

# Video Transcript | Form 990 Common Errors and Misconceptions

Paula Hume: Hi. Today we're talking about misconceptions and common errors on the Form 990. Lynn tells us a few things of what you think the 990 tells.

Lynn Meiser: I think the biggest misconception is that the Form 990 is just a financial return with information about the organization's financials. It's so much more, it's an informational return. It's available to the public to look at, all the different schedules. It provides governing information. It provides tax return, filing information. It provides compensation of officers, board members, key employees, highly compensated employees. It can really be used as a tool for the organizations to talk about their key accomplishments, to talk about their mission and what they've accomplished during the year. It also can provide transparency for the organization and credibility for donors to use. So let's start off with some of the most common questions that we get as 990 tax preparers. What about the fiscal year-end clients, the ones that have the year-ends that are in June or during July during the year? Are there some key things that they need to be aware of for preparing their tax return?

Paula Hume: Yeah, I think one of the biggest things to understand is IRS forms are filed off of the beginning date of your fiscal year. So if you are a June 30th year-end, you will prepare the tax form 990 in the year that your fiscal year began. So form numbers can be a little confusing, I think for organizations to understand. Some other little quirky things on the 990 that make it difficult for fiscal year-end filers, there's compensation reported on 990 and that compensation will be reported via the W-2 or 1099 that is reported in the calendar year that falls during your fiscal year.

As we know, W-2s and 1099s are reported on calendar year basis. So it makes it a little difficult for fiscal year-end filers. They have to go back and pull the previous calendar, your reportings. There might be some differences on your statement of functional expenses for that compensation, again, reported on part VII versus then the functional expense. And so there'll be some differences there that might be a challenging to report. So Lynn, information is important and a lot of information is in the Form 990. How are donations, contributions reported throughout the 990?

Lynn Meiser: Yes. On the Form 990 we're required to report large donors. Non-profits have a different threshold to what that large donor amount would be depending on

how they set up their organization and how they report on their Schedule A. But one of the biggest questions we get and misconceptions that we get is reporting the dollar amounts on the large donor Schedule B. We have to report those dollar amounts on the same basis of accounting that we do on the rest of the tax return.

So in part 12 of the tax return, we report what basis of accounting the 990 is on, whether it be cash basis or accrual basis. And we want to make sure that throughout the Form 990 that we report it on the same basis of accounting. So if you're reporting your financials on accrual basis, we want to report that large donor on the accrual basis as well, not the cash basis of when the donations were received. So Paula, on the Form 990, an organization gets a chance to explain what they've accomplished during the year. What are some common misconceptions or errors that you see in this section of the tax return reporting?

Paula Hume: I think this section is hard because normally the accountant is the person that is filling out this page two of the Form 990, and we're always brief and short with our answers, but really this should be our marketing tool for the organization to be able to provide as much information to the reader of the form as possible. And we recommend that you're consistent in your story that you're telling. So go back, look at your annual reports, look at your website, and make sure that language is all consistent throughout your messaging. But that space on page two of the Form 990 is a free space to be able to write whatever it is. And the IRS recommends qualitative and verbiage that is consistent amongst all of those platforms that you might be communicating with your donors and or your prospective customers or clients.

Lynn Meiser: It's the time to shine right?

Paula Hume: That's right.

Lynn Meiser: To talk about everything that they've done.

Paula Hume: All the accomplishments that they have achieved during the year and just tell their story. So another misconception or a complex area on the Form 990 is part seven, where there is a list of officers, board of directors, key employees, highly compensated individuals. It's a very complex part. There are a lot of pieces that have to be reported. So what are some common errors that you see that are reported on the 990?

Lynn Meiser: Yeah, like you said, this is a very important section of the tax return. And if you are looking up a tax return as a public individual, this is where you're going to focus on. In this section of the tax return, we have to report officers that have

been involved in the organization during the year. We also have to include names of all of the officers and directors during the year. We also have to include in this section, key employees of the organization and highly compensated employees of the organization. So we need to include names, we need to include their titles that they served in the organization, and then we also have to designate them in their proper category as far as officer, key employee, or highly compensated employee. We have to make sure we're inclusive of all the officers and everybody that served in these various roles during the tax year. Anybody that served during the tax year, we need to make sure they include their name and start and exit dates.

**Paula Hume:** And I think there's a lot of language that is used interchangeably that is confusing in the exempt organization world. A board of director or trustee maybe is the language used for a board member. Again, we have to report anybody that is a board member throughout that reporting period. So on or off, if they've left, you must list them on that part seven as well. What other items get reported in that section?

**Lynn Meiser:** Yes, compensation is a key item that's recorded in this section, whether it be a compensation from the organization or if an individual is compensated from a related organization, we must report that information on a calendar year basis based on their W-2 for the tax return.

**Paula Hume:** And what makes it more complicated is there's various thresholds that have to be reported depending on your relationship with the organization. And so tell me a little bit more about all of those thresholds.

**Lynn Meiser:** So if you are an officer of the organization, there is no reporting threshold. You must report all compensation that you receive from the organization.. There's also a key employee, and the 990 defines the key employee as somebody who is compensated over \$150,000 a year and they must have a significant role in the organization. They must control over 10% of assets or manage 10% of the organization's budget. They must be a key employee of the nonprofit organization. There's also compensation reported for the top highly compensated employees, the top five highly compensated employees. So that is defined by the 990 instructions is those making over \$100,000 is their threshold for reporting.

**Paula Hume:** So what other compensation...when you talk about compensation, what items are reported on that schedule?

**Lynn Meiser:** So first of all, their compensation, that should match their W-2, so their compensation that they're receiving for their role in that, or it has to match

their 1099 that they receive from the organization if they're a contractor. We also have to report benefits received that are paid from the organization to that individual. Additionally, retirement that's paid from the organization to that individual is reported on the Form 990. And again, it's whether it's reported it paid from that organization or from a related organization. Both those compensations are reported on the Form 990.

Paula Hume: So it's very complex and a lot of information has to be reported there.

Lynn Meiser: Absolutely.

Paula Hume: It's important to make sure that that section is accurate. And also we get a lot of hesitation, but unfortunately, if you are in one of those roles within the organization, that compensation has to be disclosed on the Form 990. It cannot be misrepresented or missed in the reporting.

Lynn Meiser: Well, thank you so much for joining us today on Ask the Experts. If you'd like more information on the Form 990 or non-profit exempt organization information, please find us at [barnesdennig.com](http://barnesdennig.com).