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## IRS releases revised instructions for redesigned Form 990

by Howard Donkin, CPA

The Internal Revenue Service recently revised instructions for the redesigned Form 990 that was released earlier this year. It has been estimated that the new form may require 150 hours for a nonprofit to prepare, including reviewing the new forms, understanding the new reporting requirements, modifying their accounting system to collect the new information and preparing schedules for their CPA.

The new forms and instructions have been the subject of the last two Jacobson Jarvis-sponsored Nonprofit Controller & CFO Roundtable sessions. If you are reading the online version of this newsletter, links to background information are included. Even if a nonprofit's 2007 Form 990 just went into the mail, it is time to start thinking about next year. The first filing with the new form is due April 15, 2009, and some organizations should have started collecting new information in January of this year.

**Highlights of the new Form 990 include:** new requirements covering governance, management and disclosure; narrowing the definition of key employees; new requirements for noncash contribution tracking; higher dollar thresholds for certain reporting sections; and the standard for determining independence of board members. The revised instructions provide clarifications in reporting compensation, as well as business relationships and transactions with interested persons. The instructions include a glossary of key terms, help in understanding reporting requirements for activities outside the US, and a revised definition of hospital.

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**The organization of the new form** is a key indicator that the IRS has become increasingly insistent that exempt organization board of directors assume the ultimate responsibility for compliance with tax regulations. The "Summary" on page one is a snapshot of the organization's activities compared to the prior year, and provides the IRS with a quick look to see if the organization has met its "community benefit" and "commensurate" tests.

**The move of the statement "Under penalty of perjury..."** onto page one is perhaps a way for the IRS to emphasize the board's responsibility for oversight. Also, the "Program Accomplishments" section is moved forward to page two, emphasizing that meeting the "operational test" is critical for a nonprofit to maintaining its tax-exempt status.

**The new "Checklist of Required Schedules"** takes up pages three and four of the core form and will help in determining which of the 18 additional schedules a nonprofit will need to complete and attach to its return. Page five requires that you make "Statements Regarding Other IRS Filings and Tax Compliance". Page six, shows that "Governance, Management & Disclosure" have become increasingly important to the IRS and features 20 new questions seeking clarification into the process used to govern your organization.

**While not currently mandatory,** some of the good governance practices and procedures included in the new form are an indication that the IRS wishes that certain policies and practices should be implemented by organizations that are large enough to be required to file the new form.

Compensation reporting requirements increased significantly, and now take up all of pages seven and eight. But, some pages look unchanged, such as the "Statement of Revenue" on page nine, the "Functional Expenses," on page 10 and the "Balance Sheet" of page 11. However, don't be fooled by the lack of changes because you may still have additional reporting requirements. For example, many organizations

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## Revised 990 instructions *(continued from page 1)*

will be required to complete other detailed schedules, such as Schedule D, "Supplemental Financial Statements."

**Which Form 990 version should a nonprofit file?** Not all organizations must file the redesigned standard 990 in 2009. Some organizations may file the old Form 990-EZ or the new Form 990-N.

A nonprofit will file the redesigned Form 990 if:

- Annual receipts are \$1 million or more, or total assets of \$2.5 million or more.
- The organization is recognized as tax-exempt under Section 512(b)(13).
- Donor advised funds are maintained. (See the Glossary for a definition via our Web site at: <http://www.jjco.com/tax/serv-tax-main.html>)

Private foundations will still file the old Form 990-PF, which has not undergone any changes, and organizations with unrelated business income over \$1,000 will still need to file Form 990-T.

**For those nonprofits with annual receipts** between \$25,000 and \$1,000,000, they may file Form 990-EZ to the IRS in 2009, although a full 990 may be required in those states where a copy of the nonprofit's federal return is kept on file in the state capital.

**The so-called "electronic postcard,"** the new Form 990-N must be filed by nonprofits with annual receipts of under \$25,000. However, 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.

An organization is required to file Form 990 or 990-EZ if they claim exempt status under Section 501(a) but have not yet officially established their exempt status by filing Form 1023 or 1024 and receiving an IRS determination letter recognizing exempt status.

**These thresholds will change** for returns filed in 2010 for fiscal years beginning in 2009. At that time, public charities with annual receipts at, or exceeding, \$500,000, or holding total assets of \$1.25 million, will be required to file the new 990. In 2011 these thresholds drop to receipts of \$200,000 and assets of \$500,000.

**New schedules are part of the redesigned 990** and nonprofits may be required to file one or more of the 18 schedules, A through R. A "Summary of Schedules and Filing Profile" available on the Jacobson Jarvis Web site at:

<http://www.jjco.com/tax/serv-tax-main.html>, will help you determine your filing requirements.

**What can you do now to get ready?** At the recent Jacobson Jarvis-sponsored Nonprofit Controller & CFO Roundtable session, an action plan and a three-step process was introduced to prepare for the new 990:

1. Use the "Summary of Schedules and Filing Profile" as a check list to determine which of the schedules apply to your organization.
2. Determine if your accounting system is collecting the new information.
3. Set up new procedures to gather the needed information.

In addition, there will be a free, IRS Web broadcast on November 4, 2008 featuring IRS and tax-exempt sector experts who will explain the redesigned Form 990. You can register for the "Preparing for the New Form 990" webcast on the **Tax Talk Today** web site at: <http://www.taxtalktoday.tv/>.

The Jacobson Jarvis tax exempt organization specialists are available to help you make a smooth transition to the new tax forms. Jacobson Jarvis participated in the public comment process with the IRS and has invested hundreds of hours into understanding the practical implications of these new forms and instructions.

And please feel free to email [howard@jjco.com](mailto:howard@jjco.com) with your questions, or to schedule a planning meeting. •••

### About the Author

Howard Donkin, CPA, is a Jacobson Jarvis Tax Partner and has specialized in serving the not-for-profit community for more than 20 years. He also works with private foundations and is a frequent speaker on not-for-profit issues. Howard is a member of the American Institute of Certified Public Accountants (AICPA) and the Washington Society of Certified Public Accountants (WSCP), where he served as past Chairman of the Not-for-Profit Committee and past chair of the Tax Sub-Committee. Howard volunteers his time to the AICPA Exempt Organization Technical Resource Panel to study tax issues for not-for-profit clients on a national level, and is currently Chairman of the Bellevue Arts Commission.

Howard consults on complex tax issues, IRS determination letters, retirement planning, state and local tax issues, operational improvements, strategic planning, investment policies, board development and fraud risk assessments. Email him at: [howard@jjco.com](mailto:howard@jjco.com). •••



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