

CLIENT REPORT

Form 990 Expanded Compensation Reporting

Dear Client:

As a nonprofit organization, you probably already are aware of the heightened public scrutiny imposed upon such organizations due to reports of grossly excessive compensation received by nonprofit management officials. To address concerns, the IRS has revised and expanded the reporting of compensation and benefits in the 2008 Form 990, Return of Organization Exempt from Income Tax, which you must file in 2009.

Reporting Compensation

Reporting of compensation has been extended from Code Sec. 501(c)(3) charities to all tax-exempt organizations that file the Form 990 such as social welfare organizations, business leagues, trade associations, and social clubs. Reporting is required of officers, directors, trustees, and key employees, the five highest compensated employees, and the five highest paid independent contractors who occupied that position at any time during the current year. Compensation of individuals who were an officer, director, trustee, key employee or highest compensated employee in the previous five years must also be reported.

Whose Compensation

Individuals whose compensation must be reported, include:

Officers. An officer is an individual, whether elected or appointed, that manages the organization's daily operations. Top management officials who are not identified as officers are considered officers, including the top executive official and the top financial official.

Trustees. Advisory board members are not officers or trustees unless they have governing powers. A trustee can be an institution, and employees of an institutional trustee can include key employees.

Key employees. Key employees are individuals who are not an officer, director or trustee and who satisfy three criteria:

Compensation test: They receive reportable (all) compensation from the organization and related organizations exceeding \$150,000 for the calendar year;

Responsibility test: They have power similar to an officer or director; manage a discrete activity that is 10 percent of the organization's activities, assets, income or expenses; or has (or shares) authority to control or determine 10 percent or more of the capital or operating budget or employee compensation; and

They are among the organization's 20 highest paid persons (aside from highest compensated employees).

Highest compensated employees. A highest compensated employee is one who is not an officer, director, trustee, or key employee. This is a new requirement for non-charities. A highest compensated employee has to be paid at least \$100,000. Individuals who were formerly in one of these categories in the last five years must be reported. A former director or trustee had to earn over \$10,000.

Types of Compensation

More detailed compensation information must be reported on new form Schedule J, Compensation Information, to Form 990, as well as information on the organization's compensation practices and arrangements. The IRS has provided a multi-page table that lists how various types of compensation should be treated, which must be differentiated on Schedule J. Compensation from related organizations must be reported separately on the core form and Schedule J.

Interested persons

The new form also revises the reporting of transactions between exempt organizations and "interested persons." The information must be described in the new Schedule L (Transactions With Interested Persons). Schedule L requires reporting of excess benefit transactions with disqualified persons. Loans, grants and other financial assistance, and business transactions involving interested persons also must be reported. Loans and grants must be reported regardless of amount. For business transactions, there is a reporting threshold. Schedule L requires information that was reported in 2007 on unstructured attachments.

If you would like additional information concerning compensation reporting as required by the Form 990 or any other questions related to the Form 990, please call our office. We can help you with the paperwork and requirements necessary to comply with the form.

Sincerely yours,

TICE ASSOCIATES, P.C.

1709 W. Market St.
York, PA 17404

Phone: 717-843-9572

Fax: 717-845-1590

Web: www.ticeassociates.com

Reproduced with permission from CCH's Client Letter, published and copyrighted by CCH Incorporated, 2700 Lake Cook Road, Riverwoods, IL 60015.