

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

#4: Electronic Filing

I. Transparency and Financial Accountability Work Group Recommendations

A. Statement of Problem

Accuracy of data reported, timeliness of information available, and integration of federal and state reporting requirements could be improved through electronic filing.

The IRS released proposed regulations on January 12, 2005, requiring certain large tax-exempt organizations to electronically file their income tax or annual information returns beginning in 2006. Tax-exempt organizations with assets of \$100 million or more would be required to file their Form 990 electronically for tax year 2005 returns (due in 2006). For tax year 2006 returns (due in 2007), all private foundations and charitable trusts, regardless of size, and all other tax-exempt organizations with \$10 million or more in assets would be required to file returns electronically. Tax-exempt organizations other than private foundations and charitable trusts would only be subject to the regulation if they file at least 250 tax forms (including employee and dividend and interest information reporting forms) within the calendar year for which they are filing.

B. Recommendations

1. Require the IRS to capture electronically all data required to be reported on Forms 990, 990-EZ, and 990-PF as soon as possible, and make publicly available to facilitate sector self-regulation and state enforcement.
2. Support mandatory electronic filing of Forms 990 (see Issue #3, Penalties for Inaccurate/Incomplete Returns).
3. Support revisions to the Form 990 and 990-PF as soon as possible.
4. Require the IRS to coordinate electronic filing of the Form 990 with state officials.

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.

C. Rationale

More timely, accurate, and accessible data on nonprofits will increase understanding and help strengthen public trust in the sector. The IRS began accepting electronically filed Forms 990 and 990-EZ in February 2004 on a voluntary basis. The IRS expects to be ready to accept Form 990-PF in early 2005. IRS-approved software is now available from several providers and more will be available in fiscal year 2005. Consistency checks in the software will eliminate most errors and result in greater accuracy and timeliness of data.

At this time, the Form 990-PF for electronic filing is not set up to accept separate attachments. There are many schedules associated with the Form 990-PF, including the investment schedules, which can entail hundreds of transactions for large foundations. The inclusion of investment schedules would complicate both electronic filing of and public access to Form 990-PF.

Federal-state coordination of electronic filing of information returns will simplify reporting for tax-exempt organizations, especially those that are required to file in multiple states.

D. Other Considerations

The Work Group agreed that the Form 990 is flawed and recommends that revisions to the Forms 990 be made as soon as possible so that the timeliness provided by electronic filing will convey information that is more accurate and consistently reported across organizations.

II. Expert Advisory Group Comments

The Expert Advisory Group agrees that the IRS should move forward with mandatory electronic filing of Form 990 series returns as expeditiously as possible. Further, the Expert Advisory Group recommends that the IRS encourage and consider mandating e-filing of the Form 1023, the application for recognition as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.