

2006 Form 990 Qs & As
IRS Tax Exempt & Government Entities Division
April 26, 2007

This document supplements Form 990 instructions revised or added for 2006. IRS experts discussed these changes in telephone conferences conducted on March 21 and 22, 2007.

Suggestions for clarifications of instructions not related to changes made in 2006 may be submitted through the normal comment process.

Line 1d

1) Q: Why does the Line 1d amount exclude amounts included in Line 1a?

A: In the event that a governmental unit makes a contribution or grant to a donor-advised fund sponsored by the filing organization, that amount should be reported in Line 1a and not on Line 1d, in order to avoid double counting.

Line 25

2) Q: When an organization does not have any differences between amounts reported on line 25a/25b and Parts V-A/V-B, can the organization include a reference directly to Parts V-A/V-B in lieu of completing a separate schedule for Line 25a/25b?

A: The Service amends the instructions so that schedules for Lines 25a, 25b, or 25c are not required.

3) Q: Why are "loans and advances" to disqualified persons reported in Line 25c of the Statement of Functional Expenses, given that they are not an expense?

A: The instructions contain an error—with respect to loans and advances owed to disqualified persons by the filing organization, interest on the loan (which is an expense) rather than the loan amount itself is what was intended to be reported. In general, any payments of compensation or other amounts paid to disqualified persons not included on lines 25a and b but otherwise reportable on other lines of the expense statement should be reported on line 25c.

Taxpayers that instead rely on the original instructions and accurately report the principal amount of loans and advances will not be penalized for filing an inaccurate return.

4) Q: The instructions say to report compensation "payable" for the tax year. Normally, payables are reported on the balance sheet. Please explain what is meant by "compensation payable" in the context of reporting officer compensation expense.

A: Report amounts on Lines 25a, 25b and 25c consistent with the method of accounting the organization uses to complete the Form 990.

Line 75b

5) Q: Is the scope of the question limited to relationships between officers etc. of the filing organization only, or are relationships between officers etc. of related organizations also included?

A: The scope of the question is limited to relationships between officers etc. of the filing organization only.

6) Q: Does a business relationship exist between two directors of the filing organization where one director does business with the wholly owned corporation of another director?

A: Business relationships are employment relationships, contractual relationships, and common ownership of a business in excess of 35%. As the instructions specify no rules for corporate attribution, only direct relationships must be reported (e.g., one director is employed by another in a sole proprietorship or partnership, or one director serves the other as attorney or accountant in a sole proprietorship or partnership).

7) Q: What should I do if I am unable to obtain information required for the attached schedule about the business relationships among individuals listed in Form 990 Part V-A, Schedule A Part I and Schedule A Parts II-A and II-B?

A.: The organization is not required to provide information about such business relationships if it is unable to secure the information after making a reasonable effort to obtain the information.

An example of a reasonable effort would be for the Form 990 preparer or an officer eligible to sign the Form 990 to distribute a questionnaire annually to each officer, director, trustee, and key employee listed in Part V-A; each highest compensated employee listed in Schedule A, Part I; and each highest compensated professional and other independent contractor listed in Schedule A, Parts II-A and II-B. The questionnaire should require the name and title, date, and signature of each person reporting this information. The questionnaire should contain the family and business definitions set out in the instructions for Line 51.

Line 75c

8) Q: What is a related organization?

A: The 2006 Form 990 instructions for Line 75c set forth eight types of related organizations, including Relationship 6 (the organizations are partners in a partnership) and Relationship 8 (one or more persons have substantial influence in both organizations). The Service amends the instructions so that Relationships 6 and 8 may be disregarded.

9) Q: What if I cannot obtain the EIN of a taxable related organization?

A: The instructions for Line 75c also require the reporting of the employer identification number (EIN) of the taxable related organizations. The Service amends the instructions so that the EINs of taxable related organizations are not required to be reported.

10) Q: Does a volunteer serving an exempt organization without compensation but receiving expense reimbursements under an accountable plan still qualify for the volunteer exception?

A: Yes.

11) Q: As part of its mission, Exempt Organization A provides through its employee (Mr. C) some services to Exempt Organization B. B reimburses A for C's services by writing a check payable to A. C receives his regular compensation payments from A and nothing from B. Is Relationship 5 applicable (i.e., the other organization pays part of the compensation that the organization would otherwise be contractually obligated to pay).

A: No. Relationship 5 would apply only if B made its payment directly to C and A had withheld some part of its contractually obligated amounts (not necessarily corresponding to the amount paid by B to C).

Part V-B

12) Q: If a person is current officer for part of the year and is a former officer for the remainder of the year, should that person be listed as a current officer, as a former officer, or as both?

A: The instructions require listing in Part V-A of any person who was a current officer at any time during the year. All of that person's compensation from the organization should be listed in Part V-A, whether received as a current officer, as a former officer, or in another capacity (e.g., independent contractor). A former officer, director, trustee, or key employee should be listed in Part V-B only if such person is not listed in Part V-A in any capacity.

13) Q: Part IV Line 50 requires organizations to report details of loans to officers, but excepts loans by credit unions made on the same terms as for all other members. Does this exception also apply to loans by credit unions to former officers reportable in Part V-B?

A: Yes. The Service amends the instructions to incorporate the exception in Part IV Line 50 to Part V-B.

14) Q: Is there a limit on the look-back period in reporting compensation or loans to former officers, even if the person has not been in a position to exercise substantial influence over the affairs of the organization for over 30 years?

A: No. A reasonable effort should be made to determine whether any persons that were paid compensation or held loans are former officers, directors, etc.

15) Q: Should the reference to Part V-A in the first full paragraph of the third column of page 36 of the instructions actually be to Part V-B?

A: Yes.

Lines 106-107

16) Q: Are transfers other than interest, annuities, royalties, and rent required to be reported in Lines 106 and 107?

A: Yes, all transfers of funds between controlling and controlled entities must be reported, whether or not interest, annuities, royalties, or rents. Section 6033(h), added by the Pension Protection Act, requires controlling organizations to report the following information:

- interest, annuities, royalties, or rents received from each controlled entity;
- loans made to each controlled entity;
- and transfers of funds between controlling organizations and each controlled entity.

Report only the total of all payments for a specific transfer transaction. For example, for a loan, report only the total of all payments rather than each individual payment for that loan.

Schedule A

17) Q: If a disqualified person's compensation is set forth in the Form 990 Line 25c attachment and the person is also one of the five highest paid employees over \$50,000 (other than an officer, director, trustee, or key employee), should the person also be listed in Schedule A Part I?

A: Yes. A disqualified person whose compensation is required to be listed in Line 25c may also be a highly paid employee whose compensation is required to be listed in Schedule A Part I. A schedule is no longer required for Line 25c – see number 2 above.

Schedule B

18) Q: Should the reference to Part V-A in the first full paragraph of the third column of page 36 of the instructions actually be to Part V-B?

A: Yes.