

## **RESULTS OF THE ANNUAL REVIEW OF FORM 990 ACCOUNTING AND REPORTING ISSUES — APRIL 2001**

### **Background**

For the past eleven years the Internal Revenue Service, state charity officials, and the nonprofit sector have been meeting to discuss Form 990 accounting and reporting issues. The National Center for Charitable Statistics (NCCS) at the Urban Institute maintains an on-going list, with issues added by the NCCS sector-wide Data Quality Network. Comments on the issues are solicited from practitioners and other interested parties through a number of listservs that discuss accountability issues. The issues are discussed at the annual Form 990 meetings held in April or May each year at the Urban Institute, as well as in other meetings and other activities during the year. NCCS serves as the secretariat for these activities and host for the annual meetings.

This paper is based on a list of issues prepared by Bill Levis, Linda Lampkin, Tom Pollak, Nick Stengel, all with NCCS, and Chuck McLean of PRI in Spring 2000. More than fifty individuals provided important input as they reviewed and discussed these recommendations as attendees at the Tenth Annual Form 990 Meeting on May 8, 2000. Written comments were also received from a number of other nonprofit sector representatives through postings on an electronic list serv.

The relevant recommendations from the study prepared by the staff of the Joint Committee on Taxation (JCT) in January 2000 entitled “Study of Present-Law Taxpayer Confidentiality Disclosure Provisions as Required by Section 3802 of the Internal Revenue Service Restructuring and Reform Act of 1998” are included. The JCT recommended that Form 990 be reviewed and revised, and discussions with IRS are underway for a significant project that will include the impact of electronic filing and the emerging standard XBRL/XML taxonomies for the Form 990.

Nearly 100 specific issues have been addressed in eleven years, with most resolved. IRS has implemented nearly all of the recommendations for changes to the Form and the instructions. In some cases, the recommendations have been for action by the nonprofit sector and/or the accounting firms and software companies that serve the sector.

As the Forms 990 filed each year are now easily accessible on the internet at [www.guidestar.org](http://www.guidestar.org) and [www.nccs.urban.org](http://www.nccs.urban.org), the quality of reporting and the resolution of these issues has become even more important. The results of the review of issues for April 2001 are detailed below.

## Review of Issues and Results — April 2001

### FORMATTING, DESIGN, AND SPACE ISSUES

#### **Issue #1 — Improve Narrative Information on Program Service Accomplishments (Part III) and Listing of Officers, Directors, Trustees, and Key Employees (Part V)**

**Review of Issues:** Although organizations are required to disclose their primary exempt purpose in Part III, many do not. The space constraint is one obvious problem. Also, while most nonprofits list at most two program service activities on Part III, there is not enough space to provide a complete description of the activities, including clients served, publications issued, etc., as stated on the form. Space is also not adequate in Part V, with room for only 10 names; in fact, almost 40 percent of organizations report more than 10 officers, directors, trustees, and key employees on their forms.

#### **Results:**

- 1) Suggestions that IRS will consider for the 2001 Form & instructions:
  - (a) Add “mission statement” in parentheses after the “primary exempt purpose” line in Form 990, Part III.
  - (b) Add a reminder in the instructions that program service information will be posted on the internet.
- 2) 2000-01 suggestions that will be on the Form 990 review agenda for 2002 and beyond:
  - (a) Eliminate Lines c and d of Form 990, Part III and use the space created to expand primary exempt purpose and lines a and b.
  - (b) Create examples in the instructions for the language and specificity of reporting on activities, especially those that will guide numerical examples of service provision.
  - (c) Expand Part V to add lines to allow organizations to include all necessary names without using an attachment.
  - (d) Create an official supplement at the back of the form for organizations to disclose an additional two program service activities.

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#### **Issue #2 — Structure Requirements for Attachments and Require Filling in Blanks**

**Review of Issues:** Attachments to Form 990 often fail to include adequate information, do so in a confusing manner, or contain extraneous information. The instructions for Line 50 (Receivables from officers, directors, trustees and key employees) are a good model for specifying attachment formats. These instructions have a bold heading “Specified format,” and a numbered checklist of items that an attachment must contain.

There are also a number of lines (compensation, number of hours worked, for example) that are often left blank, so it is difficult to tell when the preparer meant “zero” or just did not respond.

**Results:**

- 1) NCCS (with help from IRS, state officials, and others) will work with Form 990 software developers to:
    - (a) specify what should be included in attachments required for each line and establish formats, and add warnings about non-disclosable information.
    - (b) ensure that software prompts preparers to put in “zero” if appropriate and not allow blanks.
  - 2) Suggestions that IRS will consider for the 2001 Form & instructions:
    - (a) Highlight (put in bold type) the requirement to include compensation information in the Part V instructions.
    - (b) Continue to state clearly in the instructions that a zero must be entered, rather than leaving the space blank, where appropriate.
    - (c) State clearly in the instructions that a number should be entered for average hours, rather than "as needed" or "40+."
  - 3) 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond: IRS, NCCS, and others will work to specify the format for attachments for paper forms (where applicable), using the instructions for Line 50 as a model. This will be coordinated with developments on the e-filing initiative.
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**Issue #3 — Reduce Disclosure of Extraneous and/or Nondisclosable Data**

**Review of Issue:** In addition to the lack of required structure for attachments, completed forms occasionally contain sensitive data not required. Social security numbers of board members, bank account numbers, and private information about service recipients are among the most common inclusions.

**Results:**

- 1) NCCS (with help from IRS, state officials, and others) will work with Form 990 software developers to include warnings about non-disclosable information.
  - 2) IRS will continue to use Form 990, Schedule B, a structured attachment which is used to capture all non-disclosable data.
  - 3) 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond: Issue a ruling stating if an entity chose not to use the attachment, and placed confidential data elsewhere on the form, that entity would be solely responsible for accidental disclosure by other parties. Such an approach could require new or revised regulations.
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**Issue #4 — Account for Organizations Below the Filing Threshold**

**Review of Issue:** The Business Master File is full of defunct organizations and bad addresses. One reason is because once organizations are listed on the BMF, they are not required to file information with the IRS unless they are above the filing threshold of \$25,000 in annual gross

receipts. JCT recommended that filings be required of smaller nonprofits. The issue of statutory authority to require this is currently being considered.

**Result:** 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond: Create a "Super" EZ form, the size of a postcard, for tax-exempt organizations currently below the filing threshold. The reporting requirements would be: EIN, public name, a telephone number, email and URL (if any), a certification that gross receipts and total assets are below the statutory limits for filing 990-EZ, and the signature of an officer

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## **ADDITIONAL FORMATTING, DESIGN, AND SPACE ISSUES**

### **Issue # 4A — Add lines to separate key sources of nonprofit income**

**Review of Issue:** With electronic filing, organizations would probably be able to separate their income into categories that would be useful for regulators, policymakers, and researchers, such as direct public support by individuals, foundations, and corporations, and government contributions by source at the federal, state, or local levels.

**Results:** 2000-01 suggestions that will be on the Form 990 review agenda for 2002 and beyond:

- 1) Require that "Direct public support" be divided into Individuals, Foundations (private and community), and for-profit business (commonly referred to as "corporate giving").
  - 2) Require that "Government contributions" be divided into Federal, State, and Local.
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### **Issue #4B — Provide space in Part III for a program service code for each program**

**Review of Issue:** NCCS has a new system to classify the programs, activities, and services of nonprofits and their beneficiaries that could be used to organizations to self-code their activities. This information again would be of use to regulators, policymakers, and researchers. An easy transition to this system could be made with electronic filing.

**Result:** 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond: Consider for next year providing space in Form 990 Part III for a program service code for each program, but it should be noted that this could create problems with OMB's paperwork reduction requirements and a case must be made for the additional information.

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### **Issue #4C – Limit use of Part II, Line 43 – Other expenses.**

**Review of Issue:** Some Form 990 filers do not use divide their expenses into the categories listed in Part II (lines 22-42) but group them on Line 43 and add an attachment with the category names used in the organizations' accounting systems. Thus, if relevant comparisons are to be made among organization, it is necessary to review the forms and enter the information from the attachment in the correct categories, assuming that there is enough information to make assumptions about the correct categories.

**Result:** This issue will be on the 990 review agenda for 2002 and beyond.

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**Issue #4D – Ensure compliance with attachment for Schedule A, Part III, line 2e**

**Review of Issue:** In Part III of Schedule A, Lines 2a – 2e require the disclosure of related party transactions. Under Line 2e, it states that a detailed statement needs to be attached, but often filers do not attach the statement. This requirement needs to be emphasized.

**Result:** Suggestion that IRS will consider for the 2001 Form & instructions: Highlight (make bold) “Attach a detailed statement” in the descriptor for this line.

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**ACCOUNTING AND PUBLIC SUPPORT TESTING ISSUES**

**Issue #5 — Establish Basis for Value of Investments and Securities (Line 54)**

**Review of Issue:** The reporting of the value of securities is often problematic because some values are based on fair market value and others on cost.

**Results:** In 2000, IRS added a checkbox next to Form 990 Line 54 to indicate the method of valuation.

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**Issue #6 — Clarify Medicare and Medicaid Payments (Grants) (Lines 2 and 93f)**

**Review of Issue:** Organizations are supposed to report Medicare and Medicaid payments as program service revenue in Part I, line 2 and Part VII, line 93f, and NOT as government contributions in Part I, line 1c. The instructions for lines 1c and 93f make no reference to Medicare and Medicaid payments.

**Result:** Suggestion that IRS will consider for the 2001 Form & instructions: Provide instructions for lines 1c, 2, and 93f that specifically mention the correct placement of Medicare and Medicaid revenue.

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**Issue #7 — Add Options for Alternative Public Support Test (Part IV-A)**

**Review of Issue:** It is difficult and a heavy record-keeping burden on nonprofits using accrual accounting to translate their ledgers into a cash system for the purposes of the Public Support Test.

**Result:** 2000-01 suggestion that will be on the 990 review agenda for 2002 and beyond:

Consider proposals for a new or alternate Public Support Test for use with accrual accounting and GAAP cash flow analyses (to be submitted by NCCS and representatives of the nonprofit accountants). Legal requirements in the individual states may also need to be evaluated.

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## **REPORTING, DEFINITIONS, AND INSTRUCTIONS**

### **Issue #8 — Improve Reporting of Professional Fundraising Expenses (Lines 1 and 30)**

**Review of Issues:** Sometime, fundraising expense are not reported properly. For example, a fundraiser charges an organization \$50,000 to raise \$100,000. The organization receives a check for \$50,000 (the net proceeds) and reports \$0 for professional fundraising expenses, since the organization made no payments, and but did receive \$50,000 in contributions. Without knowledge of the gross amount raised and the amount taken by the professional fundraiser, it is impossible to know how much money was contributed by donors and how much was spent to solicit the contributions. This distorts the concepts of public support and fundraising expenses on the Form 990 and leads to major inconsistencies and inequities in reporting. Fund raising expenses are also included in lines 8, 9, and 10.

**Results:**

- 1) IRS has already clarified the Form 990 2000 instructions requiring reporting of gross amounts of both expenses and amounts raised on Lines 1a and 30 rather than gross expenses and net amounts received.
- 2) 2000-01 suggestions that will be on the Form 990 review agenda for 2002 and beyond:
  - (a) Show all revenue items as gross amounts from each category received and list all expenses in Part II and lines 13, 14, 15, and 16 by type.
  - (b) Devise ways to enable the matching of gross receipts with gross expenses. Any increased reporting burden must be well justified.

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### **Issue #9 — Expand and Improve Table of Contents**

**Review of Issue:** The instructions for Schedule A have page number listing for each section, for easy reference. As many problems with proper completion of the Form 990 seem to be caused by lack of close attention to the instructions, attempts to make the document more user friendly should be made.

**Results:**

- 1) Suggestion that IRS will consider for the 2001 Form & instructions: Increase the size and scope of the Table of Contents for the Form 990 Instructions and include the page number of each part.

- 2) 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond:  
Consider whether electronic versions of the form should include hyperlink cross-references similar to those found in software developed for individual taxpayers.
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### **Issue #10 — Separate Requirements and Examples in Instructions**

**Review of Issue:** Examples are often interspersed among the line item requirements in the text of the instructions, making it difficult to tell where the example ends and the requirements resume.

**Results:** In 2001, IRS will set examples off (by margin, font, font size, in a box, or spatial separation) from requirements. NCCS will provide the location of each example in the instructions.

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### **Issue #11 — Require Listing of Aliases and Acronyms**

**Review of Issue:** When the organization operates under a name different from its legal filing name, the public, regulators, and researchers cannot easily identify the organization. Many tax-exempt organizations are difficult to find because the name under which they do business is not their legal name.

**Result:** 2000-01 suggestion that will be on the Form 990 review agenda for 2002 and beyond: Require that the organization list names under which it conducts activities. Although this was recommended by the JCT, past efforts to require this have not worked. NCCS and/or others may be able to provide tools for this purpose.

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### **Issue #12 — Require Better Contact Information**

**Review of Issue:** It is often difficult to contact nonprofit organizations based on the information contained on the Form 990. Adding a space for an organization's URL and a contact e-mail address would help with public disclosure as well as provide a communication tool for the nonprofit.

**Result:** Suggestion that IRS will consider for the 2001 Form & instructions: Add a line to Form 990 asking for website address (URL), if available. Suggest in the instructions that the website contain email and other contact information.

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## **LOBBYING AND MISCELLANEOUS**

### **Issue #13 — Separate Temporarily and Permanently Restricted Amounts from Unrestricted Contributions (Line 1d)**

**Review of Issue:** Temporarily and permanently restricted contributions are combined with unrestricted contributions on the Form 990 on Line 1d and Line 12.

**Result:** 2000-01 suggestion that will be on the 990 review agenda for 2002 and beyond: Ask for and consider a recommendation from GWSCPA, NCCS, and others regarding this issue and the suggestion that the descriptor for Line 12 add "including \$\_\_\_\_\_ of restricted contributions." Appropriate instructions would be needed to guide the preparer.

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**Issue #14 — Require Explanation for Differences in Beginning of Year Net Assets (Line 19) in Filing Year and End of Year Assets in Prior Year (Line 21)**

**Review of Issue:** It is not uncommon for an organization to list an amount on Line 19 that differs from Line 21 from the prior year.

**Result:** Suggestion that IRS will consider for the 2002 Form & instructions: Clarify the instructions for Lines 19 and 20 and require an explanation for variance.

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**Issue #15 — Improve Reporting of Lobbying Expenditures and Inform Selection of the 501(h) Election (Schedule A, Part III, Part VI-A, Part VI-B)**

**Review of Issue:** Many organizations do not know how to decide if they should take the 501(h) election and IRS documents do not provide enough information.

**Results:** 2000-01 suggestions that will be on the 990 review agenda for 2002 and beyond:

- 1) Mention in the instructions that it is acceptable to take the election even if the organization has no plans to lobby in the coming year. NCCS and others will study this and make recommendations.
  - 2) Provide referrals to sources of additional information on which to base the decision of whether to take the election. NCCS and others will study this and make recommendations.
  - 3) Add a discussion of the merits of taking the 501(h) election in the instructions for the Form 990 and for Form 5768. It may not be IRS' role to provide guidance like this.
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**Issue #16 — Improve Reporting on Lobbying Activities (Schedule A, Part III, Part VI-A, Part VI-B)**

**Review of Issues:** Many organizations check "Yes" on Schedule A, Part III, line 1 but may leave the line for total expenses blank. Often the total of lobbying expenditures reported on line 38 (grassroots expenditures in line 36 plus the direct lobbying expenditures in line 37) does not equal the amount reported in Part III under line 1. Further study is required on the appropriate allocation of expenditures on lobbying. It is difficult to make specific recommendations before more detail is available on current reporting by nonprofits.

**Result:** 2000-01 suggestion that will be on the 990 review agenda for 2002 and beyond:



Consider recommendations to be provided by NCCS and others based on research of current reporting practices.

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## **ADDITIONAL ISSUES RAISED BY STATE CHARITY OFFICIALS**

### **IRS and state officials will study next year for 2002 and beyond:**

- 1) The appropriate reporting of thrift store revenues and expenses on the Form 990.
  - 2) The treatment of “agency transactions” and how they should be reflected on Form 990. These are transactions in which the charity is just a “middle-man” without any real discretion over the money or goods. For financial purposes, these transactions most likely would be excluded from the charity’s revenue. Should these transactions be reported on Form 990? Would an example in the instructions be useful?
  - 3) Disclosure of relationships to other organizations (Part VI – Other Information on Line 80). Only those organizations that are more than 50% “related” need to be disclosed. This “more than 50%” may or may not be in the tax code. In any case, is there a way to reduce the threshold to achieve greater disclosure?
  - 4) “Conduit” or “umbrella” organizations (those that sometimes act as bookkeepers and help out smaller organizations, while having no actual discretion over the money coming in or out for these smaller organizations). Should the smaller organizations be filing separately, if necessary? Could an example of this type of relationship be documented in the instructions so that both of these organizations know how to file their respective returns?
  - 5) Distinction between royalties and contributions.
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## **Acknowledgements**

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### Participants included:

NCCS — Linda Lampkin, Bill Levis, Tom Pollak

PRI-GuideStar — Chuck McLean, Christine Aube

IRS-TE/GE — Dave Jones, Ron Williams, Steve Miller

State Charity Officials— Karin Goldman (NY), Dena Markowitz (PA), Karl Emerson (PA), Jo Freeman (VA)

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