



American Institute of CPAs  
1455 Pennsylvania Avenue, NW  
Washington, DC 20004-1081

June 10, 2014

Ms. Tamera Ripperda  
Director, Exempt Organizations  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

RE: Comments on Form 990, *Return of Organization Exempt from Income Tax*, and Instructions

Dear Ms. Ripperda:

The American Institute of Certified Public Accountants (AICPA) is pleased to provide comments on Form 990, *Return of Organization Exempt from Income Tax*, and instructions. Our matrix includes comments and recommendations for the 2014 forms and instructions<sup>1</sup>, while indicating the importance and urgency of each recommendation.

The comments were developed by the AICPA Exempt Organizations Taxation Technical Resource Panel (TRP) and approved by the AICPA Tax Executive Committee. The Exempt Organizations TRP is comprised of practitioners who serve tax-exempt organizations and are experienced with both the nuances of the form and the challenges that arise for taxpayers in trying to complete it.

The AICPA is the world's largest member association representing the accounting profession, with more than 394,000 members in 128 countries and a 125-year heritage of serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

We appreciate your consideration of our comments, and look forward to working with you in the future on this matter. We are available to meet with you to discuss and explain our comments further. If you have any questions, please contact Jeanne Schuster, Chair, AICPA Exempt Organizations Taxation Technical Resource Panel, at (617) 585-0373, or [jeanne.schuster@ey.com](mailto:jeanne.schuster@ey.com); or Amy Wang, AICPA Technical Manager, at (202) 434-9264, or [awang@aicpa.org](mailto:awang@aicpa.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey A. Porter".

Jeffrey A. Porter, CPA  
Chair, Tax Executive Committee

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<sup>1</sup> Please also consider the AICPA "[Comments on Form 990, Return of Organization Exempt from Income Tax, and Instructions](#)" submitted on October 25, 2013.

Section of the Form	Importance / Urgency	Comment	Recommendation
Instructions, Glossary	Medium	<p>Some organizations are misinterpreting the definitions of “control” in the case of a non-stock corporation. In the case of multiple, affiliated non-stock organizations with nearly identical board members, the organizations argue that “notwithstanding overlapping composition of boards of trustees, the trustees of X Charity, acting in that capacity, have no authority to remove, replace, or appoint a majority of the governing bodies of the other affiliates. The board of trustees of each affiliate, acting in its own independent capacity, periodically appoints its own new trustees.” We believe the last sentence of the definition of “control” applies as written (and note its parallel expression and result in Treas. Reg. §1.512(b)-1(l)(4)(b)) and that it imposes “related organization” status between the two organizations regardless of whether parent-subsiidiary status was intended, as in these cases, a brother/sister relationship exists.</p> <p>Definition of “control”: In the case of a non-stock organization, the term “control” means that more than 50% of the directors or trustees of such organization are either representatives of, or directly or indirectly controlled by, an exempt organization. A trustee or director is a representative of an exempt organization if he or she is a trustee, director, agent, or employee of such exempt organization. A trustee or director is controlled by an exempt organization if such organization has the power to remove such trustee or director and designate a new trustee or director.</p>	<p>Please clarify the definitions of control and related organization (specifically, brother/sister organizations) in the glossary of the instructions. For example, the instructions can read: “Brother/Sister: an organization controlled by the same person or persons that control the filing organization...” followed by one of the possible options below:</p> <p>1) “The same person or persons are deemed to control each organization simply by being voting members of each board.”</p> <p>or</p> <p>2) “When the two or more organizations share a majority of the same individuals, those organizations are deemed related.”</p>
Instructions, Glossary	Low	<p>The glossary definition for “significant disposition of net assets” includes a bulleted list of examples for what is considered a significant disposition of net assets and what is not. At the bottom of the list for what is considered a significant disposition, the “; and” is after the last item listed. This error appears to be a typographical error.</p>	<p>Please move the word “and” to after the second to the last item on the list. Additionally, please add a period after the last item on the list.</p>

**Part III**

<b>Section of the Form</b>	<b>Importance / Urgency</b>	<b>Comment</b>	<b>Recommendation</b>
Part III, Line 4e	Medium	Line 4e includes only total program service expenses. Currently, taxpayers have to manually calculate the total grants and program revenue for Lines 4a-4d to make sure the total amounts match with Parts VIII and IX of the return. Line 4e should include total grant expense and program service revenue in this line as well.	In addition to including the total program service expenses on Line 4e, please add the total grants and program service revenue from Lines 4a-4d on Line 4e.

**Part IV**

Section of the Form	Importance / Urgency	Comment	Recommendation
Part IV, Question 32	High	The question asks if the organization transferred more than 25% of its net assets (a significant disposition of net assets). If "yes," the organization needs to complete Schedule N, Part II.	The glossary explains for the definition of "significant disposition of net assets" that if the change of 25% in net assets results from the ordinary course of business (such as, regular grant making) a Schedule N is not required. Please consider revising question 32 on Part IV to ask about a significant disposition of net assets according to the glossary definition in order for the organization to answer "no." Otherwise, the organization should answer "yes" and not file a Schedule N. Most tax software programs do not allow this option.

**Part VI****AICPA**

Section of the Form	Importance / Urgency	Comment	Recommendation
Part VI, Lines 12-14	Medium	These questions ask if the filing organization has a conflict of interest, whistleblower and document retention policy. In the instructions to Part VI, Section B, it states to answer “yes” only if these policies were adopted by the board or a board delegated committee.	Please provide clarity by adding “adopted by the board or a board delegated committee” to each of the questions about policies in the form. Having this language only in the separate instructions for Form 990 but not included in the form itself under each of the line descriptions may result in confusion.
Part VI, Line 1a	Low	Line 1a asks about total members of the governing body. After this item, the form asks for a Schedule O disclosure if: 1) there are differences in voting rights or 2) the board delegated powers to an executive committee or similar committee.	Since it is more common for exempt organizations to have an executive committee than it is for them to have different voting rights, the wording at Line 1a should ask about the executive committees first followed by voting rights.

Section of the Form	Importance / Urgency	Comment	Recommendation
Part VII, Section A, Instructions	High	The instructions for Part VII note that to determine who is reported on Part VII, “the organization must use the calendar year ending with or within the organization's fiscal year for some and the fiscal year for others.” This description may confuse individual taxpayers, particularly employees. The instructions to Part VII, for key employees, note that the responsibility test applies at any time during the calendar year that ends within the organization's tax year. For example, Key Employee #1 leaves the organization in May 2013. The organization's tax year ends in June 2013. Key Employee #1 receives a 2013 Form W-2 in excess of \$150,000. On the 2013 Form 990 for the year ended June 30, 2014, Key Employee #1 is listed as a current key employee when he/she did not serve in that capacity at any time during the tax year. Taxpayers prefer to check the box that he/she is a former key employee, believing the return is more accurate and transparent to the reader.	Since the determination for officers, directors and trustees is based on whether they served during the tax year, please consider changing the rules in regards to key employees. A key employee that served at any time during the tax year is deemed a current key employee. In addition, please change the instructions to allow the “former” box to be checked with an explanation provided on Schedule O for a key employee that qualifies as a key employee of a fiscal year organization based upon compensation paid on a calendar year basis, but was not an employee at any time during the organization's tax year.

Section of the Form	Importance / Urgency	Comment	Recommendation
Parts VII and IX	High	It seems that “key employees” is defined in Part VII based upon calendar year compensation and responsibility even for fiscal year organizations. Since Part IX does not specifically state that key employees are defined in Part VII, some organizations believe they need to re-examine who would meet the key employee definition for Part IX, Line 5, based upon fiscal year compensation and responsibility.	We recommend adding “as defined in Part VII” to the instruction for Part IX, Line 5 reporting of compensation of officers, directors, trustees and key employees.
Part XI	High	The net asset reconciliation was moved from Schedule D to the Form 990 several years ago. Although we think this was a good change to the Form 990, we do not think the current Part XI Schedule meets the IRS goal of transparency.	<p>There is still space remaining on the last page of the Form 990. Therefore, we recommend the following format for the net asset reconciliation as the addition of this reconciliation will increase transparency of the return Please see the suggested reconciliation as follows:</p> <p>Beginning Net Assets (Part X, Line 33, Column (A))  Form 990 Income (Part VIII, Line 12, Column (A))  Income Not Reported on Form 990      Unrealized Gain      Donated Services or Use of Facilities      Prior Period Adjustments      Returned Grants      Other (three or more blank lines)  Form 990 Expenses (Part IX, Line 25, Column (A))  Expenses Not Reported on Form 990      Unrealized Loss      Donated Services or Use of Facilities      Prior Period Adjustments      Write-off of Uncollectible Pledges      Other (three or more blank lines)  Ending Net Assets (Part X, Line 33, Column (B))</p>

**Part VIII, IX, X, AND XI****AICPA**

<b>Section of the Form</b>	<b>Importance / Urgency</b>	<b>Comment</b>	<b>Recommendation</b>
Part XI, Lines 5-8, Instructions	Medium	The Form 990 instructions for Part XI mention nothing about Lines 5-8. Line 5 is mostly straightforward, but Lines 6-8 are not as clear.	We recommend the IRS update the instructions to include language for Lines 5-8. Many organizations use Line 8 as a plug when they do not know how to reconcile the financials, versus having a true prior period adjustment. Large organizations may have more ease understanding these lines, but these lines are confusing for the small to medium size organizations and clarification in the instructions would help.

**Schedule A****AICPA**

Section of the Form	Importance / Urgency	Comment	Recommendation
Schedule A, Part I, Line 11g, Instructions	High	The fourth phrase from the bottom in the instructions for Line 11g: “supporting organization or from certain” may include an error. It seems the first word, “supporting,” should change to “supported.”	If the wording in the instructions is an error, we recommend changing the word “supporting” to “supported” in order for this line in the instructions to read: “supported organization or from certain.”
Schedule A, Part I, Line 11h (vii)	Medium	Line 11 h (vii) asks for the amount of “monetary support” that the supported organization received from the supporting organization.	Supporting organizations are not required to provide monetary support. They may provide support in the form of services. The instructions request organizations to describe services in Part IV, Supplementary Information, but if the word “monetary” was removed from the form, this change can permit organizations to enter the value of services and make the form easier to complete. Also, we recommend adding the language: “if not monetary, describe in Part VI” to the Form Schedule A itself rather than including this wording solely in the instructions.

**Schedule G****AICPA**

<b>Section of the Form</b>	<b>Importance / Urgency</b>	<b>Comment</b>	<b>Recommendation</b>
Schedule G, Part II, Direct Expenses, Instructions	Medium	The instructions for Form 990, Part VIII, Line 8b was revised in 2013 to indicate that the expenses are “whether incurred before, during, or after the event.” This language is not included in the instructions for Schedule G, Part II.	Provide more clarity to organizations by including the same language into the instructions for Schedule G, Part II, to state that expenses are “whether incurred before, during, or after the event.”

**Schedule H**

Section of the Form	Importance / Urgency	Comment	Recommendation
Schedule H, Part I, Line 7, Column (d)	High	The inclusion of restricted grants and contributions as a component of “direct offsetting revenue” may distort the historical information previously received, create year-to-year comparability issues, and facilitate inconsistencies in reporting any community benefit.	Provide clarity by adding the following language to the instructions of Part I, Line 7, Column (d): “Organizations may describe any inconsistencies with prior year reporting in Part VI.”
Schedule H, Part IV, Instructions	Medium	The use of “and” & “and/or” in the instructions for Part IV may cause confusion.	If the intention of the instructions is to require the reporting of joint ventures with only the filing organization and the physicians as members (where no officer, director, trustee, or key employee is also a member), please consider changing the word “and” to “and/or” in Schedule H, Part IV, between the instructions for Lines 1a and Line 1b. This change will make the language consistent with language used in the first paragraph: “described in 1a and/or 1b below owned, in the aggregate.”

**Schedule I**

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Section of the Form	Importance / Urgency	Comment	Recommendation
Schedule I, Part II	High	The 2012 Schedule I form removed the checkbox that indicated no one recipient received more than \$5,000 in grants from the organization. If an organization makes many small grants that are below \$5,000, but which meet the threshold to file Schedule I as the overall total was \$30,000 or higher, the schedule will appear incomplete because there is nothing required for listing in Part II.	Please consider a check-the-box option to indicate that no recipient received more than \$5,000 in grants.

**Schedule R****AICPA**

<b>Section of the Form</b>	<b>Importance / Urgency</b>	<b>Comment</b>	<b>Recommendation</b>
Schedule R, Part IV, Column (f)	Medium	The current instructions are not clear on the definition of “total income” for C Corporations. Is this total income amount from the Form 1120, Line 11 or taxable income from the Form 1120, Line 30?	Similar to how the instructions provide detailed line items for a Form K-1, please provide which line of the Form 1120 is used to report this “total income.”