

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

Rationale

Schedule J is a new schedule that incorporates some compensation information from the 2006 Form 990. It attempts to bring consistency and enhanced transparency to the reporting of compensation for highly compensated individuals. While very detailed, the Service intends that it be completed only by those organizations with highly compensated individuals and particularly those individuals with complicated compensation arrangements. The instructions include a compensation template which guides organizations on where to report various types of compensation on the schedule. The Service requests comments on whether there are compensation issues or arrangements that should be further highlighted as part of (or excluded from) Schedule J or the Form 990.

Overview

- Schedule J must be completed for individuals listed in Form 990, Part II, Section A who
 - are former officers, directors, trustees, key or highest compensated employees;
 - have reportable compensation (Form W-2, Box 5; Form 1099, Box 7) in excess of \$150,000 from the organization and any related organizations for the calendar year ending with or within the organization's fiscal year;
 - received or accrued more than \$250,000 of reportable or other compensation, including deferred compensation, nontaxable fringe benefits and expense reimbursements from the organization and related organizations; or
 - who received or accrued compensation from any source, other than the organization, for services rendered to the organization.
- Excludes most qualified retirement plan amounts (contributions, accruals, earnings, distributions) from detailed reporting and from determining which persons must be listed on Schedule J.
- Schedule J is not required for individuals not listed in Form 990, Part II, Section A.
- Schedule J expands 3-part detail of compensation in 2006 Form 990 (compensation; contributions to employee benefit plans & deferred compensation plans; expense account and other allowances) into 7-part detail (reportable base compensation, bonus/incentive, severance, other; and non-reportable nonqualified deferred compensation, benefits, and expense reimbursements)
- Requires separate 7-part details for compensation from the organization and from related organizations

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- Contains new checkboxes for supplemental nonqualified retirement plan and equity-based compensation applicable to listed persons

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20XX Instructions for Schedule J

Purpose of Form

Schedule J provides detailed compensation for certain officers, directors, trustees, key and highest compensated employees.

Who Must File

All organizations that answer “yes” to any of Lines 6 through 9 on Form 990, Part II must complete Schedule J, *Supplemental Compensation Information*.

TIP: See the worksheet at the end of these instructions for assistance in determining where to report various types of compensation for the Schedule J, line 1 table as well as Form 990, Part II.

Line 1: Compensation Detail of Officers, Directors, Trustees, Key Employees, and Highly Compensated Employees

Report on Line 1 compensation for the calendar year ending with or within the organization's tax year paid to or earned by the following individuals:

- All of the organization's former officers, directors, trustees, key employees, and highly compensated employees listed in Form 990, Part II, Section A;
- Current or former officers, directors, trustees key employees, and highest compensated employees for whom the sum of Form 990, Part II, Section A, Columns (D) and (E) is greater than \$150,000;
- Current or former officers, directors, trustees, key employees, or highest compensated employees who received or accrued more than \$250,000 (in the aggregate) of the following types of compensation from the filing organization and all related organizations: (1) reportable compensation (as defined for Part II, Section A), and (2) deferred compensation, nontaxable fringe benefits, and nontaxable expense reimbursements not included in reportable compensation; and
- Current or former officers, directors, trustees, key employees, or highest compensated employees who received or accrued compensation from any source other than the organization or a related organization for services rendered to the organization.

Do not list any individuals on Line 1 that are not listed on Form 990, Part II Section A. Do not list on Line 1 institutional trustees, management companies or other organizations providing services to the organization.

For each individual listed, report compensation on two rows: compensation from the organization on the first row, and compensation from all related organizations on the second row. If there is no compensation to report in a particular column, enter -0-. If the organization answered “yes” to Form 990, Part II, line 9, then such compensation from another source should be reported on Schedule J as if it were received directly from the organization.

Column (A). Name. State the name of each individual who must be listed in Schedule J, Line 1.

Column (B). Breakdown of W-2 and 1099-MISC Compensation.

Column (B)(i). Base Compensation. Report the listed person's base compensation that is included in Box 5 of Form W-2, or Box 7 of Form 1099-MISC, issued to the person.

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Base compensation typically means non-discretionary payments to a person agreed upon in advance, contingent only on the payee's performance of agreed-upon services (such as salary or fees).

Column (B)(ii). Bonus and Incentive Compensation. Report the listed person's bonus and incentive compensation that is included in Box 5 of Form W-2, or Box 7 of Form 1099-MISC, issued to the person. Bonus includes all discretionary payments based on satisfaction of a performance target that was not pre-established or communicated to the listed person, or the outcome of which is substantially certain. Bonus also includes certain amounts paid at the beginning of a contract before services are rendered (i.e., signing bonus). Incentive compensation that is required to be reported in Column (B)(ii) means all amounts that are paid during the year pursuant to incentive plans, regardless of whether such incentive plans are annual or long-term. An incentive plan is any plan providing compensation intended to serve as incentive for performance to occur over a specified period. An amount is considered to serve as an incentive for performance to occur over a specified period if the outcome with respect to the relevant performance target is substantially uncertain at the time the performance target is specified and the target is communicated to the listed person.

Column (B)(iii). Severance or Change of Control. Report payments to the listed person pursuant to severance or change-of-control arrangements that are included in Box 5 of Form W-2 or Box 7 of Form 1099-MISC issued to the person. A severance plan is a plan or arrangement in connection with termination of employment. A change-of-control plan is a plan or arrangement in connection with a change in the terms of employment, or termination (including constructive termination) of employment that occurs as a direct result of a change in control of the organization.

Column (B)(iv). Other Reportable Compensation. Report all other payments to the listed person, including current-year payments of amounts earned in a prior year, that are included in Box 5 of Form W-2, or Box 7 of Form 1099-MISC, issued to the person but not reflected in Columns (B)(i) through (B)(iii).

Column (B)(v). Total of Columns (B)(i)-(B)(iv). Add the amounts reported in Columns (B)(i) through (B)(iv) and report the total in Column (B)(v). The total in this column must correspond to the amount reported in Form 990, Part II, Table 1a, Column (D) (in the case of the organization).

Column (C). Nonqualified Deferred Compensation. Report all deferrals of compensation (plus earnings accrued on deferred amounts and/or increases in actuarial value, if any) for the listed person under a nonqualified plan or a nongovernmental section 457(b) plan established, sponsored, or maintained by or for the filing or a related organization that are not included in Box 5 of Form W-2, or Box 7 of Form 1099-MISC, issued to the person. Do not report in Column (C) any payments to a listed person of compensation that are included in Box 5 of Form W-2, or Box 7 of Form 1099-MISC, issued to the person. Report a reasonable estimate if actual numbers are not available.

For Form 990 reporting purposes, deferred compensation is compensation that is earned or accrued in, or is attributable to, one year and deferred to a future year for any reason, whether or not funded, vested or subject to a substantial risk of forfeiture. Nonqualified deferred compensation is compensation that is deferred pursuant to a nonqualified plan or a nongovernmental section 457(b) plan. (Note that different rules may apply for purposes of

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identifying arrangements subject to section 409A). Earned but unpaid incentive compensation may be deferred pursuant to a nonqualified deferred compensation plan. Do not report incentive compensation in Column (C) before it is earned. Incentive compensation is treated as earned in the year that the relevant specified performance criteria under the relevant incentive compensation plan are satisfied, whether or not payment is actually made in that year.

You must report deferred compensation for each of your listed persons in Schedule J regardless of whether such compensation is deferred as part of a deferred compensation plan that is administered by a separate trust, as long as the plan is established, sponsored, or maintained by or for your organization or a related organization for the benefit of your officers, directors, trustees or employees.

TIP: Qualified Retirement Plan Amounts. You are not required to report in Table 1 any employer contributions, investment earnings, distributions, benefit accruals, or other amounts that are attributable to a qualified retirement plan if such amounts are not reportable in Box 5 of Form W-2 or Box 7 of Form 1099-MISC. You may, but are not required to, explain by footnote that amounts reported in Column B may include amounts reported in Column (C) for a prior year.

Example 1. Executive participates in Organization A's nonqualified deferred compensation plan. Under the terms of the plan, she earns for each year of service an amount equal to 2% of her base salary of \$100,000 for that year. These additional amounts are deferred and are not vested until Executive has completed three years of service with Organization A. For each of the years 1 through 3, Organization A must report \$2,000 of deferred compensation in Column (C).

Example 2. Under the terms of his employment contract with Organization B, Executive is entitled to receive \$50,000 of additional compensation after he has completed five years of service with the organization. The payment is contingent only on the longevity of service. One fifth (\$10,000) of the total amount is attributable to each of the years 1 through 5, even though these amounts are not funded and are subject to a substantial risk of forfeiture until Executive has completed five years of service with Organization B. For each of the years 1 through 5, Organization B must report \$10,000 of deferred compensation in Column (C).

Example 3. Executive participates in Organization C's incentive compensation plan. The plan covers years 1 through 5. Under the terms of the plan, Executive is entitled to earn 1% of Organization C's total productivity savings for each year during which Organization C's total productivity savings exceed \$100,000. Earnings under the incentive compensation plan will be payable in year 6, to the extent funds are available in a certain "incentive compensation pool." For the years 1 and 2, Organization C's total productivity savings are \$95,000. For each of the years 3, 4 and 5, Organization C's total productivity savings are \$120,000. Accordingly, Executive earns \$1,200 of incentive compensation in each of years 3, 4 and 5. She does not earn anything under the incentive compensation plan in years 1 and 2 because the relevant performance criteria were not met in those years. Although the amounts earned under the plan are not payable until year 6 and are subject to a substantial risk of forfeiture until year 6, Organization C must report \$1,200 of deferred compensation in Column (C) for each of the years 3, 4 and 5.

Column (D). Nontaxable Fringe Benefits. Report the value of all fringe benefits (other than expense reimbursements or allowances for expenses incurred directly by the listed person) provided to the listed person that is not included in Box 5 of Form W-2, or Box 7 of Form 1099, issued to the person.

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Depending on the type of benefit, fringe benefits may be provided only to employees or also to persons other than employees, such as independent contractors, directors and trustees. Fringe benefits may be entirely personal in nature or they may combine personal and business elements. Nontaxable fringe benefits are benefits that are specifically excluded from taxation under the Internal Revenue Code, e.g., under IRC section 132 or 119. Section 132 fringe benefits include the following:

- No-additional cost service;
- Qualified employee discount;
- Working condition fringe;
- De minimis (minimal) fringe;
- Qualified transportation fringe;
- Qualified moving expense reimbursement;
- Qualified retirement planning services; and
- Qualified military base realignment and closure fringe.

See IRC section 132, Treas. Regs. § 1.132, Publication 15-B (*Employer's Guide to Fringe Benefits*), Publication 521 (*Moving Expenses*), and a chapter entitled *Unreimbursed Employee Expenses* in Publication 529 (*Miscellaneous Deductions*), for explanation of section 132 fringe benefits and for determining whether a given section 132 fringe benefit is available to non-employees, such as directors and trustees, or to persons who no longer work for you.

The same type of fringe benefit (e.g., a company car) may be either taxable (e.g., if a company car is used for personal travel) or nontaxable (e.g., if the provision of the company car qualifies as a working condition fringe under the rules in section 132 and the accompanying regulations).

In some circumstances the following benefits may qualify as nontaxable:

- fair market value of nontaxable housing provided by the employer;
- transportation and travel expenses provided for business travel;
- meals and entertainment provided for business purposes;
- social club memberships provided for business purposes;
- health insurance;
- life insurance;
- disability benefits;
- long-term care insurance;
- dependent care assistance;
- adoption assistance;
- medical reimbursement programs;
- educational assistance.

The list above is not exclusive. The taxability of a benefit may depend upon the form in which it is provided. For example, a cash housing allowance may be reported in Form W-2, box 5; housing provided for the convenience of the employer may be excludable under section 119; and the fair rental value of in kind housing maybe part taxable and part excludable, depending upon facts and circumstances.

Column (E). Expense Reimbursements. Report the amount of all expense reimbursements and allowances provided for expenses incurred directly by the listed person that is not included in Box 5 of Form W-2 issued to the person.

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Expense reimbursements and allowances that are not required to be included in Box 5 of Form W-2 are those made under an accountable plan. An accountable plan is a reimbursement or other expense allowance arrangement applicable to employees that meets the following rules:

- (i) the expenses covered under the plan must be deductible employee business expenses,
- (ii) the employee must adequately account to the employer for the expenses within a reasonable period of time, and
- (iii) the employee must return any excess allowance or reimbursement within a reasonable period of time. See Treas. Regs. §1.62-2 and Publication 535 (*Business Expenses*), for explanation of accountable plans.

Note that the accountable plan rules do not apply to expense allowance payments made to non-employees, such as directors or trustees who are not also your employees. However, for purposes of the working condition fringe provisions of section 132, you may treat your directors or trustees as your employees. You may treat cash payments to your directors or trustees made under circumstances substantially identical to the accountable plan provisions as a section 132 working condition fringe. See Treas. Reg. § 1.132-5(a)(1)(v).

Column (F). Total of Columns (B)(v)-(E). Add the amounts reported in Columns (B)(v) through (E) and report the total in Column (F).

Column (G). Supplemental Nonqualified Retirement Plan. Answer yes if during the year the listed person participated in any supplemental nonqualified retirement plan established, sponsored, or maintained by or for the filing organization or a related organization. Provide a separate answer for your organization and related organizations. A supplemental nonqualified retirement plan is a nonqualified retirement plan that is not generally available to all employees but is available only to a certain class of management or highly compensated employees.

Column (H). Equity-Based Compensation. Answer yes if during the year the listed person received from your organization or a related organization any equity-based compensation (such as stock, stock options, stock appreciation rights, phantom stock, restricted stock, or shadow stock), or participated in any equity compensation plan sponsored by your organization or a related organization, whether the equity interest is in a partnership, limited liability company, or corporation. Provide a separate answer for your organization and related organizations.

Lines 2 through 7: Questions Regarding Compensation

Lines 2 through 7 pertain to all officers, directors, trustees and employees of the organization and not just the individuals listed on Line 1. You must complete Lines 2 through 7, however, only if you are required to complete Line 1 with respect to any individual.

Line 2. Answer yes if the organization implemented and followed a written policy regarding payment or reimbursement of travel and entertainment expenses of officers, directors, trustees or other employees.

Line 3. Answer yes if the organization during its tax year made any payment or reimbursement to its officers, directors, trustees, or other employees for first-class or chartered travel, club dues, or use of personal residence for business purposes.

Line 4(a). Answer yes if the organization paid or accrued with respect to any person listed in Form 990, Part II, Section A any compensation determined in whole or in part by the revenues of one or more activities of the organization.

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Line 4(b). Answer yes if the organization paid or accrued with respect to any person listed in Form 990, Part II, Section A any compensation determined in whole or in part by the revenues of one or more activities of any related organization.

Line 5(a). Answer yes if the organization paid or accrued with respect to any person listed in Form 990, Part II, Section A any compensation determined in whole or in part by the net earnings of one or more activities of the organization.

Line 5(b). Answer yes if the organization paid or accrued with respect to any person listed in Form 990, Part II, Section A any compensation determined in whole or in part by the net earnings of one or more activities of any related organization.

Line 6. Answer yes if the organization provided any non-fixed payments, not described on Lines 4 and 5, with respect to any person listed in Form 990, Part II, Section A. A fixed amount is an amount of cash or other property specified in the contract, or determined by a fixed formula specified in the contract, which is to be paid or transferred in exchange for the provision of specified services or property. A fixed formula may incorporate an amount that depends upon future specified events or contingencies, provided that no person exercises discretion when calculating the amount of a payment or deciding whether to make a payment (such as a bonus). Amounts paid or accrued with respect to any listed person that are not fixed amounts as defined above are non-fixed amounts. For example, any amount paid to a person under a reimbursement arrangement where discretion is exercised by any person with respect to the amount of expenses incurred or reimbursed is a non-fixed amount.

Exception: Amounts payable pursuant to a qualified pension, profit-sharing, or stock bonus plan under section 401(a), or pursuant to an employee benefit program that is subject to and satisfies coverage and nondiscrimination rules under the Code (e.g., sections 127 and 137), other than nondiscrimination rules under section 9802, are treated as fixed payments for purposes of this question, regardless of the organization's discretion with respect to the plan or program. The fact that a person contracting with the organization is expressly granted the choice whether to accept or reject any economic benefit is disregarded in determining whether the benefit constitutes a fixed payment for purposes of this question.

Line 7. If your organization is described in section 501(c)(3) or (4), answer yes if any amounts that were reported in Form 990, Part II were paid pursuant to a contract that was subject to the initial contract exception described in Regs. Section 53.4958-4(a)(3). Fixed payments made pursuant to an "initial contract" are not subject to section 4958 of the Code. An initial contract is a binding written contract between a tax-exempt organization described in section 501(c)(3) or (4) and a person who was not a disqualified person within the meaning of section 4958(f)(1) of the Code immediately prior to entering into the contract. See the instructions to Line 6, above, for the definition of fixed payments.

NOTE: The following template may be useful in determining where to report items of reportable compensation and deferred compensation, nontaxable fringe benefits, and nontaxable expense reimbursements not included in reportable compensation, on Schedule J and Part II, Section A of Form 990. The list is not comprehensive but covers most items for most organizations. Many items of compensation may or may not be taxable, depending on the plan or arrangement adopted by the organization and other circumstances. The list attempts to describe these varying facts and circumstances. The list is merely a guideline to report amounts for those persons required to be listed. In all cases, items included in Box 5 of Form W-2 (or Box 7 of Form 1099-MISC) are to be reported on Part II, Section A and Schedule J, Column B.

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Type of compensation	Where to report									
	Form 990 Part II, Section A, Col. D or E	Schedule J, line 1								
		B(i)	B(ii)	B(iii)	B(iv)	C	D	E	G	H
Base salary/wages/fees paid	x	x								
Base salary/wages/fees deferred (taxable)	x	x								
Base salary/wages/fees deferred (nontaxable)						X				
Bonus paid (including signing bonus)	x		x							
Bonus deferred (taxable)	x		x							
Bonus deferred (nontaxable)						X				
Incentive compensation paid	x		x							
Incentive compensation deferred (taxable)	x		x			X				
Incentive compensation deferred (nontaxable)						X				
Severance or change of control payments made	x			x						
Sick pay paid by employer	x				x					
Third party sick pay	x				x					
Other compensation amounts deferred (taxable)	x		x							
Other compensation amounts deferred (nontaxable)						X				
Tax gross-ups paid	x				x					
Vacation/sick leave cashed out	x				x					
Stock options (nonqualified) at time of grant						X				x
Stock options (nonqualified) at time of exercise	x				x					x
Stock options (qualified) at time of grant										x
Stock options (qualified) at time of exercise	x				x					x
Stock awards unrestricted	x				x					x
Stock awards restricted						X				x
Stock equivalents unrestricted	x				x					x
Stock equivalents restricted						X				x
Loans—forgone interest or debt forgiveness	x				x					
Contributions (employer) to qualified retirement plan										
Contributions (employee deferrals) to qualified retirement plan	x				x					
Qualified retirement plan benefit accruals										
Qualified retirement plan investment earnings										
Distributions from qualified retirement plan (reported on Form 1099-R)										

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Distributions from nongovernmental 457(b) plan	x				x					
Amounts includible in income under 457(f)	x				x					
Amounts deferred (plus earnings) under 457(b) plan (vested)	x				x					
Amounts deferred (plus earnings) under 457(b) plan (nonvested)						x				
Contributions to nonqualified retirement plans (vested)	x				x				x	
Contributions to nonqualified retirement plans (nonvested)						X			x	
Contributions to other nonqualified plans (vested)	x				x					
Contributions to other nonqualified plans (nonvested)						x				
Increase in earnings of nonqualified plan	x				x					
Cost of current insurance protection under compensatory split dollar life insurance arrangement	x				x					
Scholarships and fellowship grants (taxable)	x				x					

The following types of benefits are nontaxable fringe benefits to be reported in Schedule J, line 1, Column (D) if they meet the requirements of an accountable plan or other exclusion provision under section 132 or elsewhere in the Code; otherwise they constitute reportable compensation to be reported in Part II, Section A, Col. (D) or (E), and Schedule J, Column (B)(iv).

Health benefit plan premiums
Medical reimbursement and flexible spending programs
Other health benefits
Long term care insurance
Disability insurance
Life insurance – group term
Life insurance - other
Liability insurance
Housing provided by employer
Employer-provided auto
Use of other employer-provided property
Employer-subsidized parking
Other transportation
Travel
Moving
Meals
Entertainment
Health and social club dues
Dependent care assistance
Adoption assistance
Educational assistance
Cafeteria plans

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Spending accounts
Legal services
Financial services
Retirement services
Other services provided by employer