

# Changes to IRS Form 990 will affect all nonprofits

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CSBJ

Because of proposed changes to the Internal Revenue Service's Form 990, nonprofit organizations across the nation are scrambling to update their reporting and disclosure methods, and some are wondering whether they'll even be able to comply.

The changes are likely to be effective for 2009 filings, meaning that nonprofits have only until Jan. 1 to ensure they are in compliance — resulting in “real time pressure” for organizations that must change accounting policies and procedures, said Rita F. Worster, tax manager at BKD LLP.

Form 990, the Return of Organization Exempt from Income Tax form, is an information return prepared by tax-exempt groups. The information included in the returns is publicly accessible.

While the IRS has sent letters notifying tax-exempt organizations about the changes, some smaller nonprofits might not be aware of the changes. That's because nonprofits with less than \$25,000 in annual revenue have not had to submit returns to the IRS.

However, beginning with tax year 2007, the under-\$25,000 nonprofits will have to electronically file Form 990-N.

Lynne Telford, executive director of Center for Nonprofit Excellence, said she's trying to get the word out.



Telford

“I would hate for anybody to lose their exempt status for not filing this e-postcard,” she said.

Friends of Garden of the Gods is one of hundreds of local nonprofits that has less than \$25,000 in annual revenue. Suzanne Jarvinen, the organization's president, said the proposed changes are disconcerting.

“It will be difficult to replace a volunteer treasurer if the position involves filling out tax forms,” she said. “Or, we'll have to hire someone, and that's clearly not in our mission statement — we are an all-volunteer organization.”



Brooks

Telford said she's also concerned about the juxtaposition of some questions that seem to be unrelated or which do not clearly distinguish between required and non-required items.

“I think this is confusing to organizations and to readers of Form 990 to put questions together that imply they have the same weight,” Telford said. “It's onerous. Changes that require nonprofits to spend more time will result in more money spent — especially during the first year.”

Howard Brooks, vice president of community impact for Pikes Peak United Way, said that while nonprofit organizations need to be accountable to their supporters, the changes to Form 990

seem to create additional work.

“But it will be more disclosure,” he

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said, “and more disclosure is better.”

Edward M. Priem II, a staff tax accountant with BKD, said the redesigned Form 990 has a more logical structure, better flow and organization. Having the mission statement on page one is positive, since it gives organizations an opportunity to brag about the good they are doing, which can increase donations.

However, drawbacks include the extra time and money it will take to prepare the form, and having salary disclosure on page one.

“Salary disclosure is dropped on page one with no room for explanation,” Priem said. “This could potentially drive some donors away if they don't read through the entire document for an explanation of the salary. For instance, a severance agreement for a long-time employee listed on page one may seem excessive to donors, unless they realize the sum has

been accumulating over many years.”

In order to retain quality individuals and remain successful, nonprofits have had to be competitive. Salaries are far more complex than they used to be. Large nonprofit organizations will have to spend more time and money reporting not only salaries and benefits, but severance, deferred compensation, bonuses, spousal travel and more for key employees.

The changes also will affect nonprofit health care providers.

Worster said the new Form 990 will necessitate a restructuring in the way hospitals collect data. Each facility owned by a hospital — outpatient clinics, drug treatment facilities, etc. — must be listed separately by location and type of services provided. And gross revenue, discounts, bad debts and fees collected must be listed by source, such as Medicare, Medicaid and private insurance.

Hospitals have not previously had to collect this data separately, Worster said.

The IRS has not made significant changes to the Form 990 since 1979. The redesigned return consists of a 10-page core form and 15 schedules. The core form must be completed by all filers, and depending on an organization's activities, one or more of the schedules must be completed.