

## **Exempt Organizations Annual Reporting Requirements – Form 990, Schedule L**

The questions below relate to [Schedule L, Transactions with Interested Persons](#), to [Form 990, Return of Organization Exempt From Income Tax](#).

### **1. Do all Form 990 and Form 990-EZ filers need to file Schedule L?**

No. Only Form 990 filers that answer Yes to any of the questions in [Form 990](#), Part IV, lines 25-28 must complete and file the applicable part(s) of [Schedule L](#). An organization that files [Form 990-EZ](#) must complete Schedule L, Part I if it answers Yes to Form 990-EZ, line 40b. It must complete Schedule L, Part II if it answers Yes to Form 990-EZ, line 38a. Form 990-EZ filers are not required to complete Schedule L, Parts III or IV.

#### **Additional information**

##### [Schedule L instructions](#)

### **2. What types of transactions are reportable on Schedule L, Form 990?**

Transactions reportable on [Schedule L](#) include excess benefit transactions (see Appendix G of [Form 990 instructions](#)), loans between the filing organization and interested persons, grants or other assistance to interested persons and business transactions between the organization and an interested person. Transactions between the organization and an interested person's family members or affiliated entities generally are included. Various thresholds and exceptions may determine whether a given transaction must be reported in one of these parts.

**TIP:** [Form 990](#), Part VI, line 1b asks for the number of independent voting members of the organization's governing body. One criterion for independence is whether a governing body member, or a family member of that person, was involved in a transaction that is reportable on the organization's Schedule L or on the Schedule L of a related organization. Thus, Form 990 filers should determine whether any of their governing board members were involved in a reportable Schedule L transaction before answering the independent board member question in Part VI, line 1b.

### **3. Why are there different definitions of *interested persons* in the different parts of Schedule L, Form 990?**

These different definitions of *interested persons* in [Schedule L](#) reflect different purposes and contexts for each question. For instance, Part I of Schedule L asks for reporting of excess benefit transactions as defined by Code section 4958 and its regulations. Accordingly, the *interested persons* who must be reported in Part I are disqualified persons as defined in Code

section 4958 and the regulations (and summarized in the [Form 990](#) Glossary). In contrast, Part III of Schedule L asks for reporting of grants or assistance benefiting a larger range of interested persons, including the organization's current and former officers, directors, trustees and key employees; family members thereof; grant selection committee members; substantial contributors and their employees; and 35 percent controlled entities of substantial contributors, grant selection committee members and current or former officers, directors, trustees and key employees. Parts II and IV have additional definitions of interested persons to whom those parts apply. See the [Schedule L instructions](#) for more detailed definitions of interested persons for each of the four parts.

4. **Does the definition of *business relationship* in the Form 990 Glossary and in the instructions to Part VI, line 2 (which include an *ordinary course of business* exception) apply for purposes of Part IV, line 28 and Schedule L, Part IV (business transactions involving interested persons)?**

No. The instructions to Part IV, line 28, [Form 990](#) and [Schedule L](#), Part IV define a *business transaction* differently than how a *business relationship* is defined for purposes of Part VI, Question 2. Whereas business relationships between an organization's key personnel (directors, trustees, officers and key employees) are reported in Part VI, line 2, business transactions between the organization and its interested persons (including its current and former officers, directors, trustees, key employees; family members thereof; and certain entities owned or controlled, in part, by those officers, directors, trustees and key employees) are reported in Schedule L, Part IV. Business relationships reported in Part VI and business transactions reported in Schedule L, Part IV are similar, in that both include contracts of sale, lease, license and performance of services. However, each involves different reporting thresholds and exceptions set forth in their respective instructions. For example, an organization that completes Schedule L, Part IV generally is not required to report transactions with an interested person for a dollar amount that did not exceed the greater of \$10,000 or 1 percent of the organization's total revenue for the organization's tax year, whereas the similar threshold for Part VI, line 2 is simply \$10,000. Further, the *ordinary course of business* exception to business relationship reporting in Part VI, line 2 does not apply to Schedule L, Part IV.

#### **Additional information**

- [Schedule L instructions](#)
- [Form 990 instructions](#)

5. **Should our board member's purchase on the open market of tax-exempt bonds that we issued be reported as a loan in Schedule L, Part II, Form 990?**

No, a governing board member's purchase of tax-exempt bonds from the filing organization does not need to be reported on [Schedule L](#), Part II, so long as the board member purchases the bonds on the same terms as are offered to the general public.

#### **Additional information**

##### [Schedule L instructions](#)

6. **One of our governing board members is the president of a bank in which our organization has an account. We earn interest on the deposits, and pay fees to the bank throughout the year. Should this transaction be reported in Part II and/or Part IV of Schedule L, Form 990?**

The bank would be an interested person for which [Schedule L](#), Part II reporting may be required only if it is a *disqualified person* as described in Code section 4958(f)(1). The IRS is considering whether placing funds on deposit with a bank constitutes a *loan* for purposes of Part II, and welcomes any comments you may have on this matter. In the meantime, this transaction need not be reported as a loan on Part II for tax years 2010-2011.

The bank is an interested person for purposes of Part IV because of the board member's status as an officer of the bank. Accordingly, the organization must report on Part IV any payments of fees and interest between the filing organization and the bank during the tax year if such payments with respect to the account exceeded the lesser of (1) \$100,000, or (2) the greater of \$10,000 or 1 percent of the organization's total revenue for its tax year. The IRS is considering whether deposits into and withdrawals from a bank account constitute *payments* or *business transactions* for purposes of Part IV, and welcomes any comments you may have on this matter. In the meantime, deposits and withdrawals need not be counted as payments or reported as business transactions on Part IV for tax years 2010-2011.

#### **Additional information**

##### [Schedule L instructions](#)

7. **Must our organization, a primary school, report in Schedule L, Part III, Form 990 the name of one of our officer's family members to whom we granted a scholarship?**

No. Grants or assistance provided to an interested person as a member of the class that the organization intends to benefit to further its exempt purposes generally need not be reported in Part III, Schedule L, if the grants or assistance are provided on similar terms as are provided to other members of the class. However, grants for travel, study or other similar purposes to interested persons must be reported in Part III.

Recognizing privacy issues, the type of reporting required in Part III for colleges, universities and primary and secondary schools is limited. The school need not identify individuals to whom it provided such assistance. Instead, these organizations must, in Part III, group each type of financial assistance (e.g., need-based scholarships, merit scholarships, discounted tuition) provided to interested persons in separate lines. For each line, the school should report in column (c) the type of assistance and aggregate dollar amount of that assistance, unless such reporting would constitute an unauthorized disclosure of student education records under the Family Educational Rights and Privacy Act (FERPA). Columns (a) and (b) should be left blank for these lines.

**Additional information**

[Schedule L instructions](#)

8. **We compensate our chief financial officer \$110,000 and the CFO's spouse (an employee) \$20,000. Must we report one or both of these transactions in Schedule L, Part IV, Form 990?**

The compensation to the CFO's spouse must be reported in Schedule L, Part IV, assuming that it is not reported in Form 990, Part VII or Schedule L, Part I, because (1) the spouse is a family member of an officer, and therefore an *interested person* for purposes of Part IV; and (2) the compensation to the spouse exceeds \$10,000. The organization does not need to report its compensation to the CFO in Schedule L, Part IV, though it does need to report that compensation in Part VII of the core Form 990.

**Additional information**

- [Schedule L instructions](#)
- [Form 990 instructions](#)

9. **We don't have enough room on Schedule L, Form 990, to include all of the information requested, such as a description of business transactions (Part IV) or the purpose of a loan (Part II). Must we limit our response to the space provided on Schedule L?**

No. A response to a [Schedule L](#) question that does not fit in the space provided on Schedule L should be placed on Schedule L, Part V.

**Additional information**

[Schedule L instructions](#)

10. **How hard do we have to look for the information requested in Parts III and IV of Schedule L, Form 990, regarding assistance to and business transactions with interested persons? What if we are unable to obtain and report all of that information?**

The organization need not engage in more than a reasonable effort to obtain the information needed to answer these questions. An example of a reasonable effort would be for the Form 990, [Schedule L](#) preparer, or an officer eligible to sign the [Form 990](#), to distribute a questionnaire annually to each of its current or former officers, directors, trustees, key employees, and grant selection committee members, asking for the information that needs to be reported in Parts III and IV. The questionnaire could include the name, title, date and signature of the person reporting information. The organization may rely on information it obtains in response to such a questionnaire in answering the questions in Parts III and IV.

**Additional information**

[Schedule L instructions](#)

11. **Our organization made payments during the year to someone who would be reported on Schedule L, Part IV, except that they do not reach the minimum dollar thresholds for that part. Should we answer Yes on line 28 of Part VI of Form 990 and note on Schedule L that the payment is below the reporting threshold? Or should we answer No on line 28 and not complete Schedule L?**

The answer should be *No*. An organization is not required to answer *Yes* to a line in Form 990, Part IV, and complete the schedule (or Part of a Schedule) to which the question is directed if the organization is not required to provide any information in the schedule (or part of the schedule). Thus, a minimum dollar threshold for reporting information in a Schedule may be relevant in determining whether the organization must answer *Yes* to a line in Form 990, Part IV.

12. **What are the governance reporting requirements for organizations that file Form 990-EZ?**

Form 990-EZ does not include a governance section. However, Question 34 asks about changes to organizing documents.

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