



Stay Exempt

Course 4 Summary: Form 990

Recordkeeping

Records show that your organization complies with tax rules. Those tax rules govern your exempt status. Therefore, if you don't maintain adequate records, you can't show that your organization is entitled to its tax-exempt status.

By law, income tax regulations require an exempt organization to show specific items of gross income, receipts, and disbursements or expenditures.

Your organization should keep four categories of records:

- Money Coming In
- Money Going Out
- Employment Tax Records
- Asset Records

Generally, you must keep records that support an item of income or deduction on a return until the three-year statute of limitations for that return runs out.

Form 990 Overview

The Form 990 series is unique because:

1. The main purpose of the return is not to report and pay taxes, but to provide information on your organization's programs and activities;
2. Almost all of the information reported on the return is open to public inspection; and
3. Many state agencies that regulate exempt organizations have chosen to use it to satisfy their filing requirements, rather than come up with their own form.

Any tax-exempt organization with gross receipts greater than \$25,000 must file Form 990. Remember, gross receipts reflect the total income received, not income less expenses. For organizations under the \$25,000 threshold, a new reporting requirement begins in 2008.

Form 990 and 990-EZ are due by the 15th day of the 5th month after the organization's accounting period ends. For example, May 15 would be the due date for an organization with a calendar tax year end of December 31.

Using Form 8868, organizations can request a 90-day extension to file. Generally, no more than 90 days is granted.

Your organization can face penalties if it does not file a complete return, files late, or can't show reasonable cause for not filing.

Form 990 Walkthrough

Form 990 is broken into ten different parts. The **General Information section** comes before Part I. Many errors are made here, so be sure to double-check the information you enter.

Part I reports revenue, expenses, and changes in net assets or fund balances. Pay close attention to lines 1, 2, 3, and 9 in the revenue section. Before completing the expenses section of Part I, complete Part II. The totals from line 44 of Part II will carry back to the expenses section of Part I.

Part II is where expenses are recorded. The tricky part of this section is allocating expenses among the three functions: program services, management and general, and fundraising.

A good recordkeeping system will keep track of how much is spent in each functional area, making completion of this section a lot easier.

Part III is where an organization must state its primary exempt purpose and then describe the achievements of its four largest programs, as measured by the total expenses incurred by each program. Each description should include the program's objective, accomplishments, and related expenses.

Part IV's balance sheet is similar to the balance sheet of a for-profit organization. All Form 990 or 990-EZ filers must complete every relevant line in both columns of Part IV.

Part V-A and B list the current and former officers, directors, trustees, and key employees of an organization. It requires that information be disclosed regarding hours worked, compensation paid, benefits and expenses allowed, and loans or advances made to former officers, directors, etc.

Part VI determines, through a series of questions, whether an organization is participating in activities that can jeopardize its tax-exempt status.

Parts VII and VIII explain how the organization's revenues are related to its exempt purposes.

Schedule A applies to 501(c)(3)s except private foundations and requires information on activities that can jeopardize tax-exempt status as well as information supporting an organization's public charity status.

Schedule B requires further information on contributions that are reported on line 1 of Form 990. All organizations (not just 501(c)(3)s) must attach a completed Schedule B to their Form 990, unless they certify that they do not meet the filing requirements of the schedule by checking box M in the heading.

Undergoing Audits

The Exempt Organizations Examinations Office conducts audits. Its goal is to promote voluntary compliance of the tax laws.

There are three types of audits:

- Correspondence examinations,
- Office examinations, and
- Field examinations.

In addition to audits, there are also compliance checks. These determine:

- Whether an organization is adhering to recordkeeping and reporting requirements and
- Whether an organization's activities are consistent with its stated tax-exempt purpose.

There are five steps in the audit process:

1. Contact is made by the IRS,
2. Records are requested,
3. An initial interview takes place,
4. The audit is conducted, and
5. A conference concludes the process.

If the examiner and the organization disagree with the outcome of an audit, the organization may request a meeting with the examiner's manager to discuss the disagreement. If the manager cannot resolve the differences, the organization must pursue its case through the IRS appeals process.