

Form 990 and Federal Tax Update

Nonprofit & Higher Education Webinar

April 26, 2012

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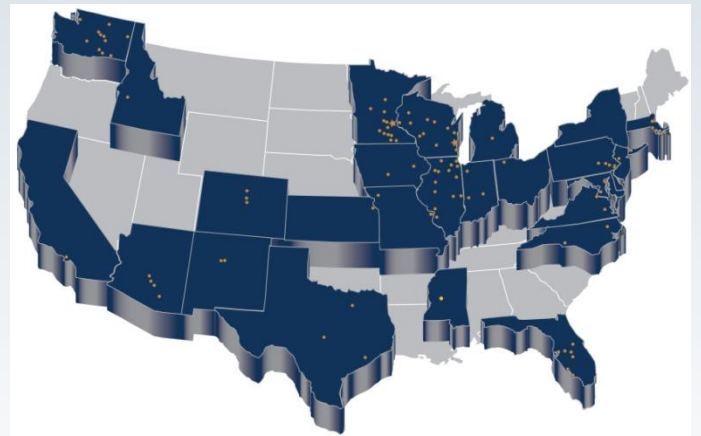
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- If you are experiencing technical difficulties, please dial: **800-263-6317**.
- **Q&A** session will be held at the end of the presentation.
 - Your questions can be submitted via the Questions Function at any time during the presentation.
- The **PowerPoint presentation as well as the webinar recoding** will be available within the next 10 business days.
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About CliftonLarsonAllen

- One of the nation's top 10 CPA and consulting firms
- Service areas include audit, accounting, tax, consulting, and advisory
- 3,600+ professionals
- 90 offices nationwide



Speaker Introductions



Karen Gries, CPA

Karen Gries is a Partner with the CliftonLarsonAllen and provides tax compliance and consulting services to exempt organizations. She has 25 years of public accounting experience focusing on serving the needs of exempt organizations.



Julia Buick, CPA, MBA

Julia Buick is a Senior Tax Manager at CliftonLarsonAllen. She has more than 13 years of experience advising public charities, private foundations, associations and boards on tax and accounting matters.

Learning Objectives

- At the end of this session, you will be able to:
 - Understand current IRS initiatives and focus areas
 - Identify and address key changes in the 2011 Form 990
 - Learn best practices and tips to assist in meeting tax compliance requirements

Polling Question

Regulatory Climate

- Exempt organization sector continues to be highly scrutinized
 - IRS oversight
 - State and local compliance
 - Legislative
 - Donors
 - Constituents
 - Media

2012 IRS Work Plan

- Implementation of current legislation
 - Statutory revocations
 - Tax exempt hospitals
 - Reporting requirements
- Compliance initiatives
 - Social welfare, labor organizations, and business leagues
 - Political activities
 - Unrelated business income and 990-T
 - Governance

2012 IRS Work Plan

- Collaborative Efforts
 - International Compliance
 - ◇ Tax information exchanges with outside entities
 - ◇ Examining organizations operating overseas
 - ◇ Examining organizations with foreign bank accounts
 - ◇ Expect two new publications describing special rules for overseas activities
 - Academic Institutions Initiative
 - ◇ Small & Midsize non profit workshops (SMS)
 - ◇ Goal: Consistent federal tax law training

2012 IRS Work Plan

- Collaborative Efforts Continued...
 - National Research Program
 - ◇ Project focused on employment tax matters
 - ◇ Final year in three-year program
 - EO Examinations Resource Page
 - ◇ Joint Initiative between EO Customer Education & Outreach/EO Examinations
 - ◇ Central resource page to assist organizations in examinations.

2012 IRS Work Plan

- General Work/Other Projects
 - Colleges and Universities
 - Disaster Relief Communications
 - Group Rulings
 - Mortgage Foreclosure Assistance
 - State Sponsored Workers Compensation Organizations – 501(c)(27)
 - Private Foundations
 - EO Services and Assistance

General Instructions

- IRS points us to new webpage: www.irs.gov/form990
- Organization with a name change **MUST** paper file
- Organization should make “reasonable efforts” to obtain third party information to complete the filing
 - Business/family relationships
 - Conflict of interest
 - Schedule L transactions
 - Compensation
- Governmental units and affiliates must file a Form 990-series if also classified as 509(a)(3) supporting organizations

General Instructions

- Form 990/990EZ/990N required even when application for exemption is not filed
- Principal officer and website should be current as of the date of filing
- Paid preparers are required to disclose PTIN

Checklist of Required Schedules – Part IV

- Schedule F Part I is required when foreign investments during the tax year are valued at \$100,000 or more
- Instructions clarify when organizations should complete Schedule F
 - Payments to organizations/entities located outside the US
 - Payments to organizations/entities inside the US for a foreign activity
 - Payments to individuals located outside the US
 - Payments to individuals inside the US for a foreign activity

Partnership Interest Reporting – Appendix F

- Requires following Schedule K-1 vs. book reporting of income and expense items
- Optional reporting for 2011 tax year (IRS Announcement 2012-19)
- Form 990 Filing Tips Page:
<http://www.irs.gov/charities/article/0,,id=255841,00.html>
- Consider sections within the Form 990 and applicable Schedules impacted by the K-1 reporting
- Schedule K-1 **MUST** be considered for 990T plus related state and foreign filings

Governance, Management, and Disclosure – Part VI

- Line 1a – Modification to form (not instructions) noting that if the governing body delegated broad authority to an executive or similar committee, Schedule O explanation required
- Line 1b – A director no longer loses independence because the director or a family member of the director was a key employee of an entity that engaged in a business transaction reportable on Schedule L
- Line 1b – Instructions provide additional examples showing when Board chair compensation is considered compensation to the Board chair as an officer or employee

Governance, Management, and Disclosure – Part VI

- Line 2 – Instructions exempt from reporting certain business relationships where a Part VII individual was a key employee of another organization
- Line 7b – Expanded to ask whether governance decisions are reserved to or subject to approval by persons other than the governing body
- Section B – Policy reporting now asks whether policy was adopted by the governing body or committee authorized by the governing body by end of the tax year
- Line 11 – If a copy of the Form 990 is available to the governing body upon request, the answer to the question is “no”

Compensation of Officers, Directors, Trustees... – Part VII

- Clarification that filers are to check only one position box for each person except when a person is both an officer and director/trustee
- Reportable compensation includes compensation reported in Form W-2, Box 1 or 5, whichever is greater
- For no calendar year falling within a short year return, columns (D),(E), and (F) should be blank
 - Consider Schedule O explanation
- Clarifies the related organizations for purpose of compensation reporting includes sponsoring organizations of and contributing employers to VEBAs

Compensation of Officers, Directors, Trustees... – Part VII

- Estimated other compensation (benefits) deferred at year end and paid within 2 ½ months after the end of the tax year should not be reported in column (F)
- Estimated other compensation in column (F) should include the annual increase or decrease in actuarial value of a defined benefit plan
 - Actuarial plan decreases should be ignored when determining whether an individual's total compensation was \$150,000 or more
- Clarification that compensation to independent contractors should be reported on a calendar year basis

Statement of Revenue – Part VIII

- Line 1 should not include the following
 - Net losses from uncollectible pledges
 - Refunds of contributions and service revenue
 - Reversal of grant expenses
 - Report all as “Other changes in net assets/fund balances”
Part XI and explain in Schedule O
- Conservation Easements reported consistently with books and records
- In-kinds should not be reported

Statement of Revenue – Part VIII

- Program service revenue should include Medicare and Medicaid payments, and other government payments made to pay or reimburse for medical services to individuals who qualify under the government program for the services provided and who select the service provider
- Organization's distributive share of investment income, royalties and rental income from joint ventures (K-1s) should be reported vs. book income
 - Refer to Appendix F
 - REMINDER: Suspended for 2011 (Announcement 2012-19)

Statement of Functional Expenses – Part IX

- Clarification of expense reporting
 - Line 4 includes patronage dividends paid by 501(c)(12) to its members
 - Line 14 includes payments to contractors for information technology services
 - Line 24 includes expenses for medical supplies incurred by health care organizations
- Clarification on reporting of joint costs reporting and when SOP 98-2 box should be checked

Balance Sheet Reporting – Part X

- Line 12 should report its distributive share of assets in any entities treated as partnerships for federal tax purposes according to its ending capital account in the partnership K-1
 - Potential inconsistencies since capital account may be maintained on a GAAP vs. tax basis
 - REMINDER: Suspended for 2011 (Announcement 2012-19)

Hospitals– Schedule H

- Affordable Care Act provisions of 501(r) are required for 501(c)(3) hospitals with tax years beginning after March 23, 2010
 - Financial assistance policy
 - Emergency medical care policy
 - Billing and collection practices
 - Charges for medical care
 - Community health needs assessments
 - ◇ Tax years beginning after March 23, 2012
- Audited financial statements submitted to the IRS

Compensation Reporting – Schedule J

- Value of housing provided by an employer should be reported as compensation and only excludible if a working condition fringe
- Cell phones
 - When provided to employees based on a business purpose, no compensation reporting required since a working condition fringe
 - Value is not reported on Part VII or Schedule J (Notice 2011-72)

Transactions with Interested Persons – Schedule L

- Definition of “interested persons” excludes 501(c)(3) organizations, 501(c) organizations with the same subsection as the filing entity and governments
- Must consider transactions between disqualified persons and joint ventures

Related Organizations – Schedule R

- Limited disclosures required for split-interest trusts
 - Charitable Remainder Trusts
 - Charitable Lead Trusts
 - Pooled Income Funds
- Do not report the name, EIN, or address of the trust
 - Group trusts by type and include number of trusts
- Leave columns (f),(g), and (h) blank

Glossary of Terms

- Definition of “control”
 - “Managing partner” is a partner designated as such under the partnership agreement or regularly engagement in the management of the partnership
- “Grants and other assistance” for the purpose of Part IX Lines 1-2, Schedule F and Schedule I excludes certain payments by VEBA
- Significant disposition of net assets excludes grants and other assistance made in the ordinary course of the organization's exempt activities to accomplish its exempt purpose
- “Term endowment” is renamed “Temporarily restricted endowments”

Questions

Karen A. Gries, Partner
karen.gries@cliftonlarsonallen.com
703-825-2164

Julia Buick, Senior Manager
julia.buick@cliftonlarsonallen.com
410-308-8079