A Beginner's Guide to Filing a Form 990 for Your Nonprofit Organization

by Olivia Massengale

Filing a 990-series return is an essential aspect of running a nonprofit. Of course, this is primarily due to IRS mandates, but the form is also important for a few other reasons.

In this article, we will discuss everything you need to know about filing a Form 990, from choosing the form to transmitting it to the IRS.

Why do nonprofits file 990s?

Simply put: this form allows the IRS to oversee nonprofit finances. The Form 990 allows the IRS to check up on a nonprofit in two capacities: first verifying that a nonprofit isn't taking advantage of its tax-exempt status and second ensuring that the nonprofit is fulfilling its responsibilities and requirements. These forms provide access to an organization's financial activity as well as other information the IRS needs to perform these checks.

However, the IRS isn't the only party that may be interested in these returns. The general public — especially potential donors and volunteers — can use these forms to learn about an organization's activity. From a Form 990, the public can learn about an organization's program service activities, key employees, and directors, as well as what amount of proceeds go towards its cause. This information may be valuable for volunteers looking for new opportunities and organizations to dedicate their time to. Essentially, these forms allow for greater transparency in terms of nonprofit finances.

How do I file a 990?

Filing a 990 form can be an overwhelming and confusing process, especially if it's your first time. To help you through the process, here's six steps to take before, during, and after transmitting your form to the IRS.

1. Gather your required information before you start filing.

Before you start filing the form, you want to make sure you have all of the information you will need. Not only will preparing this information in advance give you easy access to everything you need, it will also prevent you from having to frequently stop and search for a certain detail.

To understand the requisite information, you'll need to gather to file 990 forms, check out this checklist!

2. Decide which form is right for your organization.

Like most tax forms, 990-series forms have multiple variants.

These different forms correspond to different types and sizes of organizations, most identified by two variables: the organization's gross receipts and its assets. Gross receipts are the total income the organization has received from all sources during the tax year without subtracting any expenses. Assets include items owned by the organization, such as cash assets, accounts receivable, and property and equipment investments, among other categories.

On the other hand, the gross receipts do not necessarily matter if the organization is a private foundation — that is, a tax-exempt organization created and funded by a single party (i.e. an individual or business). These organizations must file a form unique to private foundations.

Lastly, if an organization — private or public — earns an unrelated business income of $1,000 or more, they have to file an additional form.

Here is a concise breakdown of the parameters for each of the 990 form variants:

1. **Form 990-N (e-postcard):** intended for organizations with gross receipts less than $50,000
2. **Form 990-EZ:** intended for organizations with both gross receipts below $200,000 *and* assets below $500,000
3. **Form 990:** intended for organizations with gross receipts *equal to or above* $200,000 and/or assets *equal to or above* $500,000
4. **Form 990-PF:** intended for private foundations, regardless of gross receipts
5. **Form 990-T:** intended for organizations that need to report their unrelated business income of $1000 or more to the IRS
    - **Important Note**: Organizations that file this form also need to file whichever of the other forms listed above (Form 990-EZ, 990, or 990-PF) corresponds to the organization's gross receipts.

Download the Form 990 Checklist

3. Make sure you are filing for the appropriate tax year.

Some applications allow for an organization to file for both current and previous years, so be sure to choose the correct year you intend to file for. Failing to choose the correct tax year could result in a rejection from the IRS, which will extend your filing process even further.

4. Enter your details onto the form.

Of course, this process will differ based on the application you choose to file through. Some applications will have a direct entry format (resembling the paper form) that you enter your details on. Others may ask a series of questions to gather the required information and complete the form.

However, make sure to enter the right information, as incorrect filings can result in your application being rejected. And again, if you fail to correct this information within the IRS's given time frame, you can even incur penalties.

5. Review your form before you transmit it.

Because incorrect information can ultimately result in a penalty, it's important to review and validate your entire return *before* you send it to the IRS.

If the IRS accepts your return with missing or incorrect information, you may have to file an amended return to avoid penalties for providing false information. You will have to fill out the form *in its entirety* again, indicating that it is an amended return at the top of the form. You will also have to identify which parts of the form have been amended (using Schedule O.) However, you cannot file an amended return until the IRS accepts your original return, so you'll have to wait to complete the process if, for example, you realize after the fact that you've sent in an incorrect return.

Just like in grade school, it's better to check your work *before* you hand it in than to wait for someone else to notice your mistakes. And in taxes, these mistakes can cost you.

6. File Electronically

The IRS mandates that 990 forms must be filed electronically. This means you'll have to find an e-file provider that meets all of your needs. All e-file providers are different: some will include helpful features and instructions, so it's really about finding the best fit for your organization. When you're looking for a provider, make sure you find one that is IRS-authorized to ensure that your form is transmitted and accepted correctly.

The IRS also authorizes e-file providers to participate in their e-filing program. So, if you are new to the field or if you need additional assistance, you might look for one with an on-call tax consultant.

Bonus Step: You can always file for an extension.

If you're overwhelmed and need more time to file your return, you have the option to file an extension using Form 8868. Filing this form will result in an automatic 6-month extension on your deadline.

However, you can only file for an extension once per return, which means you will only ever have an extra 6 months *per return* to make sure your paperwork is in order. You also need to be sure to file by your extension date to avoid penalties.

What happens if nonprofits don't file 990s?

Because the IRS needs these forms to supervise nonprofits, it is ill-advised to refuse — or even forget — to file a Form 990. After all, few of us want to be on the IRS's bad side.

Of course, there is also a monetary rationale for why nonprofits should file Form 990s: if you don't file one, you could be subject to IRS penalties. These penalties differ depending on the form you file, the size of your organization, and how late you file the form. Generally, the penalties are as follows:

- If an organization has gross receipts less than $1,129,000, the IRS will impose a penalty of **$20 per day** past the deadline. However, this penalty cannot exceed either $11,000 or 5% of the organization's gross receipts for the year, whichever figure is less.

- If an organization has gross receipts of more than $1,129,000, the penalty will be **$110 per day** This penalty is capped at either $56,000 or 5% of the organization's gross receipts for the year.

However, a late return is not the only violation that will result in a penalty. If your organization either fails to furnish required information or provides incorrect information, you'll receive a notice from the IRS that includes a fixed time to fulfill the requirements; these time periods tend to vary depending upon the amount and depth of required information. After the specified period, failure to comply will result in a penalty of **$10 per day** past the deadline, with a maximum of $5,500.

Not only will a noncompliant organization be fined, the IRS will also revoke the organization's tax-exempt status if the organization fails to file a Form 990 for three consecutive tax years. Once the tax-exempt status is revoked, the organization will have to pay state income taxes as well. The organization must pay these taxes even while they re-apply for tax-exempt status until this status is reinstated by the IRS.

It is important to note that repeated failure to correct the information with an amended return will result in fines but not the loss of tax-exempt status. As such, it is better — although *absolutely not recommended* — to file an incorrect Form 990 than to not file at all. Turning in something is better than handing in nothing, as it were.

A Little Work Goes a Long Way

Admittedly, Form 990s can be a little bit of a hassle. However, you'll find the process is much smoother when you are completely aware of what is required from your organization and also understand why you are filing the form.

Of course, you should always remember to file your 990 returns on time to stay compliant with the IRS. However, you can also use 990 forms to prove both your financial irreproachability and commitment to your community to your organization's volunteers and donors (potential or otherwise). At the end of the day, financial transparency benefits everyone.