PacificCPE

COURSE

33753A

Tax-Exempt Orgs: IRS Compliance, Governance, and Management Reporting

Focused on two critical sections of Form 990, this course covers the statements regarding other IRS filings and tax compliance, as well as the governance and management section. Practitioners will learn how to accurately report an organization's compliance with federal tax requirements and how to document governance structures and policies. Understanding these sections is essential for helping nonprofit clients demonstrate accountability and transparency to the IRS and the public.

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

Start Course ↓

Final Exam Copy ↓

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

- Recognize tax compliance issues that may affect a tax-exempt organization's completion of Form 990.
- Identify the information that Part VI requires regarding an organization's governing body and management, governance policies, and disclosure practices.

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Chapter 1: STATEMENTS REGARDING OTHER IRS FILINGS AND TAX COMPLIANCE (PART V OF FORM 990)

Chapter Objective

After completing this chapter, you should be able to:

- Recognize tax compliance issues that may affect a tax-exempt organization's completion of Form 990.

Check the box in the heading of Part V if Schedule O (Form 990) contains any information pertaining to this part.

Line 1a. The organization must use Form 1096 to transmit paper Forms 1099, 1098, 5498, and W-2G to the IRS, which are information returns reporting certain amounts paid or received by the organization. Report all such returns filed for the calendar year ending with or within the organization's tax year. If the organization transmits any of these forms electronically, add this number to the total reported. Examples of payments requiring Form 1099 reporting include certain payments to independent contractors for services rendered. Report on this line Forms 1099, 1098, 5498, and W-2G filed by reporting agents of the filing organization, including common paymasters and payroll agents for the calendar year ending with or within the organization's tax year. Enter -0- if the organization didn't file any such forms for the calendar year ending with or within its tax year, or if the organization is filing for a short year and no calendar year ended within its tax year.

Line 1b. Form W-2G pertains to certain gambling winnings.

Line 1c. For more information on backup withholding for missing or incorrect names or taxpayer identification numbers, see Pub. 1281, Backup Withholding for Missing and Incorrect Name/TIN(s). If backup withholding rules didn't apply to the organization because it didn't make a reportable payment to a vendor or provide reportable gaming (gambling) winnings to a prize winner, then leave Line 1c blank.

Line 2a. Include on this line the number of the organization's employees (not the number of Forms W-2) reported on a Form W-3 by both the filing organization and reporting agents of the filing organization, including common paymasters and payroll agents, for the calendar year ending with or within the filing organization's tax year.

Enter -0- if the organization didn't have any employees during the calendar year ending with or within its tax year, or if the organization is filing for a short year and no calendar year ended within its tax year.

Line 2b. If the organization reported at least one employee on line 2a, answer whether the organization or reporting agents of the organization filed all required federal employment tax returns (which include Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return; and Form 941, Employer's QUARTERLY Federal Tax Return) relating to such employees. The organization may leave line 2b blank if it didn't report any employees on line 2a.

Line 3a. Check "Yes" on Line 3a if the organization's total gross income from all of its unrelated trades or businesses is $1,000 or more for the tax year. See Pub. 598, Tax on Unrelated Business Income of Exempt Organizations, for a description of unrelated business income and the Form 990-T filing requirements for organizations having such income.

Note

Neither Form 990-T nor Form 990 is a substitute for the other. Report on Form 990 items of income and expense that are also required to be reported on Form 990-T when the organization is required to file both forms.

Line 3b. Answer "Yes" if the organization filed Form 990-T by the time this Form 990 is filed. Check "No" if the organization answered "Yes" to Line 3a but has not filed Form 990-T by the time this Form 990 is filed, even if the organization has applied for an extension to file Form 990-T. If "No" to Line 3b, provide an explanation on Schedule O (Form 990).

All tax-exempt organizations must pay estimated taxes with respect to their unrelated business income if they expect their tax liability to be $500 or more.

Line 4a. Answer "Yes" if either item (1) or (2) below applies:

1. At any time during the calendar year ending with or within the organization's tax year, the organization had an interest in, or signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account); and
    a) The combined value of all such accounts was more than $10,000 at any time during the calendar year; and

b) The accounts weren't with a U.S. military banking facility operated by a U.S. financial institution.

2. The organization owns more than 50% of the stock in any corporation that would answer "Yes" to item 1 above.

If "Yes," e-file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), with the Department of the Treasury using FinCEN's BSA E-Filing System. Because FinCEN Form 114 isn't a tax form, don't file it with Form 990.

Line 4b. Enter the name of each foreign country in which a foreign account described on Line 4a is located. Use Schedule O if more space is needed.

Line 5. Answer "Yes" on Line 5a if the organization was party to a prohibited tax shelter transaction as described in section 4965(e) at any time during the organization's tax year. A prohibited tax shelter transaction is any listed transaction, within the meaning of section 6707A(c)(2), and any prohibited reportable transaction. A prohibited reportable transaction is a confidential transaction within the meaning of Regulations section 1.6011-4(b)(3), and a transaction with contractual protection within the meaning of Regulations section 1.6011-4(b)(4).

An organization that files Form 990 (other than a section 527 political organization and that is a party to a prohibited tax shelter transaction must file Form 8886-T, Disclosure by Tax-Exempt Entity Regarding Prohibited Tax Shelter Transaction, and may also have to file Form 4720, Return of Certain Excise Taxes on Charities and Other Persons Under Chapter 41, Chapter 42 of the IRC, and pay an excise tax imposed by section 4965. For more information, see the instructions to Forms 8886-T and 4720.

Line 6. Answer "Yes" on Line 6a only if the organization has annual gross receipts that are normally greater than $100,000 and if it solicited contributions not deductible under Code section 170 during the tax year.

Any fundraising solicitation by or on behalf of any section 501(c) or 527 organization that isn't eligible to receive contributions deductible as charitable contributions for federal income tax purposes must include an explicit statement that contributions or gifts to it aren't deductible as charitable contributions. The statement must be in an easily recognizable format whether the solicitation is made in written or printed form, by television or radio, or by telephone.

Failure to disclose that contributions aren't deductible could result in a penalty of $1,000 for each day on which a failure occurs. The maximum penalty for failures by any organization, during any calendar year, shall not exceed $10,000. In cases where the failure to make the disclosure is due to intentional disregard of the law, more

severe penalties apply. No penalty will be imposed if the failure is due to reasonable cause.

All organizations that qualify under section 170(c) to receive contributions that are deductible as charitable contributions for federal income tax purposes should answer “No” on Line 6a.

Line 7. Line 7 is directed only to organizations that may receive deductible charitable contributions under section 170(c). See Publication 526, Charitable Contributions, for a description of such organizations. All other organizations should leave Lines 7a through 7h blank and go to Line 8.

Lines 7a and 7b. If a donor makes a payment in excess of $75 partly as a contribution and partly in consideration for goods or services provided by the organization, the organization generally must notify the donor of the value of goods and services provided.

Example

A donor gives a charity $100 in consideration for a concert ticket valued at $40 (a quid pro quo contribution). In this example, $60 would be deductible. Because the donor’s payment exceeds $75, the organization must furnish a disclosure statement even though the taxpayer’s deductible amount doesn’t exceed $75. Separate payments of $75 or less made at different times of the year for separate fundraising events won’t be aggregated for purposes of the $75 threshold.

Lines 7c and 7d. If the organization is required to file Form 8282, Donee Information Return, to report information to the IRS and to donors about dispositions of certain donated property made within 3 years after the donor contributed the property, it must answer “Yes” and indicate the number of Forms 8282 filed.

Lines 7e and 7f. If, in connection with a transfer of funds to the organization, the organization directly or indirectly pays premiums on any personal benefit contract, or there is an understanding or expectation that any person will directly or indirectly pay such premiums, the organization must report on Form 8870, Information Return for Transfers Associated with Certain Personal Benefit Contracts, the premiums it paid, and the premiums paid by others but treated as paid by the organization. The organization must report and pay an excise tax, equal to premiums paid, on Form 4720. A personal benefit contract is generally any life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of

the transferor's family, or any other person designated by the transferor (other than an organization described in section 170(c)).

Line 7g. Form 8899, Notice of Income from Donated Intellectual Property, must be filed by certain organizations that received a charitable gift of qualified intellectual property that produces net income. The organization should check "Yes" if it provided all required Forms 8899 for the year for net income produced by donated qualified intellectual property. "Qualified intellectual property" is any patent, copyright (other than certain self-created copyrights), trademark, trade name, trade secret, know-how, software (other than certain "canned" or "off-the-shelf" software or self-created software), or similar property, or applications or registrations of such property. If the organization didn't receive a contribution of qualified intellectual property, leave Line 7g blank.

Line 7h. A donor of (1) a motor vehicle for use on public roads, (2) a boat, or (3) an airplane can't claim a charitable contribution deduction in excess of $500 unless the donee organization provides the donor with a Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, with respect to the donation (or a written acknowledgment with the same information). See the instructions for Form 1098-C for more information. If the organization didn't receive a contribution of a car, boat, airplane, or other vehicle, leave Line 7h blank.

Line 8. A sponsoring organization of a donor advised fund must answer "Yes" if any one of its donor advised funds had excess business holdings at any time during the organization's tax year. All other organizations should leave this line blank and go to Line 9. If "Yes," see the instructions for Schedule C (Form 4720), to determine whether the organization is subject to the excess business holdings tax under section 4943 and is required to file Form 4720.

For purposes of the excise tax on excess business holdings under section 4943, a donor advised fund is treated as a private foundation.

Line 9. Line 9 is required to be completed by sponsoring organizations maintaining a donor advised fund. All other organizations may leave this line blank and go to Line 10.

Line 9a. Answer "Yes" if the organization made any taxable distributions under section 4966 during the organization's tax year. If "Yes," complete and file Form 4720, Schedule K, to calculate and pay the tax.

Under section 4966, a taxable distribution includes a distribution from a donor advised fund to an individual. A taxable distribution also includes a distribution from a donor advised fund to an estate, partnership, association, company, or corporation unless:

- The distribution is for a purpose described in section 170(c)(2) (B) (for example, a charitable purpose), and
- The organization exercises expenditure responsibility for the distribution.

The above doesn't apply to distributions to any organization described in section 170(b)(1)(A) (other than a disqualified supporting organization, defined in section 4966(d)(4)), to the sponsoring organization of such donor advised fund, or to any other donor advised fund.

Line 9b. Answer "Yes" if the organization made a distribution from a donor advised fund to a donor, donor advisor, or related person during the organization's tax year. For purposes of this question, a related person is any family member of the donor or donor advisor and any 35% controlled entity (as defined in section 4958(f)) of the donor or donor advisor. If "Yes," complete and file Form 4720 and Schedule L (Form 990).

Note

If an organization makes a distribution from a donor advised fund resulting from the advice of a donor, donor advisor, family member, or 35% controlled entity of any of these persons, which distribution directly or indirectly provides a more than incidental benefit to one of such persons, section 4967 imposes a tax on (1) the person upon whose advice the distribution was made, (2) the beneficiary of the distribution, and (3) the fund manager for knowingly agreeing to make the distribution. The persons liable for the section 4967 tax must file Form 4720 to pay the tax. No section 4967 tax will be imposed on a distribution if a tax has been imposed for the distribution under section 4958.

If an organization makes a distribution from a donor advised fund to a donor, donor advisor, family member, or 35% controlled entity of these persons, then the transaction might be a section 4958 transaction. Such transactions include any grant, loan, compensation, or other similar payment to these persons, as well as any other payment resulting in excess benefit.

Line 10. Answer Lines 10a and 10b only if the organization is exempt under section 501(c)(7).

A section 501(c)(7) organization isn't exempt from income tax if any written policy statement, including the governing instrument and bylaws, allows discrimination on the basis of race, color, or religion.