

## Highlights

### Disregarded Entities

- Disregarded entities are required to be reported in Part I, but are not treated as a related organization for purposes of Part V transfer reporting (i.e., the organization need not report transfers to or from a disregarded entity of which it is the sole member)

### Group returns

- An organization with a group exemption ruling is not required to list any subordinate organizations or members of the group in Schedule R, Part II
- Group returns must satisfy the group affiliate list reporting required for Page 1, Item H in the Heading section

### Part III, VI disproportionate allocations

- The instructions clarify that the organization need not report disproportionate allocations with respect to other partners or members of the entity, and need only take into account disproportionate allocations with respect to its own investment in the entity
- Disproportionality is measured by reference to the share of any item of income, deduction, gain, loss, or credit, or right to distributions, that differs from the organization's share of investment in the entity at any time during the year.

### Part IV trusts

- Trusts described in section 401(a) need not be listed in Part IV

### Part V reporting – \$50,000 transaction type threshold

- The organization may aggregate transactions of the same type with a particular organization, i.e., line a(i) transactions, line a(ii) transactions, line a(iii) transactions, line a(iv) transactions, line b transactions, etc, and disregard transactions of a particular type (lines (a)(i)-(r)) between two organizations where the aggregate amounts involved during the tax year do not exceed \$50,000
- This threshold does not apply in the case of receipt of interest, annuities, royalties, or rent from a controlled entity (must report all such transactions regardless of amount)

### Part VI reporting

- Provides instructions regarding the 5% of revenues or assets test and an example illustrating its application
- Provides a carve-out for certain investment partnerships

## 2008 Schedule R (Form 990) Instructions Related Organizations and Unrelated Partnerships

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule R (Form 990) is used by an organization that files Form 990 to provide information on related organizations, on certain transactions with related organizations, and on certain unrelated partnerships through which the organization conducts significant activities.

#### Who Must File

The following chart sets forth which organizations must complete all or a part of Schedule R and attach Schedule R to Form 990.

Type of filer:	Answering "Yes" to:	Must file:
All organizations	Form 990, Part IV, line 33 (pertaining to disregarded entities)	Schedule R, Part I
All organizations	Form 990, Part IV, line 34 (regarding related organizations)	Schedule R, Parts II-IV and V, line 1 as applicable
All organizations	Form 990, Part IV, line 35 (regarding controlled entities under section 512(b)(13))	Schedule R, Part V, line 2
501(c)(3) organization or 4947(a)(1) trust	Form 990, Part IV, line 36 (regarding transfers to non-charitable related organizations)	Schedule R, Part V, line 2
All organizations	Form 990, Part IV, line 37 (regarding conduct of activity through unrelated partnership)	Schedule R, Part VI

### Specific Instructions

**Overview.** Part I requires identifying information on any organization that is treated for federal tax purposes as a disregarded entity. Part II requires identifying information on related tax-exempt organizations. Part III requires identifying information on any related organization that is treated for federal tax purposes as a partnership. Part IV requires identifying information on any related organization that is treated for federal tax purposes as a C or S corporation or trust. Part V requires information on transactions between the organization and related organizations (excluding disregarded entities). Part VI requires information on an unrelated organization taxable as a partnership through which the organization conducted more than 5% of its activities (as described below). Continuation sheets in Schedule R-1 are provided for each of the parts for use as needed.

Use Schedule R-1 to report additional information for Parts I – VI. Use as many Schedules R-1 as needed.

Some of the information requested below is derived from Schedule K-1 of Form 1041, 1065, or 1120S issued to the organization. If the Schedule K-1 is not available, provide a reasonable estimate of the required information.

**Relationships.** An organization is a related organization to the filing organization if it stands in one or more of the following relationships to the filing organization:

- Parent—an organization that controls the filing organization
- Subsidiary—an organization controlled by the filing organization
- Brother/Sister—an organization controlled by the same person or persons that control the filing organization
- Supporting/Supported—an organization that is (or claims to be) at any time during the organization's tax year (i) a supporting organization of the filing organization within the meaning of section 509(a)(3), if the filing organization is a supported organization within the meaning of section 509(f)(3), or (ii) a supported organization, if the filing organization is a supporting organization

**Exception:** Disregarded entities are treated as related organizations (subsidiaries of the filing organization) for purposes of reporting in Schedule R Part I, but not for purposes of reporting transactions with related organizations in Part V or otherwise in Form 990. A disregarded entity of an organization related to the filing organization is treated as part of the related organization and not as a separate entity.

**Definition of control.** In the case of nonprofit organizations and other organizations without owners or persons having beneficial interests, whether such organization is taxable or tax-exempt, control means:

- the power to remove and replace a majority of a nonprofit organization's directors or trustees, or
- a management overlap where a majority of the controlled entity's directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization.

In the case of stock corporations and other organizations with owners or persons having beneficial interests, whether such organization is taxable or tax-exempt, "control" means:

- ownership of more than 50% of the stock (by voting power or value) of a corporation,
- ownership of more than 50% of the profits or capital interest in a partnership,
- ownership of more than 50% of the profits or capital in a limited liability company (LLC), regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes, and regardless of the designation under state law of the ownership interests as stock, membership shares, or otherwise under state law,
- being a managing partner or managing member in a partnership or LLC which has three or fewer managing partners or managing members (regardless of which partner or member has the most actual control),
- being a general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control),

- being the sole member of a disregarded entity, or
- ownership of more than 50% of the beneficial interests in a trust.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

**Group exemption rulings.** An organization that is part of a group exemption ruling is not required to list any of the subordinate organizations of the group in Schedule R, Part II (whether or not they qualify as related organizations). Similarly, an organization is not required to list any other related organization that is itself part of another group exemption ruling, although the organization must explain in Schedule O its relationship with the other group exemption ruling. In the case of a subordinate organization filing an individual Form 990 return, the subordinate must list only the central or parent organization as a related organization in Schedule R, Part II. In the case of a group return, the central organization must list the subordinate organizations in response to Form 990, page one, item H(b). Even if a related organization is not required to be listed in Part II, however, the organization must report its transactions with the related organization in Part V, including listing the name of the related organization in Part V, line 2, column (A) for transactions that must be reported in line 2.

**Indirect control.** Control can be indirect. For example, if the filing organization controls Entity A, which in turn controls (under the definition of “control” above) Entity B, the organization will be treated as controlling Entity B. Rules under section 318 (relating to constructive ownership of stock) apply for purposes of determining constructive ownership of a corporation or other entity.

#### **Part I – Identification of Disregarded Entities**

**(A) Name, address, and EIN.** State the full legal name and mailing address of the disregarded entity. State also the Employer Identification Number (EIN) of the disregarded entity, if it has one. A disregarded entity generally must use the EIN of its sole member. An exception applies to employment taxes: for wages paid to employees of a disregarded entity on or after January 1, 2009, the disregarded entity must file separate employment tax returns and use its own EIN on such returns. See Regulations sections 301.6109-1(h) and 301.7701-2(c)(2)(iv).

Enter the details of each on a separate line of Part I. If there are more to report in Part I than space available, use Schedule R-1, Part I. Use as many Schedules R-1 as needed

**(B) Primary activity.** Briefly describe the primary activity of the disregarded entity.

**(C) Legal domicile.** List the U.S. State (or possession) or foreign country in which the disregarded entity is organized (i.e., the State or foreign country whose law governs the disregarded entity’s internal affairs).

**(D) Total income.** State the amount of the filing organization’s total revenue reported in Form 990, Part VIII, *Statement of Revenue*, attributable to the disregarded entity.

**(E) End-of-year assets.** State the amount of the organization’s total assets reported in Form Part X, *Balance Sheet*, attributable to the disregarded entity.

**(F) Direct controlling entity.** If the organization controls the disregarded entity in issue indirectly through one or more other disregarded entities, state the name of the entity that directly controls the disregarded entity in issue. Otherwise state “NA.”

**Part II – Identification of Related Tax-Exempt Organizations**

**(A) Name, address, and EIN.** State the related organization’s full legal name, mailing address, and EIN.

Enter the details of each on a separate line of Part II. If there are more to report in Part II than space available, use Schedule R-1, Part II. Use as many Schedules R-1 as needed.

**(B) Primary activity.** Briefly describe the primary activity of the related organization.

**(C) Legal domicile.** List the U.S. State (or possession) or foreign country in which the related organization is organized. For a corporation, enter the state of incorporation (country of incorporation for a foreign corporation formed outside the U.S.). For a trust or other entity, enter the State whose law governs the organization’s internal affairs (the foreign country whose law governs for a foreign organization other than a corporation).

**(D) Exempt Code section.** State the section of the Code under which the related organization is exempt (e.g., 501(c)(3), 501(c)(6), 527). For purposes of Schedule R, an organization that claims exemption is treated as exempt.

**(E) Public charity status.** For a related 501(c)(3) organization, report its public charity status, using one of the number codes in Schedule A. If the related organization is a private foundation, use the designation “PF.” If the related organization is a 509(a)(3) supporting organization, also indicate its type: I, II, III-FI, or III-O (for Type I, Type II, Type III functionally integrated, or Type III other, respectively).

**(F) Direct controlling entity.** If the filing organization indirectly controls the related organization through one or more other organizations, state the name of the entity that directly controls the related organization. Otherwise state “NA.”

**Part III – Identification of Related Organizations Taxable as a Partnership**

In this Part identify any related organization treated as a partnership for federal tax purposes. If the partnership is related to the filing organization by reason of being its parent or brother/sister and the filing organization is not a partner or member in the partnership, then fill out only Columns (A), (B) and (C) and state “NA” in Columns (D), (E), (F), (G), (H), (I), and (J).

Enter the details of each on a separate line of Part III. If there are more to report in Part III than space available, use Schedule R-1, Part III. Use as many Schedules R-1 as needed.

**(A) Name, address, and EIN.** State the related partnership’s full legal name, mailing address, and EIN.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the related partnership (e.g., investment in other entities, low-income housing, etc.).

**(C) Legal domicile.** List the U.S. State (or possession) or foreign country in which the related partnership is organized (i.e., the State or foreign country whose law governs the related partnership's internal affairs).

**(D) Direct controlling entity.** If the filing organization indirectly controls the related partnership through one or more other organizations, state the name of the entity that directly controls the related partnership in issue. Otherwise state "NA."

**(E) Predominant income.** Classify the predominant type of partnership income as either:

- (1) "related";
- (2) "unrelated"; or
- (3) "investment" or other income excluded from tax under section 512, 513, or 514.

For classification purposes, use the definitions of columns (B), (C), and (D) set forth in the instructions to the Statement of Revenue in Form 990, Part VIII.

**(F) Share of total income.** State the dollar amount of the filing organization's distributable share of the related partnership's total income, in accordance with the organization's profits interest as specified by the partnership or LLC agreement. Use the total amount reported by the related partnership on Schedule K-1 of Form 1065 for the partnership's tax year ending with or within the filing organization's tax year, if available (total of Schedule K-1, Part III, lines 1-11, plus line 18 tax-exempt income).

**(G) Share of end-of-year assets.** State the dollar amount of the filing organization's distributable share of the related partnership's end-of-year total assets, in accordance with the organization's capital interest as specified by the partnership or LLC agreement. If Schedule K-1 of Form 1065 for the partnership's year ending with or within the organization's tax year is available, determine this amount by adding the organization's ending capital account to the organization's share of the partnership's liabilities at year end reported on the Schedule K-1.

**(H) Disproportionate allocations.** State "Yes" if the interest of the organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the organization's investment in such partnership or LLC at any time during the year..

**(I) Code V UBI amount on Box 20 of K-1.** State the dollar amount, if any, listed as the Code V amount (unrelated business taxable income) in Box 20 of Schedule K-1 to Form 1065 received from the related partnership for the partnership's tax year ending with or within the filing organization's tax year. If no Code V amount is listed in Box 20, state "NA."

**(J) General or managing partner.** State "Yes" if the filing organization is a general partner of a related limited partnership, or is a managing partner or managing member of a related general partnership, LLC, or other entity taxable as a partnership. Otherwise state "No."

#### **Part IV – Identification of Related Organizations Taxable as a Corporation or Trust**

In this Part identify any related organization treated as a C or S corporation or trust for federal tax purposes. If the corporation or trust is related to the filing organization as its parent or as a brother/sister organization, and the filing organization does not have an ownership interest in

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the corporation or trust, then fill only Columns (A), (B), (C), and (E) and state “NA” in Columns (D), (F), (G), and (H). Do not report trusts described within section 401(a).

Enter the details of each on a separate line of Part IV. If there are more to report in Part IV than space available, use Schedule R-1, Part IV. Use as many Schedules R-1 as needed.

**(A) Name, address, and EIN.** State the related organization’s full legal name, mailing address, and EIN.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the related organization (e.g., holding company, management company).

**(C) Legal domicile.** List the U.S. State (or possession) or foreign country in which the related organization is organized. For a corporation, enter the state of incorporation (or the country of incorporation for a foreign corporation formed outside the U.S.). For a trust or other entity, enter the State whose law governs the organization’s internal affairs (or the foreign country whose law governs for a foreign organization other than a corporation).

**(D) Direct controlling entity.** If the filing organization indirectly controls the related organization through one or more other organizations, state the name of the entity that directly controls the related organization. Otherwise state “NA.”

**(E) Type of entity.** Use one of the following codes to indicate the tax classification of the related organization: C (corporation or association taxable under subchapter C), S (corporation or association taxable under subchapter S), or T (trust taxable under subchapter J).

**(F) Share of total income.** For a related organizations that is a C corporation, state the dollar amount of the organization’s hypothetical share of the C corporation’s total income. To calculate this share, multiply the total income by the following fraction: the value of the filing organization’s shares of all classes of stock in the C corporation, divided by the value of all outstanding shares of all classes of stock in the C corporation. For a related organization that is an S corporation, state the filing organization’s allocable share of the S corporation’s total income. Use the amount as set forth in Schedule K-1 of Form 1120S for the S corporation’s tax year ending with or within the filing organization’s tax year, if available (Schedule K-1, Part III, lines 1-10). For a related organization that is a trust, state the total income and gains reported on Part III lines 1-8 of Schedule K-1 of Form 1041 issued to the filing organization for the trust’s tax year ending with or within the filing organization’s tax year, if available.

**TIP:** A 501(c)(3) organization that is an S corporation shareholder must treat all allocations of income from the S corporation as unrelated business income, including gain on the disposition of stock.[IRC 512(e)]

**(G) Share of end-of-year assets.** State the dollar amount of the filing organization’s allocable share of the related organization’s end-of-year total assets. For related corporations, this amount is determined by multiplying the corporation’s end-of-year total assets by the fraction described in Column (F). For related trusts, this amount corresponds to the filing organization’s percentage ownership in the trust.

**(H) Percentage ownership.** For a related organization taxable as a corporation, state the filing organization’s percentage of stock ownership in the corporation (total combined voting power or

total value of all outstanding shares, whichever is greater). For a related S corporation, use the percentage reported on Schedule K-1 of Form 1120S for the year ending with or within the filing organization's tax year, if available. For a related organization taxable as a trust, state the filing organization's percentage of beneficial interest. In each case, the percentage interest is as of the end of the related organization's tax year ending with or within the filing organization's tax year.

#### **Part V: Transactions With Related Organizations**

**Line 1.** Check "Yes" in the appropriate boxes of Line 1 if the filing organization engaged in any of the transactions listed in Part V with any of the related organizations listed in Parts II through IV. A "transfer" includes any conveyance of funds or property not described in lines 1a-1p, whether or not for consideration.

**Line 2.** All organizations filing Schedule R must report the following transactions with a controlled entity as defined in section 512(b)(3):

- the receipt of interest, annuities, royalties, or rent from a controlled entity (line 1a),
- a loan made to a controlled entity (line 1d), or
- any other transfer of funds between the organization and the controlled entity.

In addition, 501(c)(3) organizations and 4947(a)(1) trusts must report transactions with related exempt organizations not described in section 501(c)(3) (including, but not limited to, section 527 political organizations).

Enter a separate line for each type of transaction with a particular organization. Aggregate transactions of the same type with a particular organization, e.g., line a(i) transactions, line a(iv) transactions, line b transactions, etc. Disregard transactions of a particular type (lines (a)(i)-(r)) between two organizations where the aggregate amounts involved during the tax year do not exceed \$50,000, except for receipt of interest, annuities, royalties, or rent from a controlled entity, which are to be reported regardless of amount.

Enter the details of each on a separate line of the table. If there are more to report than space available, use Schedule R-1, Part V. Use as many Schedules R-1 as needed.

**(A) Name.** State the full legal name of the related organization.

**(B) Transaction type.** State the transaction type (lines (a)(i)-(r)).

**(C) Amount involved.** The amount involved in a transaction is the fair market value of the services, cash, and other assets provided by the filing organization during the tax year, or the fair market value received, whichever is higher.

#### **Part VI – Unrelated Organizations Taxable as a Partnership**

In this Part provide information on any organization that is not related to the filing organization and that meets all of the following conditions:

1. the unrelated organization is treated as a partnership for federal tax purposes,
2. the filing organization was a partner or member of the unrelated partnership during the organization's tax year, and



3. the filing organization conducts more than 5% of its activities, as measured by its total assets or total revenues, through the unrelated partnership.

**Example.** X, a 501(c)(3) organization, is a partner of Y, a partnership, which conducts an activity that constitutes an unrelated trade or business with respect to X. X's distributable share of Y's income is \$20,000, as reported on Schedule K-1 of Form 1065 for Y's tax year ending with or within X's tax year. X has an ending capital account balance in Y of \$200,000 as reported on Schedule K-1. X's total revenue and assets for its tax year are \$500,000 and \$2,000,000, respectively. X conducts 4% of its activities through Y as measured by X's revenues (\$20,000/\$500,000), and 10% as measured by X's assets (\$200,000/\$2,000,000). Because at least one of these percentages exceeds 5%, X conducted more than 5% of its activities through Y for X's tax year and must identify Y in Schedule R, Part VI, and provide the required information.

Disregard unrelated partnerships that meet both of the following conditions:

1. 95% or more of the filing organization's gross income from the partnership for the partnership's tax year ending with or within the organization's tax year is described in sections 512(b)(1)-(3) and (5), such as interest, dividends, royalties, rents, and capital gains (including unrelated debt-financed income); and
2. The primary purpose of the filing organization's investment in the partnership is the production of income or appreciation of property and not the conduct of a 501(c)(3) charitable activity such as program-related investing

Enter the details of each on a separate line of Part VI. If there are more to report in Part VI than space available, use Schedule R-1, Part VI. Use as many Schedules R-1 as needed.

**(A) Name, address, and EIN.** State the unrelated partnership's full legal name, mailing address, and EIN.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the unrelated partnership.

**(C) Legal domicile.** List the U.S. State (or possession) or foreign country in which the unrelated partnership is organized (i.e., the State or foreign country whose law governs the unrelated partnership's internal affairs).

**(D) 501(c)(3) partners.** State "Yes" if all the partners of the unrelated partnership (or members of the LLC) are 501(c)(3) organizations or governmental units (or wholly-owned subsidiaries of either).

**(E) Share of end-of-year assets.** State the dollar amount of the filing organization's distributable share of the unrelated partnership's end-of-year total assets, in accordance with the filing organization's capital interest as specified by the partnership or LLC agreement. Use the ending capital account reported on Schedule K-1 of Form 1065 for the year ending with or within the filing organization's tax year, if available.

**(F) Disproportionate allocations.** State "Yes" if the interest of the organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or

credit, or any right to distributions was disproportionate to the organization's investment in such partnership or LLC at any time during the year.

**(G) Code V UBI amount on Box 20 of K-1.** State the dollar amount, if any, listed as the Code V amount (unrelated business taxable income) in Box 20 of Schedule K-1 to Form 1065 received from the unrelated partnership for the partnership's tax year ending with or within the filing organization's tax year. If no Code V amount is listed in Box 20, state "NA."

**(H) General or managing partner.** State "Yes" if the filing organization is a general partner of an unrelated limited partnership, or is a managing partner or managing member of an unrelated general partnership, LLC, or other entity taxable as a partnership. Otherwise state "No."

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