

## NONPROFIT



# The Form 990 is here: steps to take for IRS compliance

Text by Julia A. Adam

After years of review and revision, the redesigned Form 990 is no longer a theoretical entity that nonprofits will have to deal with “some day.” Some day is now.

Most organizations have begun filing the new version for fiscal years that ended on or after Dec. 31, 2008. But there’s a one- to three-year phase-in period for smaller nonprofits.

With upwards of 1.2 million section 501(c)(3) organizations receiving what has been reported as close to \$2 trillion in tax-free gross receipts, the IRS is focused on ensuring that organizations that get a tax break are truly serving the public.

The new Form 990 is a push for meaningful transparency in reporting finances and operations so the government and the public can judge for themselves just how efficient and effective an organization is.

If you haven’t yet started preparing, put your records in order and get ready to offer the IRS, and the public, a deeper look into your organization’s workings.

### What’s new

Changes to Form 990 enhance tax compliance and enable greater transparency into the workings of nonprofit organizations, both financially and operationally. It now consists of a core form with 11 parts, which all organizations that file must complete.

Four parts of the core form are brand new:

- Summary,
- Checklist of required schedules,
- Governance, management and disclosure, and
- Financial statements and reporting.

Also, the section related to compensation is new for 501(c)(6) organizations, and Form 990 has 16 schedules that may be required, depending on the nonprofit.

Your tax advisor can help you determine which schedules you must complete, but many of the form’s new sections focus not on traditional financial statement information, but on operational aspects of your organization.

“*The IRS believes that good governance is directly related to tax compliance and a driver of efficiency and effectiveness. If your organization has not formalized its policies and its governance procedures, now is the time to do so.*”

You are the best person to complete these sections, and you can start preparing on your own well in advance of your required implementation date.

For example, Part IV of the core form asks a series of questions that will help you determine which schedules you will need to complete.

But be sure to consult with your advisor if you need help deciphering some of the IRS’s arcane language. Guessing or hoping you’re providing the right information is never a good strategy when it comes to IRS filings.

### Don’t slough off the summary

Also consider Form 990’s new summary section. As its name

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implies, the summary aggregates information about activities, governance, revenue, expenses and net assets.

Naturally, the numbers you provide must be precise, but so too should mission and key activities descriptions. Think of these four blank lines as an opportunity to promote the merits of your organization.

It helps to keep in mind that the audience for your Form 990 isn't just the IRS. Your summary also will be read by current and potential donors and volunteers when they weigh decisions about where they'll invest money and time. If they aren't impressed by your summary, you could lose their support.

### **Governance and reporting opportunities**

"Governance, Management and Disclosure," Part VI, is more than a series of yes or no questions about how you manage your organization. It's an opportunity to identify operations that could benefit from improvements.

For example, if you don't have a documented succession plan, you might decide to discuss it among your leadership and draft one.

Similarly, Part XI, "Financial Statements and Reporting," asks about accounting methods and how financial statements are compiled and reviewed. "No" answers to ques-

tions about whether your statements are audited and other tactical issues can raise red flags with potential supporters.

On the other hand, if you answer affirmatively to questions regarding policies and procedures, be sure they were in place during the time period covered by your Form 990.

If, for example, you add a conflict of interest policy in 2009, you can't report that in your 2008 Form 990.

Recognize the questions in this section for what they are: the IRS dispensing education to the nonprofit sector.

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### **Take time to do it right**

These changes mean you'll have to give yourself more time to complete Form 990 than you have in the past.

Racing to meet your deadline is a sure recipe for mistakes or misrepresentations.

But by taking a thoughtful, careful approach, you not only improve accuracy, but also the odds that your form will make a compelling statement about what you stand for and how you put your resources to work.

### **Form 990, 990-EZ or none of the above?**

To determine whether you need to file the new Form 990 for 2008, or can use the phase-in period, or can skip filing altogether, consider whether your nonprofit:

- Was previously exempt from filing a Form 990 (for example, religious organizations). If so, you remain exempt under the new rules;

- Has gross receipts under \$200,000 and assets under \$500,000. If you do, you can take advantage of the phase-in period using Form 990-EZ until you file for the fiscal year ending on or after Dec. 31, 2010. For that filing, use the new Form 990;

- Has gross receipts under \$500,000 and assets under \$1.25 million. If this is true, you can take advantage of the phase-in period using Form 990-EZ until you file for the fiscal year ending on or after Dec. 31, 2009. For that filing, use the new Form 990;

- Has gross receipts under \$1 million and assets under \$2.5 million. In this case, begin using the new Form 990 for the fiscal year ending on or after Dec. 31, 2008.

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*Julia A. Adam is a principal at Braver and has more than 20 years of experience in public accounting serving companies in a diverse range of industries.*