

Comments Submitted to

The United States Senate Finance Committee
Bipartisan Working Group on Business Income Tax
April 14, 2015

On behalf of:

Center for Civil Society Studies at Johns Hopkins University
Lilly Family School of Philanthropy at Indiana University
Foundation Center
Center on Nonprofits and Philanthropy at the Urban Institute
GuideStar
The Aspen Institute's Nonprofit Data Project

**ELECTRONIC FILING OF THE FORM 990 WILL INCREASE NONPROFIT
TRANSPARENCY, ACCURACY, AND INNOVATION WHILE SAVING TAXPAYER
MONEY**

The Aspen Institute's Nonprofit Data Project brings together the major nonprofit research and data providers in the United States, including the Center for Civil Society Studies at Johns Hopkins University, Lilly Family School of Philanthropy at Indiana University, Foundation Center, the Center on Nonprofits and Philanthropy at the Urban Institute, and GuideStar.

The nonprofit sector has proven to be an invaluable resource in our society. Not only does the sector help millions of individuals in need, it represents five percent of the nation's gross domestic product (GDP), and is a major source of jobs: according to the Bureau of Labor Statistics, one in ten private sector workers in the U.S. is employed by a nonprofit organization.

One of the best sources of information on nonprofits is the Form 990 series, which most nonprofits are required to file annually with the Internal Revenue Service (IRS) and make publicly available upon request.

Current law already requires very large nonprofit organizations, (those that file at least 250 returns during the calendar year and have over \$10 million in assets) and very small nonprofit organizations (those with gross receipts of less than \$50,000 annually) to file their tax returns electronically. The majority of nonprofits in between, however, file paper tax returns.

We write to strongly support a tax proposal to require electronic filing of the Form 990 by all nonprofit organizations that file, and the release of these data in an open, "machine-readable" format by the IRS.

This non-controversial proposal has been embraced by policymakers on both sides of the aisle. It was included in the Tax Reform Act of 2014, introduced by the former Chair of the House Ways and Means Committee, Rep. David Camp, as well as in the tax reform discussion draft of former Senator Baucus and the President's last three budgets. The Joint Committee on Taxation has determined this proposal to have "no revenue effect."

Once publicly available, machine-readable Form 990 data may be used by a plethora of stakeholders including donors, researchers, analysts, entrepreneurs, state and local regulators, charity watch-dog groups, charitable beneficiaries, and others to better understand the tax-exempt sector and create information tools and services to meet the sector's needs.

Thus, we:

- 1) Strongly support a tax provision mandating electronic filing of the Form 990 for all nonprofits required to file these forms with the IRS.
- 2) Strongly support a requirement that the IRS make electronically-filed Form 990s available to the public in a machine-readable format.
- 3) Strongly support transitional relief for small organizations, 990-T filers, or other organizations for which the provisions would cause undue burden without a delay. In such cases, two years after the enactment of legislation should be sufficient transition time.
- 4) Believe that it is important to include a reasonable date certain for the public release of the Form 990. Once e-filing is instituted for all 990 filers, the turn-around time for making this information public – after ensuring the automated redaction of confidential information – should not be lengthy. We suggest that the IRS release electronically-filed forms no more than 90 days after receipt, ensuring that the forms are updated on a regular basis for the public to use.

WHY 990 E-FILING MATTERS:

Currently, the IRS makes Form 990 data available to the public by providing *images* of the 990s in TIF (Tagged Image File) format. These individual 990 images must be *manually re-digitized*, one-by-one, in order to make the data available, usable and analyzable by the public (in fact, the IRS converts electronically-filed returns into images). This antiquated approach to making the data public is highly inefficient, expensive and time-consuming. It also increases the frequency of errors and omissions.

It is time for ALL nonprofits to file electronically and for the IRS to release the data in a format that can be easily downloaded, analyzed, visualized and understood. Given the importance of the nonprofit sector to our society and economy, the need for this information is critical. The benefits of universal e-filing and open nonprofit data include:

- **INCREASED TRANSPARENCY** of nonprofits, helping nonprofit leaders, donors, businesses, policymakers and the public to make better decisions, understand trends in the field and gauge where some nonprofits stand in comparison to their peers.
- **REDUCTION OF FRAUD** by making it easier for both federal and state charity officials to detect and locate potential problems, which are more easily identifiable through computer analysis.
- **IMPROVED ACCURACY** of information provided to the public, since e-filed returns, as

opposed to paper-filed returns, reduce errors, such as inaccurate calculations, and cut down on mistakes, such as the unintentional disclosure of private information (e.g. confidential donor lists).

- **MORE INNOVATION AND BUSINESS OPPORTUNITIES** for entrepreneurs and innovators to use the data and develop new, useful “apps” and data-driven platforms that can help solve problems in our communities.
- **UNDERSTANDING COMMUNITY RESOURCES IN RELATIONSHIP TO COMMUNITY NEEDS**, through web-based tools and research that aggregate 990 data. Examples include the Foundation Center, which uses 990 data for a range of online tools, like BMAfunders.org, to help the public track funding trends and assist philanthropic organizations to better collaborate with the public and private sectors; the Lilly Family School of Philanthropy at Indiana University’s research on individual giving and all other sources and uses of philanthropy; the nonprofit economic impact studies carried out by the Johns Hopkins Center for Civil Society Studies for states and communities around the country; and, the Urban Institute’s Community Platform, which uses a combination of 990 and other data to give citizens access to helpful information on their communities.

Mandating electronic-filing of Form 990 returns would substantially lower the cost of processing returns saving the IRS and taxpayer’s money by greatly reducing transcription errors and the amount of training, recruiting, and staffing that the IRS requires to process paper tax returns. It is our understanding that the IRS technology that is already in place to support the processing of electronically-filed IRS Forms 990 could readily accommodate the increased volume that would result if all organizations were required to e-file. In addition, given limited funding available to the Exempt Organizations division of the IRS, which generally does not raise revenue, it is particularly important that resources be used efficiently. More timely and accessible data will not only help the IRS operate more efficiently, but it will also boost the public’s ability to monitor charities.

These and other findings can be found in the Aspen Institute’s landmark report, *Information for Impact: Liberating Nonprofit Sector Data*, which was released in 2013. This in-depth examination of the Form 990 system, based on research and interviews with over 40 nonprofit, government and business leaders, concluded that there is an urgent need to deliver Form 990 data to the public in a more efficient and accessible manner.¹

We also note that in December, 2014, the Government Accountability Office (GAO) recommended in a report that Congress consider expanding the mandate for nonprofits to electronically file their tax returns, stating “Expanded e-filing may result in more accurate and complete data becoming available in a timelier manner, which in turn, would allow IRS to more easily identify areas of non-compliance.”²

¹ “Information for Impact: Liberating Nonprofit Sector Data, Second Edition” Beth Simone Noveck and Daniel L. Goroff (The Aspen Institute), http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/Information_for_Impact_Report_FINAL_REPORT_9-26-13.pdf

² “Tax-Exempt Organizations: Better Compliance Indicators and Data, and More Collaboration with State Regulators Would Strengthen Oversight of Charitable Organizations” James R. McTigue (United States Government Accountability Office), <http://www.gao.gov/assets/670/667595.pdf>

CONCLUSION:

Adoption of the above recommendations will help to ensure more publicly accessible nonprofit information, improvement in the operation of the nonprofit sector, and the strengthening of law enforcement and sector-wide accountability.

Thank you for the opportunity to submit comments to the Senate Finance Committee's bipartisan working group on Business Income Tax.

CONTACT INFORMATION:

Cinthia Schuman Ottinger, at cschuman@aspennst.org or 202.736.5811, will serve as the point of contact for further information about Form 990 e-filing and the Nonprofit Data Project.
