Internal Revenue Service
Form 990 Redesign for Tax Year 2008
Schedule D, Supplemental Financial Statements – Highlights
December 20, 2007

Rationale and Overview

The current Form 990 requires numerous unstructured financial statement attachments that are not displayed in the form itself or in a schedule. The Draft eliminated several of these attachments and proposed a compilation of the remainder in the new Schedule D. Many organizations do not provide the currently required unstructured attachments. Compiling these attachments in a single schedule and providing the format within which to report the information is expected to increase compliance and standardize reporting in this area.

The Draft Schedule D also incorporated existing or new reporting requirements for donor advised funds, conservation easements, escrow accounts, endowment funds, certain art and museum collections, and financial statement reconciliations.

The Draft's approach to use Schedule D to compile supplemental financial information has been retained. However, the schedule has been reorganized so that its parts follow their order of appearance in the core form, and the various asset tables have been streamlined to reduce reporting burden for various asset holdings, such as real property and financial investments.

Detail of Assets and Liabilities

The current form requires that detailed attachments listing items on an asset-by-asset basis be provided for the following lines of the balance sheet:

- line 54b, Investments – other securities
- lines 55a and b, Investments – land, buildings and equipment (basis and depreciation)
- lines 57a and b, Land, buildings and equipment (basis and depreciation)

The Draft incorporated these attachments in specific parts of Schedule D, and retained the asset-by-asset reporting requirement. While the information was the same as that required by the current form, many comments indicated that filers were not providing the requested information as described in the instructions, and raised concerns that current bookkeeping and recordkeeping practices do not provide this information. Many also commented that asset-by-asset reporting for large organizations is not practical, as they hold hundreds or thousands of assets of many types and do not keep records of the requested information for each individual asset.

In response to these comments, the schedule reduced reporting burden by making three changes to reporting of asset information: (1) reducing the number of categories of assets requiring detailed breakdowns from six to four categories, (2) permitting reporting by asset type rather than on an asset-by-asset basis (except for publicly traded securities for which over 5% is held by the organization), and (3) establishing reporting thresholds for most categories (e.g., no breakdown required on Schedule D for other securities, program related investments, or other assets, unless the amount of the category exceeds 5% of total assets).

The number of Schedule D parts was reduced from six to four by combining all land, buildings and equipment as one line, and combining other securities and other investments as one line. The remaining four categories are land, buildings and equipment; other securities; program related investments; and other assets.

The Draft was revised to eliminate asset-by-asset reporting for Part VI, Investments – Land, Buildings and Equipment, Part VII – Investments, Other Securities, Part VIII – Investments, Program Related, and Part IX, Other Assets. Reporting for each of these parts will be permitted by asset types rather than for each specific asset. For example, reporting of other securities (Part VII) will be broken into the following categories: financial derivatives and other financial products, closely held equity interests, and other securities. Part VI will be broken down into land, buildings, leasehold improvements, equipment, and other. The instructions will provide suggested asset types for Parts VIII and IX.

The current form requires that a detailed schedule be attached for lines 51a, Other notes and loan receivables and 64b, Mortgages and other notes payable. These attachments were deleted from the Draft and from the final Schedule D. The current form also requires a detailed schedule be attached for line 56, Investments – other. Although this was retained in the Draft, it has been eliminated from the final Schedule D.

Other Changes

- Conservation easements (Part II)
  - Eliminated questions regarding golf course and residential developments;
  - Clarified reporting is limited to conservation easements (not all easements, such as utility easements);
  - Clarified reporting of acreage under easement at end of year is limited to easements eligible for a section 170 deduction;
  - Added a requirement that the financial statement footnote regarding conservation easements be reported here; and
  - Clarified that hours expended by the organization to monitor or enforce easements includes both staff and volunteer hours.
- Collections of art, historical treasures and other similar assets (Part III)
  - Highlighted on the face of the schedule that the election not to capitalize or recognize as revenue certain collection items is permitted by generally accepted accounting principles (GAAP) (museum organizations explained that the overwhelming majority of museum organizations do not capitalize collections because they are not considered financial assets in the sense that they are available for operating uses);

- Added question regarding revenues and assets relating to "financial gain" assets (i.e., those not held for public purposes); and
- Added questions to explain the various uses of their collections (public display, scholarly research) and how collections further exempt purposes.

- Trust, Escrow and Custodial Arrangements (Part IV)
  - Clarified this part applies to credit counseling organizations and those organizations that maintain escrows for benefit of others, or had custody of assets for benefit of others
- Endowment Funds (Part V)
  - Added question requesting percentage of endowments held as board designated, permanent, or term endowments to better understand the types of endowments held;
  - Added question regarding endowment funds held by other organizations, related or unrelated, for its behalf;
  - Added question regarding intended uses of the endowment funds; and
  - Eliminated reporting for years prior to tax year 2008 so that reporting is only prospective beginning with 2008 tax years.
- FIN 48 (Part X, Other Liabilities) – retained in same format as the Draft to require organization to provide narrative text of its FIN 48 footnote regarding liability for uncertain tax positions; IRS will work with sector to draft instructions to address reporting in a consolidated group context.
- Reconciliation of Change in Net Assets (Part XI)
  - Added lines for the most frequent reconciliation items: net unrealized gains or losses, donated services, investment expenses and prior period adjustments. Although some requested that this part be restored to the core form, the IRS believes this requirement should not be imposed on all filing organizations.
- Added Part IV to provide space for required narrative responses as well as any other financial information an organization would like to provide, such as a comparison to consolidated financial statements.

Expected Impact on Burden

The Draft and final Schedule D have eliminated several attachments, and replaced most reporting of assets on an asset-by-asset basis with reporting based on asset types. Many of these categories are also subject to reporting thresholds so that reporting burden is further minimized. These changes should reduce Schedule D reporting burden, especially for large organizations. The reporting burden on conservation easements is reduced by eliminating reporting of certain categories of easements.