



INTERNATIONAL BLUEGRASS MUSIC ASSOCIATION

Published on *International Bluegrass Music Association* (<https://ibma.org>)

[Home](#) > Filing Tax Returns for your Non-Profit Bluegrass Organization

---

## [Filing Tax Returns for your Non-Profit Bluegrass Organization](#) <sup>[1]</sup>

by Dwight Worden

Tax-exempt organizations and non-exempt charitable trusts, a broad grouping which will include most non-profit bluegrass organizations including those incorporated under Section 501(c) of the Internal Revenue Code, are subject to federal rules relating to how and when they must file an annual informational tax return. Although such non-profit bluegrass organizations are generally exempt from paying taxes<sup>1</sup>, most must file an "informational" tax return called the form 990 or the form 990 EZ, depending on the amount of gross receipts received for the year. For the tax year 2008 and beyond, the requirements have been significantly modified by the IRS and the filing forms and requirements have been altered accordingly. If you are involved in the tax reporting for your organization, or just want to stay on top of the current requirements, this article should help you with an overview of some of the new requirements with some tips on how to fill out and file the Form 990 EZ for a bluegrass organization.

Historically, non-profit organizations whose gross annual receipts are expected to be \$25,000 or less for the year have not been required to file a federal form 990 or 990 EZ tax return, although they are allowed to file if they choose to do so. If they choose not to file,<sup>3</sup> starting in 2008 they must file an electronic notice.<sup>2</sup> So, if your bluegrass organization's gross receipts are normally less than \$25,000, you have the choice to file or not to file. For the 2008 tax year organizations with gross receipts in excess of the minimum threshold of \$25,000 but less than \$1 million and with total assets of \$2.5 million or less may file the form 990 EZ for the year, while organizations with gross receipts or assets that exceed these amounts must file the regular form 990.<sup>4</sup> Assuming that most bluegrass organizations will have gross receipts of less than \$1 million and total assets of \$2.5 million or less, this article will concentrate on the new requirements for filing the form 990 EZ.

First, though, a word about the purposes of these informational tax returns. They are intended to provide information about the non-profit organization that is available for public inspection. Accordingly they ask for information about a variety of subjects including: your non-profit activities and programs, officers and their compensation, member dues, various sources of income, expenditures and a variety of other matters.

Some members of the public rely on Form 990 or Form 990-EZ as the primary or sole source of information about a particular organization, so the return should be accurate and fully describe the organization's programs and accomplishments. For example, whether a potential donor decides to support your non-profit bluegrass organization, or whether you are awarded that important grant, may well depend on the information your organization files in

these forms. The 990 or 990 EZ is your official "report" to the world and not just another tax return viewed only by the IRS.

Assuming you are going to file a Form 990 EZ for the 2008 tax year, let's take a look at what is required and briefly review some of the nuts and bolts about preparing the return, touching on some of the areas that may be of special interest to bluegrass related organizations. This article only touches on some of the topics, and the reader is referred to the IRS web site and IRS instructions for filing Form 990 EZ for discussion of the other issues. See, [http://www.irs.gov/pub/irs-tege/990ez\\_instructions.pdf](http://www.irs.gov/pub/irs-tege/990ez_instructions.pdf) [2]. You can also call the IRS for help at 877-829-5500, a phone service specifically for helping non-profits with their returns.

### **When, Where, and How to File**

You can get the form 990 EZ from the IRS web site at <http://www.irs.gov/pub/irs-pdf/f990ez.pdf> [3]. File Form 990-EZ by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar-year filer). If the regular due date falls on a Saturday, Sunday or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday or legal holiday. If the return is not filed by the due date (including any extension granted), explain in an attachment the reasons for not filing on time.

Send the return to:

Department of the Treasury  
Internal Revenue Service Center  
Ogden, UT 84201-00275

Parts I through VI of form 990 EZ must be completed by all filing organizations and require reporting on the organization's exempt and other activities, finances, compliance with certain federal tax filings and requirements, and compensation paid to certain persons. Additional schedules are required to be completed depending upon the activities engaged in and the type of the organization. The entire completed Form 990-EZ as filed with the IRS, except for certain contributor information on Schedule B (Schedule of Contributors), is required to be made available to the public by the IRS and the filing organization, and may be required to be filed with state governments to satisfy state reporting requirements.

Some general rules to follow in filing out Form 990 EZ:

- Complete all applicable line items
- Unless instructed to skip a line, answer each question on the return
- Make an entry (including a zero when appropriate) on all lines requiring an amount or other information to be reported
- Provide required explanations as instructed.

Schedule B to the 990 EZ can be a tricky one. The IRS wants to know if your organization received large contributions from the same donor or donors, and Schedule B is where that issue is probed. The good news for many small bluegrass organizations which receive lots of small donations but no large ones is that if your organization received no contribution of \$5,000 or more from the same person, and received no contribution that was 2% or more of what you report on line 1 of your 990 EZ, then you can check a box in Section H and need not complete Schedule B.

Non-profit bluegrass organizations report income from member dues on line 3 of the 990 EZ but only when the amount of the dues reasonably approximates the value of membership to the member—for example when the amount paid for dues roughly equals the value of newsletters and other perks of membership. If the amount of dues exceeds the reasonable value of membership, then the excess is reported on line 1 as a “contribution”. Depending on your dues structure, you may have to report part of the dues received on line 3 and part on line 1.

The Form 990 and 990 EZ also distinguish between “program service revenue” and “special event revenue,” which can be an issue for bluegrass organizations conducting concerts and other special events. Generally, “program service revenue” is income generated from one of the primary purposes of the organization, while “special event revenue” is from an activity that only indirectly furthers the organization’s purposes and which is designed primarily to raise funds. The IRS instructions for form 990 EZ give the following example which directly applies to many bluegrass organizations:

**Example:** *An organization formed to promote and preserve folk music and related cultural traditions holds an annual folk music festival featuring concerts, handcraft demonstrations and similar activities. Because the festival directly furthers the organization’s exempt purpose, income from ticket sales should be reported on line 2 as program service revenue.*

## **Part II. Balance Sheet**

Every organization is required to complete columns (A) and (B) of Part II of the 990 EZ which calls for a balance sheet, and your organization may not submit a substitute balance sheet. If there is no amount to report in column (A), *Beginning of year*, enter a zero in that column.

## **Part III: Programs and Services**

Part III of the 990 EZ is where the organization describes its programs and services. A program service is a major (usually ongoing) objective of an organization. All organizations must describe their exempt purpose achievements for each of their three largest program services (as measured by total expenses incurred). If there were three or fewer of such activities, you should describe each program service activity. Here are some guidelines provided by the IRS:

- Describe program service accomplishments through measurements such as clients served, days of care, number of sessions or events held, or publications issued.
- Describe the activity’s objective, for both this time period and the longer-term goal, if the output is intangible, such as in a research activity.
- Give reasonable estimates for any statistical information if exact figures are not readily available. Indicate that this information is estimated.
- Be clear, concise, and complete in the description. Avoid attaching brochures, newsletters, newspaper articles about the organization, etc.

## **Part IV: Officers, Directors and Employees**

**Part IV of the 990 EZ** calls for listing the officers, key employees and directors of the organization. This section also calls for disclosure of the compensation paid to these individuals. New in 2008, the filing organization has two options for how it reports this compensation. *Option 1* is similar to the 2007 Form 990 method of compensation reporting

but is somewhat simplified. It is based on the calendar year, and also on income reported on a W-2 and/or 1099-MISC. *Option 2* is essentially the 2007 Form 990-EZ method of compensation reporting which can be based on the organization's fiscal year. Whichever option is selected for 2008 must be used consistently from year to year, and must be used for all officers, directors, trustees and key employees (and, for 501(c)(3) organizations, for their five highest compensated employees in Part VI). There are detailed instructions on what must be reported under each option, so read the directions carefully.

### **Unrelated Business Income**

Part V asks a series of straight forward questions that must be answered. Line 35 requires a "yes" if your organization's "unrelated business income" exceeds \$1,000, net, i.e., the excess of gross revenues less the cost of goods sold. The rules on what qualifies as "unrelated business income" are complex and the reader is referred to the instructions. Note also that if your organization's unrelated business income tax liability will exceed \$500, estimated taxes must be paid. Use Form 990-W for this purpose.

Part V also asks questions about "disqualified persons" and "excess benefit transactions." Again, the rules are complex on these topics and the reader is referred to the instructions or to other source materials. Generally, though, a "disqualified person" is someone in your organization who has substantial ability to influence what the organization does. This includes your board members, the executive director, and can include certain donors or contractors and others depending on the circumstances. An "excess benefit transaction" is generally one in which the organization pays a "disqualified person" more in value than the worth of services rendered by the disqualified person. In other words, the IRS wants to know if your organization is slipping extra money to key players and insiders. For most organizations compensation paid to staff and others is presumed reasonable if three requirements are met: (1) the board approves it and the board is free of conflict of interest, (2) your organization relied on comparable pay information from three or more comparable other organizations providing similar services, and (3) the decision is properly documented.

Schedule A is an important part of your 990 EZ. It calls for the compensation amounts paid to your highest paid employees and contractors (Parts 1 and II), asks a series of "yes" or "no" questions about your activities, where a "yes" requires explanation (Part III), and asks under what section of the code your organization claims it is qualified as a non-profit (Part IV).

In Part IVA there is, in effect, a finance work sheet that requires you to provide running totals for the most recent four years on a variety of items concerning your organization. This information is used to see if your organization passes the "public support" test which is one way to avoid being re-characterized as a "Private Foundation". The reader is advised to read the instructions carefully on this issue and to be careful in filling out the worksheet in Part IVA. Basically, the form walks you through a bunch of financial numbers and then concludes with what percent of your support is "public"?-if it is at least 33% you are OK; if not you may be reclassified as a private foundation.

Want to know what you are getting into if you take on filing the 990 EZ for your organization? The IRS estimates that, on average, one will spend 29 hours and 10 minutes in record keeping, 11 hours and 33 minutes learning about the law, 14 hours and 24 minutes filling out the form and 32 minutes copying and filing it, for a grand total of 55 hours and 39 minutes! Boy, now that sounds like fun!

## Footnotes:

1. Even a 501(c)(3) still pays sales tax on goods sold, and may also pay income tax on certain types of "unrelated business income" earned outside its primary mission.

2. A new requirement is that such organizations with gross receipts of less than \$25,000 must now file an electronic notice with the IRS called form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ*.

3. To determine whether an organization's gross receipts are normally \$25,000 or less, apply the following test. An organization's gross receipts are considered normally to be \$25,000 or less if the organization is:

1. Up to a year old and has received, or donors have pledged to give, \$37,500 or less during its first tax year;

2. Between 1 and 3 years old and averaged \$30,000 or less in gross receipts during each of its first 2 tax years; or

3. Three years old or more and averaged \$25,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).

4. Sponsoring organizations of donor advised funds and certain controlling organizations defined in section 512(b)(13) of the Internal Revenue Code must file Form 990 rather than 990-EZ regardless of the amount of their gross receipts and total assets. Likewise, Form 990-EZ may not be used by a private foundation required to file Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation. And, Form 990 must be used to file a group return, not Form 990-EZ. Organizations that have total gross income from unrelated trades or businesses of at least \$1,000 also are required to file Form 990-T, *Exempt Organization Business Income Tax Return*, in addition to any required Form 990, 990-EZ, or 990-N.

5. Form 990 and 990 EZ may be filed electronically with the IRS. For information on electronically filing visit [www.irs.gov/efile](http://www.irs.gov/efile) [4]

## Tags:

[taxes](#) [5]

[non-profit organization](#) [6]

[bluegrass association](#) [7]

[Dwight Worden](#) [8]

---

**Source URL:** <https://ibma.org/press/archives/filing-tax-returns-your-non-profit-bluegrass-organization>

## Links:

[1] <https://ibma.org/press/archives/filing-tax-returns-your-non-profit-bluegrass-organization>

[2] [http://www.irs.gov/pub/irs-tege/990ez\\_instructions.pdf](http://www.irs.gov/pub/irs-tege/990ez_instructions.pdf)

[3] <http://www.irs.gov/pub/irs-pdf/f990ez.pdf>

[4] <http://www.irs.gov/efile>

[5] <https://ibma.org/tags/taxes>

[6] <https://ibma.org/tags/non-profit-organization>

[7] <https://ibma.org/tags/bluegrass-association>

[8] <https://ibma.org/tags/dwight-worden>