

Internal Revenue Service
Form 990 Redesign for Tax Year 2008
Schedule R, Related Organizations and Unrelated Partnerships – Highlights
December 20, 2007

Rationale

The current Form 990, Part IX requires all organizations to provide information regarding disregarded entities and taxable entities (partnerships, limited liability companies, and corporations) more than 50% owned by the organization. The requested information includes the name of the organization, EIN, nature of primary activity, percentage ownership held by the organization, and the organization's share of total income and assets of the related organization. The current form does not require reporting of similar information for joint ventures or investments in for-profit organizations which are not controlled by the organization, even though tax compliance concerns may exist in those cases. Schedule A, Part VII of the current form requires charities to provide certain information regarding transfers to and transactions and relationships with noncharitable exempt organizations. This information includes type of transfer or relationship, amount involved, name of the other organization, and a description of the transaction or relationship.

The Draft Schedule R was added to capture the increasingly complex organizational structures of tax-exempt organizations and improve transparency with respect to such structures. It contained separate parts for reporting the various types of tax entities (disregarded, exempt, tax partnership, tax corporation, or trust) so that information specific to relationships with each type of tax entity could be reported in an organized manner. Required information for these parts generally included the name of the related organization, a description of its primary activity, the state or country of domicile, certain ownership and financial information, and in the case of partnerships, disproportionate allocations and unrelated business income allocations. The Draft's Schedule R also extended the current form's Schedule A, Part VII reporting of various transfers from charities to all types of exempt organizations, although it eliminated this reporting with respect to exempt organizations that were not controlled by the organization.

Major Comments and Changes

Parts I through IV of the Draft are not materially changed. Instructions will clarify the extent to which certain trusts must be reported in Part IV. The scope of transactions covered and the reporting required by Part V has been narrowed. A new Schedule R Part VI, based on the Draft Form 990 Part VII, Question 8, was added to collect information regarding investments in tax partnerships which are not controlled by the organization and through which the organization conducts activities constituting at least 5% of its total activities, measured by revenues or assets.

Many commented that the Draft's Part V transfer reporting was overly burdensome, especially for organizations in large and complex affiliated systems, such as hospitals, colleges and universities. Recommendations included

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imposing reporting thresholds for individual or aggregate transactions, excluding all transfers between charities from this reporting, reducing the type of information required for the various types of transfers, or limiting reporting to only those transactions described within section 512(b)(13) (i.e., interest, rents, royalties, and annuities received or accrued from a controlled entity).

Some objected to requiring disclosure of income and assets of related for-profit organizations, and others objected to Part III's reporting of disproportionate allocations among partners, as being overly burdensome and making public some information that might be proprietary and confidential. While of concern, these burden arguments were outweighed by substantial tax compliance interests in obtaining this information, including to assess compliance with exempt purpose, private benefit, and in the case of 501(c)(3) organizations, potential private inurement and excess benefit provisions.

Specific Changes to the Draft

- Restored reporting of EIN of taxable related organizations (as is the case with current Form 990) in Parts III and IV
- Retained Part V, line 1 which requires check-the-box reporting of transactions between the filing organization and *related* organizations listed in Parts II, III or IV.
- Revised Part V, line 2
 - Restricted completion to transactions with controlled entities described in 512(b)(13) as required by 6033(h), and to 501(c)(3)/4947(a)(1) organizations' transactions with a non-charitable related organization as required by 6033(b)(9)
 - Added threshold for transaction types (b) through (r)
 - Instructions will clarify that line 2 table will only be required for each transaction type that exceeds \$50,000 per related organization (no threshold is provided for transaction type (a))
 - Eliminated specific description of each transaction
- Moved Draft's "unrelated joint venture" Question 8 from the core form's Part VII, to new Part VI of Schedule R, with some modifications
 - Applies to partnerships whose exempt or unrelated activity (but not certain investment partnerships) exceeds 5% of the organization's total revenues or assets
 - Captures information similar to that required for related tax partnerships in Part III

Expected Impact on Burden

Parts I, III and IV are required on the current form, although some additional burden is expected because additional information is required.

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Part V is required in the current form for all 501(c)(3) organizations in Schedule A, Part VII, Information Regarding Transfers To and Transactions and Relationships with Noncharitable Exempt Organizations. The Draft and the final form reduce burden on 501(c)(3) organizations by eliminating reporting of transactions and relationships with unrelated noncharitable organizations and by placing a \$50,000 reporting threshold on each transaction type per related entity. While the Draft inadvertently extended this reporting to relationships and transactions between noncharitable organizations, this is eliminated for the final form and will be clarified in the instructions.

Part V also incorporates information on transactions with controlled entities described in section 512(b)(13) which are currently reported on Form 990, Part IX (added in 2006 as a result of the Pension Protection Act). Because this reporting is essentially the same, additional burden is expected to be minimal for these organizations.

Part VI establishes new requirements which may result in new recordkeeping practices.