



## INTEGRATED HEALTHCARE STRATEGIES™

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# In the Spotlight: Compensation Reporting on the New Form 990

Presented by Integrated Healthcare Strategies  
as Authored by Ken Krall

### ***Is your organization prepared for the new Form 990 and the more detailed disclosure of executive compensation that it requires?***

The new form differs from the previous version in that it will:

- ≈ Redefine the categories of people whose compensation must be reported
- ≈ Require more detail in reporting separate components of compensation, including perquisites
- ≈ Ask questions about your organization's processes for governing compensation

The new Form 990 shows that the IRS is interested not only in the bottom line of how much organizations pay, but also in:

- ≈ The specific types of compensation
- ≈ The process for setting and approving compensation
- ≈ The governing bodies that have the final say on compensation

To be prepared going forward, all organizations should:

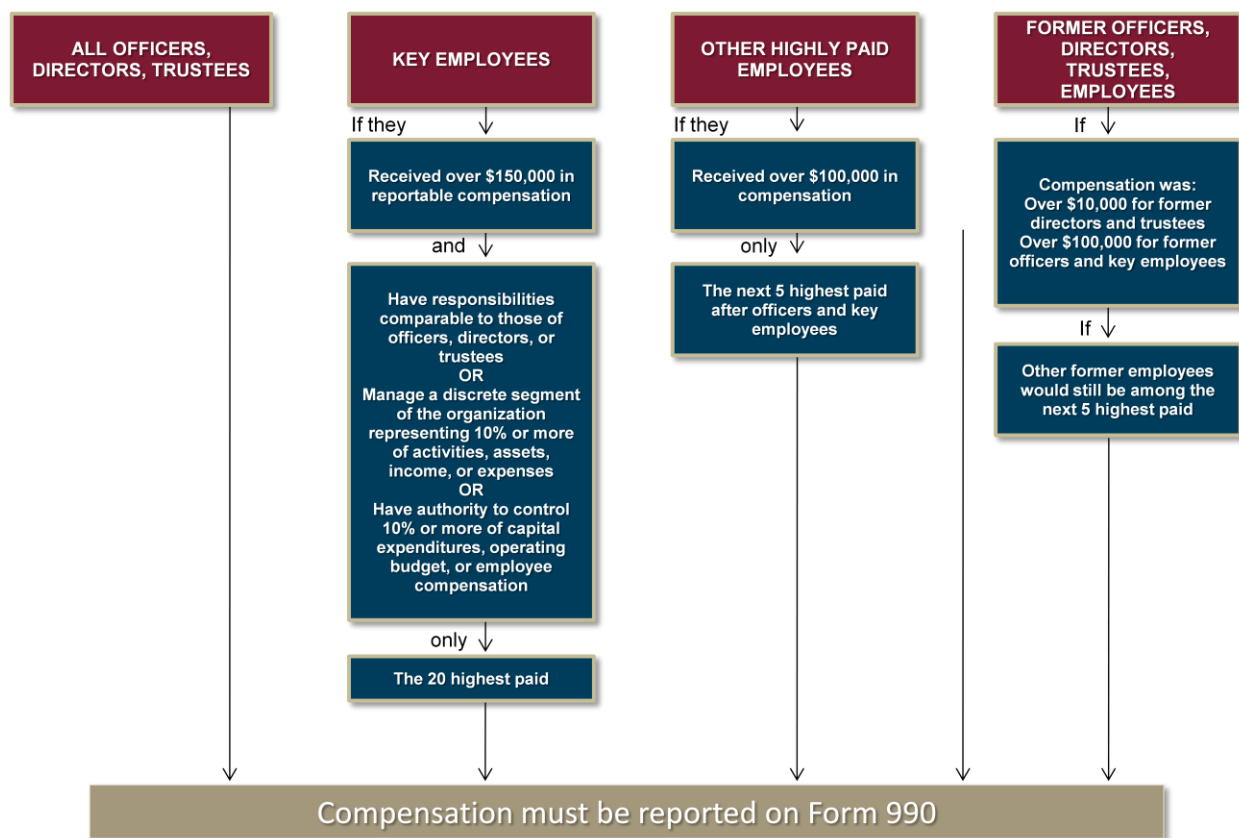
- ≈ Review their governance practices and make any changes necessary to align them with best practices
- ≈ Ensure that the compensation committee reviews compensation reporting on the Form 990
- ≈ Know that completed 990s are available to the public online
- ≈ Plan on public scrutiny of executive pay and have a strategy for addressing the topic in a manner that is proactive rather than defensive

## Form 990 FAQ

### *What are the most significant changes to the Form 990 that will impact compensation reporting?*

The new form requires reporting compensation for several categories of people. It is likely that the group you report will not be the same as in previous years - it could be a bigger or smaller group. The illustration below shows the categories of people whose pay must be reported. The form also requires a much higher level of detail regarding the various types of compensation your organization provided. The new 990 includes a series of yes/no questions regarding whether the organization provides any of a list of specific perquisites. Affirmative answers to these questions require providing additional details on a separate schedule. The IRS is paying especially close attention to loans made to executives and non-accountable perquisite or benefit accounts. The new form also has a series of questions about the organization's process for governing compensation.

### *Whose compensation needs to be reported?*



### ***Which parts of the form and schedules deal with compensation?***

There are three parts of the new form in which your organization must report compensation: Parts VII and IX of the core form, and Schedule J.

**Part VII** is for high-level reporting of compensation.

**Part IX Statement of Functional Expenses** includes lines for reporting aggregate compensation expenses.

**Schedule J** is the portion of the new form that requires your organization to report a much higher level of detail than was required on the previous form. There are two parts to Schedule J - a series of questions about perquisites and governance process, and a table for detailed reporting of compensation.

### ***What types of compensation need to be reported?***

#### **Part VII:**

- W-2 compensation from the reporting organization and related organizations
- Other compensation
  - ≈ The value of health benefits not included in reportable compensation
  - ≈ Employer contributions to defined contribution retirement plans (qualified and non-qualified)
  - ≈ Annual increase in actuarial value of benefits under defined benefit retirement plans (qualified and non-qualified)
  - ≈ Tax-deferred employer and employee contributions to a non-qualified plan
  - ≈ Other **nontaxable** benefits and perquisites with values of \$10,000 or more
    - Medical Reimbursement and Flexible Spending Programs
    - Life, Disability, and Long-Term Care Insurance
    - Dependent Care Assistance
    - Personal Legal or Financial Services
    - Tuition Assistance for Family
    - Cafeteria Plans

#### **Part IX:**

- The aggregate cost (using the organization's normal accounting method) of compensation provided to:
  - ≈ Officers
  - ≈ Directors
  - ≈ Trustees
  - ≈ Key Employees
  - ≈ Disqualified individuals as defined in IRC Section 4958

**Schedule J:**

The instructions for Schedule J specify the reporting columns for over 65 types of compensation.

**Form 990 Compensation Reporting  
Schedule J, Part II**

<b>TYPE OF COMPENSATION</b>	<b>COLUMN</b>
Annual base salary	(B)(i)
Annual incentive or bonus	(B)(ii)
Long-term incentive (paid in reporting year)	(B)(ii)
Cash compensation paid as part of a severance arrangement	(B)(iii)
Taxable welfare benefits (can include medical, disability, long-term care, life insurance, cafeteria plans, flex accounts, and others)	(B)(iii)
Nontaxable welfare benefits	(D)
<b>Qualified retirement plans</b>	
Employer contributions	(C)
Employee deferrals	(B)(iii)
Earnings on balances - <i>No 990 Reporting</i>	
Defined benefit accruals	(C)
Distributions - <i>No 990 Reporting</i>	
<b>457(b) Nonqualified Deferred Compensation Plans</b>	
Employer Credits – Vested	(B)(iii)
Employer Credits – Non-vested	(C)
Employee Deferrals – Vested	(B)(iii)
Employee Deferrals – Non-vested	(B)(iii)
Distributions - <i>No 990 Reporting</i>	
<b>457(f) Nonqualified Deferred Compensation Plans</b>	
Employer Credits – Vested	(B)(iii)
Employer Credits – Non-vested	(C)
Employee Deferrals – Vested	(B)(iii)
Employee Deferrals – Non-vested	(C)

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Defined Benefit Growth – Vested	(B)(iii)
Defined Benefit Growth – Non-vested	(C)
Distributions	(B)(iii) and (F)
Taxable Perquisites (can include car and housing allowances, club dues, moving, travel, and entertainment expenses, spending accounts, and others)	(B)(iii)
Nontaxable perquisites	(D)

Your organization can find assistance with the challenges posed by heightened regulatory and public scrutiny of executive compensation by working with a consulting firm specializing in executive total compensation and knowledgeable on IRS legislation and regulations. Services these organizations can provide include:

- Detailed comparability data on cash compensation, benefits, and perquisites
- Review Form 990 compensation reporting with the committee responsible for executive compensation, so they are prepared to respond to questions
- Prepare tally sheets, which show all the details of total compensation for individual executives, and the total cost to the organization
- Work with your organization to align governance processes with best practices
- Develop documentation for your compensation philosophy and programs
- Help you develop a strategy for communicating the executive compensation program

### ***About Integrated Healthcare Strategies***

*Integrated Healthcare Strategies is a leading human capital firm offering a complete array of consulting services through its five practice groups that exclusively serve the health care industry. Our Executive Total Compensation practice is focused on the analysis and design of compensation and benefits programs provided to executives, physicians, and other key employees. Our client base encompasses the full spectrum of health care organizations. Integrated Healthcare Strategies takes pride in its creativity and track record in developing innovative solutions to compensation and benefit issues. Our other services include physician strategy and compensation, human capital solutions, labor relations, leadership transition planning, executive search, employee surveys, performance management and trustee governance solutions. For more information, call 1.800.327.9335 or visit [www.IHStrategies.com](http://www.IHStrategies.com).*

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***About the Author***

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