

Not-for-Profit Perspectives



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More Changes for 2014 Form 990

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The IRS has made substantial changes to Form 990 for certain organizations for tax years beginning in 2014. Supporting organizations face several new pages added to Schedule A, and an entity which grants broad authority to a subcommittee of its Board must provide a narrative about those powers.

More Disclosures for Supporting Organizations

If your organization is a supporting organization ("SO") under Code Section 509(a)(3), you will have to complete new sections on Schedule A for 2014. If you do not know if your organization is an SO, look at Schedule A of the Form 990 that you most recently filed. If Box 11 in Part I of Schedule A is marked, your organization is an SO.

Information contained in this e-newsletter is general in nature and should not be relied upon by anyone without consulting with tax, accounting and legal experts who are knowledgeable in these matters and the specifics of your organization.

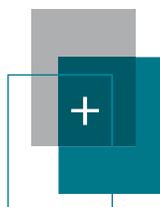
The IRS has added Parts IV and V to Schedule A for SO's. All SO's will have to complete Part IV, while Part V is only for those SO's that are so-called "Type III Non-Functionally Integrated Supporting Organizations."

Section A of Part IV asks questions to all SO's about the following issues:

- Supported organization(s) being listed in the SO's governing documents;
- Any changes to supported organizations during the year;
- Providing support to other entities or individuals other than the supported organization(s);
- Providing a grant, loan, compensation, or similar payment to a substantial contributor; and
- Control of the SO by one or more disqualified persons during the year.

The remaining sections of Part IV are devoted to specific questions directed at the requirements under Section 509(a)(3) for Type I SO's (Section B), Type II SO's (Section C), all Type III SO's (Section D) and Type III Functionally Integrated SO's (Section E).

What is the difference between a Type III Functionally Integrated SO and a Type III Non-Functionally Integrated SO? The Functionally Integrated SO must be an integral part of its supported organization by maintaining significant involvement in its operations and providing support on which the supported organization is dependent. If a Type III SO does not meet the Functionally Integrated definition, it is deemed to be Non-Functionally Integrated and must meet a minimum distribution requirement (like a private foundation) and an attentiveness requirement.



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Not-for-Profit Perspectives

More Changes for 2014 Form 990 (continued)

Type III Non-Functionally Integrated SO's are required to provide significant financial information in Part V of Schedule A. Section A requires filers to provide Adjusted Net Income amounts for the prior tax year with an optional column for this information for the current tax year. Section B requires the organization to calculate its Minimum Asset Amount for the prior year, and both the Adjusted Net Income and Minimum Asset Amount go into the calculation in Section C of the annual Distributable Amount.

Section D of Part V tracks the organization's distributions to the supported organization(s) as well as amounts expended to further the exempt purpose of the supported organization(s). Note that certain administrative expenses paid to accomplish exempt purposes are included in the total distribution amount. Finally, Section E tracks the Distribution Allocation similar to how a private foundation annually demonstrates on Form 990-PF that it has met its minimum distribution requirement. This Section also tracks excess distribution carryovers which can be used in future years to meet minimum distribution requirements.

These new Parts of Schedule A put a harsh spotlight on SO's and indicate the IRS' heightened concern with these organizations. Maloney + Novotny can help your organization navigate these new disclosures and demonstrate compliance with the applicable tax laws.

New Governing Body Disclosure

While Part VI of Form 990 (the Governance, Management, and Disclosure section) has escaped major changes for the past few years, the IRS has made a significant revision for 2014. Under Line 1a of Part VI, which requires the filer to provide the total number of governing body members as of the end of the tax year, the IRS has inserted the following statement:

If the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.

The narrative on Schedule O must include a description of the composition of the committee, whether any of the committee's members are not on the governing body, and the scope of the committee's authority.

The instructions state that delegations of authority that are limited in scope to particular areas or matters do not need to be described. The IRS specifically mentions delegations to an audit committee, investment committee, or compensation committee as requiring no explanation on Schedule O.

We are concerned about the vagueness of this question. Organizations should begin to assess the authority granted to its Executive Committee and other similar committees with broad authority to act on behalf of the full governing body. If necessary, you should consult legal counsel in assessing this matter and developing the narrative for Schedule O.

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