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Congress Demands More Form 990 Changes

Less than a month before the Internal Revenue Service (IRS) is to release a new draft of Form 990, leaders of the Senate Finance Committee sent a letter to U.S. Treasury Secretary Henry Paulson detailing the changes they'd like to see to improve openness and transparency.

"Our concern is that the Form 990 has not kept up with modern practices in the charitable sector and needs significant updating," said Sens. Max Baucus (D-Mont.) and Chuck Grassley (R-Iowa), chairman and ranking member of the Senate Finance Committee, respectively, in a May 29 letter. A new draft 990 could be released later this month. "The IRS must particularly recognize that the Form 990 is not adequate to encompass vital information regarding major parts of the nonprofit sector -- especially hospitals and universities."

Though the senators said the greatest priority in revising the form is speed, they also outlined several points "in critical need of greater reporting and transparency:"

- Executive compensation.** Some charities are as creative as for-profit entities in providing compensation, the senators said. The source and total amount of compensation of a charity executive should be crystal clear not have to be pieced together from different documents.
- Dollars raised versus dollars for charity.** "There is probably no greater interest of the public than wanting to understand...how much of their money is actually going to a charitable

Form 990 Return of Organization Exempt From Income Tax
 Enter section 501(c)(3), 501(c)(29), or 501(c)(28)(B) of the Internal Revenue Code (except blood bank, benefit bank or private foundation)
 The organization may have to file a copy of this return to satisfy state reporting requirements.

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See the instructions.)

1	Contributions, gifts, grants, and similar amounts received:		
a	Contributions to donor advised funds	1a	
b	Direct public support (not included on line 1a)	1b	
c	Indirect public support (not included on line 1a)	1c	
d	Government contributions (grants) (not included on line 1a)	1d	
e	Total (add lines 1a through 1d) (cash \$, noncash \$)	1e	
2	Program service revenue including government fees and contracts (from Part VII, line 2)	2	
3	Membership dues and assessments	3	
4	Interest on savings and temporary cash investments	4	
5	Dividends and interest from securities	5	
6a	Gross rents	6a	
b	Less: rental expenses	6b	
c	Net rental income or (loss). Subtract line 6b from line 6a	6c	
7	Other investment income (dividends, interest, etc.)	7	
8	Gross amount from sales of assets other than inventory:		
a	Less: cost or other basis and sales expenses	8a	
b	Gain or (loss) (attach schedule)	8b	
9	Net gain or (loss). Combine line 8c, columns (a) and (b)	9	
10	Other events and activities (attach schedule, if any amount is from part 10, check here <input type="checkbox"/>)	10	
a	Gross revenue (not including 2 contributions reported on line 1a) of	10a	
b	Less: direct expenses other than fundraising expenses	10b	
c	Net income or (loss) from special events. Subtract line 10b from line 10a	10c	
11	Gross sales of inventory, less returns and allowances	11	
a	Less: cost of goods sold	11a	
b	Gross profit or (loss) from sales of inventory (attach schedule). Subtract line 11a from line 11	11b	
12	Other revenue (from Part VII, line 700)	12	
13	Total revenue. Add lines 1e, 2, 3, 4, 5, 6c, 7, 8b, 9, 10c, 11b, and 12	13	
14	Program services (from line 2e, column (b))	14	
15	Management and general (from line 4d, column (b))	15	
16	Fundraising (from line 4e, column (b))	16	
17	Payments to affiliates (attach schedule)	17	
18	Total expenses. Add lines 14, 15, and 16	18	
19	Excess or (deficit) for the year. Subtract line 17 from line 12	19	
20	Net assets or fund balances at beginning of year (from line 7b, column (a))	20	
21	Other changes in net assets or fund balances (attach explanation)	21	
22	Net assets or fund balances at end of year. Combine lines 19, 20, and 21	22	

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activity (and not including money spent on more mailings)," they said. This information should be easily and clearly available.

- **Governance.** Citing poor governance at the core of problems at charities in the past, the senators suggested looking at the BBB Wise Giving Alliance and Panel on the Nonprofit Sector as a guide.
- **Endowments.** The new Form 990 should allow the IRS and public to easily identify how the commensurate test (contributions and grants commensurate in scope with financial resources) is being met. Senators asked what guidance Treasury and the IRS is planning "to put more teeth into the test."
- **Related organizations and joint ventures.** "There needs to be a complete understanding of all related organization -- both for-profit and nonprofit -- of a charity." For joint ventures, which raise red flags they said, information should include the purpose, participants, resources contributed and key financial arrangements.
- **Hospitals.** The IRS must look closely at supplemental reporting guidelines of the Catholic Health Association (CHA) regarding charity care and community benefits as a template, which has been "embraced by many hospitals."

"We believe the greatest priority is speed in implementing these change (sic) to the Form 990," the senators wrote. "It is important that you send the signal to Treasury and IRS officials that a new and improved Form 990 and supplemental information should be a top priority to be completed and implemented," they wrote.

The letter continued, "The Form 990 is only as good as the information provided -- to be beneficial the information must be complete and accurate. Unfortunately, that is too often not the case."

The senators closed by asking for an update within 30 days of current IRS efforts to improve and encourage accuracy on the forms as well as future plans.

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