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ARE YOU READY FOR THE NEW 990?

The time has come. The IRS has come through on their promise to devote more resources to the tax-exempt division in an effort to curb perceived abuses in the not-for-profit sector. Whether or not the perceptions are true, changes are being made that directly affect how your board, key executives and the entire organization operate. While the entire not-for-profit sector is under scrutiny, the tax-exempt healthcare community is receiving the majority of the spotlight.

The IRS has beefed up their staffing which has enabled them to completely revamp the Form 990. The new form is currently scheduled to be in effect for the 2008 reporting year. The previous form which was 9 pages with 2 additional schedules is being expanded to 10 pages with 15 additional schedules. The additional schedules are designed to highlight compensation, transactions with related organizations, tax-exempt bonds and much more. A special schedule is being added just for hospitals. This report will require disclosure of community benefit and charity care information. (As a side note, the IRS has unofficially announced that the billing and collection portion of this schedule will be eliminated from the final version of the form.)

Your organization will likely be required to electronically file its Form 990 in the 2006 reporting year. While there are many pros to e-filing, the IRS will be the main benefactor as this will eliminate the need for manual entry of the 990 data and more importantly will allow the IRS to run an infinite number of queries for sorting and comparative purposes. This will allow the IRS to more effectively choose which organizations to audit. The new form has many “trigger” questions that, if answered in an unbecoming way, will likely invite additional attention from the IRS.

In addition to implementing the new 990, the IRS has also initiated various compliance projects. The IRS sent out Community Foundation questionnaires mid-October in an effort to better understand the changes this sector of the tax-exempt community has witnessed in the past 10 years and also to further scrutinize donor advised funds. They are continuing their audits of tax-exempt bonds by focusing on healthcare organizations. In these audits, the IRS is focusing on private use and unpaid arbitrage.

What can you do to make sure your organization is in compliance?

- Know who your Disqualified Persons are.
- Comply with the Rebuttable Presumption as it relates to transactions with Disqualified Persons.
- Be proactive and implement the numerous policies and procedures outlined in the new Form 990. Avoid answering “no” to these questions.

- Educate your board on the new form and excess benefit transactions. Consider fringe benefits such as personal use of vehicles and cell phones. Are the appropriate amounts being included in taxable income?
- Be familiar with the reporting of the new Schedule H for charity care and community benefit. The reporting model on this Schedule may be different than how you report to your state association.
- Bring any tax-exempt bond issues up to compliance. Have an arbitrage calculation performed to ensure there is no arbitrage due.

For more information, contact us at info@dixon-hughes.com

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