



## INDEPENDENT SECTOR

*The national leadership forum  
fostering private initiative  
for the public good*

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Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224  
Attn: Theresa Pattara T:EO  
Via Email: [tege-eo-efile@irs.gov](mailto:tege-eo-efile@irs.gov)

Dear Ms. Pattara:

We are pleased to submit the following comments in response to Internal Revenue Service Announcement 2002-27 regarding Electronic Filing of Exempt Organization Returns. The comments are submitted by INDEPENDENT SECTOR, a national coalition of over 700 charitable organizations, grantmaking foundations and corporate giving programs that collectively represent tens of thousands of nonprofit organizations in every state across the nation. INDEPENDENT SECTOR works to promote, strengthen and improve the nonprofit and philanthropic community to foster private initiative for the public good.

These comments also reflect the interests of the Electronic Data Initiative for Nonprofits (EDIN), a newly created coalition of leading associations of nonprofits and foundations that is working to promote an integrated federal and state effort to streamline and improve the reporting and dissemination of data on nonprofit organizations through the appropriate use of electronic technology. In addition to INDEPENDENT SECTOR, the EDIN coalition includes the Council on Foundations, GuideStar, the National Council of Nonprofit Associations, and OMB Watch, with the National Center for Charitable Statistics providing advisory assistance.

INDEPENDENT SECTOR and the EDIN Coalition strongly support efforts to improve philanthropy, including the reduction of economic burdens on nonprofit organizations. At the same time, we realize that the trust that the public has in its nonprofit institutions is a crucial component of the nonprofit sector's strength and that effective governmental oversight is key to maintaining that trust.

Both these goals are advanced by the Internal Revenue Service initiative to create a system for electronic filing of the Form 990 series of information returns, the annual return that is the reporting document for tax-exempt organizations at the state as well as federal level. Electronic filing of the Form 990 will enable the Internal Revenue Service to meet, with greater cost efficiency and timeliness, its statutory duty under section 6104 of the Internal Revenue Code to make copies of the Form 990 returns available to the public. The Form 990 is a vital resource for donors, researchers, grantmakers and anyone interested in the tax-exempt sector. Electronic filing of the Form will provide more timely access to the Forms at lower cost, leading to more effective public and private grantmaking and to more informed donors.

Electronic filing of the Form 990 would facilitate improved allocation of scarce governmental oversight resources and could lead to more effective grantmaking, better-informed donors, and greater public understanding of the work of nonprofit organizations. E-filing would greatly improve the completeness and accuracy of the IRS's database of tax-exempt organizations, enabling the IRS to focus its oversight resources on those organizations in most need of education or review and offer appropriate, but less intrusive, oversight of organizations operating within the requirements of the Internal Revenue Code.

### **Comments On Specific Questions:**

#### ***1. Order of Introduction***

INDEPENDENT SECTOR and the EDIN Coalition recommend that electronic filing should first be made available for the Forms 990 and 990EZ, the forms filed by the vast majority of exempt organizations. Internal Revenue Service reports project that 525,000 Forms 990 and 990EZ will be filed for fiscal year 2001, as compared to only 79,000 Forms 990-PF for the same period. Furthermore, a large percentage of organizations that file Forms 990 and 990EZ solicit contributions from the general public and there is therefore a strong need on the part of potential donors, state charity regulators, and both private and government funding agencies for timely access to these annual information returns.

Substantial work has already been done to pave the way for electronic filing for the Form 990 and 990EZ information returns through pilot efforts in electronic filing in twelve states, including California, Colorado, Illinois, Maryland, Massachusetts, Minnesota, New Hampshire, New Mexico, New York, Pennsylvania, Tennessee, and Washington. In addition, there has been substantial work through efforts like the Quality 990 project (co-sponsored by the National Center for Charitable Statistics, INDEPENDENT SECTOR, the Association of Fundraising Professionals, and the National Council of Nonprofit Associations) to improve the accuracy of information filed on the Form 990 returns and to identify areas where the Forms could be adjusted to increase compliance and accuracy and eliminate unnecessary data elements that do not contribute to legal compliance oversight or greater public understanding of the operations of charitable nonprofits.

While the greatest economies and benefits can be realized through making electronic filing available for the Forms 990 and 990EZ, electronic filing is also important in reducing the costs involved in submission and review of the Form 990-PF and in making those forms widely available to state regulators, grantseeking organizations, other grantmakers, and interested members of the public. There is a strong need to eliminate redundant and often irrelevant information on investment holdings now included as often lengthy attachments to the Form 990-PF, that now increases the cost of preparing and submitting the Form 990-PF for grantmakers without providing useful information for the IRS or other government regulators.

#### ***2. Factors Encouraging E-filing by Exempt Organizations***

Electronic filing offers exempt organizations the strong potential for reducing the time and cost involved in submitting complete, accurate information returns and in making those returns

widely available to potential donors. Studies indicate that 80 percent of Forms 990 and 990EZ are prepared using computer software. The forms must then be printed and mailed to the IRS and other relevant government agencies, increasing the potential for omitting required schedules and attachments. Currently, the Internal Revenue Service must manually enter key data fields from the paper copies of Forms 990 and 990EZ, adding time and cost to the verification process and notification of organizations about missing or incorrect data. Electronic filing offers the potential for built-in consistency and accuracy checks that are part of the software, largely eliminating entry errors and schedule omissions, and significantly reducing the need for supplemental correspondence and filing of corrected returns.

The vast majority of charitable organizations have access to the Internet and a growing number are turning to the Internet to make information about their organizations more widely and easily available to current and potential donors. A study conducted by Princeton Survey Research Associates for INDEPENDENT SECTOR and Cisco Systems in early 2001 showed that 79% of the human service organizations surveyed had access to email, and 77% have regular access to the Internet. A 2001 study of charitable organizations (excluding religious organizations, universities, and hospitals) conducted by Tufts University and OMB Watch found that 94% of the nonprofits surveyed use email regularly and 84% use the Internet. The recently-completed study of nonprofits' willingness to consider e-filing that was conducted by the National Center on Charitable Statistics showed an even greater number – 88 percent – of nonprofits now have access to the Internet.

All of the Forms 990 and 990EZ are currently available to the public at [www.guidestar.org](http://www.guidestar.org). This free website allows users to search for nonprofit organizations by name, size, category, and location. The database includes three years of Form 990 filings in PDF and digitized format as well as additional information provided directly and voluntarily by more than 50,000 organizations. The database is currently viewed by 15,000 to 20,000 users per day.

Currently, GuideStar receives from the IRS scanned images of the Form 990 returns for charitable nonprofits and then manually enters significant data fields from the returns to create its database. Processing the Form 990 in this way is expensive, slow, and prone to inaccuracies. It costs GuideStar roughly \$2 million annually – funds provided by grants from private philanthropic foundations – to digitize Form 990 data, convert images, and ensure quality. Electronic filing would significantly reduce the time and cost involved in making this valuable information available to the public for both the IRS and for GuideStar and would allow the private philanthropic dollars used to support this work to be redirected to other charitable purposes.

E-filing offers potential savings for the thousands of nonprofit organizations that receive federal grant funds or otherwise participate in federal government programs that entail financial reporting to the grantmaking agency. The grantee institutions often face reporting requirements that have been developed for the particular program and not with any effort at harmonization between programs or agencies. Having a financial reporting instrument that is easily transmitted and accessed could serve as a catalyst for standardization of financial reporting to the federal government, setting the stage for significant cost savings for grantee institutions.

Grantmaking organizations would also be able to reduce expenses related to performing due diligence on potential grantees with more timely on-line access to the Form 990 and its attachments; potential grantees will be more easily able to provide the necessary documentation for grant applications. The now burdensome costs of assembly and photocopying will be eliminated.

### ***3. Factors Discouraging E-filing by Exempt Organizations***

The most common concerns expressed by nonprofit organizations we work with are the need for tools and education that would ensure that e-filing did not result in additional time or cost for the organization and the need for assurances that information about donors would remain confidential. Smaller organizations, particularly those in rural areas, may experience difficulties if the system requires access to high-speed Internet connections. A further barrier may be found in the organizations who currently prepare their Forms 990 manually – about 20 percent of all Form 990 filers – who may not have access to or who do not want to use computer software.

### ***4. Actions to Overcome Barriers***

The Electronic Data Initiative for Nonprofits (EDIN) members are committed to conducting a strong effort over the next two years to educate nonprofit organizations and foundations about the potential benefits of e-filing, ranging from cost savings to the individual organizations to simplified reporting processes. Activities will include providing speakers for and convening regional forums in collaboration with regularly-scheduled conferences of national, state and local nonprofit and accounting associations to discuss the benefits of and identify concerns about e-filing. EDIN will develop and submit information about e-filing for publication in state nonprofit association newsletters and in relevant philanthropic and accounting trade publications. We will also convene an advisory committee that will be able to provide guidance to the IRS from the consumer point-of-view on changes to the Form 990 series of reports and components of the new electronic filing system.

Educational workshops about the process of e-filing, including available software, will be developed and conducted in collaboration with IRS staff, state nonprofit associations and local accounting and nonprofit management assistance organizations. EDIN will develop new fact sheets providing specific information on available software and training needed to take advantage of e-filing for distribution by coalition members as well as by other national, state and local associations of nonprofits and accounting professionals. Online training tools will be developed to assist nonprofits and tax professionals in using the IRS e-filing system.

### ***5. Designing the System to Satisfy Multiple Filing and Reporting Requirements***

The greatest benefits of electronic filing lie in the potential to reduce the time and cost involved in submitting multiple reports, often with slight variations, to the IRS and a wide variety of federal and state agencies responsible for oversight of charitable organizations and their activities. There is a significant danger in the prospect of states developing independent systems for electronic filing of nonprofit information returns and registration documents that would

require nonprofit organizations to obtain multiple software programs and increase the cost of entering or transferring data into separate systems.

Concurrent, congruent and coordinated development of state and IRS systems will not only reduce the burden of multiple filing obligations for nonprofit organizations, it would also encourage more commercial firms to develop software for 990 and 990-PF filers as the potential market for their products will be greater.

### **Conclusion**

Nonprofit organizations have always been in the spotlight, but never as much as they have been in the aftermath of the September 11 terrorist attacks. Concerns about fraud and general accountability have put increased pressure on the nonprofit sector to improve oversight and enforcement. It has become even more clear that effective oversight must include not only regulators, but also the institutions and members of the public that use Form 990 information for everything from giving decisions to research.

Electronic filing of the Form 990 series of information returns has the strong potential for improved oversight of exempt organizations while reducing the time and cost burdens exempt organizations currently encounter in complying with the reporting requirements of government and private funding sources. INDEPENDENT SECTOR and the Electronic Data Initiative for Nonprofits (EDIN) members are prepared to provide strong assistance with educating nonprofit organizations about the benefits and the practical application of the e-filing system IRS develops. The EDIN Coalition will also be a vital partner in providing input from professional advisors and nonprofit organizations that file returns regarding the software components, potential changes in the Forms, and other challenges that may arise during the development of the e-filing system.

We strongly encourage the Internal Revenue Service to move forward with making available electronic filing of the Form 990 returns as quickly as possible. Please feel free to contact me if you need further information about or clarification of our comments or the work of INDEPENDENT SECTOR or the EDIN Coalition.

Sincerely,

Patricia Read  
Vice President, Public Affairs  
INDEPENDENT SECTOR  
Co-Chair  
Electronic Data Initiative for Nonprofits (EDIN)