

Tax News & Views Health Care Edition

Form 1023-EZ, streamlined application for exemption, available for use by small organizations

In June 2014, the Internal Revenue Service (IRS) released the final [Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501\(c\)\(3\) of the Internal Revenue Code](#). The form is now available for use by any eligible organization applying for exemption.

The new form is intended to make the application process easier and quicker for small organizations. The Form 1023-EZ is only three pages, compared to the Form 1023, which is 25 pages, and is expected to take significantly less time to complete than the current form. Organizations are required to electronically file the application and pay a user fee of \$400 through the IRS website [pay.gov](#). The e-file system will only accept a fully completed form; the IRS expects that this will decrease the number of incomplete applications filed and reduce the number of follow-up questions between the determinations unit and applicants.

Before completing Form 1023-EZ, organizations must complete an Eligibility Worksheet, found in the Form 1023-EZ instructions, to determine if they qualify for the streamlined application process. Noneligible organizations must continue to use Form 1023 to apply for exemption.

To be eligible to use Form 1023-EZ, organizations must have annual gross receipts of less than \$50,000 for the previous three tax years and projected gross receipts of less than \$50,000 for the current tax year and next two years. Total assets may not exceed \$250,000. Certain organizations, including churches, colleges and universities, hospitals, supporting organizations, and foreign organizations, are not eligible to use Form 1023-EZ. An organization filing Form 1023-EZ must attest that its organizing document includes the required purpose and dissolution clauses. The organization must also attest that it will not conduct certain prohibited and restricted activities, such as political and lobbying activity.

The IRS will accept a completed Form 1023-EZ from an eligible organization that has a Form 1023 pending with the IRS, provided that the Form 1023 has not yet been assigned for review. An organization may not request expedited handling of a Form 1023-EZ.

The IRS stated that most small organizations, including as many as 70 percent of all applicants, qualify to use the new streamlined form. The IRS anticipates that the streamlined application will speed the approval process for smaller groups and free up IRS resources to review applications from larger, more complex organizations while reducing the application backlog. Currently, the IRS has more than 60,000 exemption applications in its backlog, with many of them pending for nine months.

Final and temporary regulations ([TD 9674](#)) were issued July 2, 2014, that amended current regulations to allow the IRS to adopt the streamlined application process. For additional information on the streamlined application, refer to [Revenue Procedure 2014-40](#).

IRS releases draft 2014 Form 990, Schedule A with new sections for supporting organizations

The IRS released a draft of 2014 Form 990, Schedule A, *Public Charity Status and Public Support*. Schedule A is filed with the Form 990 to report the organization's reason for public charity status. The draft includes four new pages of questions specifically for supporting organizations exempt under Section 509(a)(3). If the draft form is finalized in its current form, a supporting organization will be required to disclose information regarding its Type I, II, or III status including:

- Whether the organization's supported organizations are listed by name in the governing documents,
- Whether the organization has a supported organization that does not have an IRS determination of status under Section 509(a)(1) or (2),
- Whether any supported organization was not organized in the United States,
- Whether the organization added or removed any supported organization during the tax year,
- Whether the organization provides a grant, loan, compensation, or similar payment to a substantial contributor,
- Whether the organization accepted a gift or contribution from a person who directly or indirectly controls the governing body of the supported organization,
- Whether the directors of the supported organization have the power to appoint a majority of the organization's directors, and



Find it Fast

[Form 1023-EZ, streamlined application for exemption, available for use by small organizations](#)

[IRS releases draft 2014 Form 990, Schedule A with new sections for supporting organizations](#)

[Sales through space museum gift shop are not UBI](#)

[Did you know?](#)

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- For Type III nonfunctionally integrated supporting organizations, whether the annual distribution requirement has been met, including a calculation of adjusted net income, minimum asset amount, distributable amount, and distributions.

To meet the requirements of Section 509(a)(3), a supporting organization must satisfy an organizational test, an operational test, a relationship test, and a disqualified person control test. The draft 2014 Schedule A requests information regarding all four tests and may help the IRS assess whether supporting organizations are meeting certain requirements.

Sales through space museum gift shop are not UBI

In [PLR 201429029](#), the IRS held that the sale of various “toys” and other items by a museum gift shop contributed importantly to the museum’s exempt purpose and did not constitute unrelated business income (UBI). The organization operates a museum and research center to educate the public about outer space. The museum maintains a gift shop and sells items, including “toys” that pertain to the solar system; books and documentary videos; and reproductions of newspaper articles. The museum represents that all items are substantially related to its exempt purpose.

The term “unrelated business income” pertains to income generated from the sale of goods or services as part of a regularly carried-on trade or business that is not substantially related to the exempt purpose of the organization. The IRS stated that because the museum sells items in the gift shop on a regular and routine basis, the museum engages in a regularly carried-on trade or business. The issue remaining is whether the sale of the items is substantially related to an exempt purpose. A nexus between the items sold in a museum gift shop and the accomplishment of the museum’s exempt activity must be established before the sales can be considered substantially related. The focus is on the primary purpose for the production and sale of each item.

The IRS stated that if the primary purpose of the items is utilitarian, ornamental, or as a souvenir, it would not be considered substantially related. In addition, the item must specifically relate to the particular museum in which it is sold. Items of general education value are not necessarily substantially related. The gift shop sells items that can be described as educational and interpretive teaching items for children that are broadly labeled as “toys,” including puzzles, posters, books, and t-shirts pertaining to the solar system. The IRS held that the various toys, books, documentaries, and other items relate directly to the museum’s exempt educational purpose of educating the public about outer space. Therefore, the sale of such items does not generate UBI.

Did you know?

Instructions released for requester of forms W-8 reflecting FATCA requirements

The IRS has updated the [Instructions for the Requester of Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and W-8IMY](#) to reflect new requirements under the Foreign Account Tax Compliance Act (FATCA). A withholding agent that makes withholdable payments on or after July 1, 2014, to a payee that is a foreign financial institution (FFI) generally must withhold 30 percent of the payment unless the withholding agent is able to treat the FFI as a participating FFI. In order to document an account holder or other payee, a withholding agent may need to obtain a withholding certificate (i.e., Form W-8 series) to establish the status of a payee. These instructions supplement the specific instructions for each Form W-8 and provide notes to assist withholding agents in validating the forms.

Truncated taxpayer ID numbers allowed on payee statements

The IRS issued final regulations ([TD 9675](#)) that allow filers of information returns to truncate a taxpayer’s identification number (ID) on payee statements and other documents in lieu of using Social Security numbers or employer identification numbers. The truncated taxpayer ID displays only the last four digits of a taxpayer identifying number; either asterisks (*) or Xs replace the first five digits of the identifying number.

Deloitte Thoughtware

Health Reform. The health reform bills (HR3590 and HR4872) are now law and will trigger sweeping changes and disruptions — some rather quickly and some over many years. The industry is asking, “What now?” At Deloitte, we continue to explore and debate the specific questions facing the industry, and we look forward to helping our clients find and implement the appropriate answers for their organizations. To learn more, visit [Health Care Solutions](#) on the Deloitte website.

Health Care Regulation. With quality in the spotlight on a national level, hospitals across the country are renewing their commitments to confirming that their services meet the core measures for quality set by the government and that internal controls are in place to help determine that the collection and reporting of quality data is accurate, complete, and compliant with government reporting requirements. The financial and operational impacts of regulation and legislative oversight in the life sciences and health care industries are pervasive and constantly changing. [@Regulatory](#) is a monthly publication that apprises readers of the latest regulatory, legislative, and other public policy developments affecting life sciences and health care organizations. Visit [@Regulatory](#) on the Deloitte website.

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Financial executives

2014 Mid-year Outlook: Driving Growth in the Age of Global Uncertainty August 27, 2:00 p.m. ET

While the U.S. economy appears to be stabilizing, there is increasing uncertainty about economic events elsewhere. What is the current forecast for companies engaging in transactions or facing critical business events? We'll discuss:

- Economic and market conditions outside the United States that might affect current and future M&A activity and business performance
- The outlook for transactions activity and several factors affecting key industries, including energy, financial services, and consumer business
- Current indicators of the slowdown in emerging markets and potential implications for the long term

Gain new insights into the fiscal and regulatory environments, uncertainties that still lie ahead, and factors that could potentially help your business drive growth.

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Finding Evidence in an Online World: Trends and Challenges in Computer Forensics September 29, 2:00 p.m. ET

Securing and analyzing electronic evidence is central to combating cyber intrusions, identity theft, and industrial espionage, as well as addressing civil investigations. Does your organization have the appropriate tools and processes in place to preserve, collect, and identify critical information? We'll discuss:

- How private sector companies can leverage computer forensics in suspected criminal and administrative matters
- How computer forensics can help identify vulnerabilities in your computer network and assess your exposure to losses from cyber intrusions
- Examples of how and where computer forensics has been used to prevent and defend against cyber events

Gain insight into ways that computer forensics can help protect you and your organization.

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Quarterly Accounting Roundup: An Update on Important Developments September 30, 2:00 p.m. ET

Do you know what issues the standard-setters and regulators have been addressing lately? We've been monitoring their projects and will discuss:

- Latest status on classification and measurement, impairment, and leases
- Accounting, standard setting, and reporting developments for the quarter
- Recent positions on accounting and reporting of the FASB, IASB, SEC, and PCAOB
- Other hot topics

Join us to hear about the latest developments.

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Industries

Navigating the Rapidly Evolving Social Media Landscape in Health Care August 12, 1:00 p.m. ET

Social media has changed the way health care organizations connect with consumers and other stakeholders. But as health care organizations pursue social media-related opportunities for disease-state awareness and prevention, patient engagement, and gathering insights through social listening, what types of reputational, compliance, and regulatory risks arise? We'll discuss:

- The evolution and life cycle of social media in health care
- Levels of engagement and considerations for growing a social media culture
- Practical insights for successfully balancing social media opportunities and risks

Explore the opportunities and obstacles that exist in the new social health landscape.

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Industries (cont'd)

Round 2: How Will 2015 HIX Open Enrollment Play Out? September 24, 1:00 p.m. ET

As the health care industry prepares for 2015 open enrollment, what can be learned from the first year of health insurance exchanges (HIXs)? What challenges have arisen since the end of 2014 open enrollment? We'll discuss:

- How many individuals have enrolled due to qualifying events since 2014 open enrollment ended
- What is known about how HIX enrollees' health status and behaviors are affecting the risk pool
- What the competitive landscape of insurance carriers could look like in 2015
- Strategies that worked in the past year and how this year's strategies might differ

Explore these pressing issues and findings from Deloitte's recent survey of young adults enrolling in health care.

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Human Resource executives

Performance Management: Replacing Rank and Yank with Feedback, Coaching, and Development September 10, 2:00 p.m. ET

Today's pervasive ranking- and ratings-based performance management is widely considered to be outdated and possibly even damaging. What could the next evolution of performance management look like? We'll discuss:

- Managers as coaches rather than evaluators — the imperative to separate feedback provided to employees from compensation decisions
- Decoupling compensation from evaluations to encourage coaching relationships and considerations for new parameters around compensation decisions
- Practical starting points, including leadership involvement, development of flexible performance conversations, improving feedback processes, simplified coaching and evaluation processes, and providing coaching to all employees

Explore ways to shift focus from employee evaluation to employee development and performance improvement.

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Technology executives

The Boardroom Imperative: Tackling Cyber Risk September 4, 2:00 p.m. ET

While emerging technologies are critical to many corporate strategies, they may also create significant risk. How can boards and the C-suite adjust their risk governance approach to not only embrace the cyber risk dimension, but also make it a driver for continued business performance? We'll discuss:

- The evolving nature and sophistication of today's security threats and limitations of a narrow defensive approach
- The need to transform traditional security programs to executive-led cyber risk management programs
- How technology executives can act as change agents, including enhancing cyber risk awareness and associated business impacts and building advanced cyber risk defense capabilities

Explore strategies to broaden the organization's approach to cyber threat management.

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Tax executives

Employment Tax Credits and Incentives: Putting America Back to Work August 5, 2:00 p.m. ET

Federal, state, and local governments offer various economic incentives encouraging businesses to hire and train Americans, especially from groups who face barriers to employment. Is your company leveraging available opportunities? We'll discuss:

- Current trends and leading practices in veteran hiring, retention, and advancement
- Growing trend to provide tax credits for hiring individuals in certain qualified categories, such as veterans, long-term unemployed, and public assistance recipients
- Training incentives, including federal and state grants, state tax credits, and state-sponsored programs through community colleges
- Leveraging incentives as part of a holistic employment life cycle

Learn ways to cost-effectively hire and train a twenty-first century workforce through economic incentives and hear insights from Brig. Gen. Michael P. Fleming on veteran hiring, retention, and advancement.

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