

New Form 990 to Present Compliance Challenges

By Richard J. Locastro, CPA, JD

The IRS has recently released a new version of Form 990 for that is effective for tax years beginning in 2008. The IRS's revision of the Form 990 was based on three guiding principles: (1) enhancing transparency – giving the IRS and the public a more detailed and accurate view of the organization; (2) promoting compliance – allowing the IRS to efficiently assess non-compliance risks; and (3) burden minimization – reducing the compliance burden on filing organizations. The IRS may have succeeded in accomplishing its first two goals but the new Form 990 will, in many cases, require a significant investment of time by most filers of new Form 990 and their tax return preparers.

The new form represents a considerable departure from the structure and content of the “old” Form 990. The instructions (which are still in draft and expected to be finalized by the end of 2008) are extensive – over 300 pages long. The new Form 990 consists of an eleven part core form and sixteen additional schedules. Part IV of the core form has 37 detailed questions regarding the operations and activities of the organization. Responses to these questions determine which of the additional sixteen schedules the organization must complete. The additional schedules required detailed information many aspects of the organization's operations including compensation of current and former officers, directors, trustees and key employees, activities outside the U.S., fundraising and gaming activities and related organizations and unrelated partnerships.

Not all organizations will be required to file the new form. For 2008, those organizations that have gross receipts of less than \$1 million and assets less than \$2.5 million can file Form 990-EZ instead of the new Form 990. The filing thresholds decrease in 2009 and again in 2010. For 2010 and beyond, organizations with gross receipts of \$200,000 or more or assets of \$500,000 or more must file the new form.

Due to the extensive nature of the new form and the detailed information it may require, organizations should act now to familiarize themselves with the new Form 990 so that they can assess its impact. We recommend that those organization employees responsible for Form 990 compliance:

- Determine if the organization is required to file the new form based on the gross receipts/assets test;
- If the new Form 990 is or will be applicable, review it, the related schedules, and the comprehensive instructions (which can be downloaded at <http://www.irs.gov/charities/article/0,,id=181089,00.html>);
- Attend one of the many seminars available on the new Form 990, including GRF's upcoming seminars (Tuesday, October 14, at the Marriott Crystal Gateway Hotel, Arlington, VA (Crystal City Metro station) or Wednesday, November 19, Marriott Metro Center Hotel, Washington, DC (Metro Center Station));

- Begin to gather information necessary to be included on Form 990 now and consider changes or implementation to policies and procedures as appropriate; and
- Advise appropriate members of the Board, Finance Committee, etc of organizational changes that should be considered before year-end.

Even a cursory review of the new Form 990 (and the additional schedules and instructions) will lead to the conclusion that Form 990 compliance for 2008 and beyond will require a significant investment of time by the organization and its tax preparers. As a benchmark, GRF and other accounting firms we have talked to are estimating that the combined effort (client and accountant firm hours) will increase between 50% and 100%. As a result, organizations should evaluate the additional internal personnel capacity that may be necessary and should expect longer lead times in form completion and higher fees from their outside providers.

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