

Internal Revenue Service
**Overview of 2008 Form 990 Draft Instructions
(April 7, 2008)**

On April 7, 2008, the IRS released for public comment draft instructions to be used to complete the 2008 Form 990, *Return of Organization Exempt from Income Tax*, the form filed by public charities and other tax-exempt organizations. The 2008 Form 990, released in final form in December 2007, is effective for 2008 tax years (returns filed in 2009). Special transition rules will allow many small organizations to file a Form 990-EZ instead of the new Form 990 for 2008 and 2009 tax years. The draft instructions, the 2008 Form 990, and a summary of the special transition rules for 2008 and 2009 tax years, are available on the IRS Web site, IRS.gov/eo.

Enhance transparency, promote tax compliance, and minimize burden. The redesigned 2008 Form 990 is based on three guiding principles: (1) enhancing transparency to provide the IRS and the public with a realistic picture of the organization; (2) promoting compliance by accurately reflecting the organization's operations so the IRS may efficiently assess the risk of noncompliance; and (3) minimizing the burden on filing organizations. The form's instructions will play a key role in furthering these principles, and the draft instructions incorporate a number of new tools, examples, and comprehensive line-by-line instructions, designed to promote uniform reporting and help filing organizations report accurate and complete information.

Summary of public comments received last year. Public comments received last summer in response to the release of the June 2007 draft redesigned Form 990 confirmed that the instructions for the old form suffer from many of the same deficiencies that plague the old form itself. Commenters noted numerous problems with the current form's instructions, including:

- No glossary of key terms, too few definitions, and unclear definitions that are scattered throughout the form and that are difficult to find;
- Insufficient guidance in key areas, such as the reporting of activities of disregarded entities and joint ventures owned by the filing organization;
- Lack of clear guidance for those who file group returns;
- Too much extraneous material specific to particular types of filers is placed in the front end before the specific line-by-line instructions that apply to most filing organizations;
- Ambiguous reporting standards for executive compensation, particularly with respect to the types of compensation that must be reported, and when and where they must be reported on the form;
- Lack of examples in particularly difficult areas; and
- Insufficient guidance to promote uniform reporting of program service accomplishments or to address reporting of new, discontinued, or significantly changed program service activities.

The draft instructions incorporate many changes, including additional tools to address these comments and further the form's guiding principles.

New tools and approach. The draft instructions employ a comprehensive approach intended to provide specific and clear guidance for completing the core form and each schedule. Although this approach increases the length of the instructions, the IRS believes the new content will make it easier for organizations to complete the form. Some major changes include the following:

- A glossary of key terms containing 176 definitions that are also included elsewhere in the instructions; this provides the filing organization a quick reference guide;
- Comprehensive instructions to help organizations answer questions about the activities they conduct through disregarded entities and joint ventures;
- Additional instructions for those who file group returns;
- Moving educational material applicable only to certain types of organizations from the front of the instructions to the appendices;
- Revised compensation instructions, including a compensation matrix, more examples, and clearer definitions, to provide more certainty and objectivity in reporting executive compensation;
- Increased use of examples;
- A sequencing list to help the organization complete the form in a step-by-step order; and
- Comprehensive instructions for the form's new reporting requirements, including governance, foreign activities, hospitals, and tax-exempt bonds.

The draft instructions contain separate instructions for each schedule. This generally limits the number of organizations that must review a particular schedule's instructions to those that engaged in the activity covered by the schedule.

Public comments due by June 1, 2008. The IRS requests comments on all aspects of the draft instructions, including suggestions that might further reduce complexity or burden. The highlights at the beginning of the instructions for the core form and the schedules identify specific areas for which comments are sought. In particular, the IRS is interested in comments specifically referred to in those highlights, the definitions contained in the glossary and elsewhere in the instructions, and the instructions regarding new or significantly revised areas such as compensation, governance, foreign activities, disregarded entities and joint ventures, group returns, hospitals, and tax-exempt bonds. The IRS is also requesting comments regarding the development of lists of items for particular sub-sectors to report in Part III, Statement of Program Service Accomplishments, so that more uniform reporting of program services may be achieved for a variety of types of organizations.