

**TAX-EXEMPT
ORGANIZATIONS:
EFFECTIVE GOVERNANCE
AND LEGAL COMPLIANCE**

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Exemption Under Section 501(C)(3)

Section 501(c)(3) provides an exemption from federal income tax for the following types of organizations:

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, . . . no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Organizational Test

The organizational test requires the Articles of Incorporation of a Section 501(c)(3) organization to contain certain specific provisions:

1. Limit the purposes of the organization to one or more exempt purposes.
2. Dissolution clause that provides that assets will be dedicated to an exempt purpose.

Organizational Test (cont'd)

In addition, the Articles of Incorporation must not expressly empower the organization to:

1. Engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.
2. Devote more than an insubstantial amount of its activities to attempting to influence legislation.
3. Directly or indirectly to participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office.

Operational Test

A Section 501(c)(3) organization is subject to the “operational test,” which provides that the organization must be operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals (“exempt purposes”).

The Regulations provide that an organization is operated exclusively for exempt purposes if it engages “primarily” in activities that further exempt purposes. Thus, an organization will satisfy the operational test if its primary activities further exempt purposes and all other activities are merely incidental thereto. However, the presence of one substantial nonexempt purpose, as revealed by the organization’s activities, is sufficient to cause the organization to lose its exempt status under Section 501(c)(3).

Private Inurement Prohibition

In order to obtain and maintain exempt status under Section 501(c)(3), no part of an organization's net earnings may inure to the benefit of any "private shareholder or individual." The Regulations define the term "private shareholder or individual" as referring "to persons having a personal and private interest in the activities of the organization." These persons are often referred to informally as "insiders."

The statutory language literally prohibits all private inurement to insiders. The sole sanction for violation of the private inurement prohibition is loss of Section 501(c)(3) status.

Private Inurement Prohibition -- Insiders

Insiders are those persons who have an opportunity to control or influence an organization's activities because of their particular relationship with the organization. The test is functional and it looks to the reality of control rather than to the insider's place in a formal organizational structure.

1. Officers
2. Directors or Trustees
3. Creators

In most circumstances, an unrelated third party is not a “private shareholder or individual” for purposes of the inurement prohibition.

Private Inurement Prohibition -- Types

1. Compensation

Compensation is not confined to just salary. All forms of payments can be considered compensation: salary, wages, bonuses, commissions, royalties, fringe benefits, deferred compensation, severance payments.

There is no violation of the private inurement doctrine if a 501(c)(3) organization pays reasonable compensation to an insider for services actually rendered.

What is reasonable compensation?

Private Inurement Prohibition – Types (cont'd)

1. Compensation (cont'd)

What is reasonable compensation?

In determining whether compensation paid by a Section 501(c)(3) organization is reasonable, the courts and the IRS look to the standard applied under Section 162 of the Internal Revenue Code concerning the deductibility of reasonable compensation by non tax exempt organizations. The tests for determining the reasonableness of compensation under Section 162 are well established. Section 1.162(a) of the Treasury Regulations provides that **“reasonable and true compensation is only such amount as would ordinarily be paid for like services by like enterprises under like circumstances.”**

Private Inurement Prohibition – Types (cont'd)

1. Compensation (cont'd)

What is reasonable compensation?

The courts have looked at a variety of factors in evaluating the reasonableness of compensation. The Tax Court provided the following list:

- The employee's qualifications.
- The nature, extent, and scope of the employee's work.
- The size and complexities of the business.
- A comparison of salaries paid with the gross income and the net income.
- The prevailing general economic conditions.
- A comparison of salaries with distributions to stockholders.
- The prevailing rates of compensation for comparable positions in comparable concerns.
- The salary policy of the taxpayer as to all employees.

Private Inurement Prohibition – Types (cont'd)

2. Rent

Like excessive compensation, excessive rent paid by a Section 501(c)(3) organization to an insider for the use of property constitutes private inurement.

Similarly, if a Section 501(c)(3) organization furnishes property to an insider at less than a fair market rental, this would constitute private inurement.

Private Inurement Prohibition – Types (cont'd)

3. Loans

A Section 501(c)(3) organization may borrow money from an insider and pay reasonable interest thereon. In general, if the organization pays the insider the prevailing rate of interest, no private inurement will arise.

However, an above market rate of interest is likely private inurement.

Private Inurement Prohibition – Types (cont'd)

3. Loans (cont'd)

If a Section 501(c)(3) organization acts as a lender to an insider, it must receive adequate security for the loan as well as a rate of interest at least equal to the prevailing market rate.

Note: Loans made in furtherance of the Section 501(c)(3) organization's exempt purpose generally do not pose a private inurement problem.

Private Benefit Doctrine

In general –

An organization cannot qualify as a Section 501(c)(3) organization where it transgresses the so-called “private benefit” doctrine. Similar to the prohibition against private inurement, the sole sanction for violation of the private benefit doctrine is revocation of an organization’s tax-exempt status.

Private Benefit Doctrine (cont'd)

Who does the private benefit doctrine apply to?

The private benefit doctrine applies to all kinds of persons and groups, not just to those “insiders” subject to the more strict private inurement prohibition.

Private Benefit Doctrine (cont'd)

What is prohibited?

The term “private benefit” includes any “advantage, profit, fruit, privilege, gain, or interest.”

An incidental amount of private benefit is permissible, since all Section 501(c)(3) organizations may be said to benefit individuals through their activities. However, if an organization provides more than an incidental amount of private benefit to private interests (someone outside of the charitable class), the organization will lose its exemption under Section 501(c)(3). This analysis focuses on whether the private benefit from the single activity is insubstantial relative to the public gain from that same activity. The analysis does not compare private gain from the single activity with public gain derived from all of organization’s other activities.

Private Benefit Doctrine (cont'd)

What is the difference between private benefit and private inurement?

Private benefit technically differs from private inurement in two key respects.

First, whereas an “incidental” amount of private benefit will not deprive an organization of its Section 501(c)(3) status, any amount of private inurement can jeopardize an organization’s Section 501(c)(3) status.

Second, the prohibition against private inurement applies only to “insiders,” whereas anyone can be the recipient of a private benefit.

Private Benefit Doctrine (cont'd)

What is meant by incidental?

The term “incidental,” in determining whether any private benefit conferred upon individuals is merely incidental, has both qualitative and quantitative aspects.

The qualitative element refers to whether the private benefit to certain persons is a necessary concomitant of the activity which benefits the public at large. To be qualitatively incidental, the exempt organization must be unable to achieve the public benefit without necessarily benefiting certain private interests.

The quantitative element requires that the private benefit not be substantial after considering the overall public benefit conferred by the activity.

Intermediate Sanctions

As previously discussed, a violation of the private inurement prohibition or the private benefit doctrine can cause a Section 501(c)(3) organization to lose its exempt status.

Congress sought to ameliorate this harsh result by enacting legislation allowing for the imposition of “intermediate sanctions” for certain transactions which otherwise would constitute private inurement leading to loss of exempt status.

Intermediate Sanctions (cont'd)

Section 4958 establishes a set of monetary sanctions or excise taxes, known as “intermediate sanctions,” that the IRS may impose on certain parties engaged in impermissible “excess benefit transactions” with an applicable tax-exempt organization.

Excess Benefit Transaction

1. Applicable tax-exempt organization
2. Disqualified person
3. Transaction in which an economic benefit is provided by the applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the benefit provided exceeds the value of the consideration received for providing such benefit.

Intermediate Sanctions (cont'd)

Applicable tax-exempt organization

Applicable tax-exempt organizations generally include all Section 501(c)(3) organizations other than private foundations.

Intermediate Sanctions (cont'd)

Disqualified Person

A “disqualified person” is:

1. any person who was, at any time during the previous five years, in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization;
2. certain family members of a person described in paragraph 1; and
3. a 35% controlled entity.

Intermediate Sanctions (cont'd)

Sanctions

The monetary sanctions are structured as excise taxes that can be imposed on the “organization managers” of the applicable tax-exempt organization and on “disqualified persons.”

However, the applicable tax-exempt organization itself is not punishable under Section 4958.

Intermediate Sanctions (cont'd)

Sanctions (cont'd)

A disqualified person who benefits from an excess benefit transaction is subject to a first-tier excise tax equal to 25% of the amount of the excess benefit (i.e., the amount of compensation exceeding reasonable compensation).

If there is no correction of the excess benefit transaction within a specified time period, the disqualified person is subject to a second-tier excise tax equal to 200% of the amount of the excess benefit.

Intermediate Sanctions (cont'd)

Sanctions (cont'd)

In addition to the excise taxes imposed on disqualified persons, organization managers (officers, directors or individuals having similar powers) who participate in an excess benefit transaction knowing that it is an improper transaction are subject to an excise tax equal to 10% of the amount of the excess benefit (subject to a maximum penalty of \$10,000 per transaction) unless such participation was not willful and was due to reasonable cause.

Intermediate Sanctions (cont'd)

Rebuttable Presumption of Reasonableness under Section 4958

The Treasury Regulations set forth “a rebuttable presumption of reasonableness” that a Section 501(c)(3) organization may meet with respect to its compensation agreements with disqualified persons. This presumption ordinarily will protect the organization’s managers from excise taxes under Section 4958 of the Code unless the IRS establishes sufficient contrary evidence to rebut the presumption.

Intermediate Sanctions (cont'd)

Rebuttable Presumption of Reasonableness under Section 4958 (cont'd)

3 conditions must be met:

1. The compensation arrangement must be approved in advance by an authorized body of the Section 501(c)(3) organization (Board of Directors or a committee thereof) composed entirely of individuals who do not have a conflict of interest with respect to the compensation arrangement.
2. The authorized body must obtain and rely upon appropriate data as to comparability prior to making its determination (e.g. data as to compensation levels paid by similarly situated organizations for functionally comparable positions).
3. The authorized body adequately documents the basis for its determination concurrently with making the determination.

Lobbying and Political Activities

Section 501(c)(3) organizations are not prohibited per se from engaging in lobbying activities, but such activities may constitute no more than an **insubstantial part** of the organization's overall activities.

On the other hand, any degree of participation or intervention in political campaigns is strictly prohibited.

Lobbying and Political Activities (cont'd)

Lobbying

The substantiality of a Section 501(c)(3) organization's lobbying activities is tested under one of two different regimes:

1. "Substantial Part" Test
 - default regime
2. Section 501(h) Safe Harbor (a/k/a the "expenditure test")
 - elective regime

Lobbying and Political Activities (cont'd)

Lobbying (cont'd)

Substantial Part Test

1. No substantial part of the organization's activities consists of carrying on propaganda or otherwise attempting to influence legislation (e.g. lobbying).
 - a. What constitutes a substantial part?
 - (1) Facts and circumstances test.
 - b. If a substantial part of an organization's activities consist of lobbying, organization will lose its Section 501(c)(3) status.

Lobbying and Political Activities (cont'd)

Lobbying (cont'd)

Section 501(h) Safe Harbor

1. Rather than being subject to the substantial part test, Section 501(h) of the Code allows an organization to elect to be subject to the safe harbor rule.
2. In general, the safe harbor rule allows a certain percentage of an organization's total expenditures to be spent on lobbying. The percentage varies based upon the amount and type of expenditures.

Lobbying and Political Activities (cont'd)

Lobbying (cont'd)

Section 501(h) Safe Harbor (cont'd)

3. Differentiates between two types of lobbying:
 - a. Direct lobbying
 - (1) in general, an attempt to influence legislation through communication to a government official
 - b. Grassroots lobbying
 - (1) in general, a communication to members of the public encouraging them to communicate a position to a government official on specific legislation

Lobbying and Political Activities (cont'd)

Lobbying (cont'd)

Section 501(h) Safe Harbor (cont'd)

4. Example

- An organization with expenditures of \$100,000 may make lobbying expenditures of up to 20% of its total expenditures, or \$20,000. Within that \$20,000, the organization could make grassroots lobbying expenditures of 5% of its total expenditures, or \$5,000.

Lobbying and Political Activities (cont'd)

Lobbying (cont'd)

Section 501(h) Safe Harbor (cont'd)

5. Result

- a. If lobbying expenditures are within the safe harbor, there are no adverse effects on the organization
- b. If lobbying expenditures exceed the safe harbor, the organization is subject to sanctions

c. Sanctions

- (1) 25% excise tax on amounts that exceed the safe harbor
- (2) loss of Section 501(c)(3) status if organization “normally” exceeds the safe harbor amount by 150% or more

Lobbying and Political Activities (cont'd)

Political Activities

Any Section 501(c)(3) organization that directly or indirectly participates in a political campaign on behalf of or in opposition to any “candidate for public office” can be deemed an “action” organization and can lose its Section 501(c)(3) status.

This is an absolute prohibition and a single case of political campaign intervention can cause revocation of Section 501(c)(3) status.

In addition to revocation of Section 501(c)(3) status, and as an alternative thereto in certain circumstances, Section 4955 of the Code can impose excise taxes on a Section 501(c)(3) organization and its Officers and Directors for participating in a political campaign on behalf of or in opposition to any candidate for public office.

Lobbying and Political Activities (cont'd)

Political Activities (cont'd)

The term “candidate for public office” means an individual who offers himself or is proposed by others, as a contestant for an elective public office, whether such office be national, state or local.

Lobbying and Political Activities (cont'd)

Political Activities (cont'd)

Activities which constitute participation or intervention in a political campaign include:

1. contributions to political campaign funds;
2. publication or distribution of written or printed statements or the making of oral statements on behalf of or in opposition to a candidate for public office.

Whether an organization is participating or intervening, directly or indirectly, in any political campaign on behalf of or in opposition to any candidate for public office depends upon all of the facts and circumstances of each case.

Lobbying and Political Activities (cont'd)

Political Activities (cont'd)

First Amendment Concerns

The political campaign intervention prohibition is not intended to restrict free expression on political matters by leaders of Section 501(c)(3) organizations speaking for themselves, as individuals. However, for their organizations to remain tax-exempt under Section 501(c)(3), leaders cannot make partisan comments in official organization publications or at official functions of the organization.

To avoid potential attribution of their comments outside of organization functions and publications, organization leaders who speak or write in their individual capacity are encouraged to clearly indicate that their comments are personal and not intended to represent the views of the organization.

Unrelated Business Income Activities

All Section 501(c)(3) organizations are subject to tax on their income from an unrelated trade or business.

Unrelated Business Income Activities (cont'd)

Purpose

Fairness - to eliminate a source of unfair competition by placing the unrelated business activities of an exempt organization upon the same tax basis as nonexempt organizations with which they compete.

Unrelated Business Income Activities (cont'd)

Three Criteria for Taxation

1. Activity constitutes a “trade or business”
 - a. activity which is carried on for the production of income from the sale of goods or performance of services
2. Activity is “regularly carried on”
 - a. conducted with a frequency and continuity similar to comparable commercial activities of nonexempt organizations

Unrelated Business Income Activities (cont'd)

Three Criteria for Taxation (cont'd)

3. Conduct of the activity is “not substantially related” (other than through the production of funds) to the performance of the organization’s exempt purposes
 - a. does the conduct of the activity contribute importantly to the organization’s exempt purpose?
 - (1) requires substantial causal connection
 - (2) the fact that funds will be generated by the activity and used to further the organization’s exempt purpose is not a sufficient causal connection

Unrelated Business Income Activities (cont'd)

Key Exceptions

1. Volunteer Exception

- a. not an unrelated trade or business if substantially all of the work is performed by individuals without payment of compensation

2. Donations Exception

- a. not an unrelated trade or business if substantially all of the goods sold were donated to the organization

Unrelated Business Income Activities (cont'd)

Rate of Tax

Income tax is imposed at general corporate rates.

Establishing a For-Profit Subsidiary

- Many Section 501(c)(3) organizations have an aversion to paying UBIT because of the compliance burden of calculating and reporting UBIT and the risk that engaging in an unrelated activity could jeopardize an organization's Section 501(c)(3) status for violating the operational test.
- The traditional approach for Section 501(c)(3) organizations that do not want to pay UBIT or jeopardize their Section 501(c)(3) status is to put the unrelated business in a C corporation, which is wholly owned by the Section 501(c)(3) organizations. (A Section 501(c)(3) organization may invest its funds in a taxable entity if it receives fair market value in the form of equity in return for its funds.)

Establishing a For-Profit Subsidiary (cont'd)

- The activities of a C corporation which is wholly owned by a Section 501(c)(3) organization are not attributed to the Section 501(c)(3) parent for purposes of the operational test and UBIT. The C corporation therefore acts as a “blocker” between the Section 501(c)(3) parent and the subsidiary C corporation for purposes of the operational test and UBIT.
- The Section 501(c)(3) organization and blocker C corporation must be completely separate entities, have separate books, records, and meetings, and abide by other corporate formalities.

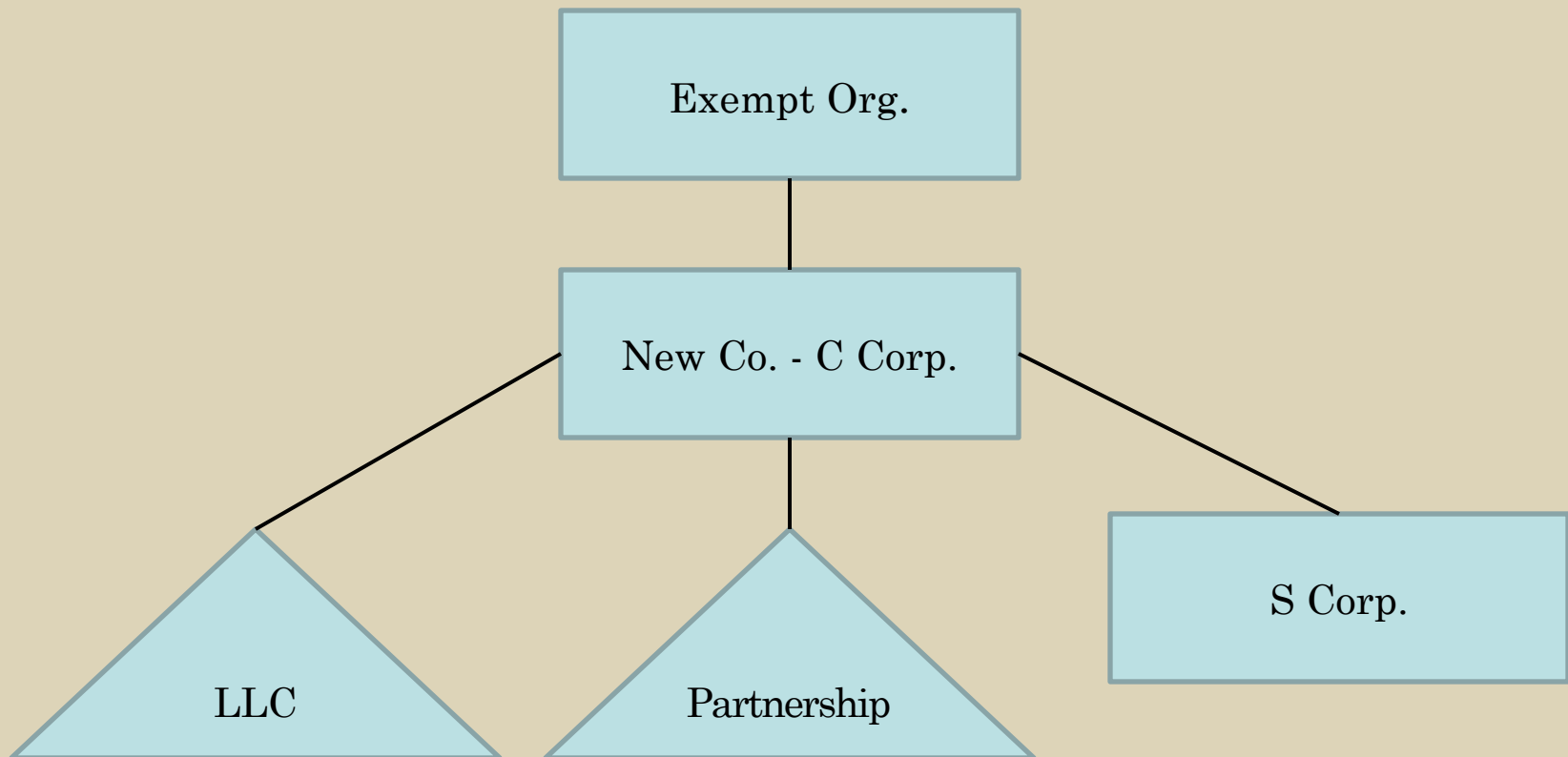
Establishing a For-Profit Subsidiary (cont'd)

- The tax planning in the case of a blocker C corporation is, in effect, a complete concession that the income generated by the business activity will be subject to UBIT if earned by the Section 501(c)(3) parent. The blocker C corporation is formed to pay the tax so that the Section 501(c)(3) parent does not have to deal with the compliance burden of calculating and reporting UBIT and does not risk loss of Section 501(c)(3) status.
- The net, after-tax income of the blocker C corporation then may be paid to the Section 501(c)(3) parent as a dividend that is not taxable to the Section 501(c)(3) parent.

Establishing a For-Profit Subsidiary (cont'd)

- It is important that the taxable entity be a C corporation. If the taxable entity is a pass-through entity for federal income tax purposes (S corporation, LLC, partnership), the activities of the pass-through entity will be attributed to exempt organization and could jeopardize the organization's Section 501(c)(3) status or generate UBIT for the organization if the activities are not related to the organization's exempt purposes.
- Further, the blocker C corporation may then directly invest in pass-through entities, including S corporations, LLCs, and partnerships without jeopardizing the organization's Section 501(c)(3) status or generating UBIT for the organization.

Establishing a For-Profit Subsidiary (cont'd)



Form 990 Filing Requirements

The Form 990 is the annual return required by the IRS of nonprofit corporations. It must be filed the 15th day of the fifth month after the close of an organization's fiscal year. For example, the due date is May 15 if an organization's fiscal year ends December 31 or December 15 if a fiscal year ends July 31.

Form 990 Filing Requirements (cont'd)

Three Alternative Filing Requirements

1. Form 990-N: organizations with gross receipts less than \$50,000
2. Form 990-EZ: organizations with gross receipts less than \$200,000 and gross assets less than \$500,000
3. Form 990: organizations with gross receipts more than \$200,000 or gross assets more than \$500,000

Form 990 Filing Requirements (cont'd)

Form 990-N: organizations with gross receipts less than \$50,000

- Filed online and only requires basic information, such as tax i.d. number, tax year, legal name, mailing address, name and address of a principal officer, and website
- Failure-to-File-Penalty: If an organization fails to file Form 990-N for three consecutive years, its tax-exempt status will automatically be revoked

Form 990 Filing Requirements (cont'd)

Form 990-EZ: organizations with receipts less than \$200,000 and assets less than \$500,000

- Requires additional organizational information regarding officers, finances and programs
- Late Penalty: If a 990-EZ is filed late, a penalty of \$20 per day is assessed against the organization, not to exceed the lesser of \$10,000 or 5% of the organization's gross receipts for that year.

Form 990 Filing Requirements (cont'd)

Form 990-EZ: organizations with receipts less than \$200,000 and assets less than \$500,000
(cont'd)

- **Penalty on Responsible Person:** If the IRS sends a notice to a person responsible for an organization with a timeframe in which a filing is required, and the person and organization fail to comply by the due date, a penalty of \$10 per day is assessed against the person, not to exceed \$5,000.
- **Failure-to-File-Penalty:** If an organization fails to file Form 990-EZ for three consecutive years, its tax-exempt status will automatically be revoked.

Form 990 Filing Requirements (cont'd)

Form 990: organizations with receipts more than \$200,000 or assets more than \$500,000

- Requires extensive disclosures
- Late Penalty: If a 990 is filed late, a penalty of \$20 per day is assessed against the organization, not to exceed the lesser of \$10,000 or 5% of the organization's gross receipts for that year. For organizations with receipts exceeding \$1,000,000, a penalty of \$100 per day is assessed against the organization, not to exceed \$50,000.

Form 990 Filing Requirements (cont'd)

Form 990: organizations with receipts more than \$200,000 or assets more than \$500,000 (cont'd)

- **Penalty on Responsible Person:** If the IRS sends a notice to a person responsible for an organization with a timeframe in which a filing is required, and the person and organization fail to comply by the due date, a penalty of \$10 per day is assessed against the person, not to exceed \$5,000
- **Failure-to-File-Penalty:** If an organization fails to file Form 990 for three consecutive years, its tax-exempt status will automatically be revoked

Redesigned Form 990 Issues

The redesigned Form 990 contains many questions to “encourage” organizations to implement practices and policies deemed best practices by the IRS.

Redesigned Form 990 Issues (cont'd)

Core Practices

1. Mission Statement

The redesigned Form 990 asks the organization to briefly describe the organization's mission (or more technically, its purposes). A Mission Statement should describe why the organization exists and what it is trying to accomplish.

2. Process for review of Form 990

The redesigned Form 990 asks whether a complete copy of the organization's final Form 990 as ultimately filed with the IRS was provided to each voting member of the organization's governing board.

Redesigned Form 990 Issues (cont'd)

Core Practices (cont'd)

3. Rebuttable Presumption for Compensation – Compensation Committee

The redesigned Form 990 contains numerous questions regarding compensation.

4. Minutes of meetings

Minutes should be taken at every meeting of the Board and committees with Board authority and kept with the corporate records. The redesigned Form 990 asks whether the organization contemporaneously documents every meeting or written action.

Redesigned Form 990 Issues (cont'd)

Core Practices (cont'd)

5. Audit Committee

The redesigned Form 990 asks whether the organization has a committee that assumes responsibility for oversight of preparation of audited financial statements and selection of an independent accountant.

Redesigned Form 990 Issues (cont'd)

Core Practices (cont'd)

6. Annual Questionnaire

Annually distribute a questionnaire to the board of directors, officers, trustees, and key employees requesting information on potential conflicts of interest, the independence of the board member, direct or indirect transactions with the organization, and family and business relationships with any other officers, directors, trustees, or key employees. Ensure that the questionnaire contains pertinent instructions and definitions of the relevant terms sufficient to enable the individuals to complete the questionnaire accurately.

Redesigned Form 990 Issues (cont'd)

Core Policies

1. Conflict of Interest Policy

A Conflict of Interest Policy is recommended by the IRS for all nonprofit organizations even though a nonprofit organization is generally not required to have such a policy. The IRS Form 1023, Application for Recognition of Exemption, requests a copy of the applicant's Conflict of Interest Policy, and the redesigned Form 990 asks whether the organization has one.

Redesigned Form 990 Issues (cont'd)

Core Policies (cont'd)

2. Whistleblower Policy

The whistleblower provisions of the Sarbanes-Oxley Act are applicable to all organizations, not only publicly traded entities.

Consequently, all nonprofit organizations are advised to have a Whistleblower Policy. The redesigned Form 990 asks whether the organization has one.

Redesigned Form 990 Issues (cont'd)

Core Policies (cont'd)

3. Document Retention and Destruction Policy

The document destruction provisions of the Sarbanes-Oxley Act are applicable to all organizations, not only publicly traded entities. Consequently, all nonprofit organizations are advised to have a Document Retention and Destruction Policy. The redesigned Form 990 asks whether the organization has one.

Redesigned Form 990 Issues (cont'd)

Core Policies (cont'd)

4. Policy on Joint Ventures

The redesigned Form 990 requests information on whether the organization is participating in a joint venture and, if so, has it adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law and taken steps to safeguard the organization's tax-exempt status with respect to such an arrangement.

Redesigned Form 990 Issues (cont'd)

Core Policies (cont'd)

5. Expense Reimbursement Policy

The redesigned Form 990 requests information on whether the organization has adopted a written policy regarding the payment or reimbursement of expenses.

6. Policy Regarding Tax-Exempt Bond Compliance

The redesigned Form 990 requests information on whether the organization has adopted management practices and procedures to ensure the post-issuance compliance of tax-exempt bonds.

Redesigned Form 990 Issues (cont'd)

Policies to Consider

1. Gift Acceptance Policy

The redesigned Form 990 requests information on whether the organization has a gift acceptance policy that requires review of non-standard contributions. Certain assets can jeopardize the organization's Section 501(c)(3) status and/or give rise to unrelated business income.

2. Code of Ethics

Describe behavior the organization wants to encourage and discourage.

3. Investment Policy

Clearly set forth the type of investments that are acceptable.