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A publication dedicated to providing ideas and education to tax exempt organizations

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Cloud Computing Solutions for Not-for-Profit Organizations

By: Dean Nelson

Cloud computing is a hot topic in the business world, as many vendors are rolling out solutions that are changing the way that software is delivered and utilized. While many are familiar with the term cloud computing, many may not understand the concept or the benefits that it could provide. For not-for-profit organizations, leveraging a cloud solution could result in simplification and streamlining of your software solutions as well as significant cost savings.

Cloud computing is not a new concept, however it has been known as third-party hosting in the past. Many companies have been using it for years, but a new term has been introduced as the solution has evolved and become accessible to a significantly wider audience.

The concept involves connecting users with applications via the Internet, no matter where they are or where the application resides. What has changed is the ability to connect organizations with applications by leveraging much faster, broader networks. The improvement of the overall network allows for the centralization of information of systems, which is referred to as a cloud.

Many people may not know that they are already using cloud computing solutions with some business or personal applications. Apple and Amazon.com have introduced cloud computing programs for music storage recently, and digital video recorders (DVR) are cloud-based solutions that are very popular. Salesforce.com is a cloud solution that many businesses and organizations utilize for customer relationship management (CRM). Although they may not identify themselves as a cloud solution, the technology utilized is the same.

If you take a closer look at cloud computing, many of the early adopters have been smaller businesses because it has changed the financial model in regard to technology purchases. Instead of having to buy concurrent licenses and paying maintenance fees involved with implementing a new system, you can now just pay by the month. So rather than having to pay thousands of dollars during the outset of an implementation project, you

can pay on a per user, per month basis, saving a significant amount of money.

Business advantages of cloud solutions include:

- Access application anywhere in the world at any time on any computer, as long as you have a connection.
- Greater ability to ensure control and compliance
- Real-time organization visibility, gaining significant operational efficiencies
- The ability to control business recovery and disaster planning

Taking these into account, there are significant functional advantages over and above cost savings. When determining whether a cloud solution might be best for an organization, we look at things from a total cost of ownership (TCO) perspective. TCO looks at the software that you need to purchase, all the hardware that is needed to make that software perform, implementation costs, related personnel costs and the annual ongoing maintenance expenses.

If you are considering adopting a cloud solution, it is best to undergo a cost/benefit analysis to determine whether it would be best to host the software yourself or whether a third-party hosting solution might be a better fit for your organization. At the end of the day, the numbers typically speak for themselves in most cases. What we are finding with our clients is that the TCO for a cloud solution compared to an on-premise solution is 55 percent less for an organization with around 50 users, 50 percent less for around 100 users and about 33 percent for solutions with around 200 users.

Some organizations may be apprehensive about adopting new technology due to perceived risks. The most prevalent concern around cloud computing is what might happen with that data if you later choose to go with another solution and the security of data residing in a third-party location.

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IRS to Look At Schedule L Instructions for Part IV Disclosures

By: James P. Sweeney

At a recent AICPA not-for-profit conference, the IRS acknowledged that an instruction to Schedule L needs to be evaluated for clarity purposes. Specifically, the instructions that are being looked at include the instructions to Schedule L, Part IV, Business Transactions between an exempt filing organization and other parties, which may be exempt affiliates. Specifically, the current instructions that present issues are as follows:

In the definition of an interested person, the second position states that an entity may be an interested person if the filing organization's directors and officers are those persons affiliated with an entity (exempt organization) more than 35 percent represented by that exempt organization directors. Therefore, if an exempt organization's directors also compose directors of another exempt by over 35 percent representation, then

the over 35 percent controlled exempt organization in that situation is the interested person. Consequently, there is a disclosure item of transactions between the filing organization and the over 35 percent controlled exempt entity if the reporting thresholds are met.

The ownership rules state that a not-for-profit is controlled based on control of the directors of the organization. However, the very next instruction item states that 501(c) organizations are not to be considered with entity level reporting. This is the contradiction in the instructions. They need to be rewritten if it is the intention of the IRS to actually report these transactions.

We will be monitoring the IRS analysis of these changes to the instructions to the Form 990 and related schedules and report to you as soon as we are notified.



More from IRS Regarding Automatic Revocation of Exempt Status of Small Exempts that Failed to File Returns

by: James P. Sweeney

The IRS has extended relief to small exempt organizations that failed to file returns for a three-year period that ended on May 15, 2010. In a recent national conference, IRS representative Steve Clarke reminded all taxpayers that the provision is not one where the IRS revokes tax exempt status, but a statute where the revocation is automatic. RSM McGladrey has taken this position since the tax law was passed into law in 2006. Unfortunately, this puts the IRS in a situation where there must be situations where reasonable cause may be able to circumvent this legal revocation issue and exempt status can remain intact.

The IRS has recently issued notices and revenue procedures to remind taxpayers in the exempt space of the various issues related to these small entities, even though they may be zero activity entities.

Revenue Procedure 2011-33 provides the extent to which contributors may rely on Publication 78 or on the IRS Business Master File extract for purposes of deducting contributions and making grants. The IRS may give notice of revocation in the Internal Revenue Bulletin or on the IRS's website. The IRS no longer publishes a paper version of Publication 78.

Revenue Procedure 2011-36 modifies section 6.07 of Rev. Proc. 2011-8, 2011-1 I.R.B. 237 to provide for a reduced user fee for applications for reinstatement of tax-exempt status filed by certain small organizations following automatic revocation of their tax-exempt status under section 6033(j) of the Internal Revenue Code.

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The reality is that you own the data, and if you leave a cloud solution, that data is yours and it will get migrated either back to you or to your new provider. There is no difference between this process and an in-house data transfer.

As for security, cloud computing solutions have been designed with data safety in mind. A core requirement of the third-party hosting providers is that they have stringent SAS 70 requirements in place in regard to internal controls for data and privacy.

A cloud computing implementation could provide significant benefits across many levels of the organization. Not-for-

Notice 2011-43 provides transitional relief for certain small organizations (those that normally have annual gross receipts of not more than \$50,000 in their most recently completed taxable year) that have been automatically revoked because they failed to file an annual electronic notice for taxable years beginning in 2007, 2008 and 2009. The notice provides the criteria that a small organization must satisfy to qualify for transitional relief and describes how qualifying organizations apply for reinstatement of tax-exempt status and request retroactive reinstatement.

Notice 2011-44 explains how an organization that has had its tax-exempt status automatically revoked for failing to file an annual return or notice for three consecutive years may apply for reinstatement of tax-exempt status and request reinstatement retroactive to the date of automatic revocation.

Announcement 2011-35 indicates that the IRS is required to publish and maintain a list of organizations that have had their federal tax-exempt statuses automatically revoked for failing to file an annual return or notice for three consecutive years. The IRS will publish this auto-revocation list on its website. However, the list will not appear in the IRB.

The guidance above is fairly straightforward. However, if you have any questions, please contact RSM McGladrey national lead for Exempt Organization Technical Tax Services James P. Sweeney at 703.336.6514 or your local RSM McGladrey not-for-profit tax professional.

profits that have adopted this technology leverage a cloud environment for solutions in areas such as: core financial applications, fundraising and advancement, as well as CRM. In addition to software programs, cloud solutions could also be leveraged to help manage an organization's infrastructure.

For many not-for-profit organizations, resources are often scarce and in many cases, the specific technology skills that you may need are not easy to find or tend to be costly. Cloud computing presents a cost conscious solution for many facets of your business that allows you to focus more resources toward accomplishing your core mission.



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