

Highlights

Overall

- General Instructions are followed by Specific Instructions particular to each Part
- “Who must file?” instructions
 - Include instructions regarding new Form 990-N (e-postcard) filing requirements and the increased Form 990-EZ filing thresholds for 2008 and later tax years
- A Sequencing List is included to assist organizations in determining the order in which to fill out parts of the form
- Short years ending in 2008 (even those beginning in 2008) may use 2007 Form 990 instead of 2008 form
- Must report amounts in dollars (rounded) unless expressly instructed to do otherwise
- Provides both general and specific instructions on reporting activities of disregarded entities, activities and shares of joint ventures, and group returns, to provide more uniform and complete reporting regarding these types of circumstances
- A Glossary is included to provide definitions for many terms that are used in the form
- Appendices are included to provide additional information regarding targeted areas affecting certain activities or types of filing organizations
 - Some provide supplemental information not necessarily required to complete the form, such as public inspection requirements, while others provide special instructions to help certain filers complete the form (e.g., group returns)
- Form includes more examples to illustrate definitions and new requirements, or to clarify items that are confusing in current form’s instructions
- Final version of the instructions will be standard IRS triple column format
 - This will significantly reduce the number of pages when it is in final form

Part I Summary and Part II Signature Block

- Defines volunteers to include part time and full time individuals who volunteered during the year; organization may use any reasonable basis to estimate
- Investment income (line 10) includes passive interest, dividends, and capital gains, but not rents or royalties
- Clarifies which lines in 2007 Form 990 should be used to complete prior year column for page 1 financial comparisons between 2007 and 2008
- Clarifies that PTIN and EIN need not be completed except for those 4947(a)(1) nonexempt charitable trusts not filing Form 1041

Part III Statement of Program Service Accomplishments

- The IRS requests comments on specific examples of accomplishments to be reported by organizations in a particular sub-sector, such as by all nursing homes, all hospitals, all colleges and universities, all social clubs, all trade associations, etc.
 - Intend to include these in final instructions released later this year

- Activity Codes to be left blank for 2008 tax years while IRS solicits comments on whether to rely on existing codes or develop new codes

Part IV Checklist of Required Schedules

- Line 3 instructions clarify that political campaign activities conducted through a disregarded entity or a joint venture taxed as a partnership must be reported on Schedule C
- Line 9 instructions explain escrow accounts and custodial arrangements that trigger Schedule D Part IV supplemental information reporting
- Line 20 instructions define hospital for Schedule H reporting by reference to state licensing or certification laws
- Line 25 instructions caution the organization that it should carefully review the instructions to Schedule L before answering this and other questions regarding excess benefit transactions
- Line 37 instructions clarify the meaning of “substantial activities” conducted through an unrelated partnership by reference to 5% of the organization’s revenues or assets, on a partnership-by-partnership basis

Part V Statements Regarding Other IRS Filings and Tax Compliance

- These instructions explain how to answer these questions regarding other IRS filings and certain tax compliance matters
- Provides that for line 3b regarding UBI filings, the organization is to check “no” if it has filed a request for an extension to file the Form 990-T but has not yet filed the return

Part VI Governance, Management and Disclosure

- Introductory paragraph states that this section asks some questions about policies or practices that are not legally required by the Code, but states that all filing organizations must answer all the questions in Part VI
- Instructions provide definitions for terms such as governing body, voting member, independent voting member, material diversion of assets
 - For purposes of determining independence, a material financial benefit is defined
 - Independence is not jeopardized merely because a Board member is a major donor or receives material financial benefits solely in the capacity as a member of a membership organization, and provides a special rule if the member has taken a bona fide vow of poverty
 - IRS requests comments on the need for additional examples to show when a member is or is not independent
- Defines officer to be determined by reference to state law, but provides that it always includes the organization’s top management official
- Provides specific instructions regarding reporting changes to organizational documents, material diversion of assets, conflicts of interest, providing a copy of the Form 990 to the governing body, and joint venture investment policies

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

- Instructions provide a definition of key employee for purposes of Part VII and Schedule J that includes persons with overall responsibilities for the organization

as a whole, as well as certain persons who manage or have authority to control more than 5% of the organization's activities, assets, income, expenses, capital expenditures, operating budget, or compensation for employees

- The organization is only required to list those key employees whose compensation exceeds \$150,000.
- The 5% test is for key employee reporting purposes only and is not determinative of whether a person is a disqualified person for purposes of section 4958, or whether a transaction is an excess benefit transaction required to be reported on Schedule L, Part I
- Provides special rules for treating officers, directors and employees of disregarded entities as key employees or highest compensated employees of the filing organization
- Provides special rules for group returns
- Provides a five year lookback period to determine status as a former official or employee
- Provides instructions for reporting other compensation
 - Must report health and retirement plan benefits as other compensation regardless of amount, but may estimate
 - Other benefits generally need to be reported only if they exceed \$10,000 in value for the year, per type of compensation
 - Nontaxable benefits excluded under section 132 generally need not be reported
 - Provides special instructions for reporting deferred compensation, whether nonqualified or qualified
- Provides that top 5 highest compensated employees paid over \$100,000 include those persons who are key employees but who need not be listed as key employees because their compensation is less than \$150,000
- Includes a compensation table to assist in reporting compensation on Part VII and Schedule J
- Provides examples regarding reporting compensation paid to an officer, director, trustee, or employee of the organization by an unrelated organization

Part VIII Statement of Revenue

- Line 1g instructions clarify the reporting of non-cash contributions, including an example for stock contributed but immediately sold through a brokerage account
- Line 2 instructions clarify the reporting of program related investment income as program service revenue, including in contexts such as providing student loans and low income housing
- Provides for classifying membership payments as contributions or as program service revenue.

Part IX Statement of Functional Expenses

- Clarifies which professional fees must be reported in line 11

Part X Balance Sheet

- Provides that "other liabilities" must include separate reporting of federal income taxes payable and any payables to related organizations

Part XI Financial Statements and Reporting

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- Explains reporting required for type of financial statement and level of independent accountant involvement
- Explains reporting required for any audits required for organizations that receive federal grants under Single Audit Act and OMB Circular A-133

Appendices

- Include exempt organization reference chart, determination of gross receipts, public inspection of returns, group returns, disregarded entities and joint ventures, and section 4958 excess benefit transaction instructions
- A section has been reserved regarding reporting of an organization's ownership of Subchapter S corporation stock; comments are requested regarding special reporting implications that might pertain to such ownership by a filing organization

DRAFT

2008 Instructions for Form 990

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Contents

- What's New – Explanation of Redesign [to be added]
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 - B** How to Determine Whether an Organization's Gross Receipts Are Normally \$25,000 (or \$5,000) or Less
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 - E** Group Returns: Reporting Information on Behalf of the Group.

- F Disregarded Entities and Joint Ventures; Inclusion of Activities and Items.
- G Section 4958 Excess Benefit Transactions
- H Ownership of Subchapter S Corporation (Reserved)
- Index [to be added]
- Instructions for Schedules A through O and R

General Instructions

Overview of Form 990. The Form 990 is an annual information return required to be filed with the IRS by most organizations exempt from income tax under Internal Revenue Code section 501(a), and certain political organizations and non-exempt charitable trusts. Parts I through XI of the form must be completed by all filing organizations, and require reporting on the organization's exempt and other activities, finances, governance, compliance with certain federal tax filings and requirements, and compensation paid to certain persons. Additional schedules are required to be completed depending upon the activities and type of the organization. By completing Part IV, the organization determines which schedules are required. The entire completed Form 990 filed with the IRS, except for certain contributor information on Schedule B, is required to be made available to the public by the IRS and the filing organization, and may be required to be filed with state governments to satisfy state reporting requirements.

Organizations that have total gross income from unrelated trades or businesses of at least \$1,000 also are required to file Form 990-T, *Exempt Organization Business Income Tax Return*, in addition to any required Form 990, 990-EZ, or 990-N.

Note: Throughout these instructions, "the organization" and the "filing organization" both refer to the organization filing the Form 990. For group returns, "the organization" generally refers to each subordinate organization included in the group return.

Caution: The examples appearing throughout the Form 990 Instructions are illustrative only and for the purpose of completing this Form, and are not all-inclusive.

A. Who Must File

Most organizations exempt from income tax under Internal Revenue Code section 501(a) must file an annual information return (Form 990 or Form 990-EZ) or an annual electronic notice (Form 990-N), depending upon the organization's gross receipts and total assets.

For 2008, Form 990 must be filed by an organization exempt from income tax under Internal Revenue Code section 501(a) if it has either gross receipts greater than or equal to \$1,000,000 or total assets greater than or equal to \$2,500,000 at the end of the tax year. This includes the following:

- organizations described in section 501(c)(3) (other than private foundations)
- organizations described in other 501(c) subsections (other than black lung benefit trusts)

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Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses. Total assets is the amount reported by the organization on its balance sheet as of the end of the year, without reduction for liabilities.

For purposes of Form 990 reporting, the term “section 501(c)(3)” includes organizations exempt under sections 501(e) and (f) (cooperative service organizations), 501(k) (child care organizations), and 501(n) (charitable risk pools). In addition, any organization described in one of these sections is also subject to section 4958 if it obtains a determination letter from the IRS stating that it is described in section 501(c)(3).

TIP: If an organization normally has gross receipts of \$25,000 or less, it must file Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ* (with exceptions described below for certain section 509(a)(3) supporting organizations and for certain organizations described in General Instruction B). For tax years beginning in 2008, if an organization has gross receipts less than \$1,000,000 and total assets at the end of the year less than \$2,500,000, it may choose to file Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, instead of Form 990. See the instructions for these forms for more information. But see the special rules described herein regarding controlling organizations described in section 512(b)(13) and sponsoring organizations of donor advised funds.

TIP: Certain Form 990 filers **must** file electronically. See *General Instruction E* for who must file electronically.

TIP: The Form 990 (including its schedules) has been substantially redesigned for 2008 and later tax years. The IRS has provided transitional relief to small and mid-size organizations, allowing many to file Form 990-EZ for 2008 and 2009 instead of Form 990, and providing them time to become familiar with the new form and its requirements. The following schedule sets forth the modified thresholds for filing Form 990-EZ (instead of Form 990) during this transition period:

May file 990-EZ for:	If gross receipts are:	And if assets are:
2008 Form (generally filed in 2009)	< \$1,000,000	< \$2,500,000
2009 Form (generally filed in 2010)	< \$500,000	< \$1,250,000
2010 and later Forms	< \$200,000	< \$500,000

Foreign and U.S. Possession organizations. Foreign as well as domestic organizations described above must file Form 990 or 990-EZ unless specifically excepted under General Instruction B. Report amounts in U.S. dollars, and state what conversion rate the organization uses. Combine amounts from within and outside the U.S., and report the total for each item. All information must be written in English.

Sponsoring organizations of donor advised funds. Sponsoring organizations of donor advised funds, if required to file an annual information return for the year, must file Form 990 and not Form 990-EZ.

Controlling organizations described in section 512(b)(13). A controlling organization of one or more controlled entities, as described in section 512(b)(13), must file Form 990 and not Form 990-EZ if it is required to file an annual information return for the year and if there was any transfer of funds between the controlling organization and any controlled entity during the year.

Section 509(a)(3) supporting organizations. A section 509(a)(3) supporting organization must file Form 990 or 990-EZ, even if its gross receipts are normally \$25,000 or less, unless it qualifies as one of the following:

1. an integrated auxiliary of a church
2. the exclusively religious activities of a religious order
3. a religious organization whose gross receipts are normally not more than \$5,000
4. an organization whose gross receipts are normally not more than \$5,000 that supports a 501(c)(3) religious organization
5. a charitable organization supported partly by funds contributed by United States, State, or local governmental units, or primarily by contributions of the general public, whose gross receipts are normally not more than \$5,000

If the organization is described in 3, 4, or 5, then it must file Form 990-N unless it voluntarily files Form 990 or Form 990-EZ.

Section 501(c)(15) organizations. A section 501(c)(15) organization applies the same gross receipts test as other organizations to determine whether it must file the Form 990, but uses a different definition of gross receipts to determine whether it qualifies as tax-exempt for the tax year. See Appendix C, *Section 501(c)(15) Organizations and Gross Receipts*, for more information.

Section 527 political organizations. Tax-exempt political organizations must file Form 990 or Form 990-EZ unless excepted under General Instruction B. A qualified state or local political organization must file Form 990 or Form 990-EZ only if it has gross receipts of \$100,000 or more. Political organizations are not required to file Form 990-N.

Section 4947(a)(1) non-exempt charitable trusts. A non-exempt charitable trust described under section 4947(a)(1) of the Code (if it is not treated as a private foundation) is required to file Form 990 or Form 990-EZ, along with a completed Schedule A (among other schedules), unless excepted under General Instruction B. If such a trust does not have any taxable income under Subtitle A of the Code, it can file Form 990 or Form 990-EZ to meet its section 6012 filing requirement and does not have to file Form 1041, *U.S. Income Tax Return for Estates and Trusts*.

B. Organizations Not Required to File Form 990

An organization does not have to file Form 990 or 990-EZ even if it has at least \$1,000,000 of gross receipts or \$2,500,000 of total assets if it is described below (except for section 509(a)(3) supporting organizations—the filing exceptions for supporting organizations are described above). See General Instruction A (above) for determining whether the organization may file Form 990-EZ instead of Form 990. An organization

described in 2, 10, 11, or 13 below is required to file Form 990-N unless it voluntarily files Form 990, 990-EZ, or 990-BL.

Certain religious organizations

1. A church, an interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church (such as a men's or women's organization, religious school, mission society, or youth group).
2. A church-affiliated organization that is exclusively engaged in managing funds or maintaining retirement programs and is described in Rev. Proc. 96-10, 1996-1 C.B. 577.
3. A school below college level affiliated with a church or operated by a religious order.
4. A mission society sponsored by, or affiliated with, one or more churches or church denominations, if more than half of the society's activities are conducted in, or directed at, persons in foreign countries.
5. An exclusively religious activity of any religious order.

Certain governmental organizations

6. A state institution whose income is excluded from gross income under section 115.
7. A governmental unit or affiliate of a governmental unit described in Rev. Proc. 95-48, 1995-2 C.B. 418.
8. An organization described in section 501(c)(1). A section 501(c)(1) organization is a corporation organized under an act of Congress that is an instrumentality of the United States, and exempt from federal income taxes.

Certain political organizations

9. A political organization that is:
 - A state or local committee of a political party;
 - A political committee of a state or local candidate;
 - A caucus or association of state or local officials; or
 - Required to report under the Federal Election Campaign Act of 1971 as a political committee (as defined in section 301(4) of such Act).

Certain organizations with limited gross receipts

10. An organization whose gross receipts are normally \$25,000 or less. To determine what an organization's gross receipts "normally" are, see the Appendix B, *How to Determine Whether an Organization's Gross Receipts Are Normally \$25,000 (or \$5,000) or Less*, or the Instructions for Form 990-EZ.
11. A foreign organization, including organizations located in U.S. Possessions, whose gross receipts from sources within the U.S. are normally \$25,000 or less.

Certain organizations that file different kinds of annual information returns

12. A private foundation exempt under section 501(c)(3) and described in section 509(a). Use Form 990-PF, *Return of Private Foundation*. Use Form 990-PF also for a taxable private foundation, a section 4947(a)(1) non-exempt charitable trust treated as a private foundation, and a private foundation terminating its status by becoming a public charity under section 507(b)(1)(B) (for tax years within its 60-month termination period).

13. A black lung benefit trust described in section 501(c)(21). Use Form 990-BL, *Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons*,
14. A religious or apostolic organization described in section 501(d). Use Form 1065, *U.S. Return of Partnership Income*.
15. A stock bonus, pension, or profit-sharing trust that qualifies under section 401. Use Form 5500, *Annual Return/Report of Employee Benefit Plan*.

C. Sequencing List to Complete the Form and Schedules

You may find the following chart helpful. It limits jumping from one part of the form to another to make a calculation or determination needed to complete an earlier part, as certain later parts of the form must first be completed in order to complete earlier parts. In general, first complete the core form, and then alphabetically through Schedules A-R, except as provided below:

1. Complete lines A through F and H(a) through M in the Heading of Form 990, on page 1.
2. Determine the organization's related organizations (see Schedule R instructions), disregarded entities, and joint ventures for which reporting will be required (see Appendix F, *Disregarded Entities and Joint Ventures*).
3. Complete Parts VIII, IX, and X of Form 990.
4. Complete line G in the Heading of Form 990, on page 1.
5. Complete Parts III, V, VII, and XI of Form 990.
6. See Schedule L instructions and complete Schedule L (if required).
7. Complete Part VI of Form 990.
8. Complete Parts I and IV of Form 990.
9. Complete remaining applicable Schedules (for which "Yes" boxes were checked in Part IV).
10. Complete Part II of Form 990, *Signature Block*.

D. Accounting Periods and Methods

TIP: See IRS Publication 538, *Accounting Periods and Methods*, about reporting changes to accounting periods and methods.

ACCOUNTING PERIODS

Calendar year. Use the 2008 Form 990 to report on the 2008 calendar year accounting period. A calendar year accounting period begins on January 1 and ends on December 31.

Fiscal year. If the organization has established a fiscal year accounting period, use the 2008 Form 990 to report on the organization's fiscal year that began in 2008 and ended 12 months later. A fiscal year accounting period should normally coincide with the natural operating cycle of the organization. Be certain to indicate in the Heading of Form 990 the date the organization's fiscal year began in 2008 and the date the fiscal year ended in 2009.

Short period. A short accounting period is a period of less than 12 months, which exists when an organization first commences operations or changes its accounting period. If the Form 990 and instructions for the short year is not yet available when the return is

due, use the prior year Form 990 to meet the organization's filing requirement, cross out the year on the form, and show the short year.

Accounting period change. If the organization changes its accounting period, it must file a Form 990 for the short period resulting from the change. Write "Change of Accounting Period" at the top of this short-period return.

If the organization previously changed its accounting period within the 10-calendar-year period that includes the beginning of the short period, and it had a Form 990 filing requirement at any time during that 10-year period, it must also attach a Form 1128 to the short-period return. See Rev. Proc. 85-58, 1985-2 C.B. 740.

ACCOUNTING METHODS

Unless instructed otherwise, the organization should generally use the same accounting method on the return to report revenue and expenses that it regularly uses to keep its books and records. To be acceptable for Form 990 reporting purposes, however, the method of accounting must clearly reflect income.

Accounting method change. Generally, the organization must file Form 3115 to change its accounting method. An exception applies where a 501(c) organization changes its accounting method to comply with SFAS 116, Accounting for Contributions Received and Contributions Made. See Notice 96-30, 1996-1 C.B. 378. An organization that makes a change in accounting method, regardless of whether it files Form 3115, and that has audited financial statements, must report any adjustment required by Internal Revenue Code section 481(a) on Schedule D, Parts XI through XIV, of Form 990.

State reporting. Most states that accept Form 990 in place of their own forms require that all amounts be reported based on the accrual method of accounting. If the organization prepares Form 990 for state reporting purposes, it may file an identical return with the IRS even though the return does not agree with the books of account, unless the way one or more items are reported on the state return conflicts with the instructions for preparing Form 990 for filing with the IRS.

Example 1 The organization maintains its books on the cash receipts and disbursements method of accounting but prepares a Form 990 return for the state based on the accrual method. It could use that return for reporting to the IRS.

Example 2 A state reporting requirement requires the organization to report certain revenue, expense, or balance sheet items differently from the way it normally accounts for them on its books. A Form 990 prepared for that state is acceptable for the IRS reporting purposes if the state reporting requirement does not conflict with the Form 990 instructions.

An organization should keep a reconciliation of any differences between its books of account and the Form 990 that is filed. Organizations with audited financial statements are required to provide such reconciliations in Schedule D, Parts XI through XIII.

E. When, Where, and How to File

File Form 990 by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar-year filer). If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

If the organization is liquidated, dissolved, or terminated, file the return by the 15th day of the 5th month after liquidation, dissolution, or termination.

If the return is not filed by the due date (including any extension granted), attach a statement giving the reasons for not filing on time.

Send the return to the:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

Private delivery services. The organization can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax return payments. These private delivery services include only the following:

- DHL Express (DHL): DHL "Same Day" Service, DHL Next Day 10:30 AM, DHL Next Day 12:00 PM, DHL Next Day 3:00 PM, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air AM, UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Electronic filing. The organization can file Form 990 and related forms, schedules, and attachments electronically. However, if an organization files at least 250 returns during the calendar year and has total assets of \$10 million or more at the end of the tax year, it must file Form 990 electronically.

To determine if the organization meets the \$10 million asset test, use the amount that will be entered on Form 990, Part X, line 16 (total assets), column (B).

If an organization is required to file a return electronically but does not, the organization is considered not to have filed its return, even if a paper return is submitted. See Temporary Regulations section 310.6033-4T for more information.

For additional information on the electronic filing requirement, visit www.irs.gov/efile.

The IRS may waive the requirements to file electronically in cases of undue hardship. For information on filing a waiver, see Notice 2005-88, 2005-48 I.R.B. 1060.

F. Extension of Time to File

Use Form 8868 to request an automatic 3-month extension of time to file. Use Form 8868 also to apply for an additional (not automatic) 3-month extension if the original 3

months was not enough time. To obtain this additional extension of time to file, the organization must show reasonable cause for the additional time requested. See the Instructions for Form 8868.

G. Amended Return/Final Return

To change the organization's return for any year, file a new return including any required schedules. Use the version of Form 990 applicable to the year being amended. The amended return must provide all the information called for by the form and instructions, not just the new or corrected information. Check the *Amended Return* box in the heading of the return.

The organization may file an amended return at any time to change or add to the information reported on a previously filed return for the same period. It must make the amended return available for inspection for 3 years from the date of filing or 3 years from the date the original return was due, whichever is later.

The organization must also send a copy of the information or amended return to any state with which it filed a copy of Form 990 originally to meet that state's filing requirement.

Use Form 4506 to obtain a copy of a previously filed return. See www.irs.gov for information on getting blank tax forms.

If the return is a final return, see the *Specific Instructions* for Schedule N for further details.

H. Failure to File Penalties

Against the organization. Under section 6652(c)(1)(A), a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the organization for the year, may be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. Organizations with annual gross receipts exceeding \$1 million are subject to a penalty of \$100 for each day failure continues (with a maximum penalty with respect to any one return of \$50,000). The penalty begins on the due date for filing the Form 990.

Tax exempt organizations which are required to file electronically but do not are deemed to have failed to file the return. This is true even if a paper return is submitted.

The penalty may also be charged if the organization files an incomplete return. To avoid having to supply missing information later:

- (1) complete all applicable line items;
- (2) unless instructed to skip a line, answer each question on the return;
- (3) make an entry (including a zero when appropriate) on all lines requiring an amount to be reported; and
- (4) provide required explanations as instructed.

Also, this penalty may be imposed if the organization's return contains incorrect information. For example, an organization that reports contributions net of related fundraising expenses may be subject to this penalty.

Use of a paid preparer does not relieve the organization of its responsibility to file a complete return.

Against Responsible Person(s). If the organization does not file a complete return or does not furnish correct information, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of \$10 a day. The maximum penalty on all persons for failures with respect to any one return shall not exceed \$5,000.

There are also penalties (fines and imprisonment) for willfully not filing returns and for filing fraudulent returns and statements with the IRS (sections 7203, 7206, and 7207). States may impose additional penalties for failure to meet their separate filing requirements.

I. Group Return

A central, parent, or like organization can file a group return on Form 990 for two or more subordinate or local organizations that are:

1. Affiliated with the central organization at the time its annual accounting period ends,
2. Subject to the central organization's general supervision or control,
3. Exempt from tax under a group exemption letter that is still in effect, and
4. Using the same accounting period as the central organization.

The central organization cannot use a Form 990-EZ for the group return.

A subordinate organization covered by a group ruling may file a separate return instead of being included in the group return. If a subordinate organization is not required to file a return, it need not be included in the group return or file a separate return.

If the central organization is required to file a return for itself, it must file a separate return and may not be included in the group return. See *General Instruction B* for a list of organizations not required to file.

Every year, each subordinate organization must authorize the central organization in writing to include it in the group return and must declare, under penalty of perjury, that the authorization and the information it submits to be included in the group return are true and complete.

The central organization should send the annual information update required to maintain a group exemption letter (a separate requirement from the annual return) to the:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

For Special Instructions regarding answering certain Form 990 questions, parts or schedules in the context of a group return, see Appendix E, *Group Returns*.

J. Requirements for a Properly Completed Form 990

All organizations must complete Parts I through XI of the Form 990, and any schedules for which a "Yes" response is indicated in Part IV.

Public inspection. In general, all information the organization reports on or with its Form 990, including schedules and attachments, will be available for public inspection. Note, however, the special rules for Schedule B, a required schedule for certain organizations that file Form 990. Make sure the forms and schedules are clear enough to photocopy legibly. For more information on public inspection requirements, see Appendix D, *Public Inspection of Returns*, and Publication. 557.

Signature. A Form 990 is not complete without a proper signature. For details, see the instructions to Part II (Signature Block).

Recordkeeping. The organization's records should be kept for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit must be kept for 3 years from the date the return is due or filed, whichever is later. Keep records that verify the organization's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The organization should also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

Rounding off to whole dollars. The organization must round off cents to whole dollars on the returns and schedules, unless otherwise noted for particular questions. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3. If the organization has to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Completing all lines. Enter the required information on the appropriate line on Form 990; do not leave any applicable lines blank, unless expressly instructed to skip that line. If answering a line is predicated on a "Yes" answer to the preceding line, and if the organization's answer to the preceding line was "No," then leave the "If Yes" line blank. In general, answers may be explained or supplemented in Schedule O if the allotted space in the form or other schedule is insufficient, or if a "Yes" or "No" answer is required but the organization wishes to explain its answer. Do not attach any materials not authorized in the instructions.

Reporting proper amounts. Some lines request information reported on other forms filed by the organization (such as Form W-2 or Form 990-T). If the organization is aware that the amount actually reported on the other form is incorrect, it must report on Form 990 the information that should have been reported on the other form (in addition to filing an amended form with the proper amount).

Inclusion of activities and items of disregarded entities and joint ventures. An organization must report in its Form 990 all of the revenues, expenses, assets, liabilities, and net assets or funds of a disregarded entity of which it is the sole member, and must report in its Form 990 its share of all such items of a joint venture or other investment or arrangement taxed as a partnership. This includes passive investments. In addition, the organization generally must report the activities of a disregarded entity or a joint venture in the appropriate parts of schedules of the Form 990. For special instructions regarding the treatment of disregarded entities and joint ventures for various parts of the form, see Appendix F, *Disregarded Entities and Joint Ventures*.

Assembling Form 990.

Before filing the Form 990, assemble the package of schedules being filed in alphabetical order after Page 11 of the core form.

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