PacificCPE

COURSE

337511A

Tax-Exempt Orgs: Advanced Schedules, Assets, and Relationships

This course covers five Form 990 schedules that address complex organizational situations. Schedule L requires disclosure of transactions with interested persons, while Schedule M covers noncash contributions. Schedule N applies when an organization undergoes liquidation, dissolution, or significant asset disposition. Schedule O provides supplemental narrative information, and Schedule R addresses related organizations and unrelated partnerships. Practitioners advising larger or more complex nonprofits will find these schedules frequently applicable and worth understanding in depth.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify interested persons as they relate to Schedule L.
- Identify the types of property that must be reported on Schedule M.
- Identify the reporting requirements for filing Schedule N.
- Identify the purpose of Schedule O and the types of narratives that are included on this schedule.
- Recall how to report related organizations.

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Chapter 1: TRANSACTIONS WITH INTERESTED PERSONS (SCHEDULE L)

Chapter Objective

After completing this chapter, you should be able to:

- Identify interested persons as they relate to Schedule L.

I. OVERVIEW

A. PURPOSE OF SCHEDULE L

Schedule L (Form 990) is used by an organization that files Form 990 or Form 990-EZ to provide information on certain financial transactions or arrangements between the organization and disqualified persons under section 4958 or other interested persons. Schedule L is also used to determine whether a member of the organization's governing body is an independent member for purposes of Form 990, Part VI, Line 1b.

Supplemental Information. Parts I-IV can be duplicated if additional space is needed. Also, Part V may be used to explain a transaction or to provide additional information.

B. WHO MUST FILE SCHEDULE L

The chart below sets forth which organizations must complete all or a part of Schedule L and must attach Schedule L to Form 990 or 990-EZ. If an organization is not required to file Form 990 or Form 990-EZ but chooses to do so, it must file a complete return and provide all of the information requested, including the required schedules.

TABLE 24.1 WHO MUST FILE SCHEDULE L

Type of Filer	IF you answer "Yes" to . . .	THEN you must file . . .
Section 501(c)(3), 501(c)(4), or 501(c)(29) organization	Form 990, Part IV, Line 25a or 25b (regarding excess benefit transactions)	Schedule L, Part I.
Section 501(c)(3) or 501(c)(4)	Form 990-EZ, Part V, Line 40b (regarding excess benefit transactions)	Schedule L, Part I.
All organizations	Form 990, Part IV, Line 26 (regarding loans)	Schedule L, Part II.
All organizations	Form 990-EZ, Part V, Line 38a (regarding loans)	Schedule L, Part II.
All organizations	Form 990, Part IV, Line 27 (regarding grants)	Schedule L, Part III.
All organizations	Form 990, Part IV, Line 28a, 28b, or 28c (regarding business transactions)	Schedule L, Part IV.

II. SPECIFIC INSTRUCTIONS

For Parts I, II, and III, report all transactions regardless of amount. Part IV instructions provide individual and total reporting thresholds below which reporting is not required with respect to an interested person.

Each reportable transaction is to be reported in only one part of Schedule L, as described below.

1. Interested Persons

For purposes of Part I, an interested person is a disqualified person under section 4958. For purposes of Parts II-IV, an interested person is one of the following:

a. For Form 990 filers, a person required to be listed in Form 990, Part VII, Section A as a current or former officer, director, trustee, or key employee, and for Form 990-EZ filers, a current officer, director, trustee, or key employee required to be

listed on Form 990-EZ, Part IV. For purposes of reporting management company transactions in Part IV, however, a former officer, director, trustee, or key employee of the organization within the last five tax years is treated as an interested person whether or not required to be so listed.

b. The creator or founder of the organization, including the sponsoring organizations of a Voluntary Employees' Beneficiary Association (VEBA).

c. A substantial contributor. For purposes of Schedule L, Parts II-IV, a substantial contributor is an individual or organization that made contributions during the tax year in the aggregate of at least $5,000 and is required to be reported by name in Schedule B (Form 990), Schedule of Contributors, for the organization's tax year. A substantial contributor may include an employer that contributes to a VEBA.

d. For purposes of Part III, a member of the organization's grant selection committee.

e. A family member of any individual described above.

f. A 35% controlled entity of one or more individuals and/or organizations described above.

g. For purposes of Part III, an employee (or child of an employee) of a substantial contributor or of a 35% controlled entity of such person, but only if the employee (or child of an employee) received the grant or assistance by the direction or advice of the substantial contributor or designee or of the 35% controlled entity, or under a program funded by the substantial contributor that was intended primarily to benefit such employees (or their children).

An interested person for purposes of Parts II-IV does not include a section 501(c)(3) organization, an exempt organization with the same tax-exempt status (for example, section 501(c)(3) or 527 status) as the filing organization, or a governmental unit or instrumentality. Treat as a section 501(c)(3) organization a foreign organization for which the filing organization has made a reasonable judgment (or has an opinion of U.S. counsel) that the foreign organization is described in section 501(c)(3).

2. Reasonable Effort

The organization is not required to provide information about a transaction if it is unable to secure sufficient information to conclude that the transaction is reportable after making a reasonable effort to obtain such information. An example of a reasonable effort is for the organization to distribute a questionnaire annually to each person that it believes may be an interested person, as described earlier, requesting information relevant to determining whether a transaction is reportable. The

questionnaire may include the name and title of each person reporting information, blank lines for the person's signature and signature date, and the pertinent instructions and definitions for Schedule L interested persons and transactions.

Example

A substantial contributor to the organization states that he would like Mr. X and Ms. Y to be beneficiaries of a grant. The organization inquires of the substantial contributor whether Mr. X or Ms. Y are interested persons with respect to the organization because of a family or business relationship they have with the substantial contributor (using the pertinent instructions and definitions), and the substantial contributor replies in writing that they are not. Whether they actually are interested persons or not, the organization has made a reasonable effort in this situation.

A. PART I. EXCESS BENEFIT TRANSACTIONS

Part I of the schedule must be completed by section 501(c)(3), 501(c)(4), and 501(c)(29) organizations.

Line 1. For each excess benefit transaction involving an organization described in section 501(c)(3), 501(c)(4), or 501(c)(29), regardless of amount, provide information relating to each of the following:

- Identify in Column (a) the disqualified person(s) that received an excess benefit in the transaction;
- Identify in Column (b) the relationship between the disqualified person and the organization (for example, "officer" or "family member of director");
- Describe the transaction in Column (c);
- State in Column (d) whether the transaction has been corrected; and
- Identify in Part V the organization manager(s), if any, that participated in the transaction, knowing that it was an excess benefit transaction.

An excess benefit transaction generally is a transaction in which an applicable tax-exempt organization directly or indirectly provides to, or for the use of, a disqualified person an economic benefit, the value of which exceeds the value of the consideration received by the organization for providing such benefit. Applicable tax-exempt organizations are generally limited to organizations which (without regard to any excess benefit) are section 501(c)(3) public charities, section 501(c)(4) or 501(c)(29)

organizations, or organizations that had such status at any time during the five-year period ending on the date of the excess benefit transaction.

Section 501(c)(3), 501(c)(4), and 501(c)(29) organizations should refer to the instructions for Form 990, Part IV, Lines 25a-25b (or Form 990-EZ, Part V, Line 40b) before completing Part I. For more information on excess benefit transactions, section 4958, and special rules for donor advised funds and supporting organizations, see Appendix G in the Instructions for Form 990 and Pub. 557, Tax-Exempt Status for Your Organization.

Line 2. Enter the amount of excise tax incurred by organization managers or disqualified persons under section 4958 for the transactions reported on Line 1, whether or not assessed by the IRS, unless abated. Form 4720, Return of Certain Excise Taxes Under Chapter 41, Chapter 42 of the Internal Revenue Code, must be filed to report and pay the tax on excess benefit transactions.

B. PART II. LOANS TO AND/OR FROM INTERESTED PERSONS

An organization must report details on loans, including salary advances, payments made pursuant to a split-dollar life insurance arrangement that are treated as loans under Regulations section 1.7872-15, and other advances and receivables (referred to collectively as “loans”), as described in Form 990, Part IV, Line 26 or Form 990-EZ, Part V, Line 38a, or Form 990, Part X, Line 5, 6, or 22. Report only loans between the organization and interested persons that are outstanding as of the end of the organization’s tax year. Report each loan separately, regardless of amount.

In addition to loans originally made between the organization and an interested person, report also loans originally between the organization and a third party or between an interested person and a third party that were transferred so as to become a debt outstanding between the organization and an interested person.

1. Exceptions

An organization should not report the following in Part II:

- Excess benefit transactions reported in Schedule L, Part I.
- Advances under an accountable plan as described in the Schedule J (Form 990), Compensation Information, Part II instructions.
- Pledges receivable that would qualify as charitable contributions when paid.
- Accrued but unpaid compensation owed by the organization.
- Loans from a credit union made to an interested person on the same terms as offered to other members of the credit union.