



January 11, 2021

Kinna Brewington  
Internal Revenue Service  
1111 Constitution Avenue NW  
Room 6526  
Washington, D.C. 20224

**Independent Sector Comments regarding Mandatory E-filing by Exempt Organizations (Section 3101) and Improving Taxpayer Compliance**

Dear Ms. Brewington,

Independent Sector appreciates the opportunity to submit comments in response to the Internal Revenue Service’s Notice and Comment Request for Exempt Organization Forms, published in the Federal Register on November 12, 2020. Our organization is a national coalition of nonprofits, foundations, and corporations whose members represent tens of thousands of organizations and individuals committed to advancing the common good.

Independent Sector and the nonprofit community appreciate the thoughtful and thorough implementation of the Taxpayer First Act. With the establishment of the Taxpayer First Act Office, the wide solicitation of feedback, and rigorous in-person and virtual listening sessions with senior staff and the Commissioner himself, it has been clear how much the service values input from the communities it serves. Since the founding of our organization, Independent Sector has worked to address transparency and accountability of nonprofits, but also improve our country’s collective understanding of the nonprofit sector and the vital role it plays in American life. While these organizations by definition exist to fulfill their mission, they also produce tremendous economic impact – employing more than 10% of the private workforce and generating new jobs faster than the private sector. Insights into the workings of the nonprofit sector are not merely a matter of social science; they are vital to the nation’s economy, both present and future.

In 2020, a large number of stakeholders, ranging from policymakers to individual households in communities, clamored for accurate, up-to-date information on the nonprofit sector to gauge how to support critical frontline services in the midst of a global public health and economic crisis. In this context, Independent Sector released the first annual [Health of the U.S. Nonprofit Sector](#) report, which aggregated the most current data available on nonprofits across a wide range of indicators. Compiling the report highlighted information gaps that limit our understanding of the sector, prompting Independent Sector to recommend concrete steps to improve the quality and timeliness of nonprofit data. Report

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The Honorable  
**John W. Gardner (1912-2002)**  
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**Brian O'Connell (1930-2011)**  
Founding President and  
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users frequently cite the recommendations to improve nonprofit research and data as one of the most helpful aspects the report content.

With that in mind, Independent Sector respectfully requests the Internal Revenue Service take into consideration two requests to improve the quality and utility of nonprofit information collected and released to the public.

## 1. Improve Access and Reporting of Form 990 Electronic Data

Independent Sector has long supported mandatory electronic filing of Form 990 information returns to improve reporting, research, transparency, and accountability for tax-exempt organizations. Specifically, it was included as a recommendation in Independent Sector's Panel on Nonprofit Sector report to Congress in 2005. Nonprofits advocated for 14 years on this issue, because we understand e-filing can ensure that data about the sector is available quicker and that the data is more accurate. Mandatory e-filing of nonprofit Form 990 also has been supported by watchdog organizations and a bipartisan coalition of policymakers committed to enhancing oversight and compliance of the sector, thereby bolstering the public's historically high level [of trust in nonprofit institutions](#). We applaud the work that the IRS has done in this area to date, but believe the following actions are important steps to more fully realizing the benefits of the e-file policy:

- a. *Create a Regular Release Schedule for Form 990 Electronic Data*  
Independent Sector scheduled the publication of our annual Health Report based on the release of government data on nonprofit organization. Policymakers, researchers, donors, and many other consumers of nonprofit data plan their actions around the anticipated release of new information. When advocating for mandatory e-filed Form 990s, we hoped that the information would be released on a frequent, regular schedule in order to provide more timely information on nonprofit organizations. Therefore, the creation of a release schedule for Form 990 electronic data would be instrumental in enabling the public to fully utilize the data. In addition to a release schedule, the IRS could increase the public's ability to fully utilize this data by creating a webpage for e-filed Form 990 data and should consider using the format of the Exempt Organizations Business Master File.
- b. *Appoint Dedicated IRS Contact for Taxpayer Inquiries about Form 990 Electronic Data*  
The public would benefit from an IRS point person, or mechanism, for handling questions regarding the e-filed Form 990 data on AWS. Members of the public seeking to utilize Form 990 e-filed data need a way to request clarification or additional information about the data, ideally highlighted on the Form 990 e-file data page on the website. This liaison would also provide a mechanism for the IRS to collect information to continue to improve accessibility, accuracy, and utility of Form 990 e-file information in the future.
- c. *Reduce Burden to Access Form 990 Electronic Data*  
One of the most exciting aspects of the public release of Form 990 e-filed data is that it democratizes and streamlines access to the main data source on nonprofit institutions. Now, theoretically any member of the public, policymaker, nonprofit, or researcher can quickly access, analyze, and interpret 990 data. In order for the public to fully understand the data they are viewing, users need guides, such as the Form 990 schema, which they can currently only access through the IRS Secure Object Repository.

Placing tools to understand publicly available Form 990 documents behind complex, time-consuming processes that require the submission of social security numbers or personal income may undermine the broader goals of timely, accessible nonprofit data. We have seen this phenomenon recently with regard to social media platforms; some nonprofits report abandoning efforts to fully utilize these platforms due to recent registration requirements that obligate staff to submit personal information. If similar trends occur with Form 990 electronic data, this system could inequitably impact which nonprofits and researchers have access by effectively blocking those that lack resources, time, or in-house technical research expertise.

## 2. Enhance the Accuracy of Reporting Government Revenue

Users of the Independent Sector’s Health Report specifically demanded accurate information on distinct sources of financial revenue for nonprofits, including charitable giving, program grants, sales, and government funding. There is a particular dearth of accurate information on government funding of nonprofits, so IS engaged many nonprofit researchers to identify the best way to capture the information. Researchers concluded clearer guidance is needed in order to ensure nonprofits are accurately reporting their government funding and users of nonprofit data can accurately interpret what is reported. Specifically, the combined reporting of major sources of government revenue on Form 990 skews the data and makes it difficult to extract meaningful information that can be used for key decision-making. Independent Sector recommends the two following modifications to Form 990 reporting in order to collect higher quality, more useful information on government funding of nonprofit organizations:

### a. *Clearly Label Government Revenue and Modify Instructions*

Medicaid and Medicare make up such a large proportion of nonprofit government revenue, the programs skew any revenue category in which they are included. Therefore, it is essential that this revenue be reported as accurately as possible. Currently, payments from these programs are obscured due to changes in the Form 990 in 2008. Luckily, this confusion can be addressed through minor modifications to the instructions of the Form 990, Part VII, line 2. Instructions may be changed to say line 2a should include any revenue received from government reimbursement programs, such as Medicare or Medicaid, fees, and contracts from government agencies that primarily benefit the agencies. Lines 2b-2e can include the four other largest sources of program service revenue. This proposed change could be made without adding any further lines to the form since five (5) blank lines are already included on the existing form for organizations to list their “program service revenue.”

### b. *Clarify the Distinction between Government Grants, Private Charitable Contribution, Program Service Revenue, and Sales*

It is not possible for donors, researchers, or policymakers to fully understand a nonprofit organization’s finances without the ability to clearly understand separate funding streams, including funding from government. Unfortunately, many nonprofits are not sure how to distinguish between grants and contracts that benefit the public versus payments or reimbursements that serve the needs of a government institution. In 2015, the Advisory Committee on Tax Exempt and Government Entities (ACT) report highlighted this need, finding that it can result in “inconsistent reporting among seemingly comparable organizations” as well as errors in the computation of some organizations’ public support

test on Schedule A. Given the significance of government revenue to the nonprofit sector, it is important that the IRS take steps to address this.

It is important to note that these recommended changes not only will enable the public to better understand nonprofit funding streams, but they will produce more accurate nonprofit data that will improve nonprofit oversight and help policymakers design and assess government programs.

### **Conclusion**

Independent Sector appreciates the opportunity to submit these comments to the Internal Revenue Service about opportunities to improve the accessibility and accuracy of information on the nonprofit sector. We respectfully request the IRS address the proposed changes outlined above. Thank you for considering these comments and recommendations. We stand ready to work with you to strengthen our country's understanding of nonprofit organizations as they continue serving their communities during these difficult times.



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