

# E-Filing Update

by Thomas H. Pollak

**E**VERY YEAR, NONPROFIT ORGANIZATIONS mail more than seven million pages of Form 990s to the IRS. Millions more are submitted to state charity offices. Although most of the information is public, the process of making it available is grossly inefficient, expensive, and fraught with data entry errors and the potential for accidental disclosure of confidential information.

In this age of the Internet and of nonprofit accountability and transparency, e-filing of Form 990s and state charity registration forms seems like an obvious improvement to this antiquated state of affairs. Our own experience developing the Web-based *990 Online* system ([efile.form990.org](http://efile.form990.org)) is that most organizations find the process easy and straightforward. To make the process as easy as possible, the system handles all the arithmetic and all schedules and attachments, verifies that the returns are complete and internally consistent, and lets users import information from the prior year's returns, from spreadsheet lists such as the board of directors, and from the Form 990 into the state forms.

The major technical barriers to e-filing, at least at the federal level, have disappeared. Seventy-three million returns were e-filed with the IRS in 2006, mostly by individuals. More than half of individual returns are now filed electronically. Since going live with corporate and nonprofit e-filing in

2004, the IRS has seen dramatic growth in the number of e-filed returns. This year alone, it has received nearly one million corporate and nonprofit returns and extensions as of mid-October.

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The nonprofit sector's contribution to these numbers is small but growing rapidly. From a universe of approximately 500,000 public charities, private foundations, and other types of nonprofit organizations that file 990s, 990-EZs, or 990-PFs, the IRS had received approximately 20,000 returns and extensions as of mid-October. But on the positive side, these numbers reflect a 300 percent increase from the same period last year.

This year, for the first time, several thousand organizations with more than \$100 million in assets and that complete more than 250 federal returns were required to e-file their Form 990s with the IRS. A typical organization with

more than 250 returns filed a Form 990, four quarterly Form 941 employer returns, and more than 245 W-2s or 1099s for employees and contractors.

For Tax Year 2006, the asset threshold drops to \$10 million, but the 250 return requirement remains; approximately ten thousand nonprofit organizations will be required to e-file. A handful of private foundations with a large number of employees and contractors must also e-file. (If you need further information, the IRS Web site has lots of valuable publications at [www.irs.gov](http://www.irs.gov).)

Why the 250-return requirement? It dates back to a 17-year-old law intended to protect small businesses from submitting data to the IRS on mainframe-style magnetic tapes. If it were eliminated, all private foundations would be required to e-file, along with nearly 22,000 public charities and other exempt organizations.

Nearly two-thirds of public charities are registered in at least one state under laws governing charitable solicitation or the use of charitable assets. Thirty-two states, accounting for approximately 84 percent of state registrations and renewals, either require the Form 990 or accept it in lieu of additional state forms or requirements. This past year, the IRS put in place the technology—known as the IRS Fed-State Retrieval System—so that states adopting the necessary technology can check their IRS electronic “mailbox” periodically over the course of

each day and automatically retrieve Form 990s or state forms that nonprofits and their preparers have “addressed” to the states.

Approximately 15 percent of returns are completed by organizations filing in multiple states. If all states participated, this would enable each of these “multi-state filers” to submit one electronic bundle with 990s and state forms prepared by a single software application to the IRS for distribution to all the states where the nonprofit was registered, instead of spending thousands of dollars or a great deal of time preparing, copying, and mailing 30 or 40 individual state forms and as many as 32 copies of the Form 990.

What does this mean for your organization? If you register in New York, California, Ohio, Pennsylvania, Michigan, Mississippi, or Colorado (and possibly some other states), you should have the option to e-file. If you are not in one of those states, you can encourage your state charity office to connect to the IRS Fed-State Retrieval System and to accept e-filed state forms as well.

What’s on the horizon? In the short-term, I expect to see steady progress, with more states building e-filing systems, more organizations e-filing with both the IRS and the states, and more software companies supporting Form 990 e-filing in their tax preparation products. A couple of years ago, the future of e-filing for nonprofits seemed uncertain. Now, with stable and thoroughly tested technologies in place at the IRS and strong support from key policymakers on Capitol Hill and from Independent Sector’s Panel on the Nonprofit Sector, widespread e-filing seems inevitable.

The question remains how quickly we will get there. Once state charity offices have confidence in the technology and in the ability of even the smallest of nonprofits to have access to the Internet, one can expect that more states will require e-filing, as Colorado has since 2002. (Colorado found no significant bar-

## Toward a Sector Information System: How 990, 990-EZ, and 990-PF Data Can Be Used

**Support Program Outcomes** especially if Part 3—the program service accomplishments section—is strengthened. See, for example, the Part 3 template developed by the Catholic Health Association for its member hospitals. See also [www.chausa.org/NR/rdonlyres/14B61011-00FE-41DD-81AE-EE15ED538B48/0/LJG990revised.doc](http://www.chausa.org/NR/rdonlyres/14B61011-00FE-41DD-81AE-EE15ED538B48/0/LJG990revised.doc)

### Platform for Industry-Specific Profiles.

Many umbrella associations survey their members on an annual or biannual basis to collect detailed information on their members’ compensation and activities. NCCS is exploring the option of adding supplemental questions to meet association data collection needs to its 990 Online system, just as it has added state forms, to reduce the burden on operating nonprofits and improve the response rate for umbrella associations.

**Role of Foundation Funding.** With the addition of federal Employer Identification Numbers

to private foundations’ list of grant recipients, which appears on the Form 990–PF, foundations and policy-makers could compare the distribution of their grants with community demographics and the location of nonprofit organizations.

### Timely, Policy-Relevant Information

There are many questions that Form 990 data can help answer. A few examples are listed here:

- What types of organizations are being created in your community?
- What types and sizes of organizations are thriving or struggling in your community?
- What are industry standards for executive compensation for organizations like mine?
- What proportion of organizations do advocacy?
- What percentage of organizations have financial reserves or endowments to help them weather economic downturns?
- Do big nonprofits like colleges or hospitals spawn smaller nonprofit offshoots?

riers to access for small organizations; initial plans to develop public library access proved unnecessary.)

In the long-term, as e-filing becomes the norm rather than the exception, everyone benefits. Nonprofits can more efficiently complete and submit their forms, regulators need not wade through piles of paper to do their jobs, and nonprofit associations and researchers need not wait years to compile information from paper returns or surveys, but will have immediate

access to high quality and detailed information. In the long term, this should translate into stronger public support for the sector.

For updated details on e-filing, see the NCCS Web site at [nccs.urban.org](http://nccs.urban.org).

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