Overview of 990 and Tips for Productive IRS Correspondence

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Objectives

- Understand purpose of Form 990
- Review Form 990 schedules
- Discuss Common 990 Errors and how to correct
- Review Tips for productive IRS Correspondence



Purpose of Form 990

- Demonstrate organization is fulfilling its tax-exempt purpose
- Financial Resources are being used to further these purposes
- Ensure Accountability and Transparency
- Promote Compliance

Form **990**

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

- ▶ Do not enter social security numbers on this form as it may be made public.
 - ▶ Go to www.irs.gov/Form990 for instructions and the latest information.

OMB No. 1545-0047

2021

Open to Public Inspection

Department of the Treasury Internal Revenue Service



Does my organization need to file a Form 990?

Income and Asset Thresholds:

- Form 990-N "Postcard"
 - Gross receipts \$50,000 or less
- Form 990–EZ
 - Gross receipts less than \$200,000
 - And Assets less than \$500,000
- Form 990
 - Gross receipts \$200,000 and over
 - or Assets \$500,000 and over

Due Date:

- 15th day of the 5th month after year end
 - 12/31 year-end due May 15
 - 6/30 year-end due November 15





Part I: Summary

- Mission
- Board Representation
- Volunteers
- Unrelated Business Income (UBI)
- Comparative Financial Information

Part I		Summary						
	1	Briefly describe the organization's mission or most significant activities:						
ce								
Governance								
/eri	2	Check this box ▶ ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.						
ပ ွ်	3	Number of voting members of the governing body (Part VI, line 1a)	3					
∞ ∞	4	Number of independent voting members of the governing body (Part VI, line 1b)	4					
ties	5	Total number of individuals employed in calendar year 2017 (Part V, line 2a)	5					
Activities &	6	Total number of volunteers (estimate if necessary)	6					
Ac	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a					
	b	Net unrelated business taxable income from Form 990-T, line 34	7b					



Part III: Summary of Program Service Accomplishments

- Mission Statement
 - Expand
 - Consistent with published documents
- Program Accomplishments
 - Clear, concise and measurable
 - Agrees to published materials
 - Brag!
 - Program Director Involvement
- Program Revenue and Expenses
 - Agrees to parts VIII and IX





Part IV: Checklist of Required Schedules

- Questions answered correctly?
- Required Schedules Attached?





Part V: Statements Regarding Other IRS Filings and Tax Compliance

- Questions answered correctly?
- Payroll Filings
 - Employee vs. independent contractor
- Unrelated Business Income
- Foreign Bank Accounts
- Donor Acknowledgement





Part VI: Governance, Management, and Disclosure

- Best Practices
- Independent board members
 - 2/3 considered best practice
- Conflict of Interest Policy
- Executive Compensation
 - Rebuttable presumption of reasona
- State Registration and complian





Part VII and Schedule J: Compensation

- Purpose to increase transparency
 - Related organizations
- All compensation (W-2 or 1099) must be reported for
 - Officer's/Trustees
 - Directors
 - Key Employees
 - Highest Compensated Employees
 - Former too, if paid





Part VIII: Statement of Revenue

- Breakout of revenue
 - Program revenue correct NAICS code!
 - Unrelated revenue subject to tax
 - Unrelated revenue excluded from tax
- Compare each area of revenue to total revenue
- Compare unrelated revenue to total revenue



Part IX: Statement of Functional Expenses

- Breakout of expenses (501(c)(3) and (4)
- Compare
 - Fundraising expenses
 - Officer compensation
 - Ratio of breakout to other comparable organizations

Part IX Statement of Functional Expenses								
Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).								
Check if Schedule O contains a response or note to any line in this Part IX								
Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses				



Part X: Balance Sheet

- Cash interest bearing vs. non-interest bearing
- Accounts payable and accrued liabilities
- Loans to disqualified persons
- Restricted Net Assets





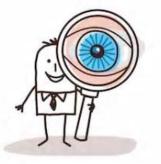
Part XI: Reconciliation of Net Assets

- Reporting difference between GAAP and tax
 - Unrealized gain or loss on investments
 - Donated Services and use of facilities
 - Bad debt write off
- Prior period adjustments
- Review adjustments for reasonableness



Part XII: Financial Statement Reporting

- Accounting method
 - Same as books
- Financial statement preparation and review
- Oversight of the audit





Questions on 990?





Form 990 Schedules

- Schedule A: Public Charity Status and Public Support
- Schedule B: Schedule of Contributors
- Schedule C: Political Campaign and Lobbying Activities
- Schedule D: Supplemental Financial Statements
- Schedule E: Schools
- Schedule F: Statement of Activities Outside the United States
- Schedule G: Fundraising and Gaming
- Schedule H: Hospitals



Form 990 Schedules cont.

- Schedule I: Grants and Other Assistance
- Schedule J: Compensation Information
- Schedule K: Tax Exempt Bonds
- Schedule L: Transactions with Interested Persons
- Schedule M: Noncash Contributions
- Schedule N: Liquidation, Termination, Dissolution or Significant Disposal of Assets
- Schedule O: Supplemental Information
- Schedule R: Related Organizations



Schedule A: Public Charity Status and Public Support

- Correct type of entity
 - 509(a)(1) majority of revenue from contributions
 - 509(a)(2) majority of revenue from programs
- Cross check current year with Part VIII (Stmt of Revenues)
- Public Support percentage
 - 33 1/3%
 - Facts and Circumstances test
 - Five year computational period



Schedule A: Public Charity Status and Public Support

- Reporting Pledges
 - Cash Basis report in year cash is received
 - Accrual Basis multi-year pledge typically discounted for present value in current year.
 - Accruals of unpaid present value amounts reported in future years.



Schedule A: Public Charity Status and Public Support cont.

Unusual Grants

- Substantial, unexpected contributions from disinterested persons
- Typically large enough to endanger ability to meet public support test
- Can be paid over a series of years
- Disclosed and excluded from public support test in Schedule A



Schedule A: Public Charity Status and Public Support cont.

Excess Contributions

- Portion of total contributions by each person (other than governmental unit or public charity greater than 2% of total contributions received in last 5 years
- Amount greater than 2% are excluded from public support
- Goal wide variety of funding sources



Schedule B: Schedule of Contributors

- Should not be disclosed to public (except Private Foundations)
- All required donors disclosed
 - Including "Anonymous"
- Includes donors who contribute more than \$5,000
- Utilizes same method of accounting as rest of 990



Schedule G: Supplemental Information Regarding Fundraising or Gaming Activities

- Professional Fundraiser
 - Compare to expenses in Part IX
 - Charity's portion vs. fundraiser's portion of revenue
- Special Events and Gaming agree to Part VIII
 - Raffles are considered gaming





Schedule L: Transactions with Interested Persons

- Excess benefit transactions and other transactions
- Most not considered best practice
- Description
 - Accordance with conflict-of-interest policy
 - Terms (below or at fair market value)
 - Approved by independent body



Schedule L: Transactions with Interested Persons

- Thresholds Payments between interested person and organization during the year exceed:
 - \$100,000 total; or
 - Single transaction greater than \$10,000 or 1% of organizations total revenue.

Note: Some activities in the normal course of the org's mission might not need to be disclosed.



Schedule R: Related Organizations and Unrelated Partnerships

- Related organizations are determined by control
 - More than 50% ownership or beneficial interest
 - Power to appoint/remove more than 50% or board
- Value of transactions with controlled entities



Form 990-T: Exempt Organization Business Income Tax Return

- Enacted to even playing field with for profit companies
- \$1,000 of income excluded
- Income taxed at 21% tax rate
- Typical types of Unrelated Business Income
 - Sales unrelated to your exempt purpose
 - Unrelated Debt Financed Income (usually rent from mortgaged property)
 - Advertising Income
 - Box 20V of K-1s from Investment Partnerships



Form 990-T: Exempt Organization Business Income Tax Return

- Must report unrelated income in separate silos based on income type
- Can't use losses from one silo to offset income from another income type
- Net operating losses only allowed to offset up to 80% of income if losses incurred after 2017
- Should be filed with corresponding state corporate income tax return



Final Review

Questions to ask:

- Are all parts fully complete?
- Are all applicable questions answered?
- What schedules are included and why?
- Presentation is the return neat or sloppily prepared?





- Confirm accuracy of employer identification number and year end
- Section B to avoid e–filing rejections be sure to check box if:
 - Address Change
 - Name Change
 - Initial Return

3	Check if applicable:
	Address change
	Name change
	Initial return
	Final return/terminated
	Amended return
	Application pending



- Indicate correct 501c section
- Fully complete all sections in core form
- Complete Schedule A (for 501c3 filers)
- Complete Schedule B (or certify that it's not required)
- Complete Schedule O to provide narrative information as required



- Answer yes or no to all relevant questions
- Include entry on all total lines (including "0" when appropriate
- Omit any unnecessary personal identifying information
- Include proper signature by authorized officer
- Know your 990s due date and file on time!
- E-filing now required!









Background

- Typical Reasons for IRS Correspondence
 - Balance due
 - Missing return
 - Late Filing Penalty
 - Auto–Revocation!



You've received a notice - what now?

- Don't panic and don't ignore!
- Read the notice carefully taking note of:

Year in question

Type of Tax/Tax Form the notice involves

Action items to take

When is response due?

How to respond - fax, mail?





Department of the Treasury Internal Revenue Service Ogden UT 84201-0074

217671.101224.277783.29343 1 AB 0.408 660 Վիլի Արդալանի ինդիրի ինդիրի ինդիր Notice CP141L
Tax period December 31, 2016
Notice date November 5, 2018
Employer ID number
To contact us Phone 1-877-829-5500
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Message about your December 31, 2016, Form 990

We charged you a penalty for filing late

Our records show you didn't file Form 990 before its due date.

Because we didn't receive your return in time, you were charged a late penalty. (Internal Revenue Code section 6652(c)).

Billing Summary				
Penalty	6,580.00			
Amount you owe	\$6,580.00			



Once you've determined what the issue is, Now what?

Step 1: Gather all the requested info including:

- Proof of timely filing always mail certified return receipt requested
- Canceled checks, bank statements
- Copies of filed return



I don't have proof of timely filing!

Request Penalty Abatement

- First Time Penalty Abatement or
- Reasonable Cause

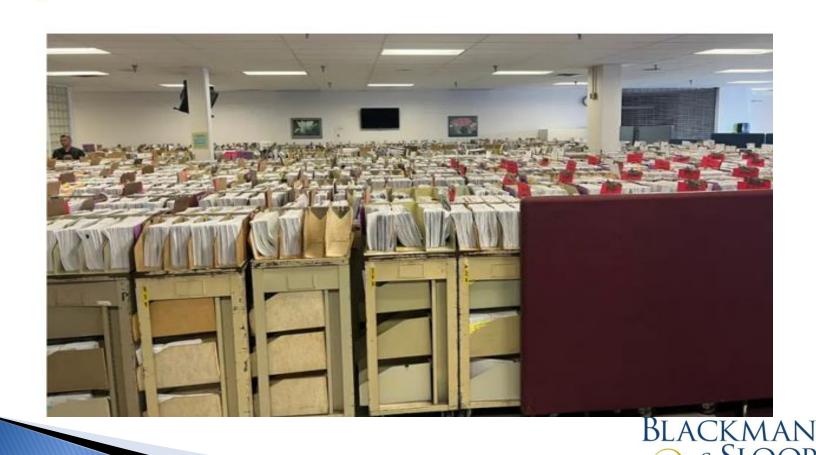


Step 2: Contact the IRS

IRS Contact info:

- Tax exempt line 877–829–5500 Hours 8 am – 5pm EST
- ▶ Fax # for responses 855-792-2864
- Last resort Mail to address provided in notice

Step 3: Wait - Patience will be necessary!



Summary and Questions...

- Form 990 is a public document that should accurately reflect your organization's activities and can be used as a tool to promote your organization
- Be sure your 990 is completely prepared and filed on time to avoid IRS correspondence
- Respond to all IRS correspondence in a timely manner



Questions?

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