

Client Briefing

New Form 990 Effects on Exempt Organizations

Summer 2008

Form redesign expected to increase resources required for completion



but improve transparency and reporting.

Effective Date of new Form 990

Organizations will begin using the new Form 990 for the 2008 tax year (returns filed in 2009).

To address transition concerns expressed by the sector, the IRS will phase in the new form over a three-year period. This will be accomplished by increasing filing thresholds for the Form 990-EZ to allow smaller organization the option to file either the new Form 990 or the Form 990-EZ for 2008 and 2009 tax years. For those years, an organization may opt to file a Form 990-EZ if it satisfies both the gross receipts and assets tests in the table below:

<i>May file 990-EZ for:</i>	<i>If gross receipts are:</i>	<i>If assets are:</i>
2008 tax year (filed in 2009)	> \$25,000 and < \$1 Million	< \$2.5 Million
2009 tax year (filed in 2010)	> \$25,000 and < \$500,000	< \$1.25 Million
2010 and later tax years	> \$50,000 and < \$200,000	< \$500,000

"The new form is a significant redesign in format and content compared to the current form. Major changes include a front page summary that provides a snapshot of key financial and operating information, a governance section, and revised compensation and related organization reporting."

— IRS "Form 990 Redesign for Tax Year 2008 —
Frequently Asked Questions"

On December 20, 2007, the IRS released the 2008 Form 990, Return of Organization Exempt from Income Tax, the form filed by public charities and other tax-exempt organizations. Since the IRS last revised Form 990 almost 30 years ago, exempt organizations have grown in number, sophistication and complexity. With the release of the new Form 990, the IRS seeks to improve transparency and compliance while reducing taxpayer burden.

Basic Structure of New Form 990

The 2008 Form 990 includes an 11-page core form that must be completed by each Form 990 filer and 16 additional schedules that require reporting information from organizations that conduct particular activities. The 2008 Form 990 allows an organization to describe its exempt accomplishments and mission upfront and provides more opportunities throughout the form to explain organizational activities.

The following chart shows the comparison of the 2007 Form 990 core form and the new 2008 Form 990 core form:

	2007 Form 990	2008 Form 990
Revenues	Page 1	Page 9
Expenses	Page 2	Page 10
Program Service Accomplishments	Page 3	Page 2
Balance Sheet	Page 4	Page 11
Reconciliation of Revenues and Expenses to Audited Financial Statements	Page 5	Schedule D, Parts XII and XIII
Officers, Directors, Trustees, and Key Employees	Pages 5 and 6	Pages 7 and 8
Other Information	Pages 6, 7, 8	N/A – Combined into other sections
Analysis of Income Producing Activities	Page 8	N/A – Merged into Revenues
Relationship of Activities to Accomplishment of Exempt Purposes	Page 8	N/A – Deleted
Taxable Subsidiaries and Disregarded Entities	Page 8	N/A – Moved to Schedule R
Personal Benefit Contracts	Page 8	Page 5, lines 7e and 7f
Controlled Entities	Page 9	N/A – moved to Schedule R
Signature	Page 9	Page 1
Summary	New for 2008	Page 1
Governance, Management and Disclosure	New for 2008	Page 6
Checklist of Required Schedules	New for 2008	Pages 3 and 4
Other IRS Filings and Tax Compliance	New for 2008	Page 5

Major Changes

Core Form

The revised order of the new Form 990 is as follows:

Part I, Summary — provides organization's identifying information and a snapshot of key financial, governance and operating information, including a summary of mission or activities. A two-year comparison of revenues and expenses is reported for the current and prior year. A question regarding estimated number of volunteers was added.

Part II, Signature Block — was moved to the bottom of Page 1.

Part III, Statement of Program Service Accomplishments — includes reporting of new, discontinued or altered program services. Additional information regarding program services may be reported on new Schedule O.

Part IV, Checklist of Required Schedules — contains the list, in schedule sequence order, of all questions required to determine which schedules must be completed by an organization.

Part V, Statements Regarding Other IRS Filings and Tax Compliance — alerts the organization to other potential federal tax compliance and filing obligations, and collect important federal tax compliance information in one place.

Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors. An organization must report compensation for all officers, directors, trustees and key employees regardless of amount, and enter zero if no compensation is paid to such persons.

The threshold for reporting compensation of the five highest compensation employees (HCEs) is increased from \$50,000 to \$100,000. Personal addresses of the organization's officers, directors, trustees, key employees, and HCEs is not required and the organization may provide an alternative mailing address or physical location for those individuals who cannot be reached at the organization's address.

Part VIII, Statement of Revenues — combines current Part I Statement of Revenues with Part VII Analysis of Income Producing Activities. It also eliminated UBIT exclusion codes and current Part VII Relationship of Activities to Exempt Purpose.

Part IX, Statement of Functional Expenses — only had minor changes including adding a new line 23 for insurance and changed line 12 from advertising to advertising and promotion.

Part X, Balance Sheet — reclassified and reordered lines 10-16 of Assets and combined lines 12 and 15 into a single line for land buildings and equipment

Part XI, Financial Statements and Reporting — requires reporting on whether an organization has had a compilation, review or audit; whether the organization has a committee for selecting outside auditors; and whether a single audit was required.

Changes by Topic

Fundraising — efficiency and cost remain a significant concern for many charitable donors and stakeholders. Therefore, the new form includes a separate line for professional fundraising expenses.

Program Services — Additional information regarding program services may be reported on new Schedule O.

Starting in 2008 filers will be required to report new or discontinued program services, as well as significant changes on how it conducts its program services

Reporting of Direct Revenue — New design has eliminated current Parts VII (Analysis of income producing Activities) and VIII (Relationship of Activities) and requires additional reporting of revenue from each of the three largest income production activities (excluding grants and contributions).

Questions Regarding Family and Business Relationships —

- Questions regarding delegation of key governance or management duties to a management company or to others.
- Questions regarding whether the organization has a business relationship with its board members and/or their family members.
- Questions regarding the elections of directors and whether board decisions are subject to approval by members or others.

Compensation — To enhance compensation reporting by those non-charitable organization compensation portions have been consolidated;

- Parts V-A and V-B
- Parts I, II, and

Also includes new schedule J- *Supplemental Compensation Information*.

Statement of Revenue — New form combines the current Statement of Revenues and the current Analysis of Income Producing Activities into one schedule.

Statement of Functional Expenses — Changed line 12 from advertising to “advertising and promotion”; added new line 23 for Insurance

Balance Sheet — Reclassified and reordered lines 10-16 of assets; added a line 14 for Intangible Assets

Financial Statements and Reporting — This will be a new section on the redesigned 990; additional burden will be minimal when completing this section because additional recordkeeping or bookkeeping is not required in order to answer these questions

Taxing authorities require Milligan & Company, LLC to advise you that, unless otherwise specifically noted, any tax advice in this material is not intended or written to be used for the purpose of avoiding penalties that may be imposed on taxpayers under Internal Revenue Code, applicable state or local tax law provisions.

This material is not intended to be a comprehensive summary of final requirements associated with the new Form 990. However, it is intended to summarize significant aspects of the regulations for your consideration.

Additional Schedules

The following list of 16 new schedules will need to be completed based on your answers to questions in Part IV of the core form, Checklist of Required Schedules. The schedules ask for more information and allow for more explanations of answers given in the core form.

- 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, Supplemental Information Regarding Fundraising or Gaming Activities
- Schedule H, Hospitals
- Schedule I, Grants and Other Assistance to Organizations, Governments and Individuals in the United States
- Schedule J, Compensation Information
- Schedule K, Supplemental Information on Tax-Exempt Bonds
- Schedule L, Transactions with Interested Persons
- Schedule M, Non-Cash Contributions
- Schedule N, Liquidation, Termination, Dissolution, or Significant Disposition of Assets
- Schedule O, Supplemental Information to Form 990
- Schedule R, Related Organizations and Unrelated Partnerships

Start Planning Now

We encourage you to start preparing for the new Form 990 requirements. In particular, your organization can ease compliance tasks by:

- reviewing governance policies and procedures
- speaking with counsel to review/revise/update policies on conflicts of interest, whistleblower and document retention
- ensuring there are contemporaneous minutes for all committee meetings
- planning to provide Form 990 to the Board before the filing date
- scheduling a meeting with Milligan to discuss and properly assess the impact on your organization.

For more information on how Milligan can help your organization prepare for new 990 requirements, Please contact: LaVon Wells-Chancy at 215 496 9100 ext 131 or Jovan Goldstein, CPA at 215 496 9100 ext 104.

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