

Form follows function in the new Form 990

It's ironic that a tax form has emerged as one of the most powerful communication tools available to tax-exempt organizations. But IRS Form 990, Return of Organization Exempt From Income Tax, has become just that. For many donors and other interested parties, Form 990 is the primary information source about an organization's mission, performance and finances.

Recognizing this fact, the IRS unveiled a major redesign of Form 990 in June 2007, when it published a discussion draft for public comment. The goal was to enhance transparency, promote tax compliance and minimize the burden on filing organizations. On Dec. 20, 2007, the IRS released its final version of redesigned Form 990, incorporating comments it received on the discussion draft.

The new form will be used by many for the 2008 tax year (returns filed in 2009), with phased-in filing for smaller organizations. (See "When are you required to file the new form?") Organizations that aren't required to file Form 990 must use either Form 990 E-Z or Form 990-N, the e-postcard.

The final form consists of 11 pages and 16 schedules. It contains a summary section where the nonprofit can provide a snapshot of key information; a governance section; more extensive reporting regarding compensation and related organizations; and new reporting requirements for tax-exempt bonds, foreign activities, noncash contributions and hospitals. Certain information relating to hospitals and tax-exempt bonds is optional for 2008.

Simplifying matters

The December-released Form 990 significantly revises the summary and governance sections, as well as several of the schedules, to improve transparency and readability. The draft summary page, for example, asks filers to classify expenses by functional type — such as program service, management and administrative and fundraising — and specify each one's percentage of total expenses.

The final form calls for reporting by expense type, including grants and similar amounts, and salaries and compensation. Instead of percentages, the form requires the filer to compare expenses to those of the previous year. It also:

Eliminates metrics from the summary section. Critics had argued that financial ratios, percentages and other measures could be misleading or subject to manipulation. Some were also concerned that placing certain financial ratios (such as fundraising expenses as a percentage of contributions) in the summary section would inappropriately imply that these measures were more important than those not reported in the summary.

Adds a “Checklist of Required Schedules.” This guide helps organizations identify the schedules they must complete.

Expands opportunities to provide supplemental information or narrative explanations. The new Schedule O, for example, gives filers two blank pages they can use to explain responses to specific questions or provide other additional information. The form also includes additional blank space in several schedules.

Be prepared

Organizations required to file Form 990 should become familiar with the redesigned form and be sure they’re prepared to supply the information required well before the filing deadline. The form may seem complicated at first — but only because it’s unfamiliar. In the long run, the revamped form is likely to facilitate better information sharing between your organization and the IRS and with your constituents.

Sidebar: When are you required to file the new form?

Gross receipts or asset amounts determine when your nonprofit is due to begin using Form 990.

Tax year	Gross receipts exceed	Or assets exceed
2008	\$1 million	\$2.5 million
2009	\$500,000	\$1.25 million
2010 or later	\$200,000	\$500,000