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If you wish, you can submit comments about draft or final forms, instructions, or publications on the Comment on Tax Forms and Publications page on IRS.gov. We cannot respond to all comments due to the high volume we receive, but we will carefully consider each one. Please note that we may not be able to consider many suggestions until the subsequent revision of the product.

2016

Department of the Treasury
Internal Revenue Service

Instructions for Schedule A (Form 990 or 990-EZ)

Public Charity Status and Public Support

DRAFT AS OF September 2, 2016

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. For the latest information about developments related to Form 990 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form990*.

What's New

In Part I, a new line is added for an agricultural research organization described in section 170(b)(1)(A)(ix) operated in conjunction with a land-grant college or university or a non-land grant college of agriculture.

General Instructions

Note. Terms in **bold** are defined in the *Glossary* of the Instructions for Form 990, Return of Organization Exempt From Income Tax.

Purpose of Schedule

Schedule A (Form 990 or 990-EZ) is used by an organization that files Form 990, Return of Organization Exempt From Income Tax, or Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, to provide the required information about **public charity** status and public support.

Who Must File

An organization that answered "Yes" to Form 990, Part IV, line 1, must complete and attach Schedule A (Form 990 or 990-EZ) to Form 990. Any section 501(c)(3) organization (or organization treated as such) that files a Form 990-EZ must complete and attach this schedule to Form 990-EZ. These include:

- Organizations that are described in section 501(c)(3) and are **public charities**;
- Organizations that are described in sections 501(e), 501(f), 501(j), 501(k), or 501(n); and
- **Nonexempt charitable trusts** described in section 4947(a)(1) that aren't treated as private foundations.

If an organization isn't required to file Form 990 or 990-EZ but chooses to do so, it must file a complete return and provide all of the information requested, including the required schedules.

TIP *Any organization that is exempt from tax under section 501(c)(3) but is a private foundation and not a public charity shouldn't file Form 990, Form 990-EZ, or Schedule A (Form 990 or 990-EZ), but should file Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation. See instructions to* Part I.

Accounting Method

When completing Schedule A (Form 990 or 990-EZ), the organization must use the same accounting method it checked on Form 990, Part XII, line 1, or Form 990-EZ, line G. The organization must use this accounting method in reporting all amounts on Schedule A (Form 990 or 990-EZ), regardless of the accounting method it used in completing Schedule A (Form 990 or 990-EZ) for prior years, except that in *Part V*, Sections D and E, distributions must be reported on the cash receipts and disbursements method.

If the accounting method the organization used in completing the 2015 Schedule A (Form 990 or 990-EZ) was different from the accounting method checked on the 2016 Form 990, Part XII, line 1, or the 2016 Form 990-EZ, line G, the organization shouldn't report in either *Part II* or *Part III* the amounts reported in the applicable columns of the 2015 Schedule A (Form 990 or 990-EZ). Instead, the organization should report all amounts in *Part II* or *Part III* using the accounting method checked on the 2016 Form 990, Part XII, line 1, or the 2016 Form 990-EZ, line G.

TIP *If the organization changed its accounting method from a prior year, it should provide an explanation in Schedule O (Form 990 or 990-EZ), Supplemental Information to Form 990 or 990-EZ.*

Example 1. An organization checks "Cash" on Form 990, Part XII, line 1. It should report the amounts in *Part II* or *Part III* using the cash method. If the organization filed a 2015 Schedule A (Form 990 or 990-EZ) using the cash method, it should report in the 2012 through 2015 columns on the 2016 Schedule A (Form 990 or 990-EZ) the same amounts that it reported in the 2012 through 2015 columns on the 2015 Schedule A (Form 990 or 990-EZ).

Example 2. An organization checks "Accrual" on Form 990, Part XII, line 1. The organization reports grants on Form 990, Part VIII, line 1, in accordance with the Statement of Financial Accounting Standards, **SFAS 116** (ACS 958), (see instructions for Form 990, Part VIII, line 1). During the year, the organization receives a grant to be paid in future years. The organization should report the grant's present value on the 2016 Schedule A (Form 990 or 990-EZ). The organization should report accruals of present value increments to the unpaid grant on Schedule A (Form 990 or 990-EZ) in future years.

Specific Instructions

Part I. Reason for Public Charity Status

Lines 1–12 (in general)

Check only one of the boxes on lines 1 through 12 to indicate the reason the organization is a **public charity** for the **tax year**. The reason can be the same as stated in the organization's tax-exempt determination letter from the IRS ("exemption letter") or subsequent IRS determination letter, or it can be different. An organization that doesn't check any of the boxes on lines 1 through 12 shouldn't file Form 990, Form 990-EZ, or Schedule A (Form 990 or 990-EZ) for the tax year, but should file Form 990-PF instead.

If an organization believes there is more than one reason why it is a public charity, it should check only one box but can explain the other reasons it qualifies for public charity status in *Part VI*. An organization that claims a public charity status other than section

170(b)(1)(A)(vi) can also demonstrate that it qualifies under section 170(b)(1)(A)(vi) by completing *Part II*; it may want to do so for purposes such as qualifying for the first Special Rule in Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors, by meeting the 33⅓% support test.

The IRS doesn't update its records on an organization's public charity status based on a change the organization makes on Schedule A (Form 990 or 990-EZ). Thus, an organization that checks a public charity status different from the reason stated in its exemption letter or subsequent determination letter, although not required, may submit a request to the IRS Exempt Organizations Determinations Office for a determination letter confirming that it qualifies for the new public charity status if the organization wants the IRS records to reflect that new public charity status (also referred to as "private foundation status"). See Form 8940, Request for Miscellaneous Determination, for instructions. A $400 user fee must be submitted with such a request. See Section 6.09 of Rev. Proc. 2016-8, 2016-1 I.R.B. 243.

A **subordinate organization** of a **group exemption** that is filing its own return, but hasn't received its own tax exemption determination letter from the IRS, should check the public charity status box which most accurately describes its public charity status.

An organization that doesn't know the public charity status stated in its exemption letter or subsequent determination letter should call the Exempt Organizations Customer Account Services toll free at 1-877-829-5500 or write to:

Internal Revenue Service
TE/GE Customer Account Services
P.O. Box 2508
Cincinnati, OH 45201

See the following examples.

Example 1. The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For the tax year, it meets the requirements for public charity status under section 170(b)(1)(A)(vi). The organization should check the box on line 7 and complete *Part II*.

Example 2. The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For the tax year, it doesn't meet the requirements for public charity status under section 170(b)(1)(A)(vi). Instead, it meets the requirements for public charity status under section 509(a)(2). The organization should check the box on line 10 and complete *Part III*.

Example 3. The organization received an exemption letter that it is a public charity under section 509(a)(2). For the tax year, it doesn't meet the requirements for public charity status under section 509(a)(2) or 170(b)(1)(A)(vi). Instead, it meets the requirements for public charity status as a **supporting organization** under section 509(a)(3). The organization should:

1. Check the box for line 12 and either line 12a, 12b, 12c, or 12d;
2. Complete lines 12e and 12f;
3. Complete the table on line 12g; and
4. Complete *Part IV* and (if applicable) *Part V*.

Example 4. The organization received an exemption letter that it is a **supporting organization** under section 509(a)(3). Based on Rev. Proc. 2015-10, 2015-2 I.R.B. 262, the organization submitted a Form 8940 request to the IRS to change its classification to public charity status under section 509(a)(2). For the tax year, it meets the requirements of section 509(a)(2). The organization received a determination letter that it has been reclassified as a public charity under section 509(a)(2). The organization should check the box on line 10 and complete *Part III*.

Example 5. The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For the tax year, it doesn't meet the requirements for public charity status under section 170(b)(1)(A)(vi) or 509(a)(2), or as a supporting organization under section 509(a)(3). Nor does it meet the requirements for public charity status under any other provision of the Internal Revenue Code. The organization is a **private foundation** and shouldn't file Form 990, Form 990-EZ, or Schedule A (Form 990 or 990-EZ) for the tax year but should file Form 990-PF instead.

Example 6. The organization received an exemption letter that it is a supporting organization under section 509(a)(3). The letter doesn't state which type of supporting organization it is. The organization should review the instructions for lines 12a–12d to determine which type best describes the organization. The organization may wish to file Form 8940 to request a determination of type.

Line 1. Check the box for a **church**, convention of churches, or association of churches. Pub. 1828, Tax Guide for Churches and Religious Organizations, lists certain characteristics generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include: distinct legal existence, recognized creed and form of worship, definite and distinct ecclesiastical government, formal code of doctrine and discipline, distinct religious history, membership not associated with any other church or denomination, organization of ordained ministers, ordained ministers selected after completing prescribed courses of study, literature of its own, established places of worship, regular congregations, regular religious services, Sunday schools for the religious instruction of the young, and schools for the preparation of its ministers. The IRS generally uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes.

Line 2. Check the box for a **school** whose primary function is the presentation of formal instruction, which regularly has a faculty, a curriculum, an enrolled body of students, and a place where educational activities are regularly conducted. A private school must have a racially nondiscriminatory policy toward its students. For details about these requirements, see Schedule E (Form 990 or 990-EZ), Schools, and its related instructions.

TIP *An organization that checks the box on line 2 must also complete Schedule E (Form 990 or 990-EZ), Schools.*

Line 3. Check the box for an organization whose main purpose is to provide hospital or medical care. A rehabilitation institution or an outpatient clinic can qualify as a hospital if its principal purposes or functions are the providing of hospital or medical care, but the term doesn't include medical schools, medical research organizations, convalescent homes, homes for children or the aged, or vocational training institutions for handicapped individuals.

DRAFT As of September 2, 2016

Check the box on line 3 also for a cooperative hospital service organization described in section 501(e).

TIP *The definition of hospital for Schedule A (Form 990 or 990-EZ), Part I, is different from the definition for Schedule H (Form 990), Hospitals. Accordingly, see* Who Must File *in the Instructions for Schedule H (Form 990) about whether the organization also is required to complete Schedule H (Form 990).*

Line 4. Check the box for an organization whose principal purpose or function is to engage in **medical research**, and that is directly engaged in the continuous active conduct of medical research in conjunction with a hospital. The hospital must be described in section 501(c)(3) or operated by the federal government, a state or its political subdivision, a U.S. possession or its political subdivision, or the District of Columbia.

If the organization primarily gives funds to other organizations (or grants and scholarships to individuals) for them to do the research, the organization isn't a medical research organization.

The organization isn't required to be an affiliate of the hospital, but there must be a joint effort by the organization and the hospital to maintain continuing close cooperation in the active conduct of medical research.

TIP *The definition of medical research for Schedule A (Form 990 or 990-EZ), Part I, is different from the definition for Schedule H (Form 990), Hospitals. Accordingly, research that is medical research for purposes of determining whether an organization is a medical research organization isn't necessarily medical research for Schedule H (Form 990) reporting purposes.*

Assets test/expenditure test. An organization qualifies as a medical research organization if its principal purpose is medical research, and if it devotes more than half its assets, or spends at least 3.5% of the **fair market value** of its endowment, directly in conducting **medical research**. Either test can be met based on a computation period consisting of the immediately preceding tax year or the immediately preceding four tax years.

If an organization doesn't satisfy either the assets test or the expenditure test, it can still qualify as a medical research organization based on the circumstances involved.

These tests are discussed in Regulations sections 1.170A-9(d)(2)(v) and (vi). Under these tests, value the organization's assets as of any day in its tax year using the same day every year, and value the endowment at fair market value, using commonly accepted valuation methods. See Regulations section 20.2031.

Line 5. Check the box and complete *Part II* if the organization receives and manages property for and expends funds to benefit a college or university that is owned or operated by one or more states or political subdivisions. The school must be an organization described in the instructions for line 2.

Expending funds to benefit a college or university includes acquiring and maintaining the campus, its buildings and equipment, granting scholarships and student loans, and making any other payments in connection with the normal functions of colleges and universities.

The organization must meet the same public support test described later for line 7. See Rev. Rul. 82-132, 1982-2 C.B. 107.

Line 6. Only a federal, state, or local government or **governmental unit** that has received an exemption letter recognizing it as exempt from tax under section 501(c)(3) should check this box. See Rev. Rul. 60-384, 1960-2 C.B. 172.

Line 7. Check the box and complete *Part II* if the organization meets one of the section 170(b)(1)(A)(vi) public support tests. See instructions for *Part II* regarding how an organization can qualify as a publicly supported organization under section 170(b)(1)(A)(vi).

Line 8. Check the box and complete *Part II* if the organization is a community trust and meets a section 170(b)(1)(A)(vi) public support test. A community trust is a charity that attracts large **contributions** for the benefit of a particular community or area, often initially from a small number of donors, and is generally governed by representatives of its particular community or area. See Regulations sections 1.170A-9(f)(10), (11), and (12).

CAUTION *A community trust claiming it qualifies as a public charity should check the box on line 8 whether it is structured as a corporation or as a trust.*

Line 9. Check the box if the organization is an agricultural research organization described in section 170(b)(1)(A)(ix) operated in conjunction with a land-grant college or university or a non-land grant college of agriculture. Enter the name, city, and state of the college or university. You don't have to complete *Part II*.

Line 10. Check the box and complete *Part III* if the organization meets both of the section 509(a)(2) support tests. See the instructions for *Part III* regarding how an organization can qualify as a publicly supported organization under section 509(a)(2).

Line 11. Check the box only if the organization has received a ruling from the IRS that it is organized and operated primarily to test for public safety.

Lines 12 and 12a–12d. If the organization is a supporting organization, check the box for line 12 and then check the appropriate box for line 12a, 12b, 12c, or 12d to indicate the type of supporting organization it is. The organization must also complete lines 12e and 12f, the table on line 12g, and *Part IV*. If the organization is a Type III non-functionally integrated supporting organization, it must also complete *Part V*.

For more information about supporting organizations, see Regulations section 1.509(a)-4 and sections 509(a)(3) and 509(f). For a brief overview of the requirements for qualification as a supporting organization, and the different types of supporting organizations, see Pub. 557, Tax Exempt Status for Your Organization, and visit *www.irs.gov/Charities-&-Non-Profits/Section-509(a)(3)-Supporting-Organizations*.

Use the information later to determine the supporting organization's type. If the organization checks the box on line 12e, the letter the organization received from the IRS identifies its type. If the box checked on any of lines 12a through 12d is different from the type stated in the letter (for example, because the organization has made significant changes to its structure or operations resulting in it no longer qualifying as the type of supporting organization indicated in its letter), provide an explanation in *Part VI*. If the organization doesn't check the box on line 12e, it should check the box on line 12a, 12b, 12c, or 12d that best describes the type of supporting organization it is.

DRAFT AS OF October 2, 2016

All supporting organizations, regardless of type, must be responsive to the needs or demands of one or more supported organizations, and must constitute an integral part of, or maintain a significant involvement in, the operations of one or more supported organizations. Although Type III *supporting organizations have specific "responsiveness" and "integral part" tests that must be met, the relationship between a* Type I *or* Type II *supporting organization and its supported organization(s) must also include these responsiveness and integral part characteristics. The ability of the supported organization(s) in a* Type I *or* Type II *relationship effectively to control the supporting organization's board generally ensures that these characteristics are present. If they aren't present, however, don't check any box for lines 12a through 12d. For more information, see Regulations sections 1.509(a)-4(f)(3) and (4).*

- **Type I.** A *Type I* **supporting organization** is operated, supervised, or controlled by one or more publicly **supported organizations**. If the organization otherwise qualifies as a supporting organization and can answer "Yes" to the following question, check the box for *Type I*.

Do the supported organizations have a substantial degree of direction over the policies, programs, and activities of the supporting organization, typically by ensuring that the **governing body**, officers, or membership of the supported organizations may regularly appoint or elect a majority of the supporting organization's directors or trustees?

- **Type II.** A *Type II* **supporting organization** is supervised or controlled in connection with one or more publicly supported organizations. If the organization otherwise qualifies as a supporting organization and can answer "Yes" to the following question, check the box for *Type II*.

Do the same persons, such as directors, trustees, and officers, supervise or control the **supported organization(s)** and the supporting organization?

- **Type III—Functionally integrated.** Check this box if the organization qualifies as a *Type III* functionally integrated supporting organization by meeting the following requirements.

1. The organization meets the notification requirement described in *Part IV*, Section D, line 1;

2. The organization meets the responsiveness test (both the relationship requirement and the significant voice requirement) described in *Part IV*, Section D, lines 2 and 3; and

3. The organization meets one of the alternative integral part tests described in *Part IV*, Section E.

- **Type III—Non-functionally integrated.** Check this box if the organization qualifies as a *Type III* non-functionally integrated supporting organization by meeting the following requirements.

1. The organization meets the notification requirement described in *Part IV*, Section D, line 1;

2. The organization meets the responsiveness test (both relationship requirement and significant voice requirement) described in *Part IV*, Section D, lines 2 and 3; and

3. The organization meets the integral part test by meeting either (a) the distribution and attentiveness requirements described in *Part V* or (b) the alternative integral part test for certain trusts in existence on November 20, 1970, described in *Part V*, line 1.

Line 12e. The organization's exemption letter or subsequent determination letter may state the type of **supporting organization** it is. If it does, check the box on this line. If the letter doesn't state the type, or if the letter states *Type III* but doesn't specify whether functionally integrated or non-functionally integrated, leave this line blank.

A grantor to a section 509(a)(3) supporting organization, acting in good faith, can rely on this letter in determining whether the organization is a *Type I, Type II, Type III functionally integrated*, or *Type III non-functionally integrated* supporting organization. See Rev. Proc. 2011-33, 2011-25 I.R.B. 887 and Notice 2014-4, 2014-2 I.R.B. 274.

Line 12f. A supporting organization must be organized and operated exclusively to support or benefit one or more specified publicly supported organizations. Please write in the space provided the number of supported organizations. Include all supported organizations that the organization was organized to support at any time during the tax year, whether or not they actually received support during the tax year.

Line 12g. An organization checking a box on line 12a, 12b, 12c, or 12d must complete the table on line 12g.

- **Columns (i) and (ii).** Enter the name and employer identification number (**EIN**) for each **supported organization** counted on line 12f. If the organization had more than five supported organizations during the tax year, enter the additional organizations on duplicate pages of Schedule A, *Part I*. Use as many duplicate copies as needed, and number each page.
- **Column (iii).** For each supported organization named in column (i), enter the line number (from lines 1 through 10 above) that best describes the foundation status of the supported organization.

Example 1. If the supported organization is a hospital, then that is an organization described in section 170(b)(1)(A)(iii), and you should enter "3" in column (iii).

Example 2. If the supported organization is a federal, state, or local governmental unit, or foreign government, then that is an organization described in section 170(b)(1)(A)(v), and you should enter "6" in column (iii).

Example 3. If the supported organization is exempt under section 501(c)(4), 501(c)(5), or 501(c)(6), but can be supported by a supporting organization (see Regulations section 1.509(a)-4(k)), enter the line number (from lines 1 through 10 above) that would describe the section 501(c)(4), 501(c)(5), or 501(c)(6) organization if it were a section 501(c)(3) organization. Identify the specific code section (501(c)(4), 501(c)(5), or 501(c)(6)) for each such supported organization in *Part VI.*

The only correct entry in column (iii) is a line number (from lines 1 through 10) that corresponds to the description of the supported organization.

- **Column (iv).** Check "Yes" if the supported organization named in column (i) is specifically named as a supported organization in the organization's declaration of trust, articles of incorporation, or other governing document.
- **Column (v).** Enter the total amount of monetary support paid to, or for the benefit of, the supported organization named in column (i) during the **tax year**. Such monetary support may include making payments to or for the use of individual members of the charitable class benefited by the supported organization (such as scholarships), and to 501(c)(3) public charities operated, supervised, or controlled directly by or in connection with the supported organization. See

DRAFT AS OF September 2, 2016

Regulations section 1.509(a)-4(e). If no monetary support was provided during the tax year, enter "-0-."

- **Column (vi).** In this column, the organization may (but isn't required to) provide an estimate of the fair market value of goods, other property, services, and use of facilities that is provided to or for the benefit of the supported organizations during the tax year. Describe in *Part VI* any such goods, other property, services, and use of facilities, whether or not an amount is reported for them in column (vi).

DRAFT AS OF September 2, 2016

Part II. Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

CAUTION *If the organization checked a box in* Part I*, on line 5, 7, or 8, it should complete* Part II *and insert the appropriate dollar amounts. Don't leave* Part II *blank or report only zeros if the organization had any support during the period. If the organization checks the box in* Part II*, on line 13, it should stop there and not complete the rest of* Part II*.*

TIP *If the organization checked a box in* Part I*, on line 5, 7, or 8 and also checks the box in* Part II*, on line 18, the organization should complete* Part III *to determine if it qualifies as a publicly supported organization under section 509(a)(2). If it does qualify, the organization should instead check the box in* Part I*, on line 10.*

Public Support Test. For an organization to qualify as a publicly supported organization under section 170(b)(1)(A)(vi), either:

- 33⅓% or more of its total support must come from governmental agencies, contributions from the general public, and contributions or grants from other public charities; or
- 10% or more of its total support must come from governmental agencies, contributions from the general public, and contributions or grants from other public charities and the facts and circumstances indicate it is a publicly supported organization.

Note. An organization won't meet either of these public support tests if almost all of its support comes from gross receipts from related activities and an insignificant amount of its support comes from **governmental units** and **contributions** made directly or indirectly by the general public.

Public support is measured using a 5-year computation period that includes the current and four prior tax years (including short years). If the organization's current tax year or any of its four prior tax years were short years, explain in *Part VI*.

If the organization wasn't a section 501(c)(3) organization for the entire 5-year period in *Part II*, report amounts only for the years the organization was a section 501(c)(3) organization.

Line 1. Don't include any "unusual grants." See *Unusual grants*, later. Include membership fees only to the extent to which the fees are payments to provide support for the organization rather than to purchase admissions, merchandise, services, or the use of facilities. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity, report the membership fees on line 12. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an unrelated business activity, report the membership fees on line 9. See Regulations section 1.170A-9(f)(7)(iv). Include qualified sponsorship payments under section 513(i).

Noncash contributions. Use any reasonable method to determine the value of noncash contributions reported on line 1.

Don't report any donations of services (such as the value of donated advertising space or broadcast air time) or donations of use of materials, equipment, or facilities, on line 1 as gifts, grants, or contributions. Donated services and facilities from a **governmental unit** only are reported on line 3.

Loss on uncollectible pledge. If an organization records a loss on an uncollectible pledge that it reported on a prior year's Schedule A, it should deduct that loss from the contribution amount for the year in which it originally counted that contribution as revenue. For example, if in the prior tax year the organization reported a pledged contribution with a then-present value of $50,000 in *Part II*, line 1, column (e), but learned during the current tax year that it wouldn't receive any of that pledged contribution, it should deduct the $50,000 from the amount reported in *Part II*, line 1, column (d), for the prior tax year.

Support from a governmental unit. Include on line 1 support received from a **governmental unit**. This includes **contributions**, but not gross receipts from exercising or performing the organization's tax-exempt purpose or function, which should be reported on line 12. An amount received from a governmental unit is treated as gross receipts from exercising or performing the organization's tax-exempt purpose or function if the purpose of the payment is primarily to serve the direct and immediate needs of the payor governmental unit, and is treated as a contribution, if the purpose is primarily to provide a direct benefit to the public. For example, a payment to maintain library facilities that are open to the public should be treated as a contribution. See Regulations section 1.170A-9(f)(8) and Rev. Rul. 81-276, 1981-2 C.B. 128. Refer to the instructions for Form 990, Part VIII, lines 1e and 2, for more examples addressing the distinction between government payments that are contributions and government payments that are gross receipts from activities related to the organization's tax-exempt purpose or function. Medicare and Medicaid payments are treated as gross receipts from patients rather than as contributions from the government payor for purposes of the public support test. See Rev. Rul. 83-153, 1983-2 C.B. 48.

Unusual grants. Unusual grants generally are substantial contributions and bequests from disinterested persons and are:

1. Attracted because of the organization's publicly supported nature,
2. Unusual and unexpected because of the amount, and
3. Large enough to endanger the organization's status as normally meeting either the 33⅓% public support test or the 10% facts and circumstances test.

For a list of other factors to be considered in determining whether a grant is an unusual grant, see Regulations section 1.509(a)-3(c)(4).

An unusual grant is excluded even if the organization receives or accrues the funds over a period of years.

Don't report gross investment income items as unusual grants. Instead, include all investment income on line 8.

See Rev. Rul. 76-440, 1976-2 C.B. 58; Regulations section 1.170A-9(f)(6)(ii); and Regulations sections 1.509(a)-3(c)(3) and (4) for details about unusual grants.

Include in ***Part VI*** a list showing the amount, but not the grantor, of each unusual grant actually received each year (if the cash accounting method is used) or accrued each year (if the accrual accounting method is used).

Don't include the names of the grantors because Part VI *will be made available for public inspection.*

Unusual grants recordkeeping. An organization that received any unusual grants during the 5-year period should also keep for its records a list showing, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the grant. If the organization used the cash method for the applicable year, show only the amounts the organization actually received during that year. If the organization used the accrual method for the applicable year, show only the amounts the organization accrued for that year. An example of this list is given below.

Don't file this list with the organization's Form 990 or 990-EZ because it may be made available for public inspection.

Line 1. Example—List of unusual grants

Year ▶ **2016**	**Description**
Name ▶ Mr. Distinguished Donor	Undeveloped land
Date of Grant ▶ January 15, 2016	
Amount of Grant ▶ $600,000	

Conservation easements and qualified conservation contributions. The organization must report any qualified conservation contributions and contributions of conservation easements consistently with how it reports revenue from such contributions in its books, records, and financial statements and in Form 990, Part VIII, *Statement of Revenue*.

Reporting contributions not reported as revenue. If the organization reports any **contributions** on line 1 of Schedule A (Form 990 or 990-EZ), *Part II*, that it doesn't report on Form 990, as revenue in Part VIII or as assets in Part X, or as revenue or assets on Form 990-EZ, explain in *Part VI* the basis for characterizing such transfers as contributions but not as revenue or assets. For example, if an organization is a community foundation that receives and holds a cash transfer for another tax-exempt organization and reports contributions of such property on Schedule A (Form 990 or 990-EZ), *Part II*, line 1, without reporting it on Form 990, as revenue in Part VIII or assets in Part X, explain the basis for characterizing the property as contributions but not as revenue or assets.

Line 2. Enter tax revenue levied for the organization's benefit by a **governmental unit** and either paid to the organization or expended on its behalf. Report this amount whether or not the organization includes this amount as revenue on its financial statements or elsewhere on Form 990 or 990-EZ.

Line 3. Enter the value of services or facilities furnished by a **governmental unit** to the organization without charge. Don't include the value of services or facilities generally furnished to the public without charge. For example, include the fair rental value of office space furnished by a governmental unit to the organization without charge but only if the governmental unit doesn't generally furnish similar office space to the public without charge. Report these amounts whether or not the organization includes these amounts as revenue on its financial statements or elsewhere on Form 990 or 990-EZ.

Line 5. Enter in column (f) the portion of total **contributions** by each individual, trust, or corporation included on line 1 for the years reported that exceeds 2% of the amount reported on line 11, column (f). However, the 2% limitation doesn't apply to contributions from organizations qualifying as publicly supported organizations under section 170(b)(1)(A)(vi), governmental units described in section 170(b)(1)(A)(v), and other organizations, such as the following, but only if they also qualify as publicly supported organizations under section 170(b)(1)(A)(vi).

- Churches described in section 170(b)(1)(A)(i);
- Educational institutions described in section 170(b)(1)(A)(ii);
- Hospitals described in section 170(b)(1)(A)(iii);
- Organizations operated for the benefit of a college or university owned or operated by a governmental unit described in section 170(b)(1)(A)(iv); and
- Agricultural research organizations described in section 170(b)(1)(A)(ix).

The organization should keep for its records a list showing the name of and amount contributed by each donor (other than a **governmental unit** or publicly supported organization) whose total gifts during the years reported exceed 2% of the amount reported on line 11, column (f). An example of this list is given later.

Don't file this list with the organization's Form 990 or 990-EZ because it may be made available for public inspection.

Line 8. Include the gross income from interest, dividends, payments with respect to securities loans (section 512(a)(5)), rents, royalties, and income from similar sources. Don't include on this line payments that result from activities of the organization that further its exempt purpose. Instead, report these amounts on line 12.

Line 9. Enter the organization's net income from conducting **unrelated business** activities, whether or not the activities are regularly conducted as a trade or business. See sections 512 and 513 and the applicable regulations. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business.

Net income and net losses from all of the organization's unrelated business activities should be aggregated. If a net loss results, enter “-0-” on this line.

Line 10. Include all support as defined in section 509(d) that isn't included elsewhere in *Part II*. Explain in *Part VI* the nature and source of each amount reported. Don't include gain or loss from amounts reportable on line 12 or from the sale of capital assets.

Line 12. Enter the total amount of gross receipts the organization received from related activities for all years reported in *Part II*. The organization won't be treated as meeting the section 170(b)(1)(A)(vi), 33⅓% public support test or the 10% facts and circumstances public support test, if almost all of its support consists of gross receipts from related activities and an insignificant amount of its support comes from **governmental units** and public

DRAFT AS OF September 2, 2016

Line 5. Example—List of donors other than governmental units and publicly supported organizations

Assumption: 2% of the amount on Schedule A (Form 990 or 990-EZ), Part II, line 11, column (f) is $12,000							
Contributors whose total gifts from 2012 through 2016 were in excess of the 2% limitation							
	(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**
Name	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**	**Excess contributions (col. (f) minus the 2% limitation)**
XYZ Foundation			$59,000	$3,000	$18,000	$80,000	$68,000
Banana Office Supply	$12,000			$3,000	$1,000	$16,000	$4,000
Plum Corporation			$15,000	$15,000		$30,000	$18,000
John Smith	$5,000	$5,000	$5,000	$1,000		$16,000	$4,000
Sue Adams		$10,000		$10,000	$10,000	$30,000	$18,000
Raisin Trade Assoc.			$20,000	$7,000		$27,000	$15,000
Total. Add the items in column (g). Enter the total here and on Part II, column (f), line 5							$127,000

DRAFT AS OF September 2, 2016

contributions. See Regulations section 1.170A-9(f)(7)(iii).

Include on line 12 gross receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities in any activity which isn't an unrelated trade or business (within the meaning of section 513). See section 509(d)(2). Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity. For example, include on this line gross receipts from:

- A trade or business in which substantially all work is performed by **volunteers** (such as book fairs and sales of gift wrap paper). See section 513(a)(1).
- A trade or business carried on by the organization primarily for the convenience of its members, students, patients, **officers**, or **employees**. See section 513(a)(2).
- A trade or business which is the selling of merchandise, substantially all of which the organization received as gifts or **contributions**. See section 513(a)(3).
- "Qualified public entertainment activities" or "qualified convention and trade show activities" of certain organizations. See section 513(d).
- Furnishing certain hospital services. See section 513(e).
- A trade or business consisting of conducting **bingo** games, but only if the conduct of such games is lawful. See section 513(f).
- Qualified pole rentals by a mutual or cooperative telephone or electric company. See section 513(g).
- The distribution of certain low cost articles incidental to the solicitation of charitable contributions (except to the extent such gross receipts are properly treated as charitable contributions reportable on line 1 rather than as proceeds of a sale or exchange), and exchange and rental of members lists. See section 513(h).

Line 13. An organization that checks this box should stop here and shouldn't complete the rest of *Part II*. It shouldn't make a public support computation on line 14 or 15 or check any of the boxes on lines 16 through 18.

Example. An organization receives an exemption letter from the IRS that it is exempt from tax under section 501(c)(3) and qualifies as a public charity under section 170(b)(1)(A)(vi) effective on its date of incorporation. When the organization prepares *Part II* for each of its first five tax years as a section 501(c)(3) organization, it should check the box on line 13 and shouldn't complete the rest of *Part II*. When the organization prepares *Part II* for its sixth tax year and subsequent years, it shouldn't check the box on line 13 and should complete the rest of *Part II*.

TIP *An organization in its first five years as a section 501(c)(3) organization should make the public support computations on a copy of Schedule A that it keeps for itself. An organization should carefully monitor its public support on an ongoing basis to ensure that it will meet a public support test in the sixth year and succeeding years.*

Line 14. Round to the nearest hundredth decimal point in reporting the percentage of public support. For example, if the organization calculates its public support percentage as 58.3456%, this percentage would be rounded to 58.35% when reported on line 14.

Line 15. For 2016 enter the public support percentage from the 2015 Schedule A (Form 990 or 990-EZ), *Part II*, line 14. Round to the nearest hundredth decimal point in reporting the percentage of public support.

Line 16a. If the organization didn't check the box on line 13, and line 14 is 33⅓% or more, **check the box on this line and don't complete the rest of *Part II***. The organization qualifies as a publicly supported organization for 2016 and 2017.

Line 16b. If the organization didn't check a box on line 13 or 16a, and line 15 is 33⅓% or more, **check the box on this line and don't complete the rest of *Part II***. The organization qualifies as a publicly supported organization for 2016.

Line 17a. If the organization didn't check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, **check the box on this line and don't complete the rest of *Part II***. The organization qualifies as a publicly supported organization for 2016 and 2017.

If this box is checked, explain in *Part IV* how the organization meets the "facts and circumstances" test in Regulations

section 1.170A-9(f)(3). Include the following information.

- Explain whether the organization maintains a continuous and *bona fide* program for solicitation of funds from the general public, community, membership group involved, **governmental units**, or other **public charities**.
- List all other facts and circumstances, including the sources of support, whether the organization has a **governing body** which represents the broad interests of the public, and whether the organization generally provides facilities or services directly for the benefit of the general public on a continuing basis.
- If the organization is a membership organization, explain whether the solicitation for dues-paying members is designed to enroll a substantial number of persons from the community, whether dues for individual members have been fixed at rates designed to make membership available to a broad cross-section of the interested public, and whether the activities of the organization will likely appeal to persons having some broad common interest or purpose.

Line 17b. If the organization didn't check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, **check the box on this line and don't complete the rest of *Part II***. The organization qualifies as a publicly supported organization for 2016. If this box is checked, explain in *Part VI* how the organization meets the "facts and circumstances" test in Regulations section 1.170A-9(f)(3). Include the same information identified in the instructions for line 17a, earlier.

Line 18. If the organization didn't check a box on line 13, 16a, 16b, 17a, or 17b, it doesn't qualify as a publicly supported organization under section 170(b)(1)(A)(iv) or 170(b)(1)(A)(vi) for the 2016 tax year and should check the box on this line. If the organization doesn't qualify as a public charity under any of the boxes in *Part I*, lines 1 through 12, it is a private foundation as of the beginning of the 2016 tax year for filing purposes and shouldn't file Form 990, Form 990-EZ, or Schedule A (Form 990 or 990-EZ) for the 2016 tax year. Instead, the organization should file Form 990-PF and check *Initial return of a former public charity* on Form 990-PF, at the top of page 1.

TIP *If Form 990 or 990-EZ is for the organization's sixth tax year as a section 501(c)(3) organization, the organization should compute the public support percentage on its Form 990 or 990-EZ for its first five tax years before it checks the box on line 18. If its public support percentage for its first five tax years is 33⅓% or more, or if it meets the 10% "facts and circumstances" test for its first five tax years, it will qualify as a public charity for its sixth tax year. If the organization qualifies under the 10% test, explain in* Part VI.

TIP *If the organization doesn't qualify as a publicly supported organization under section 170(b)(1)(A)(vi), it can complete* Part III *to determine if it qualifies as a publicly supported organization under section 509(a)(2).*

Part III. Support Schedule for Organizations Described in Section 509(a)(2)

TIP *If an organization checked the box in* Part I*, for line 10, it should complete* Part III *and insert the appropriate dollar amounts. Don't leave* Part III *blank or report only zeros if the organization had any support during the period. If the organization checks the box in* Part III*, on line 14, it should stop there and not complete the rest of* Part III*.*

TIP *If the organization checked the box in* Part I*, for line 10, and also checks the box in* Part III*, for line 20, the organization should complete* Part II *to determine if it qualifies as a publicly supported organization under section 170(b)(1)(A)(vi). If it does qualify, the organization should instead check the box in* Part I*, for line 5, 7, or 8, whichever applies.*

Public Support Test. For an organization to qualify as a publicly supported organization under section 509(a)(2):

- More than 33⅓% of its support normally must come from gifts, grants, **contributions**, membership fees, and gross receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities in an activity which isn't an **unrelated trade or business** under section 513; and
- No more than 33⅓% of its support normally must come from gross investment income and net **unrelated business income** (less section 511 tax) from businesses acquired by the organization after June 30, 1975.

Public support is measured using a 5-year computation period that includes the current and four prior tax years (including short years). If the organization's current tax year or any of its four prior tax years were short years, explain in *Part VI*.

In *Part III*, if the organization wasn't a section 501(c)(3) organization for the entire 5-year period, report amounts only for the years the organization was a section 501(c)(3) organization.

Line 1. Don't include any "unusual grants." See *Unusual grants*, later. Include membership fees only to the extent to which the fees are payments to provide support for the organization rather than to purchase admissions, merchandise, services, or the use of facilities. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity, include the membership fees on line 2. See Regulations section 1.509(a)-3(h). To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that isn't an **unrelated business** under section 513, report the membership fees on line 3. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business, report the net amount either on line 10b or line 11, as appropriate.

Noncash contributions. Use any reasonable method to determine the value of noncash contributions reported on line 1.

Don't report any donations of services (such as the value of donated advertising space or broadcast air time) or donations of use of materials, equipment, or facilities, on line 1 as gifts, grants, or contributions. Donated services and facilities from a **governmental unit** are reported on line 5.

Loss on uncollectible pledge. If an organization records a loss on an uncollectible pledge that it reported on a prior year's Schedule A, it should deduct that loss from the contribution amount for the year in which it originally counted that contribution as revenue. For example, if in the prior tax year the

DRAFT AS OF September 2, 2016

organization reported a pledged contribution with a then-present value of $50,000 in *Part III*, line 1, column (e), but learned during the current tax year that it wouldn't receive any of that pledged contribution, it should deduct the $50,000 from the amount reported in *Part III*, line 1, column (d), for the prior tax year.

Support from a governmental unit. Include on line 1 support received from a **governmental unit**. This includes **contributions**, but not gross receipts from exercising or performing the organization's tax-exempt purpose or function, which should be reported on line 2. Contributions are sometimes difficult to distinguish from such gross receipts—the label on the agreement isn't controlling. An amount received from a governmental unit is treated as gross receipts from exercising or performing the organization's tax-exempt purpose or function if the purpose of the payment is primarily to serve the direct and immediate needs of the payor governmental unit. An amount is treated as a contribution if the purpose of the payment is primarily to provide a direct benefit to the public. For example, if a state government agency pays an organization to operate an institute to train agency employees in the principles of management and administration, the funds received should be included on line 2 as gross receipts. See Regulations section 1.509(a)-3(g). Refer to the instructions for Form 990, Part VIII, lines 1e and 2, for more examples addressing the distinction between government payments that are contributions and government payments that are gross receipts from activities related to the organization's tax-exempt purpose or function. Medicare and Medicaid payments are treated as gross receipts from patients rather than as contributions from the government payor for purposes of the public support test. See Rev. Rul. 83-153, 1983-2 C.B. 48.

Unusual grants. Unusual grants generally are substantial **contributions** and bequests from disinterested persons and are:

1. Attracted because of the organization's publicly supported nature,

2. Unusual and unexpected because of the amount, and

3. Large enough to endanger the organization's status as normally meeting the 33⅓% public support test.

For a list of other factors to be considered in determining whether a grant is an unusual grant, see Regulations section 1.509(a)-3(c)(4).

An unusual grant is excluded even if the organization receives or accrues the funds over a period of years.

Don't report gross investment income items as unusual grants. Instead, include all investment income on line 10a.

See Rev. Rul. 76-440, 1976-2 C.B. 58; Regulations section 1.170A-9(f)(6)(ii); and Regulations sections 1.509(a)-3(c)(3) and 1.509(a)-3(c)(4) for details about unusual grants.

Include in ***Part VI*** a list showing the amount, but not the grantor, of each unusual grant actually received each year (if the cash accounting method is used) or accrued each year (if the accrual accounting method is used).

CAUTION *Don't include the names of the grantors because* Part VI *will be made available for public inspection.*

Unusual grants recordkeeping. An organization that received any unusual grants during the 5-year period, should also keep for its records a list showing, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the grant. If the organization used the cash method for the applicable year, show only amounts the organization actually received during that year. If the organization used the accrual method for the applicable year, show only amounts the organization accrued for that year. An example of this list is given later.

CAUTION *Don't file this list with the organization's Form 990 or 990-EZ because it may be made available for public inspection.*

Line 1. Example—List of unusual grants

Year ▶ 2016	Description
Name ▶ Mr. Distinguished Donor	Undeveloped land
Date of Grant ▶ January 15, 2016	
Amount of Grant ▶ $600,000	

Conservation easements and qualified conservation contributions. The organization must report any qualified conservation contributions and contributions of conservation easements consistently with how it reports revenue from such contributions in its books, records, and financial statements and in Form 990, Part VIII, *Statement of Revenue*.

Reporting contributions not reported as revenue. If the organization reports any **contributions** on line 1 of Schedule A (Form 990 or 990-EZ), *Part III*, that it doesn't report on Form 990, as revenue in Part VIII or as assets in Part X, or as revenue or assets on Form 990-EZ, explain in *Part VI* the basis for characterizing such transfers as contributions but not as revenue or assets. For example, if an organization is a community foundation that receives and holds a cash transfer for another tax-exempt organization and reports contributions of such property on Schedule A (Form 990 or 990-EZ), *Part III*, line 1, without reporting it on Form 990, as revenue in Part VIII or assets in Part X, explain the basis for characterizing the property as contributions but not as revenue or assets.

Line 2. Include gross receipts from admissions, merchandise sold, services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose (such as charitable, educational, etc.).

To the extent that membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity, include the membership fees on this line 2. See Regulations section 1.509(a)-3(h).

Line 3. Include gross receipts from activities that aren't an unrelated trade or business under section 513, such as:

- A trade or business in which substantially all work is performed by **volunteers** (such as book fairs and sales of gift wrap paper). See section 513(a)(1).
- A trade or business carried on by the organization primarily for the convenience of its members, students, patients, **officers**, or **employees**. See section 513(a)(2).
- A trade or business which is the selling of merchandise, substantially all of which the organization received as gifts or **contributions**. See section 513(a)(3).
- "Qualified public entertainment activities" or "qualified convention and

DRAFT AS OF September 2, 2016

Line 7a. Example—List of amounts received from disqualified persons

Disqualified Person	(a) 2012	(b) 2013	(c) 2014	(d) 2015	(e) 2016	(f) Total
David Smith	$7,000	$6,000			$2,000	$15,000
Anne Parker			$5,000	$7,000	$4,000	$16,000
Total	$7,000	$6,000	$5,000	$7,000	$6,000	$31,000

DRAFT AS OF September 2, 2016

Line 7b. Example—List of amounts received from other than disqualified persons Year 2016

(a) Name	(b) Amount received in 2016	(c) 1% of amount on line 13 in 2016	(d) Enter the larger of column (c) or $5,000	(e) 2016 excess (column (b) minus column (d))
Word Processing, Inc.	$25,000	$2,000	$5,000	$20,000
Enter on Schedule A, column (e), line 7b				$20,000

trade show activities" of certain organizations. See section 513(d).

- Furnishing certain **hospital** services. See section 513(e).
- A trade or business consisting of conducting **bingo** games, but only if the conduct of such games is lawful. See section 513(f).
- Qualified pole rentals by a mutual or cooperative telephone or electric company. See section 513(g).
- The distribution of certain low cost articles incidental to the solicitation of charitable contributions (except to the extent such gross receipts are properly treated as charitable contributions reportable on line 1 rather than as proceeds of a sale or exchange), and exchange and rental of members lists. See section 513(h).

While the activity of soliciting and receiving qualified sponsorship payments is also excluded from unrelated business (see section 513(i)), the qualified sponsorship payments themselves are treated as charitable contributions reportable on line 1.

Line 4. Enter tax revenue levied for the organization's benefit by a **governmental unit** and either paid to the organization or expended on its behalf. Report this amount whether or not the organization includes this amount as revenue on its **financial statements** or elsewhere on Form 990 or 990-EZ.

Line 5. Enter the value of services or facilities furnished by a governmental unit to the organization without charge. Don't include the value of services or facilities generally furnished to the public without charge. For example, include the fair rental value of office space furnished by a governmental unit to the organization without charge, but only if the governmental unit doesn't generally furnish similar office space to the public without charge. Report these amounts whether or not the organization includes these amounts as revenue on its financial statements or elsewhere on Form 990 or 990-EZ.

Line 7a. Enter the amounts that are included on lines 1, 2, and 3 that the organization received from disqualified persons. See the definition of **disqualified person** in the *Glossary* of the Instructions for Form 990.

For amounts included on lines 1, 2, and 3 that were received from a disqualified person, the organization should keep for its records a list showing the name of, and total amounts received in each year from, each disqualified person. Enter the total of such amounts for each year on line 7a. See an example of this list above.

CAUTION *Don't file this list with the organization's Form 990 or 990-EZ because it may be made available for public inspection.*

Line 7b. For any gross receipts included on lines 2 and 3 from related activities received from a person or from a bureau or similar agency of a **governmental unit**, other than from a **disqualified person**, that exceed the greater of $5,000 or 1% of the amount on line 13 for the applicable year, enter the excess on line 7b. The organization should keep for its records a list showing, for each year, the name of the person or government agency, the amount received during the applicable year, the larger of $5,000 or 1% of the amount on line 13 for the applicable year, and the excess, if any. See an example of this list above.

CAUTION *Don't file this list with the organization's Form 990 or 990-EZ because it may be made available for public inspection.*

Line 10a. Include the gross income from interest, dividends, payments received on securities loans (section 512(a)(5)), rents, royalties, and income from similar sources. Don't include on this line payments that result from activities of the organization that further its exempt purpose. Instead, report these amounts on line 2.

Line 10b. Enter the excess of the organization's **unrelated business taxable income** (as defined in section 512) from trades or businesses that it acquired or commenced after June 30, 1975, over the amount of tax imposed on this income under section 511. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an unrelated business activity that is a trade or business that was acquired or commenced after June 30, 1975.

Net income and net losses from all of these trades or businesses should be aggregated. If a net loss results, enter "-0-" on this line. See Regulations section 1.509(a)-3(a)(3).

Line 11. Enter the organization's net income from conducting **unrelated business** activities not included on line 10b, whether or not the activities are regularly conducted as a trade or business. Don't include net income from conducting trades or businesses acquired or commenced by the

organization prior to July 1, 1975. See sections 512, 513, and 514, and the applicable regulations. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business not included on line 10b.

Net income and net losses from all of the organization's unrelated business activities should be aggregated. If a net loss results, enter "-0-" on this line.

Line 12. Include all support as defined in section 509(d) that isn't included elsewhere in *Part III*. Explain in *Part VI* the nature and source of each amount reported. Don't include gain or loss from sale of capital assets.

Line 14. An organization that checks this box should stop here and shouldn't complete the rest of *Part III*. It shouldn't make a public support computation on line 15 or 16 or an investment income computation on line 17 or 18, or check any of the boxes for line 19 or 20.

Example. An organization receives an exemption letter from the IRS that it is exempt from tax under section 501(c)(3) and qualifies as a **public charity** under section 509(a)(2) effective on its date of incorporation. When the organization prepares *Part III* for its first five tax years, it should check the box on line 14 and shouldn't complete the rest of *Part III*. When the organization prepares *Part III* for its sixth tax year and subsequent years, it shouldn't check the box on line 14 and should complete the rest of *Part III*.

TIP *An organization in its first five years as a section 501(c)(3) organization should make the public support and investment income computations on a copy of Schedule A (Form 990 or 990-EZ) that it keeps for itself. An organization should carefully monitor its public support on an ongoing basis to ensure that it will meet the public support tests in the sixth year and succeeding years.*

Line 15. Round to the nearest hundredth decimal point in reporting the percentage of public support. For example, if the organization calculates its public support percentage as 58.3456%, this percentage would be rounded to 58.35% when reported on line 15.

Line 16. For 2016, enter the public support percentage from the 2015 Schedule A (Form 990 or 990-EZ), *Part III*, line 15. Round to the nearest hundredth decimal point in reporting the percentage of public support.

Line 17. Round to the nearest whole percentage.

Line 18. For 2016, enter the investment income percentage from the 2015 Schedule A (Form 990 or 990-EZ), *Part III*, line 17. Round to the nearest whole percentage.

Line 19a. If the organization didn't check the box on line 14, line 15 is more than 33⅓%, and line 17 isn't more than 33⅓%, **check the box on this line and don't complete the rest of this schedule**. The organization qualifies as a publicly supported organization for 2016 and 2017.

Line 19b. If the organization didn't check the box on line 14 or 19a, line 16 is more than 33⅓%, and line 18 isn't more than 33⅓%, **check the box on this line and don't complete the rest of this schedule**. The organization qualifies as a publicly supported organization for 2016.

Line 20. If the organization didn't check the box on line 14, 19a, or 19b, it doesn't qualify as a publicly supported organization under section 509(a)(2) for the 2016 **tax year** and should check the box on this line. If the organization doesn't qualify as a public charity under any of the boxes on Schedule A (Form 990 or 990-EZ), *Part I*, lines 1 through 12, it is a private foundation for filing purposes as of the beginning of the tax year and shouldn't file Form 990, Form 990-EZ, or Schedule A (Form 990 or 990-EZ) for the 2016 tax year. Instead, the organization should file Form 990-PF, and check *Initial return of a former public charity* on Form 990-PF, at the top of page 1.

TIP *If Form 990 or 990-EZ is for the organization's sixth tax year as a section 501(c)(3) organization, and it checked the box on line 20, it should compute the public support percentage and the investment income percentage on its Form 990 for its first five tax years. If its public support percentage for its first five tax years is more than 33⅓% and the investment income percentage for its first five tax years isn't more than 33⅓%, it will qualify as a public charity for its sixth tax year. If the organization qualifies in this manner, explain in* Part VI.

TIP *If the organization doesn't qualify as a publicly supported organization under section 509(a)(2), it can complete* Part II *to determine if the organization qualifies as a publicly supported organization under section 170(b)(1)(A)(vi).*

Part IV. Supporting Organizations

Complete the sections of Part IV that correspond below with the type of supporting organization indicated on line 12a, 12b, 12c, or 12d of *Part I*.

- Type I: Sections A and B;
- Type II: Sections A and C;
- Type III Functionally Integrated: Sections A, D, and E; and
- Type III Non-Functionally Integrated: Sections A and D, and Part V.

Section A. All Supporting Organizations

Line 1. The organization's articles of incorporation or trust instrument must designate the publicly supported organization(s) on whose behalf the supporting organization is operated. The articles of a Type I or II supporting organization may designate its supported organization(s) either by class or purpose or by name. The articles of a Type III supporting organization must designate the supported organization(s) by name, unless a historic and continuing relationship exists between the organizations.

Check "Yes" only if the organization supports no organization other than those listed by name in its governing instrument. If the organization supports any organization not specifically listed, check "No" and describe in *Part VI* how the supported organizations are designated. If designated by class or purpose, describe the class or purpose. If the organization and its supported organization(s) have a historic and continuing relationship, explain that relationship. If support of one or more organizations is subject to certain future contingencies, explain those contingencies, and explain what organizations will be supported or benefited if those contingencies occur.

Line 2. If the organization supported any domestic or foreign organization (other than an organization described in section 501(c)(4), (5), or (6)) that didn't have an IRS determination of status under section 509(a)(1) or (2), check "Yes" and explain in *Part VI* how the organization determined that the

DRAFT AS OF September 2, 2016

supported organization was described in section 509(a)(1) or (2) and why the supported organization doesn't have such an IRS determination (for example, because it has applied for but not yet received such a determination, or it isn't required to obtain recognition of its public charity status because it is a church, a State university, or described in section 4948(b)).

Line 3a. A supporting organization may support an organization described in section 501(c)(4), (5), or (6), if the supported organization satisfies the public support tests applicable to a section 509(a)(2) organization. See Regulations section 1.509(a)-4(k) and the instructions for *Part III.* If the organization supports a section 501(c)(4), (5), or (6) organization, check "Yes" for line 3a.

Line 3b. If the organization confirmed that the supported organization qualified under section 501(c)(4), (5), or (6) and met the section 509(a)(2) public support test for its most recent tax year, check "Yes" and describe in *Part VI* how the organization made this determination. For example, the organization may ask its section 501(c)(4), (5), or (6) supported organization to furnish a copy of its IRS determination letter and to complete annually a *pro forma* Schedule A, *Part III*, and keep the letter and support calculation in the supporting organization's files.

If the supporting organization doesn't annually confirm that its supported organization satisfies the section 509(a)(2) public support test, it must explain in *Part VI* how it knows that the supported organization would have been described in section 509(a)(2) if it were described in section 501(c)(3) during the tax year.

Line 3c. Support given to a supported section 501(c)(4), (5), or (6) organization must be used solely for charitable purposes. If the supporting organization has put into place measures to ensure that such support is used solely for charitable purposes, check "Yes" and describe those measures in *Part VI*. If not, check "No" and describe in *Part VI* how the supporting organization ensured during the tax year that its assets were used solely for charitable purposes.

Line 4a. A supporting organization can't qualify for Type III status in the tax year if any supported organization wasn't organized in the United States.

Lines 4b and 4c. A supporting organization must exercise control and discretion over funds granted to an organization that isn't exempt under section 501(c)(3). See Rev. Rul. 68-489, 1968-2 C.B. 210. Also, a domestic charity generally must exercise control and discretion over funds granted to a foreign organization. See Rev. Rul. 63-252, 1963-2 C.B. 101, and Rev. Rul. 66-79, 1966-1 C.B. 48.

Explain in *Part VI* how the organization retained such control and discretion despite being controlled or supervised by or in connection with such foreign supported organization(s). Also explain what controls the organization used to ensure that all support to the foreign supported organization(s) was used exclusively for charitable, educational, etc., purposes described in section 170(c)(2)(B) if the foreign supported organization doesn't have an IRS determination under sections 501(c)(3) and 509(a)(1) or (2).

Line 5. Supporting organizations may add, substitute, or remove supported organizations only in certain limited situations. See Regulations section 1.509(a)-4(d). Generally, a Type I or Type II supporting organization may add or substitute particular supported organizations within the class or classes designated in its articles, but may not add or substitute supported organizations outside of the designated class(es). A Type III supporting organization, which must specify its supported organizations by name, may only substitute supported organizations if such substitution is conditioned upon the occurrence of an event which is beyond the control of the supporting organization (such as a supported organization's lapse into private foundation status).

If the organization has added, substituted, or removed any supported organization during the tax year, check "Yes" and provide detail in *Part VI*, including (i) the names and EINs of the organizations added, substituted, or removed; (ii) the reasons for each addition, substitution, or removal; (iii) the authority under the organization's organizing document for each addition, substitution, or removal; and (iv) an explanation of how the action was accomplished (such as by amendment to the organizing document substituting a new supported organization).

Line 6. A supporting organization must engage solely in activities that support or benefit its supported organization(s). In addition to making grants and providing services and facilities directly to its supported organization(s), a supporting organization generally may also make grants or provide services or facilities to (1) individual members of the charitable class benefited by its supported organization(s) or (2) other supporting organizations that also support or benefit its supported organization(s). See Regulations section 1.509(a)-4(e). If the organization made any grants or provided any benefits to any other organization or individual, check "Yes" and provide detail in *Part VI*.

Lines 7 and 8. Under section 4958(c)(3), any grant, loan, compensation, or other similar payment provided by a supporting organization to a substantial contributor (defined in section 4958(c)(3)(C)), to a family member (defined in section 4958(f)(4)), and to a **35% controlled entity** of such persons, is considered a *per se* excess benefit in its entirety, regardless of the fairness or reasonableness of the payment, and is subject to tax under section 4958(a). The same is true of any loan by a supporting organization to a **disqualified person** under section 4958 (other than loans to certain exempt organizations). If the organization made any such payment or loan during the tax year, check "Yes" and report the transaction on Schedule L (Form 990 or 990-EZ), Transactions With Interested Persons, Part I. For more information on excess benefit transactions generally, see the Instructions for Schedule L.

Line 9. A supporting organization may not be controlled by **disqualified persons**, as defined in section 4946. Section 509(a)(1) or (2) organizations, and foundation managers who are disqualified persons only as a result of being foundation managers, aren't treated as disqualified persons for this purpose. Impermissible control may be direct or indirect. If a disqualified person holds any of the interests described in lines 9b or 9c, or derives personal benefit from any such assets, provide detail in *Part VI.*

Line 10. Under section 4943(f), a Type II supporting organization that accepts a contribution from a person who controls the governing body of a supported organization (or from a family member of such person, or from a **35% controlled entity** of such person) is subject to the excess business holdings tax under section 4943. All Type III non-functionally integrated supporting organizations generally are also subject to the tax. For more information about excess business holdings, see the

DRAFT AS OF November 2, 2016

Instructions for Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code.

Line 11. Section 509(f)(2) prohibits Type I and Type III supporting organizations from accepting a gift or contribution from certain persons associated with a supported organization of such supporting organization. Specifically, if a Type I or Type III supporting organization accepts a contribution after August 16, 2006, from a person who controls the governing body of a supported organization (or from a family member of such person, or from a **35% controlled entity** of such persons), then the supporting organization loses its status as a supporting organization. Such supporting organization must file Form 990-PF unless it qualifies as a public charity under section 509(a)(1) or (2).

Section B. Type I Supporting Organizations

Line 1. A Type I supporting organization must be operated, supervised, or controlled by one or more of its supported organizations (the "controlling supported organizations"). This means that the controlling supported organizations must have a substantial degree of direction over the policies, programs, and activities of the supporting organization, and the supporting organization in turn must be responsive to the needs or demands of the controlling supported organizations, and must constitute an integral part of, or maintain a significant involvement in, the operations of the controlling supported organizations. This relationship is most clearly established when one or more supported organizations (through their officers, directors, trustees, or membership) have the unconditional power to remove and replace at least a majority of the supporting organization's directors or trustees at any time. The relationship is also commonly established when one or more supported organizations have the power to appoint or elect at least a majority of the supporting organization's directors or trustees at regular intervals. However, there may be other ways to establish this relationship. If the organization relies on other ways to establish the relationship, check "No" and describe in *Part VI* how the necessary relationship is established.

Line 2. The supporting organization may benefit organizations that don't participate in the control relationship described in line 1, but only if such activity carries out the purposes of the controlling supported organizations.

Section C. Type II Supporting Organizations

Line 1. A Type II supporting organization must be supervised or controlled in connection with its supported organization(s). This means that there must be common supervision or control by the persons supervising or controlling both the supporting organization and the supported organization(s) to ensure that the supporting organization will be responsive to the needs and requirements of the supported organization(s). This relationship is most clearly established when the same persons serve as all or a majority of the directors or trustees of all of the organizations involved. However, there may be other ways to establish this relationship. If the organization relies on other than overlap of at least a majority of directors or trustees of all organizations involved, check "No" and describe in *Part VI* how the necessary relationship is established.

Section D. All Type III Supporting Organizations

Line 1. A Type III supporting organization must supply annually a written notice, addressed to a principal officer of each supported organization, which includes the following.

1. A description of the type and amount of all support the supporting organization provided to the supported organization during the supporting organization's tax year preceding the tax year in which the notice is provided.

2. A copy of the supporting organization's most recently filed Form 990 (the supporting organization may redact the names and addresses of contributors).

3. A copy of the supporting organization's updated governing documents (including articles of organization, bylaws, and any amendments), to the extent not previously provided.

See Regulations section 1.509(a)-4(i)(2). The notice must be submitted by the last day of the fifth month of the supporting organization's tax year being reported (May 31 for calendar-year filers). An organization that doesn't timely submit the required information in the required manner doesn't qualify as a Type III supporting organization for the tax year in which it fails to timely submit.

State whether during the tax year being reported the organization provided a timely notice with the required information in the required manner.

Lines 2 and 3. A Type III supporting organization must be responsive to the needs or demands of a supported organization. An organization meets this responsiveness test with regard to a particular supported organization if:

1. The supported organization has an *adequate relationship* with the supporting organization because:
   a. The supported organization regularly appoints or elects (whether or not during the tax year) at least one officer, director, or trustee of the supporting organization;
   b. At least one member of the governing body of the supported organization also serves as an officer, director, or trustee of the supporting organization; or
   c. The officers, directors, or trustees of the supporting organization and of the supported organization maintain a close and continuous working relationship; and

2. Because of this relationship, the supported organization has a *significant voice* in the supporting organization's investment policies, timing of grants, manner of making grants, selection of grant recipients, and other use of income or assets (the "significant voice" test).

In the case of a supporting organization that supported a supported organization before November 20, 1970, additional facts and circumstances such as a historic and continuing relationship between the organizations may also be taken into account in considering the responsiveness test.

If the organization had an adequate relationship with at least one supported organization only by means of a "close and continuous working relationship" or a "historic and continuing relationship," then in *Part VI* explain the relationship and how it was maintained. Also, all Type III supporting organizations that claim to meet the significant voice test must describe in *Part VI* the voice or role of the supported organization(s) in directing the supporting organization's use of its income or assets.

DRAFT AS OF November 2, 2016

Section E. Type III Functionally Integrated Supporting Organization

Line 1. A Type III supporting organization must constitute an integral part of one or more of its supported organizations by maintaining significant involvement in its operations and providing support on which the supported organization is dependent. To satisfy this requirement as a Type III functionally integrated supporting organization, an organization may (a) pass an Activities Test (see instructions for *Line 2*, later), (b) be the parent of its supported organizations (see instructions for *Line 3*, later), or (c) support one or more governmental entities (see *Support of governmental entity*, later). If the organization can't satisfy any of these tests, it may still qualify as a Type III non-functionally integrated supporting organization (see *Part V*, later).

Support of governmental entity. A Type III supporting organization meets the integral part test for a functionally integrated supporting organization if it (1) supports at least one supported organization that is a governmental entity to which the supporting organization is responsive (as discussed in instructions for *Section D, lines 2 and 3*, earlier) and (2) engages in activities for or on behalf of such governmental supported organization that performs the functions or carries out the purposes of such governmental supported organization and that, but for the involvement of the supporting organization, would normally be engaged in by the governmental supported organization itself. See Notice 2014-4. A Type III supporting organization that claims to meet the integral part test for a functionally integrated supporting organization by supporting a governmental entity must describe in *Part VI* how it met these requirements for the tax year.

Line 2. Activities Test. To meet the activities test of a Type III functionally integrated supporting organization, substantially all of the supporting organization's activities must (1) *directly further* the exempt purposes of the supported organization(s) to which the supporting organization was responsive, and (2) be activities that such supported organization(s) would normally be engaged in *but for* the supporting organization's involvement.

Direct furtherance. Substantially all of the supporting organization's activities must be "direct furtherance" activities. Direct furtherance activities are conducted by the supporting organization itself, rather than by a supported organization. Holding title to exempt-use assets and managing them are direct furtherance activities. Fundraising, investing and managing non-exempt-use assets, grant-making to organizations, and grant-making to individuals (unless it meets the requirements of Regulations section 1.509(a)-4(i)(4)(ii)(D)) aren't direct furtherance activities.

But for. In addition, the direct furtherance activities must be activities in which, but for the supporting organization's involvement, the supported organization would normally be involved.

Examples include holding and managing facilities used by a church for its religious purposes, operating a food pantry for a group of churches that normally would operate food pantries themselves, and maintaining local parks for a community foundation that otherwise would maintain those parks. See Regulations section 1.509(a)-4(i)(4)(v) for more detailed examples.

Line 3. Parent of Supported Organizations. To qualify as the parent of all the supported organizations, a supporting organization must (1) have the power to appoint or elect, directly or indirectly, a majority of the officers, directors, or trustees of every supported organization; and (2) exercise a substantial degree of direction over the policies, programs, and activities of every supported organization.

Part V. Type III Non-Functionally Integrated 509(a)(3) Supporting Organizations

A Type III supporting organization (other than a Type III functionally integrated supporting organization) generally must satisfy a distribution requirement described in Regulations section 1.509(a)-4(i)(5)(ii) along with an attentiveness requirement described in Regulations section 1.509(a)-4(i)(5)(iii) to meet the integral part test for a Type III relationship. To satisfy the distribution requirement, the organization must make a minimum amount (distributable amount) of distributions to or for the use of one or more supported organizations. Carryovers of excess distributions from certain prior years may be used for this purpose.

Sections A through E of *Part V* show whether the organization has satisfied its distribution and attentiveness requirements for its tax year. Sections A and B determine the organization's adjusted net income and minimum asset amount, which amounts are used in determining the distributable amount in Section C. Section D determines the organization's distributions that count toward the distributable amount and determines whether the attentiveness requirement is met. Section E determines whether the distributable amount is satisfied through current distributions and prior-year carryovers, and determines carryovers to future years.

A trust is excepted from the general distribution and attentiveness requirements (and need not complete Sections A through E) if on November 20, 1970, it met and continues to meet the requirements set forth in Regulations section 1.509(a)-4(i)(9). A trust that claims this status by checking the box on line 1 at the beginning of *Part V* must explain in *Part VI* how it meets each of the requirements. A trust that has obtained a ruling from the IRS on this issue must so indicate in *Part VI*.

Section A. Adjusted Net Income

The principles of section 4942(f) and Regulations section 53.4942(a)-2(d) apply in determining adjusted net income. See Regulations section 1.509(a)-4(i)(5)(ii)(B).

Prior and current year columns. The organization's adjusted net income for the prior tax year is used in determining the organization's distributable amount for the current tax year. The form also allows for reporting the organization's adjusted net income for the current tax year for use in next year's calculations; this reporting is optional but may be helpful if the organization anticipates being required to complete *Part V* next year.

Definition. Adjusted net income is gross income for the tax year less deductions allowable to a corporation subject to tax under section 11, with certain modifications discussed in the line instructions later. In computing gross income and deductions, the principles of the income tax provisions of the Code apply (except to the extent inconsistent with section 4942 or the underlying regulations), but exclusions, deductions, and credits aren't allowed unless expressly provided for under section 4942 or the underlying

DRAFT AS OF September 2, 2016

regulations. See Regulations section 53.4942(a)-2(d)(1).

Line 1. Report the organization's net short-term capital gain, if any.
Long-term capital gains and losses from the sale or disposition of property aren't taken into account in determining adjusted net income (unless reportable on line 2 as recoveries of prior-year distributions). Net short-term capital loss can't be carried back or forward to other tax years. Amounts treated as long-term capital gains include capital gain dividends from a regulated investment company and net section 1231 gains (but net section 1231 losses are treated as ordinary losses and thus taken into account). If the fair market value of property distributed for charitable purposes exceeds adjusted basis, the excess isn't deemed includible in income.

Adjusted basis. The adjusted basis for purposes of determining gain from the sale or other disposition of property is the greater of:

1. The fair market value of such property on August 17, 2006, plus or minus all adjustments thereafter and before the date of disposition under sections 1011–1023, if the property was held continuously from August 17, 2006, to the date of disposition; and

2. The adjusted basis under sections 1011–1023, without regard to section 362(c). If assets acquired before August 17, 2006, were subject to depreciation or depletion, to determine the adjustments to basis between the date of acquisition and August 17, 2006, straight line depreciation or cost depletion must be taken into account. Any other adjustments that would have been made during such period (such as a change in useful life based upon additional data or a change in facts) must also be taken into account.

The adjusted basis for purposes of determining loss is only the amount described in item 2 above.

Line 2. Recoveries of prior-year distributions include the following.
- Repayments received of amounts which were taken into account as a distribution counting toward the distribution requirement in a prior tax year.
- Proceeds from the sale or disposition of property to the extent that acquisition of such property was taken into account as a distribution counting toward the distribution requirement in a prior tax year.
- An amount set aside and taken into account as a distribution counting toward the distribution requirement in a prior tax year to the extent it is determined that such amount isn't necessary for the purposes for which it was set aside.

Line 3. Report all other gross income. Gross income includes all amounts derived from, or in connection with, property held by the organization (except as specified otherwise in the instructions for *Line 1*). Include income from any related or unrelated trade or business. Include income from tax-exempt bonds. Don't include the following.
- Gifts, grants, or contributions received.
- Long-term capital gains or losses or net short-term capital losses.
- Income received from an estate, unless the estate is considered terminated due to a prolonged period of administration.
- Distributions from a trust created and funded by another person.
- Certain amounts received by an organization in the redemption of stock in a corporate disqualified person in order to avoid excess business holdings, which are treated as not essentially equivalent to a dividend under section 302(b)(1) (and thus as amounts received in exchange for the stock, giving rise to long-term capital gain or loss) if the conditions of Regulations section 53.4942(a)-2(d)(2)(iv) are met.

Line 5. The deduction for depreciation under section 167 is allowed, but only on the basis of the straight-line method. The deduction for depletion under section 611 is allowed, but without regard to section 613 (percentage depletion).

Lines 6 and 7. No deduction is allowed except ordinary and necessary expenses paid or incurred for the production or collection of gross income, or for the management, conservation, or maintenance of property held for the production of income. Such expenses may include operating expenses such as compensation of officers and employees, interest, rent, and taxes. Where only a portion of property produces income (or is held for the production of income) and the remainder is used for charitable purposes, the expenses must be apportioned between exempt and non-exempt use on a reasonable basis.

Don't deduct the following.
- Net losses from a related business or other charitable activity that produces gross income (no deduction in excess of the income from such activity).
- Charitable contributions under sections 170 or 642.
- Net operating loss carrybacks and carryovers under section 172.
- Dividends under section 241 and the sections following it (the dividends-received deductions for corporations).
- Net capital losses (short-term or long-term).

Expenses and interest relating to tax-exempt income under section 265 are deductible.

Section B. Minimum Asset Amount

The rules for determining the supporting organization's minimum asset amount are set forth in Regulations sections 1.509(a)-4(i)(5)(ii)(C) and 1.509(a)-4(i)(8), using valuation methods described in Regulations section 53.4942(a)-2(c).

Prior and current year columns. The organization's minimum asset amount for the prior tax year is used in determining the organization's distributable amount for the current tax year. The form also allows for reporting the organization's minimum asset amount for the current tax year for use in next year's calculations; this reporting is optional but may be helpful if the organization anticipates being required to complete *Part V* next year.

Definition. In figuring the minimum asset amount, include only assets of the supporting organization that aren't used or held for use by the supporting organization (or by a supported organization, if the supporting organization provides the asset free of charge or at nominal rent) to carry out the exempt purposes of the supported organization(s). Assets held for the production of income or for investment aren't considered to be used directly for charitable functions even though the income from the assets is used for charitable functions. It is a factual question whether an asset is held for the production of income or for investment rather than used or held for use directly by the supporting organization or a supported organization for charitable purposes. For example, an office building used to provide offices for employees engaged in managing endowment funds for the supporting organization or supported organization

DRAFT AS OF November 2, 2016

isn't considered an asset used for charitable purposes.

Dual-use property. When property is used for both charitable and other purposes, the property is considered used entirely for charitable purposes if 95% or more of its total use is for that purpose. If less than 95% of its total use is for charitable purposes, a reasonable allocation must be made between charitable and non-charitable use.

Excluded property. Certain assets (in addition to exempt-use assets) are excluded entirely from the computation of the minimum asset amount. These include charitable pledges and interests in an estate or trust (created and funded by another person) prior to distribution to the supporting organization.

Line 1a. Report on line 1a the average monthly fair market value of securities (such as common and preferred stock, bonds, and mutual fund shares) for which market quotations are readily available. A supporting organization may use any reasonable method to make this determination if consistently used. For example, a value for a particular month might be determined by the closing price on the first or last trading day of the month or an average of the closing prices on the first and last trading days of the month. Market quotations are considered readily available if a security is any of the following.

- Listed on the New York or American Stock Exchange or any city or regional exchange in which quotations appear on a daily basis, including foreign securities listed on a recognized foreign national or regional exchange;
- Regularly traded in the national or regional over-the-counter market for which published quotations are available; or
- Locally traded, for which quotations can be readily obtained from established brokerage firms.

If securities are held in trust for, or on behalf of, a supporting organization by a bank or other financial institution that values those securities periodically using a computer pricing system, the organization may use that system to determine the value of the securities. The system must be acceptable to the IRS for federal estate tax purposes.

Line 1b. Compute cash balances on a monthly basis by averaging the amount of cash on hand on the first and last days of each month. Include all cash balances and amounts, even if they may be used for charitable purposes (see instructions for *Line 4*, later) or set aside and taken as a distribution (see instructions for *Line 5*, Section D, later).

Line 1c. The fair market value of assets other than securities for which market quotations are readily available is determined annually except as described later. The valuation may be made by supporting organization employees or by any other person even if that person is a disqualified person. If the IRS accepts the valuation, it is valid only for the tax year for which it is made. A new valuation is required for the next tax year.

Valuation date. An asset required to be valued annually may be valued as of any day in the supporting organization's tax year, provided the organization values the asset as of that date in all tax years. However, a valuation of real estate determined on a 5-year basis by a certified, independent appraisal (discussed later) may be made as of any day in the first tax year of the organization to which the valuation applies.

Proration of value of assets held for part of year or in a short tax year. The value of an asset held less than a full tax year is prorated by multiplying the value of the asset by a fraction, of which the numerator is the number of days the organization held the asset during its tax year, and the denominator is 365 (366 if the tax year includes February 29). If the supporting organization has a short tax year, the value of all assets is accordingly prorated.

5-year valuation for real estate. A written, certified, and independent appraisal of the fair market value of any real estate, including any improvements, may be determined on a 5-year basis by a qualified person. The qualified person may not be a disqualified person with respect to the supporting organization or an employee of the supporting organization.

Commonly accepted valuation methods must be used in making the real estate appraisal. A valuation based on acceptable methods of valuing property for federal estate tax purposes will be considered acceptable.

The real estate appraisal must include a closing statement that, in the appraiser's opinion, the appraised assets were valued according to valuation principles regularly employed in making appraisals of such property, using all reasonable valuation methods. The supporting organization must keep a copy of the independent appraisal for its records. If a valuation is reasonable, the organization may use it for the tax year for which the valuation is made and for each of the four following tax years.

Any valuation of real estate by a certified independent appraisal may be replaced during the 5-year period by a subsequent 5-year certified independent appraisal or by an annual valuation as described earlier. The most recent valuation should be used to compute the organization's minimum asset amount.

If the valuation is made according to the above rules, the IRS will continue to accept it during the 5-year period for which it applies even if the actual fair market value of the real estate changes during the period.

Line 1e. If the fair market value of any securities, real estate holdings, or other assets reported on lines 1a and 1c reflects a blockage discount, marketability discount, or other reduction from full fair market value because of the size of the asset holding or any other factor, enter on line 1e the aggregate amount of the discounts claimed. Provide an explanation in *Part VI* that includes the following information for each asset or group of assets involved.

1. A description of the asset or asset group (for example, 20,000 shares of XYZ, Inc., common stock);
2. For securities, the percentage of the total issued and outstanding securities of the same class that is represented by the organization's holding;
3. The fair market value of the asset or asset group before any claimed blockage discount or other reduction;
4. The amount of the discount claimed; and
5. An explanation of the reason for the discount.

In the case of securities, there are certain limitations on the size of the reduction in value that can be claimed. The organization may reduce the fair market value of securities only to the extent that it can establish that the securities could only be liquidated in a reasonable period of time at a price less than the fair market value because:

- The securities are such a large block that liquidation would depress the market,
- The securities are in a closely held corporation, or

DRAFT AS OF December 2, 2016

• The sale would result in a forced or distress sale.

Any reduction in value of securities may not exceed 10% of the fair market value (determined without regard to any reduction in value).

Line 2. Enter the total acquisition indebtedness that applies to assets included on line 1 (prorated in the case of assets held for a portion of the year or in a short tax year). For details on acquisition indebtedness, see section 514(c)(1).

Line 4. Supporting organizations may exclude from the minimum asset amount the reasonable cash balances necessary to cover current administrative expenses and other normal and current disbursements directly connected with the charitable, educational, or other similar activities. The amount of cash that may be excluded is generally 1.5% of the fair market value of all assets (minus any acquisition indebtedness). However, if under the facts and circumstances an amount larger than the deemed amount is necessary to pay expenses and disbursements, then the organization may enter the larger amount instead (prorated in the case of a short tax year). If the organization uses a larger amount, explain why in *Part VI.*

Line 7. Enter the amount of recoveries (if any) reportable in Section A, line 2.

Section C. Distributable Amount

The organization's distributable amount for the current tax year is ordinarily the greater of:

1. 85% of its adjusted net income for the prior tax year or

2. Its minimum asset amount for the prior tax year,

less income taxes imposed on the organization during the prior tax year. See Regulations section 1.509(a)-4(i)(5)(ii)(B).

First tax year. The distributable amount for the first tax year that an organization is treated as a non-functionally integrated Type III supporting organization is zero rather than the amount as ordinarily determined. Such an organization should check the box on line 7. For purposes of determining whether the organization has an excess of distributions in its tax year that can be carried over to future years, the distributable amount as ordinarily determined applies to every non-functionally integrated Type III supporting organization (including an organization that checked the box on line 7 for the current year). The distributable amount as ordinarily determined is reported in Sections C and E.

Emergency temporary reduction. In cases of disaster or emergency, the IRS may provide for a temporary reduction in the distributable amount by publication in the Internal Revenue Bulletin. In these cases, the reduced amount should be reported on line 6 and the reduction noted in *Part VI.*

Section D. Distributions

Section D sets forth the supporting organization's distributions that count toward its distribution requirement, and determines whether the attentiveness requirement is met. The amount of a distribution made to a supported organization is the amount of cash or fair market value of property on the date of distribution. The organization must use the cash method of accounting for this purpose. See Regulations section 1.509(a)-4(i)(6).

Line 1. Report amounts paid to supported organizations to accomplish their exempt purposes. Distributions furthering the "exempt" purposes of supported organizations not described in section 501(c)(3) refer solely to distributions for section 501(c)(3) purposes.

Line 2. Report amounts paid to perform any activity that directly furthers exempt purposes of supported organizations and that would otherwise normally be engaged in by the supported organizations, but only to the extent that expenses from the activity exceed income from the activity. See the Schedule A, Part IV, Section E, line 2 instructions on "direct furtherance" activities.

Line 3. Report reasonable and necessary administrative expenses paid to accomplish exempt purposes of supported organizations. Don't include expenses incurred in the production of investment income.

Line 4. Report amounts paid to acquire exempt-use assets. Such assets must be used (or held for use) to carry out the exempt purposes of the supported organizations. The assets may be used or held by either the supporting organization or one or more supported organizations; if the latter, the supporting organization must make the asset available to the supported organization(s) free of charge or for nominal rent. See Regulations section 53.4942(a)-2(c)(3) for further discussion of exempt-use assets.

Line 5. Report qualified amounts set aside for a specific project that accomplishes the exempt purposes of a supported organization to which the supporting organization is responsive. A qualified set-aside counts toward the distribution requirement in the tax year set aside but not again when paid.

Approval required. For each set-aside, a supporting organization must obtain the written approval of both the pertinent supported organization(s) and the IRS. The supporting organization must apply to the IRS for approval (using Form 8940) before the end of its tax year in which the amount is set aside. Explain in *Part VI* whether the organization has requested and obtained the necessary approvals for the set-aside. See Regulations section 1.509(a)-4(i)(6)(v) for more information.

Line 6. Report any other distributions not described above that the organization claims are for the use of its supported organizations, and describe such distributions in detail in *Part VI*.

Lines 8–10. Report on line 8 the amount of distributions reported on line 1 to supported organizations that met the attentiveness and responsiveness tests discussed later, and provide in *Part VI* the supplemental information discussed later.

A Type III non-functionally integrated supporting organization must distribute at least one-third of its distributable amount each tax year to one or more supported organizations that are "attentive" to its operations and to which the supporting organization is "responsive" (as described later); thus, the line 10 amount must be at least 0.333. Carryovers of excess distributions from prior years don't count toward the attentiveness requirement.

If the line 10 amount is less than one-third (that is, the amount of distributions to supported organizations that met both the attentiveness test and responsiveness test is less than one-third of the distributable amount), then the organization doesn't qualify as a Type III non-functionally integrated supporting organization for the tax year. See Regulations sections 1.509(a)-4(i)(5)(i) and (iii). If the organization doesn't otherwise qualify as a public charity, then the organization is a private foundation and must file Form 990-PF for the tax year.

DRAFT AS OF September 2, 2016

Attentiveness test. A supported organization is "attentive" to the operations of a supporting organization if, during the tax year, at least one of the following requirements is satisfied.

1. The supporting organization distributes to the supported organization at least 10% of the supported organization's total support in its tax year ending before the beginning of the supporting organization's tax year. For example, if the supporting organization and the supported organization both use a calendar year, and the supported organization has total support of $X in a year, then the supporting organization's support in the following year must be at least 10% of $X. Where the supporting organization supports a particular department or school of a university, hospital, or church, the department's or school's total support is considered instead.

2. The amount of support received from the supporting organization is necessary to avoid the interruption of a particular function or activity of the supported organization.

3. The amount of support received from the supporting organization is a sufficient part of the supported organization's total support to ensure attentiveness, based on all pertinent facts, including the number of supported organizations, the length and nature of the relationship between the supporting organization and supported organization, and the purpose to which the funds are put. The attentiveness of a supported organization is normally influenced by the amounts received from the supporting organization, but evidence of actual attentiveness to the operations (including investments) of the supporting organization is of almost equal importance. Where the supporting organization supports a particular department or school of a university, hospital, or church, the department's or school's total support is considered instead of the supported organization's total support.

Amounts received from a supporting organization that are held in a donor advised fund of the supported organization are disregarded in determining attentiveness.

See the examples in Regulations section 1.509(a)-4(i)(5)(iii)(D).

Responsiveness test. A supporting organization is "responsive" to the needs and demands of a supported organization if it meets the responsiveness test set forth in the instructions for *Part IV*, Section D, *Lines 2 and 3*, with respect to the supported organization.

Supplemental information required. In *Part VI*, identify each of the supported organizations listed in Part I, Line 12g, column (i), that met both of the following conditions for the tax year.

1. The supporting organization was responsive to the supported organization, **and**

2. The supported organization was attentive to the supporting organization. With respect to each of the identified supported organizations, set forth the facts that show how both the attentiveness test and the responsiveness test were met by the supporting organization and the supported organization.

Section E. Distribution Allocations

Section E determines whether the distributable amount for the current tax year (and any underdistribution for reasonable cause in a prior year) is satisfied through current-year distributions and carryovers of prior-year excess distributions. Section E also determines carryovers of excess distributions to future years. Several lines in Section E aren't yet applicable during the phase-in period of the new regulations for Type III non-functionally integrated supporting organizations. Those lines are grayed out.

In applying distributions, there are three basic steps.

1. First, apply distributions to eliminate any underdistribution for reasonable cause in a prior tax year.

2. Second, apply distributions to satisfy the distributable amount for the current year.

3. Third, carry over to future years any remaining excess distributions.

Apply the oldest distributions first. Carryovers of excess distributions from prior years are always applied in full before current-year distributions (unlike the rules for qualifying distributions by private foundations), and older carryovers are applied before newer carryovers. Excess distributions of a given year can't be carried over for more than five years.

Example 1. X is a Type III non-functionally integrated supporting organization that for its tax year including December 28, 2013, and through its following 2014 tax year meets the requirements of Regulations section 1.509(a)-4(i)(3)(iii) as in effect prior to December 28, 2013. Under transition rules, X is deemed to meet its distribution requirement for 2014, but its distributable amount is calculated in the ordinary manner to determine its excess distributions. For 2014, X had a distributable amount, as ordinarily determined, of $80,000 and distributions of $100,000. Accordingly, X had excess distributions of $20,000. For 2015, X had a distributable amount of $95,000 and distributions of $85,000. X first applied its 2014 excess distributions carryover of $20,000 to the 2015 distributable amount of $95,000. Then, X applied $75,000 of its 2015 distributions of $85,000 to the remaining 2015 distributable amount. Accordingly, X has excess distributions of $10,000 from 2015 (2015 distributions of $85,000 minus $75,000 applied to the 2015 distributable amount), which it may carry over to 2016. For 2016, X has a distributable amount of $100,000 and distributions of $150,000. X applies the $10,000 excess distribution carryover from 2015 to the 2016 distributable amount. Then, X applies $90,000 of its 2016 distributions to the remaining 2016 distributable amount. Section E will show $0 carryovers for 2014 and 2015 (because the excess carryovers for each of those years were previously applied). In addition, Section E will show excess distributions of $60,000 in 2016 (2016 distributions of $150,000 minus $90,000 applied to the 2016 distributable amount), which it may carry over in the next five tax years until applied.

Example 2. Y is a Type III supporting organization that for its tax year including December 28, 2013, meets the requirements of Regulations section 1.509(a)-4(i)(3)(iii) as in effect prior to such date, but doesn't meet such requirements in its following 2014 tax year (because of underdistributions for which the prior regulation didn't expressly provide a reasonable cause exception). Therefore, Y didn't benefit from the transition rule for its 2014 tax year. Y's distributable amount was $120,000 for 2014. Y made distributions of that amount and had no excess distributions to carry over to 2015. Y calculated that its distributable amount was $150,000 for 2015 and made distributions of exactly that amount in 2015. Early in its 2016 tax year, Y discovers that its distributable amount for 2015 actually was $200,000. Within 180 days, Y makes a $110,000 distribution ($50,000 to cover the

DRAFT AS OF September 2, 2016

underdistribution for 2015 and $60,000 as part of its 2016 distributions). Later in the 2016 tax year, Y makes additional distributions totaling $200,000. Y's distributable amount in the 2016 tax year is $190,000. In its 2016 Form 990, Y claims reasonable cause for the 2015 underdistribution due to a clerical error. Under these circumstances, Y first applies $50,000 of its 2016 distributions of $310,000 to the 2015 underdistribution of $50,000 ($200,000 minus $150,000), then applies $190,000 of its remaining 2016 distributions of $260,000 ($310,000 minus $50,000) to satisfy its 2016 distributable amount. Y's remaining $70,000 of distributions in 2016 ($310,000, minus $50,000 allocated to 2015, and minus $190,000 allocable to 2016) are excess distributions that may be carried over to future years.

Line 1. Report the distributable amount for 2016 from Section C, line 6.

Line 2. An organization that is treated as a non-functionally integrated Type III supporting organization for the first time in its 2015 tax year will have a distributable amount of zero during the 2015 tax year.

If the organization had any underdistributions for a prior tax year (2014 or 2015), then it didn't qualify as a Type III non-functionally integrated supporting organization in that tax year and subsequent years (and would be classified as a private foundation unless it met the requirements of another public charity status) unless it met the requirements of the reasonable cause exception or the judicial proceeding exception discussed in the instructions for *Lines 5 and 6*, later. If the organization met either of these exceptions, explain in detail in *Part VI* how the organization met the requirements for the exception.

Line 3. On lines 3d and 3e, enter the amounts reported on lines 8d and 8e, respectively, from the organization's return for the 2015 tax year. The sum of the amounts on lines 3d and 3e is also reported on line 3f. The amount reported on line 3f is then applied in the following priority.

1. First to any prior-year underdistributions on line 3g,

2. Second (if any remaining amount) to the current-year distributable amount on line 3h, and

3. Third (if any remaining amount) on line 3j for carryover to future years.

Excess distributions can't be carried over for more than five tax years and thus are forfeited if not used in the fifth year of carryover. Such amounts are set forth in line 3i (not applicable to the 2016 return).

Line 4. Apply the current-year distributions (from Section D, line 7) in the same order of priority as described in the instructions for *Line 3* to any prior-year underdistributions (line 4a) and current-year distributable amount (line 4b) remaining after applying carryovers on line 3. Any remaining distributions are reported on line 4c for carryover to future years.

Lines 5 and 6. If the current-year distributable amount is greater than the sum of the excess distributions carryover from the prior year plus the current-year distributions, then the organization doesn't meet the distribution requirement and can't qualify as a Type III non-functionally integrated supporting organization for the tax year, unless an exception applies. If the organization doesn't qualify as a supporting organization or otherwise as a public charity for the tax year, then it is a private foundation and must file Form 990-PF for the tax year and subsequent years until private foundation status is terminated under section 507. If either the reasonable cause or judicial proceeding exception applies, then explain in detail in *Part VI* how the organization met the requirements for the exception.

Reasonable cause exception. An organization that fails to distribute its distributable amount won't be classified as a private foundation for the year of the failure if the organization establishes to the satisfaction of the IRS that:

1. The failure was due to unforeseen events or circumstances beyond its control, a clerical error, or an incorrect valuation of assets;

2. The failure was due to reasonable cause and not to willful neglect; and

3. The distribution requirement is met within 180 days after the organization is first able to distribute its distributable amount notwithstanding the unforeseen events or circumstances, or within 180 days after the clerical error or incorrect valuation was or should have been discovered.

Amounts paid to meet a distribution requirement of a prior tax year can't also be counted toward the distribution requirement for the tax year in which paid.

Judicial proceeding exception. An organization is excused from meeting the distribution requirements to the extent of a conflicting mandatory provision in its governing instrument, if a judicial proceeding is pending to reform a governing instrument that prohibits compliance, under the circumstances set forth in Regulations section 1.509(a)-4(i)(11)(ii)(E).

Lines 7 and 8. Enter on line 7 the prior-year carryover and the current-year distributions to the extent not applied to prior-year underdistributions and the current-year distributable amount (and not already carried over for five tax years). The organization may carry over these amounts to future years. Prior-year carryovers are applied before current-year distributions.

Part VI. Supplemental Information

Use *Part VI* to provide narrative information required by these instructions or to supplement responses to questions on Schedule A (Form 990 or 990-EZ). Identify the specific part and line number that the response supports, in the order in which they appear on Schedule A (Form 990 or 990-EZ). *Part VI* can be duplicated if more space is needed.

CAUTION *Don't include in* Part VI *the names of any donors, grantors, or contributors because* Part VI *will be made available for public inspection.*

DRAFT AS OF
October 2, 2016