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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's 990 Deskbook

Twenty-first Edition (January 2013)

Highlights of this Edition

The following are some of the important update features of the January 2013 edition of *PPC's 990 Deskbook*.

- The IRS continues to enhance its Exempt Organization Select Check tool. It can now be used (instead of IRS Pub. 78) to verify exempt status as discussed in this update.
- Special rules apply when an organization files a short year return. Additional guidance has been added throughout the *Deskbook* on how to properly prepare Form 990 for a short year.
- Penalties on exempt organizations can be costly. Guidance on preparing a “reasonable cause” defense to abate penalties has been expanded.
- This edition covers the newly released temporary regulations redefining the annual distribution requirement. Among other things, these regulations allow an amount set aside for a specific project that accomplishes the exempt purposes of a supported organization to be counted as a distribution in the year set aside.
- The American Taxpayer Relief Act of 2012 became law on January 2, 2013. This edition completely updates for this new law as it relates to organizations.

In addition to these featured items, your *Deskbook* includes the following update items:

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 2 Highlighting an Organization's Accomplishments	<ol style="list-style-type: none"> 1. Updated the required list of items to be attached to Form 990 rather than reported in Schedule O. 2. Clarified which version of Form 990 to use for short year returns. 	Key Issue 2A Key Issue 2A
Chapter 3 Governance, Management, and Required Disclosure	<ol style="list-style-type: none"> 1. Clarified what to report for the number of information returns filed during the year and number of employees for a short year not containing a calendar year-end. 2. The IRS has a governance check sheet (GCS) to assist exempt organization revenue agents in reviewing the governance practices of Section 501(c)(3) public charities. This edition adds an Observation on the statistical analysis conclusions drawn by the IRS from the GCS's data. 	Key Issue 3B Key Issue 3C
Chapter 4 Compensation Reporting	<ol style="list-style-type: none"> 1. Added an example of the Form 990 reporting required for compensation paid to an organization's CEO through a related management company. 2. Added an example of the compensation reporting of self-insured health benefits provided to an officer. 	Key Issue 4A Key Issue 4C

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 5 Reporting Revenue	3. The IRS is concerned about the potential misclassification of an employee as an independent contractor. This edition adds a Practice Tip regarding compensation reporting for persons who receive both a Form W-2 and a Form 1099.	Key Issue 4D
	1. Clarified how accrual-basis accounting method organizations should report a pledge of noncash property in Schedule B.	Key Issue 5J
Chapter 6 Reporting Functional Expenses	2. Added a definition of a qualified organization that is eligible to receive a qualified conservation contribution.	Key Issue 5K
	1. Certain qualified tax-exempt organizations that hire qualified veterans can claim a credit against their social security tax liability. This edition describes recent rule changes and also explains how the credit is claimed.	Key Issue 6F
Chapter 8 Other Schedules That May Be Required	1. Although not publicly supported, a supporting organization is not a private foundation because of its financial support of a public charity. This edition adds a discussion concerning the possible nature of such support.	Key Issue 8A
	2. Clarified the extent to which the value of donated services or the use of property can be counted as public support in determining whether an organization is a public charity or a private foundation.	Key Issue 8B
	3. Added a discussion about the proper reporting of the required information for donor advised funds on Schedule D (Form 990), Supplemental Financial Statements, Part I.	Key Issue 8C
	4. Clarified and expanded the discussion of several aspects of the proper completion of Schedule H (Form 990), Hospitals.	Key Issue 8F
	5. Added a discussion of, and a Preparation Pointer concerning, the information required by Schedule H (Form 990), Hospitals, for financial statement disclosure of bad debt expense.	Key Issue 8F
	6. Clarified and expanded the discussion of several aspects of the proper completion of Schedule K (Form 990), Supplemental Information on Tax-exempt Bonds.	Key Issue 8G
	7. Certain loans to and/or from interested persons must be reported on Schedule L (Form 990 or 990-EZ), Transactions With Interested Persons. The two types of financial transactions that are not considered loans are discussed in this update.	Key Issue 8H
	8. Business transactions with "interested persons" must be reported on Schedule L (Form 990 or 990-EZ). The discussion of when another entity will be considered an interested person for reporting purposes has been expanded.	Key Issue 8H
	9. Clarified in several instances the supplemental information that should be included on Schedule O (Form 990 or 990-EZ), Supplemental Information to Form 990 or 990-EZ.	Key Issue 8I
	10. Clarified the discussion regarding the proper completion of Schedule R (Form 990), Related Organizations and Unrelated Partnerships.	Key Issue 8J

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	11. Added a discussion of, and a Preparation Pointer concerning, the reporting of unrelated business income shown on a partnership Schedule K-1 received by the partner organization.	Key Issue 8J
Chapter 9 Political Campaign and Lobbying Activities	1. Added a discussion of a retroactive revocation of a Section 501(h) lobbying election by the IRS.	Key Issue 9C
Chapter 10 Preparing Form 990-EZ	1. Added a Caution about information that should not be included due to the public inspection requirements.	Key Issue 10A
	2. Updated the guidance for reporting information on payments to officers, directors, trustees, and key employees, in light of recently revised instructions for Part IV.	Key Issue 10E
Chapter 11 Filing Form 990-T	1. Added a Practice Tip regarding the retention of workpapers for prior years.	Key Issue 11A
	2. Clarified when it is appropriate to use the 2012 Form 990-T.	Key Issue 11B
	3. Added a discussion of filing Form 990-T to pay other taxes.	Key Issue 11B
	4. Expanded the explanation of the mechanics of carrying a net operating loss to a prior tax year.	Key Issue 11E
	5. Updated the discussion of applying for an additional extension of time in which to file Form 990-T.	Key Issue 11F
Chapter 12 Unrelated Business Income	1. Expanded the discussion of the exceptions from unrelated business income (UBI).	Key Issue 12F
	2. Clarified the discussion of when income from controlled organizations is considered UBI.	Key Issue 12K
	3. Updated the discussion of how sales of property during liquidation can result in UBI.	Key Issue 12P
Chapter 13 Debt-financed Income	1. Updated for the new IRS website that includes factors necessary to calculate the fair market value of annuities.	Key Issue 13B
Chapter 15 Deductions Allowed in Determining Unrelated Business Taxable Income	1. Updated the discussion of the enhanced charitable deductions for the American Taxpayer Relief Act of 2012.	Key Issue 15C
	2. Updated the discussion of Section 179 depreciation for the American Taxpayer Relief Act of 2012.	Key Issue 15D
	3. Updated the discussion of bonus depreciation for the American Taxpayer Relief Act of 2012.	Key Issue 15D
Chapter 17 Determining How and When to File for Exemption	1. Added a brief discussion about the compliance checks the IRS is conducting with parent/central organizations.	Key Issue 17D
	2. Added a Law Change Alert for final regulations requiring public disclosure of exemption applications that were denied.	Key Issue 17G
	3. Expanded the discussion on processes to obtain an income tax refund if tax-exempt status is reinstated.	Key Issue 17H
	4. Revised the discussion of the consequences of an automatic revocation when required annual returns are not filed.	Key Issue 17H

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 18 Providing Information about the Organization and Its Activities and Operations	1. Clarified how to report significant changes in activities (if different from what was originally reported on Form 1023).	Key Issue 18D
	2. Expanded the discussion of information that should be provided about financial arrangements with officers and directors of the organization.	Key Issue 18E
	3. Expanded the discussion on what to report on gaming activities (or expected gaming activities).	Key Issue 18H
Chapter 19 Determination of Public Charity versus Private Foundation Status	1. Updated for final regulations related to supporting organizations, including guidance on what can be counted towards fulfilling the distribution requirement for non-functionally integrated Type III supporting organizations.	Key Issue 19F
Chapter 23 Net Investment Income and Adjusted Net Income	1. Expanded the discussion on the procedure required for charitable trusts that qualify for supporting organization status but erroneously filed Form 990-PF to obtain a change in status.	Key Issue 23F
	2. Clarified which nonoperating private foundations must complete Part 1, column (c), of Form 990-PF.	Key Issue 23K
Chapter 24 Disbursements for Charitable Purposes	1. Added a Law Change Alert on the recently released proposed regulations expanding the definition of qualified tax practitioner upon whose written advice a private foundation may rely in making a good faith determination that a foreign organization qualifies as a charity.	Key Issue 24B
Chapter 26 Private Foundation Excise Taxes and Statements Regarding Its Activities	1. Expanded the discussion on self-dealing to include the IRS's ruling on the property sale to a disqualified person in exchange for a note receivable that ultimately was held by a private foundation.	Key Issue 26C
	2. Added a Law Change Alert on proposed regulations identifying additional examples of program-related investments that do not jeopardize a foundation's tax-exempt status.	Key Issue 26F
	3. Clarified the discussion on sources upon which a foundation may rely in determining an organization's exempt status.	Key Issue 26G
Chapter 28 Income Distribution Requirements	1. Added a Caution on the inability to create or increase an excess distribution carryover by making the election to treat current-year distributions as if made from corpus.	Key Issue 28G
Chapter 31 Terminating a Private Foundation	1. Clarified the discussion of how to request an advance ruling of the intent to terminate private foundation status.	Key Issue 31D
Chapter 32 Retaining the Organization's Exempt Status	1. Expanded the discussion of private benefit and how it is being used by the IRS to deny tax-exempt status to applicants.	Key Issue 32A
	2. Included a list of the major factors used by courts to determine whether the organization's activity is conducted in a commercial manner rather than to promote its exempt purpose.	Key Issue 32C
Chapter 33 Accounting Periods and Methods	1. Updated the discussion for the 2013 revenue procedures affecting exempt organizations.	Chapter 33

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 34 Penalties and Excise Taxes	1. Expanded the discussion of how a revocation of an organization's tax-exempt status is disclosed to the public.	Key Issue 34A
	2. Updated the discussion of the public inspection requirements that apply when applying for tax-exempt status.	Key Issue 34C
	3. Provided a link to the IRS Penalty Handbook for additional guidance when preparing a reasonable cause submission for penalty abatement.	Key Issue 34D
	4. Clarified the discussion of excise taxes that apply to organization managers.	Key Issue 34G
	5. Expanded the discussion of prohibited tax shelter transactions.	Key Issue 34K
	6. Added a key issue on a new excise tax that will apply to charitable hospitals that fail to meet community health needs assessment requirements.	Key Issue 34M
Checklists Tables	1. Expanded Checklist C104 for Form 990-T Preparation.	Checklist C104
	1. Expanded the summary of penalties that apply to return preparers.	Table T303
Other Resources	2. Expanded the list of penalties that apply to private foundations.	Table T501
	1. Certain qualified tax-exempt organizations that hire qualified veterans can claim a credit against their social security tax liability. This edition describes recent rule changes and also explains how the credit is claimed.	Resource R507