

Background Paper
Summary of Form 990 Redesign Process
August 19, 2008

Overview

The IRS has released the redesigned Form 990, *Return of Organizations Exempt from Income Tax* (2008 Form 990), and accompanying instructions, for the 2008 tax year (returns filed in 2009). The new form and instructions are available at the IRS Web site at IRS.gov.

The 2008 Form 990 includes a core form to be completed by all organizations, and schedules to be completed depending on an organization's type and activities.

In order to provide many smaller organizations additional time to adapt to the new form, the IRS is providing transition relief by phasing-in the requirement to file the new form over a three-year period. Smaller organizations will be able to file the 2008 Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, in lieu of the new form for 2008. Form 990-EZ will be retained in its present form, although specific schedules created for the 2008 Form 990 will replace certain attachments required by the 2007 Form 990-EZ.

Transition relief also is provided for two new schedules: Schedule H, *Hospitals*, and Schedule K, *Supplemental Information on Tax Exempt Bonds*. This transition relief is described below.

Current Users

Form 990 is used by the IRS as the primary tax compliance tool for tax-exempt organizations. In addition, most states rely on the form to perform charitable and other regulatory oversight, and to satisfy state income tax filing requirements for organizations claiming exemption from state income tax. The Form 990 is a public document that is made available by filing organizations, the IRS, and others. It is the key transparency tool relied on by the public, state regulators, the media, researchers, and policymakers to obtain information about the tax-exempt sector and individual organizations. Each year, over 500,000 organizations file a Form 990 or Form 990-EZ with the IRS.

Reasons for Redesign and Guiding Principles

The Form 990 had not been significantly revised since 1979 and was in need of a major overhaul. It had failed to reflect the changes in the law and the increasing size, diversity, and complexity of the exempt sector. The form no longer adequately served the Service's tax compliance interests or met the transparency and accountability needs of the states, the public, and communities served by the organizations.

The IRS extensively revised the format and content of the form based on three guiding principles: enhancing transparency, promoting tax compliance, and minimizing burden on the filing organization. Some of the major features of the new form include a new summary page, a new governance section, enhanced reporting of executive compensation and an organization's relationships with

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insiders and other organizations, and new reporting for non-cash contributions, foreign activities, tax-exempt bonds, and hospitals.

Public Comment and Redesign Process

On June 14, 2007, the IRS released for public comment a draft of the redesigned Form 990. After taking into account approximately 700 comments received, the IRS released the redesigned form on December 20, 2007. On April 7, 2008, the IRS released for public comment a draft of the instructions to accompany the 2008 Form 990. After considering approximately 120 comments received during the comment period, the IRS released the instructions to accompany the 2008 Form 990 on August 19, 2008.

The comments to the draft form and instructions covered a wide array of topics, including format, structure, content, and implementation concerns. Major groupings of comments included:

- reorder the core form to allow organizations to report on their mission and exempt activities at the beginning of the form
- provide ample opportunities for narrative explanations and supplemental information to explain an organization's operations and responses
- assure that the summary page focuses on information that is objective and not judgmental, so that it does not portray an inaccurate or misleading picture of the organization to the public or to other users of the form
- explain that the form's governance section asks questions about policies, procedures and practices that are not legally required by federal tax laws
- to the extent possible, protect the safety, security and privacy of individuals and others for which reporting is required
- minimize reporting burden whenever possible
- provide organizations time to modify reporting systems and adapt to the new form, and minimize changes to Form 990-EZ and group returns
- revise the instructions to provide greater clarity regarding the information sought, and use more examples and other tools such as a Glossary of key terms, a sequencing list, and a compensation table

Structuring the Form to Allow Organizations to Tell Their Story

The public comments supported the new form's structure of a summary page, a core form to be completed by all filing organizations, and schedules to be completed by organizations based on their particular activities. Commentators consistently asked that the organization be allowed to "tell its story" up front and throughout the form. The 2008 Form 990 adopts these recommendations. A new summary page provides a snapshot of financial, governance, and operational information, including a 2-year comparison of key financial data. The Statement of Program Service Accomplishments is relocated to immediately follow the summary page. Numerous opportunities are provided throughout the form and schedules for organizations to provide narrative information, and

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Schedule O, *Supplemental Information to Form 990*, was added to allow organizations to supplement responses provided elsewhere on the form.

New Governance Section

The new form includes a section on governance, which consists of three parts – composition of the organization’s governing body, its governance and management policies, and its disclosure practices. The section’s heading and related instructions explain that this section asks information about policies and practices that are not required by federal tax law. The instructions also explain that an organization should consider its own facts and circumstances, including its size, type and culture, when considering whether to adopt or revise its policies and practices.

Revised Reporting of Compensation and Insider Transactions

The 2008 form significantly revises the reporting of executive compensation and transactions with interested persons. As was the case in prior years, all organizations must list their officers, directors, trustees, and key employees, regardless of whether they were compensated, and report compensation paid by the organization and related organizations to such persons. The 2008 instructions provide new definitions of these terms, so reporting of particular persons may differ from 2007 and earlier years. In addition, the 2008 form extends the reporting of compensation paid to the organization’s five highest compensated individuals, and five highest paid independent contractors, beyond charities (as was previously the case) to all filing organizations. The reporting threshold for the top five highest compensated employees and highest paid independent contractors was raised from \$50,000 to \$100,000. All organizations must report basic compensation information for such persons on the core form.

Compensation reporting for most organizations has been simplified by requiring compensation to be reported based on the amounts reported in Form W-2 or Form 1099-MISC. Certain compensation not reported on those forms, such as retirement plan and health benefits, and deferred compensation, must also be reported on the Form 990. In general, those organizations that pay compensation greater than \$150,000 to a person required to be listed in the core form must provide additional compensation detail and information in Schedule J, *Compensation Information*.

The new form revises the reporting of transactions between the organization and certain interested persons. This information must be described in new Schedule L, *Transactions With Interested Persons*, which requires reporting of excess benefit transactions, loans, grants and other financial assistance, and business transactions involving interested persons.

More Schedules, Fewer Attachments

The 2008 Form 990 has 16 schedules which are to be completed only by those organizations that engage in activities for which reporting is required. Many of

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these schedules replace “unstructured attachments” which were required by the old form. Some of these schedules replace parts of the 2007 Schedule A, *Organization Exempt Under Section 501(c)(3)*, which has been streamlined to focus exclusively on an organization’s public charity status and public support. Organizations that previously filed Schedule A should review the filing requirements for new Schedules A, C, E, and R, to determine whether they must complete any of these schedules.

Other new schedules include Schedule C, *Political Campaign and Lobbying Activities*; Schedule F, *Statement of Activities Outside the United States*; Schedule H, *Hospitals*; Schedule K, *Supplemental Information on Tax-Exempt Bonds*; Schedule M, *Noncash Contributions*; and Schedule R, *Related Organizations and Unrelated Partnerships*.

Minimize Reporting Burden

The 2008 form has eliminated or revised reporting of many items to reduce reporting burden for many organizations. This is accomplished through use of reporting thresholds and exceptions, reporting by type rather than by transaction in some cases, and the elimination of attachments or schedules in others. The various tools contained in the new instructions, such as the glossary and sequencing list, also should help minimize reporting burden associated with the new form.

Increased Form 990-EZ Filing Amounts

To address the sector’s transition concerns, the 2008 Form 990 will be phased-in over three years. This will be accomplished by allowing significant numbers of small organizations to file the Form 990-EZ, rather than the new Form 990, for 2008 and 2009. Beginning with 2008 tax years, an organization may file a Form 990-EZ (rather than a Form 990) if it satisfies both the gross receipts and assets tests set forth in this table.

	Gross Receipts:	Assets:
2008 tax year (filed in 2009)	> \$25,000 and < \$1 million	< \$2.5 million
2009 tax year (filed in 2010)	> \$25,000 and < \$500,000	< \$1.25 million
2010 and later tax years	> \$50,000 and < \$200,000	< \$500,000

These adjustments to the Form 990-EZ filing amounts will increase the percentage of organizations eligible to file a Form 990-EZ from 41% in 2007 to approximately 76% for the 2008 tax year. We estimate the numbers of additional organizations eligible to file the Form 990-EZ as a result of the phase-in will be approximately 185,000 for 2008 and approximately 140,000 for 2009.

Transition Relief for Schedules for Hospitals and Tax Exempt Bonds

The Schedule H, *Hospitals*, and Schedule K, *Supplemental Information on Tax Exempt Bonds*, require significantly more reporting in these areas. Organizations

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required to complete either of these schedules for 2008 are only required to complete one part for each schedule: Part V, *Facility Information*, for Schedule H, and Part I, *Bond Issues*, for Schedule K. The other parts of these schedules are optional for 2008 but are required beginning with 2009 tax years.

Next Steps

Organizations that are eligible to file the 2008 Form 990-EZ in lieu of the 2008 Form 990 should be reviewing the revised Form 990-EZ, including Schedules A, B, C, E, G, L and N, which may be required of some organizations. The [2008 Form 990-EZ](#) and accompanying [background documents](#) are available at IRS.gov. The IRS expects to release instructions for the 2008 Form 990-EZ in the next few weeks.

Organizations that must file the 2008 Form 990 should begin reviewing the new form and instructions. Preparation by such organizations in advance of the 2009 filing season should include, among other things, the following steps:

- identifying the organization's related organizations required to be listed on Schedule R
- identifying the organization's officers, directors, trustees, and potential key employees and top 5 highest compensated employees
- reviewing the new governance questions, which generally must be answered based on policies and practices in place on or before the last day of the 2008 tax year
- identifying the schedules the organization will likely be required to complete

The new form continues to allow reporting on a group return basis. Groups should review Appendix E, *Group Returns, Reporting Information on Behalf of a Group*, for a description of the new form's group return reporting requirements.

Where to Go for Help

Background documents summarizing the changes made to the [April draft instructions](#) and [comparing the 2007 and 2008 forms and instructions](#) and a [chronological history](#) of the redesign of the form and corresponding instructions, including earlier drafts and public comments, are available on the IRS Web site.