reduce tax reporting burden on the organization.

Changes in Schedules

There are more schedules in the new 990. The previously mentioned Checklist of Required Schedules, Part IV of the core form, will help you to see which ones you will need to complete. Here are a few schedules that many nonprofits need to prepare to complete.



Schedule J

This is a supplemental schedule with more detail about compensation in your organization. Please note that reporting thresholds have changed. Also, you must include compensation from the reporting and the related organizations. Some of the changes are:

- ◆ Five highest paid employees – increased from \$50,000 to \$100,000
- ◆ Five highest paid contractors – increased from \$50,000 to \$100,000
- ◆ Former directors, officers, and key employees who are listed in Section VII part A of the Core Form.
- ◆ Anyone listed in the compensation sections that received or accrued compensation from an unrelated organization for services rendered to your organization.

Please note that total compensation refers compensation from the organization itself and related organizations.

Schedule M

This schedule pertains to non-cash contributions. The schedule must be completed if your organization receives non-cash contributions in excess of \$25,000 (the current reporting threshold is \$5,000) or non-cash contributions of art, historical treasures, qualified conservation contributions, etc. Answering “yes” to questions 29 and 30 of the Checklist of Required Schedules (Part IV) require your organization to complete this schedule.

Within each applicable category of non-cash contributions, the organization will need to list the number of contributions, the revenue associated with the contributions, and how the organization determined the value for each. This is a new reporting requirement. The IRS oversight in this area may be higher than it was in the past. Thus, this section will have a significant impact on many organizations.

Schedule O

This is the most versatile of all the new schedules. Additional statements related to certain parts and schedules will be placed here. Sometimes the use of Schedule O is required; sometimes it is your choice.