

Internal Revenue Service
Tax-Exempt & Government Entities Division
Office of Exempt Organizations
Draft Form 990 Redesign – Schedule N
June 14, 2007

Rationale

Schedule N is a new schedule that replaces the attachment to question 79 required in the 2006 Form 990. Schedule N attempts to capture life events of an organization so that the Service and the public can be alerted and informed about such events and the impact to an organization's tax exemption. The Service believes the expanded reporting will provide information necessary to assure that the organization's assets are used for exempt purposes following a termination or following a significant disposition of assets where the organization remains in existence.

Overview

- Schedule N requires expanded reporting of major transactions involving the organization's assets, beyond dissolution or substantial contraction events, to include all asset dispositions (whether or not for fair market value) comprising more than 25% of the organization's net assets
- It also requires filing by all IRC 501(c) organizations.
- New information requested includes:
 - o Transactional expenses of \$10,000 or more relating to a liquidation, termination, dissolution, significant disposition of assets, or substantial contraction of assets;
 - o Method of determining the fair market value of transferred assets;
 - o Information relating to officer, director, trustee or key employee involvement in a successor or transferee organization;
 - o Information relating to disposition of assets in accordance with state law and the organization's governing documents;
 - o Information relating to the discharge, defeasance, or settlement of tax-exempt bonds and other liabilities upon cessation of the organization's activities;
 - o Copies of any IRS determination letters notifying the organization that it is no longer exempt, and any letters issued by the IRS approving a termination or significant disposition.
- The new reporting applies to transfers of significant assets to joint ventures and for-profit companies, even if the organization receives fair market value in an exchange for an equity interest.

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20XX Instructions for Schedule N

Who Must File

All organizations that check the box on Form 990, Part I, line 10 must complete and attach Schedule N.

If an organization is not required to file for Form 990, it is not required to file Schedule N.

Period Covered

Schedule N (Form 990) covers the same period as the Form 990 with which it is filed.

General Instructions

An organization that liquidated, terminated or dissolved and ceased operations other than to wind up its affairs must complete Part I of this Schedule. An organization that sold, exchanged, disposed of, or transferred more than 25% of its net assets, or that has undergone a substantial contraction of its net assets, but continued to operate, must complete Part II. Organizations that have terminated their operations and have no plans for future activities need only complete Part I and not Part II of this Schedule.

Part I Liquidation, Termination or Dissolution

An organization that ceased operations and has no plans to continue any activities or operations in the future must complete Part I. This includes organizations that have dissolved, liquidated, terminated, or merged into a successor organization. To complete Part I, organizations must provide support of their liquidation, termination, dissolution, or merger by attaching a certified copy of their articles of dissolution or merger, resolutions, and plans of liquidation or merger. Organizations must also attach any other appropriate documentation, such as a determination letter from the IRS ruling that the organization is no longer exempt under section 501(a), or a private letter ruling issued by the the IRS approving the organization's proposed dissolution or liquidation. The organization must provide a list of assets transferred and transactional expenses relating to the liquidation, termination, dissolution or merger.

Line 1 -Line 1(a) - List assets transferred due to liquidation, termination or dissolution. Types of assets may be aggregated into categories but should be sufficiently described so that an accurate valuation may be made. Also list transactional expenses of at least \$10,000. A transactional expense consists of a payment to a professional or other third party for services rendered to assist in the transaction or winding down of the organization's activities, such as attorney or accountant fees. Brokerage fees should typically not be included in this category, but should be taken into account in the fair market value figure on Line 1(c) of this schedule.

Line 1(b) - Enter the date of distribution of assets or the date when the transactional expense was paid.

Line 1(c) - Enter the fair market value of the asset distributed or the amount of transactional expense paid.

Line 1(d) - Enter the method of valuation for the asset being distributed. Methods of valuation include appraisals, comparables, book value, actual cost (with or without depreciation), outstanding offers, or other methods. For transactional expenses, provide the method for determining the amount of the expense, such as an hourly rate or fixed fee.

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Line 1(f) - Enter the name and address of each recipient of assets received or each recipient of transactional expenses paid. For membership organizations that transfer assets to individual members, the names of individual members need not be reported. Rather, the members may be aggregated into specific classes of membership, or they may be aggregated into one group, if there is only one class of membership.

Line 1(g) - Enter the appropriate Internal Revenue Code section of the transferee organization, if the organization is tax-exempt.

Line 2 – Report whether any officer, director, trustee or key employee listed in Part II, Section A of the Form 990 is (or is expected to become) involved in a transferee organization by governing, controlling, or having a financial interest in a successor or transferee organization. “Having a financial interest” includes receiving payments from a successor or transferee organization as an employee, independent contractor, or in any other capacity.

Line 2a - Check “yes” if any officer, director, trustee, or key employee listed in Part II, Section A of the Form 990 is (or is expected to become) a director or trustee of a successor or transferee organization.

Line 2b – Check “yes” if any officer, director, trustee, or key employee listed in Part II, Section A of the Form 990 is (or is expected to become) an employee of, or independent contractor for, a successor or transferee organization. .

Line 2c - Check “yes” if any officer, director, trustee, or key employee listed in Part II, Section A of the Form 990 is (or is expected to become) an owner, whether direct or indirect, in a successor or transferee organization.

Line 2d - Check “yes” if an officer, director, trustee, or key employee, listed in Form 990, Part II Section A, has received or is expected to receive compensation or any similar payment as a result of the liquidation, termination, or dissolution of the organization, whether paid by the organization or a successor or transferee organization. For this purpose, “compensation or any similar payment” includes a severance payment, a “change in control” payment, or any other payment that would not have been made to the individual if the dissolution, liquidation, or termination of the organization had not occurred.

Line 2e - If the organization checked “yes” on any of the boxes in questions 2a-2d, provide the name of the person involved, and explain the nature of the relationship with the successor or transferee organization and the type of benefit received by the listed person.

Line 3 - Check “yes” if the organization’s assets were distributed in accordance with its governing instrument.

Line 4 – Check “yes” if the organization requested or received a determination letter from EO Determinations that the organization’s exempt status was terminated. Attach a copy of the organization’s letter, and if applicable, a copy of the EO Determinations letter.

Line 5a - Check “yes” if the organization is required to notify a state attorney general or other appropriate state official of the organization’s intent to dissolve.

Line 5b – Check “yes” if the organization provided such notice.

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Line 6 – Check “yes” if the organization discharged or paid all of its liabilities in accordance with state law.

Line 7 - Check “yes” and complete Line 7b if the organization had any tax-exempt bonds outstanding during the year. If “no,” go to Line 8.

Line 7b – Check “yes” and complete Line 7c if tax-exempt bond liabilities were discharged or defeased during the year.

Line 7c - If the organization checked “yes” on Line 7b, provide an explanation as to how the bond liabilities were discharged, defeased or otherwise settled during the year.

Organizations that complete Part I do not complete Part II.

Part II Sale, Exchange, Disposition or Other Transfer of more than 25% of the Organization’s Assets

Organizations required to complete Part II must have made a significant disposition of net assets or undergone a substantial contraction of net assets during the year. A “significant disposition of net assets” is a disposition of net assets, consisting of a sale, exchange, disposition or other transfer of more than 25% of its net assets to another organization during the year. A significant disposition of net assets is any disposition for the tax year that is:

1. At least 25% of the fair market value of the organization’s net assets at the beginning of the tax year; or
2. One of a series of related dispositions commenced in a prior year, that when combined comprise at least 25% of the net assets of the organization as of the beginning of the tax year when the first disposition in the series was made. Whether a significant disposition of net assets occurred through a series of related dispositions depends on the facts and circumstances in each case.

A significant disposition of net assets includes taxable or tax-free sales or exchanges of assets for cash or other consideration; sales, contributions or other transfers of assets to a partnership or a corporation regardless of whether such sales or transfers are governed by section 721 or section 351; and transfers of assets pursuant to a reorganization in which the organization is a surviving entity. Organizations must provide a list of transferred assets and certain transactional expenses relating to the disposition. (See Specific Instructions below.)

Organizations that have a substantial contraction of assets during the year are required to fill out Part II of this Schedule. A “substantial contraction” is a partial liquidation or any other significant disposition of net assets (as defined above), other than transfers for full and adequate consideration or distributions out of current income.

See Treasury Regulations section 1.6043-3 for certain transactions that are subject to reporting in Part II. For a determination of net assets, refer to the organization’s balance sheet as reported in Part VI of Form 990, which reports the organization’s total assets, total liabilities, and net assets.

Line 8 -. Complete Line 8(a)-8(g) if the organization made a significant disposition of its net assets or has undergone a substantial contraction of its net assets during the year. For instructions relating to Lines 8a-8g, refer to the Specific Instructions to Lines 1a-1g for Part I, above. However, for Line 8(g), for entities that are not tax-exempt, enter type of entity. Type of

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entity can include: corporation (S or C), partnership, limited liability company (LLC), trust, association, or individual(s).

Line 9 - For instructions relating to Line 9, refer to the Specific Instructions to Line 2 of Part I, above.