

Overview of 990 and Tips for Productive IRS Correspondence

Presented by Elizabeth Mauch, CPA

Overview of Form 990

Objectives

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

Overview of Form 990

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 Department of the Treasury Internal Revenue Service	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
---	--	--

Overview of Form 990

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



Overview of Form 990

Part I: Summary

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

Part I		Summary	
Activities & Governance	1	Briefly describe the organization's mission or most significant activities:	
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.	
	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
	5	Total number of individuals employed in calendar year 2017 (Part V, line 2a)	5
	6	Total number of volunteers (estimate if necessary)	6
	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

Overview of Form 990

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



Overview of Form 990

Part IV: Checklist of Required Schedules

- ▶ Questions answered correctly?
- ▶ Required Schedules Attached?



Overview of Form 990

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



Overview of Form 990

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 reasonableness
- ▶ State Registration and compliance



Overview of Form 990

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



Overview of Form 990

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

Overview of Form 990

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 <input type="checkbox"/>				
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

Overview of Form 990

Part X: Balance Sheet

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



Overview of Form 990

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



Overview of Form 990

Part XII: Financial Statement Reporting

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



Questions on 990?



Overview of Form 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

Overview of Form 990

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

Overview of Form 990

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

Overview of Form 990

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.

Overview of Form 990

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

Overview of Form 990

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

Overview of Form 990

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

Overview of Form 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



Overview of Form 990

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

Overview of Form 990

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.

Overview of Form 990

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

Overview of Form 990

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

Overview of Form 990

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

Overview of Form 990

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?

Common 990 Errors

Common 990 Errors

- ▶ 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

B	Check if applicable:
<input type="checkbox"/>	Address change
<input type="checkbox"/>	Name change
<input type="checkbox"/>	Initial return
<input type="checkbox"/>	Final return/terminated
<input type="checkbox"/>	Amended return
<input type="checkbox"/>	Application pending

Common 990 Errors

- ▶ 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

Common 990 Errors

- ▶ 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!

Tips for Effective IRS Correspondence

Tips for Effective IRS Correspondence



Tips for Effective IRS Correspondence

Background

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

Tips for Effective IRS Correspondence

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?

Tips for Effective IRS Correspondence



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

217671.101224.277763.29343 1 AM 0.408 860



5

Notice	CP141L
Tax period	December 31, 2016
Notice date	November 5, 2018
Employer ID number	
To contact us	Phone 1-877-829-5500
Page 1 of 4	

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

Tips for Effective IRS Correspondence

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

Tips for Effective IRS Correspondence

I don't have proof of timely filing!

Request Penalty Abatement

- ▶ First Time Penalty Abatement or
- ▶ Reasonable Cause

Tips for Effective IRS Correspondence

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

Tips for Effective IRS Correspondence

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?

Elizabeth Mauch, CPA
Blackman & Sloop, CPAs, P.A.
<https://nonprofit.b-scpa.com>
emauch@b-scpa.com
919-942-8700

