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Do you think you should prepare the new Form 990?

By Cathy Roe, CPA, Tax Manager

The new Form 990, required to be filed by nonprofit organizations having gross receipts in excess of $1,000,000 or assets in excess of $2,500,000 in 2008, presents a number of challenges for organizations attempting to complete the return without the assistance of a CPA experienced with the form. This form has been designed by the IRS to give it, your donors or other readers much more information about your organization than in the past. In most cases, it contains more detailed information about your organization than your audited financial statements. The information on the return can determine whether or not you get a grant or donation and whether or not you are audited by the IRS or lose your exempt status. It could also appear in a news article such as the one recently broadcast by KUOW about nonprofit hospitals. It can even have an impact on your efforts to recruit members for your Board of Directors.

> **"The information on the return can determine whether or not... you are audited by the IRS or lose your tax exempt status."**

This return includes a core form of 11 pages and up to 16 schedules. Many returns of small organizations will be 30 to 40 pages. Schedules can no longer be attached to the return. All information must be included within it on the correct pages. The core form includes not only financial information about your organization; it also contains much information about your programs, how your organization is governed and whether or not you are compliant with a number of tax laws. Our experience with returns prepared by organizations using the old form 990 has been that most of these returns are incomplete and/or inaccurate. Because of this we expect that more organizations will have difficulty completing the new, more complex, return by themselves. This could have serious consequences because the IRS has stated that an incomplete return will be considered an unfiled return. Organizations that fail to file a return for three years in a row will lose their exempt status.

Answers given to questions in the core form could have unwelcome consequences. The IRS will be choosing some candidates for audits based on answers to these questions. It will be interested in those organizations not properly acknowledging their donations or not filing required forms. Also, potential donors and board members may not want to be involved with organizations not having policies in place asked for on the new return.

There is an extensive section in the core form regarding compensation. The rules as to whom and what to include on the return are complicated. We are finding that we have to go over this section personally with most of our clients in order to get the correct employees reported and the right compensation reported in the appropriate boxes.

All 501 (c) (3) organizations are required to fill out Schedule A, "Public Charity Status and Public Support". It is important this schedule be accurate because organizations failing the public support test will be reclassified as private foundations by the IRS, and be taxed on their income. Those organizations filing a tax return based on accrual accounting will have to recalculate Schedule A on the accrual basis. The IRS is estimating it will take almost 8 hours to prepare this schedule. It was previously required to be prepared on the cash basis for all organizations. Now, only those organizations that prepare their tax return on the cash basis can "roll forward" the schedule from the previous year. For 2008, this schedule will require information from 2004 through 2008.

The other new schedules are also a mine field of opportunities to make mistakes. You and your staff will probably not be familiar with much of the terminology or understand what is really required on the return. The time it will take to become familiar with these schedules and their instructions is estimated by the IRS to be up to 7 hours for some schedules and it will take up to an additional 3 hours to prepare them. Even smaller organizations having fund raising events or who accept non cash contributions will be required to fill out schedules G and/or M. Organizations that have collections of art or similar objects, have conservation easements, donor advised funds or endowments will have to fill out schedule D. Schedules F and I are for organizations that make grants.

This new form has also been designed for comparability. A summary of income and expenses is located on the first page for both the current and previous year so that readers can easily compare the results. All organizations are now required to use the same categories of expenses on the Statement of Functional Expenses. This allows for ease of comparability between organizations. It will make it easier for the IRS to select organizations reporting big changes from year to year or that report unusual percentages of certain expenses. Also, charity watchdogs such as the American Institute of Philanthropy, Charity Navigator or your local newspaper or television station will have an easier time comparing you to other organizations in your industry.

The first page now includes your total gross unrelated business revenue and the net unrelated business taxable income, thus reflecting the new emphasis the IRS is placing on finding unreported taxable income of nonprofits. It is more important than ever to know what income is related, what income is unrelated but exempt from taxation, and what income is taxable. It is also important that you have a reasonable method of allocating expenses between related and unrelated activities.

After reviewing this information, is it worth risking your organization's reputation, funding and tax exempt status by preparing the new Form 990 yourself? In most cases, we don't think so. Take the opportunity to talk with one of the tax experts at Jacobson Jarvis to discuss your organization's needs and find out how we can prepare the new form 990 correctly, in a timely manner that is easier for you.

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