



Andres Garcia  
Internal Revenue Service, Room 6526,  
1111 Constitution Avenue NW  
Washington, DC 20224  
Submitted via: [pra.comments@irs.gov](mailto:pra.comments@irs.gov)

**RE: Comments regarding Tax- Exempt Organization Forms**  
**OMB Control No. 1545-0047**

Dear Mr. Garcia:

The Minnesota Council of Nonprofits (MCN) welcomes this opportunity to provide comments in response to the invitation for public comment on proposed and/or continuing information collections concerning IRS forms and schedules used by tax-exempt organizations (OMB Control No. 1545-0047).

MCN is the largest statewide nonprofit association in the country, with over 2,200 members. Our members work in every region of the state, run the gamut from all-volunteer to hundreds and even thousands of employees, and support communities in myriad ways. The majority of nonprofits in Minnesota are small – more than 70% have annual budgets of under \$1 million. MCN works to inform, promote, connect, and strengthen individual nonprofits and the nonprofit sector.

Nonprofits cannot do their work without the trust of their communities. Trust is the foundation that enables nonprofits to build strong, lasting relationships with donors, volunteers, and community partners, which are crucial for their abilities to work toward their missions.

When individuals commit fraud through a nonprofit organization, all nonprofits suffer the consequences. In Minnesota, that trust has unfortunately been eroded by a case of massive fraud perpetrated by individuals under the guise of nonprofit organizations. The case, known as Feeding Our Future, has been in the news since the story broke in 2022. Seventy individuals have been charged with financial crimes related to the scheme, and the first of many trials ended recently.

MCN sees in our public policy advocacy work how increased distrust of our sector leads to oversight and regulation that are burdensome and duplicative for nonprofits. We need oversight and regulation that make sense. In the case of Form 1023-EZ, we are asking for increased oversight as a way to prevent bad actors from using our sector for their personal

gain. As for Form 990, we are asking for clarity of information provided, so that the public can better understand nonprofit finances.

## **1. Form 1023-EZ<sup>1</sup>**

We urge the IRS to overhaul Form 1023-EZ. The 1023-EZ form was introduced to simplify the process for small, genuine nonprofits seeking tax-exempt status under section 501(c)(3). We appreciate the original simplifying intent in creating an EZ version of the form -- in fact, MCN is currently focusing on reforms to state grantmaking, and simplifying forms is a key priority. However, it is possible for a form to be too simple, and that is the case with Form 1023-EZ.

Multiple reports have concluded that Form 1023-EZ fails to provide sufficient information for the IRS to make informed decisions as to whether an organization qualifies to be exempt from some taxes under section 501(c)(3). The IRS Taxpayer Advocate reviews have been particularly illuminating, finding approvals of applications from organizations that do not qualify for 501(c)(3) status as high as 46 percent. That means nearly half of approved applications for 501(c)(3) status that were approved should not have been approved.

It is imperative to the health of the charitable nonprofit sector that 501(c)(3) designation be used only for organizations who meet the criteria. Requiring additional information and/or tightening the application requirements for the Form 1023-EZ would help to better vet these organizations and safeguard the tax-exempt sector.

**The Minnesota Council of Nonprofits urges the IRS to withdraw the current Form 1023-EZ and engage stakeholders –charitable regulators, nonprofit infrastructure organizations, funders, and tax-law practitioners – to develop a workable replacement for the form** and process that will respect the IRS’s primary obligation of preventing ineligible organizations from attaining tax-exempt status and perhaps bad actors from receiving and exploiting such status for personal gain

## **2. Form 990: Reporting of Revenues Earned from Government Grants and Contracts**

The Minnesota Council of Nonprofits is one of the leading sources of data on nonprofits in the country. (See our research reports, including the *2024 Minnesota Nonprofit Economy Report* and *2024 Current Conditions of Minnesota’s Nonprofit Sector Report*, here: <https://minnesotanonprofits.org/resources-tools/sector-research>)

Additionally, MCN is the leading advocate in Minnesota for vital reforms to the policies and processes of how the state grants to and contracts with nonprofit organizations. To do this

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<sup>1</sup> For more background information on Form 1023-EZ and the Form 990 series, please see the comments submitted by the National Council of Nonprofits.

work well, we need data to inform lawmakers and others about the partnerships between nonprofits and state government, and on federal dollars that pass through the state and counties to nonprofits. Unfortunately, this data is impossible to have due to the way Form 990 has been constructed.

The current Form 990 reporting of revenues earned from governments provides that government grants are reported at Part VIII, Line 1e – “Government grants (contributions).” Revenues earned pursuant to government contracts are reported under Line 2 – “(Program Service Revenue),” a category that can include Medicare and Medicaid reimbursements and payments for many other forms of receipts. We agree with the views expressed by the Aspen Institute and others (Comments to the Internal Revenue Service Taxpayer First Act Office, July 3, 2020) that Form 990 Part VIII “lacks sufficient clarity with respect to the reporting of government revenue, confusing users of the form, and likely resulting in inaccurate reporting.”

As an interim step, we agree with their recommendations that Part VIII be modified to include a dedicated line for government reimbursements as part of line 2 and that the instructions to Form 990 clarify the distinction between revenue for “grants” that benefit the public versus payments under “contracts” that serve the needs of a governmental unit. We urge you to work with organizations that file Form 990 and support organizations that do, including the National Council of Nonprofits and state nonprofit associations, to ensure that grants and contracts are being reported in ways that are beneficial for research into nonprofit funding and support trust in our sector by allowing the public to better understand a nonprofit’s financials when reviewing the organizations Form 990.

Additionally, the current format of the Form 990 and instructions create and perpetuate the flawed narrative about nonprofit dependence on government funding. Nonprofits provide services on behalf of governments at all levels pursuant to written agreements. Governments rely on charitable nonprofits to provide vital services and pay the nonprofits for those services (although rarely at amounts that cover full costs).<sup>2</sup>

This narrative undermines public support for nonprofits and prevents a full understanding of how their governments operate. In reality, many of the government programs that affect the lives of residents are performed by charitable nonprofits pursuant to government grants. The declaration of the payments as “contributions” trivializes the payments for the performance of essential services as mere gifts, as if they were voluntary and discretionary by government officials.

The government may view the agreements as grants or contracts but impose wildly disparate regulatory schemes to govern every aspect of their operations and documentation. As for

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<sup>2</sup> See Nonprofit Quarterly’s *Illustrated Nonprofit Economy* by Jon Pratt and Kari Aanestad: <https://nonprofitquarterly.org/infographics/npgs-illustrated-nonprofit-economy/>

nonprofits and the people and communities they serve, it is a false and harmful distinction that undermines public confidence and promotes confusion rather than certainty.

Further, the distinction between grants and contracts may make sense to governments and accountants who deal with the differences on a daily basis. But the distinction is neither self-evident nor logical to nonprofits operating in the real world. In Minnesota, written agreements between the state and nonprofits can be called “grants” or “contracts,” with no distinction between the two.

Finally, there is a dearth of data on nonprofit revenue from government broken down by levels of government. The current Form 990 lumps federal, state, county, city, and other municipal body grants together. As researchers, we are unable to use Form 990 data to assess this revenue.

**The Minnesota Council of Nonprofit recommends that the IRS commit to a more thorough analysis of Form 990, Part VIII** with the goal of eliciting stakeholder input on how nonprofits can best report revenues earned pursuant to written agreements with governments at all levels.

### **3. Forms 990: More Timely Public Accessibility**

The Minnesota Council of Nonprofits asks the IRS to make data from the Form 990 series publicly available more quickly. Delay in the release of Forms 990 undermines public confidence in nonprofits. Delays also adversely impact governance, management, and fundraising operations, as well as overall compliance.

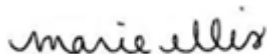
The Form 990 series is a fundamental source of information for donors, grantors, regulators, researchers, and the general public. Timely data can support state associations of nonprofits like MCN to best understand trends in our sector.

**The Minnesota Council of Nonprofits recommends that the IRS continue to take steps to improve the release of Form 990 information.** We support the calls on Congress to provide additional resources to the IRS to meet the overall goal of timely public accessibility.

Sincerely,



Nonoko Sato  
CEO



Marie Ellis  
Public Policy Director