

Panel on the Nonprofit Sector

Convened by INDEPENDENT SECTOR

Work Group Recommendations to the Panel on the Nonprofit Sector Posted for Public Comment January 24, 2005

#2: Form 990 Filing Deadlines and Extensions

I. Transparency and Financial Accountability Work Group Recommendations

A. Statement of Problem

Exempt organizations may receive an automatic three-month extension of the time to file their Forms 990 returns by filing a request on Form 8868. An additional three-month extension of the time to file is granted at the discretion of the IRS upon a showing of reasonable cause. When organizations receive extensions of time to file Form 990 returns, donors and regulators are deprived of vital, timely information. According to the GuideStar/National Center for Charitable Statistics National Nonprofit Organization Database, in fiscal year 2000, more than half of all Form 990 filers, across all revenue categories, filed their annual information returns on average 3.5 months after the initial filing deadline.

B. Recommendations

The current provisions for extending the deadlines for filing an exempt organization return should not be limited further. Instead, the IRS should strengthen rules and procedures for granting extensions.

C. Rationale

Organizations require a reasonable amount of time to obtain the necessary information from third parties to file a complete and accurate return. Charities may find that it is more affordable to have their returns prepared during the accounting “off-season.” Most of these concerns can be addressed by the initial three-month extension, and the IRS should provide clearer guidance as to the justification required for granting a second three-month extension.

The Work Group noted that limiting organizations’ ability to request an extension might result in an increase in amended returns.

Note: These recommendations have not yet been reviewed by the Panel on the Nonprofit Sector. They will be part of the deliberations by the Panel as it prepares its interim report.

D. Other Considerations

The Work Group discussed the potential benefit of identifying those elements of an exempt organization's tax returns that are particularly time sensitive and requiring the organization to make that information publicly available in advance of the exempt organization return filing date, but concluded that this alternative would increase costs for both the IRS and charitable organizations and could lead to inaccurate information.

II. Expert Advisory Group Comments

The Expert Advisory Group agrees that organizations have many justifiable reasons for requesting extensions, but nonetheless believes there is a need for organization managers, regulators, and the public to have more timely information on the financial condition of the organization. The Expert Advisory Group recommends that the Work Group consider alternative solutions to increase the timeliness of Form 990 filings in Phase II.