2006

Department of the Treasury
Internal Revenue Service

Instructions for Form 4720

Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code (Sections 170(f)(10), 4911, 4912, 4941, 4942, 4943, 4944, 4945, 4955, 4958, 4965, 4966, and 4967)

Section references are to the Internal Revenue Code unless otherwise noted.

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What's New

Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). New section 4965 imposes an excise tax on tax-exempt organizations and certain governmental entities that are parties to prohibited tax shelter transactions (PTSTs). Section 4965 also imposes an excise tax on any entity manager who approves or otherwise causes the entity to be a party to a PTST. For more information see *Schedule J—Taxes on Being a Party to Prohibited Tax Shelter Transactions.*

The Pension Protection Act of 2006 (PPA). The following items reflect changes made by the PPA.

- For tax years beginning after August 17, 2006, the excise tax rates and the maximum tax amounts on managers described in sections 4941 through 4945 have been increased. For more information see:

  1. *Schedule A—Initial Taxes on Self-Dealing*,
  2. *Schedule B—Initial Tax on Undistributed Income*,
  3. *Schedule C—Initial Tax on Excess Business Holdings*,
  4. *Schedule D—Initial Taxes on Investments That Jeopardize Charitable Purpose*, and
  5. *Schedule E—Initial Taxes on Taxable Expenditures.*

  The PPA also includes a change that increases the maximum amount of tax imposed on managers in Schedule I, *Initial Taxes on Excess Benefit Transactions.*

- For tax years beginning after August 17, 2006, section 4966 imposes an excise tax on sponsoring organizations that make taxable distributions and taxes fund managers who knowingly agree to the making of such taxable distributions. For more information, see *Schedule K—Tax on Taxable Distributions of Sponsoring Organizations Maintaining Donor Advised Funds.*
- For tax years beginning after August 17, 2006, new section 4967 imposes an excise tax on donors, donor advisors and related persons when such persons receive a prohibited benefit distributed by a sponsoring organization for a donor advised fund on the advice of a donor, donor advisor or related person. Section 4967 also taxes fund managers of such sponsoring organization who knowingly agreed to the making of the distribution. For more information, see *Schedule L—Tax on Prohibited Benefits Distributed From Donor Advised Funds.*
- For tax years beginning after August 17, 2006, section 4943 applies to certain public charities. Donor advised funds and certain supporting organizations are treated as private foundations for section 4943 purposes. For more information, see *Schedule C—Initial Tax on Excess Business Holdings.*
- For tax years beginning after August 17, 2006, section 4958 expands the definition of a disqualified person and treats certain transactions as excess benefit transactions. For more information, see *Schedule I—Initial Taxes on Excess Benefit Transactions.*
- For expenditures after August 17, 2006, grants made by private foundations to certain supporting organizations are treated as taxable expenditures. For more information, see *Schedule E—Initial Taxes on Taxable Expenditures*.

Phone Help

If you have questions and/or need help completing this form, please call 1-877-829-5500. This toll-free telephone service is available Monday through Friday.

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- You can pay taxes online or by phone using the free Electronic Federal Tax Payment System (EFTPS). Visit *www.eftps.gov* or call 1-800-555-4477 for details. Electronic Funds Withdrawal (EFW) from a checking or savings account also is available to those who file electronically.

General Instructions

Purpose of Form

Use Form 4720 to figure and pay:

- The initial taxes on private foundations and self-dealers, under sections 4941 through 4945 for self-dealing, failure to distribute income, excess business holdings, investments that jeopardize charitable purpose, and taxable expenditures;
- The initial tax on certain supporting organizations and donor advised funds for excess business holdings under section 4943;
- The section 4911 tax on excess lobbying expenditures by public charities that have elected to be subject to section 501(h) regarding expenditures to influence legislation. (Private foundations and section 4947(a) trusts are not eligible to make this election.);
- The section 4912 tax on excess lobbying expenditures that result in loss of section 501(c)(3) tax-exempt status;
- The section 4955 tax imposed on any amount paid or incurred by a section 501(c)(3) organization that participates or intervenes in any political campaign on behalf of, or in opposition to, any candidate for public office;
- The section 4958 initial taxes on disqualified persons and organization managers of section 501(c)(3) (except private foundations) and section 501(c)(4) organizations that engage in excess benefit transactions;
- The section 4965 taxes related to prohibited tax shelter transactions;
- The section 4966 taxes on taxable distributions by sponsoring organizations maintaining donor advised funds;
- The section 4967 taxes on distribution of prohibited benefits from donor advised funds; and
- The section 170(f)(10) tax on any premiums paid on a personal benefit contract in connection with a transfer to an organization or charitable remainder trust for which a charitable deduction is not allowed to the transferor.

Who Must File

Private foundations and section 4947(a) trusts. Generally, Form 4720 must be filed by all organizations, including foreign organizations, that answered “Yes” to question 1b, 1c, 2b, 3b, 4a, 4b, 5b, 6b, or 7b in Part VII-B of Form 990-PF; or “Yes” to question 1b, 1c, 3b, 4a, 4b, or 5b, or 6b in Part VI-B of Form 5227. A trust described in section 4947(a)(2) is considered a private foundation insofar as it is subject to Chapter 42 provisions.

Public charities making excess lobbying expenditures. Public charities that made the election under section 501(h) and owe tax on excess lobbying expenditures as figured on Schedule A (Form 990 or 990-EZ), Part VI-A, must file Form 4720 to report the liability and pay the tax (Schedule G).

Certain organizations (and possibly their managers) whose section 501(c)(3) status is revoked because of excess lobbying activities are subject to a 5% excise tax on their lobbying expenditures.

Organizations making political expenditures. All section 501(c)(3) organizations that make a political expenditure must file Form 4720 to report the liability and pay the tax. Organization managers may report any first tier tax they owe on Schedule F of Form 4720. (See *Schedule F* instructions for the definition of political expenditures.)

Charitable organizations that make certain premium payments on personal benefit contracts. Form 4720 must be filed by any organization described in section 170(c) or section 664(d) that answered “Yes” to question (b) in Part X of Form 990, question 6b in Part VII-B of Form 990-PF, or question 6b in Part VI-B of Form 5227.

Sponsoring organizations maintaining donor advised funds. All 170(c) organizations (excluding private foundations and government organizations referred to in 170(c)(1) and 170(c)(2)(A)) that maintain one or more donor advised funds must file Form 4720 to report the liability and pay the tax owed on any taxable distributions under section 4966 (Schedule K).

Certain tax-exempt entities party to a prohibited tax shelter transaction

(PTST). Certain tax-exempt entities must file Form 4720 to report the liability and pay the tax due under section 4965(a)(1). This requirement applies to entities described in section 501(c), 501(d), or 170(c) (other than the United States) or an Indian tribal government (within the meaning of section 7701(a)(40)).

TIP *Any entity described in section 4965(c) that is a party to a PTST must file Form 8886-T.*

Managers, self-dealers, disqualified persons, donors, donor advisors, and related persons. If you are a manager, self-dealer, disqualified person, donor, donor advisor, or related person who owes tax under Chapter 41 or 42, including entity managers under section 4965, and you have the same tax year (or accounting year, as applicable) of the entity, you may report the tax you owe on the Form 4720 filed by the entity. Managers, self-dealers, and disqualified persons who do this are responsible for the parts that relate to taxes they owe and should include their own check or money order, payable to the United States Treasury, with the return.

Managers, self-dealers, disqualified persons, donors, donor advisors, and related persons who owe tax under Chapter 41 or 42, including entity managers under section 4965, and do not have the same tax year (or accounting year, as applicable) or do not sign the return of the entity, must file a separate return on Form 4720 showing the tax owed and the name of the entity for which you owe tax. If you file a separate Form 4720, enter your tax year at the top of the form. Enter your name, address, and taxpayer identification number in Part II-A. Complete all the information the form requires, to the extent possible, that applies to your liability.

TIP *Managers of tax favored retirement plans, individual retirement arrangements, and savings arrangements described in sections 401(a), 403(a), 403(b), 529, 457(b), 408(a), 220(d), 408(b), 530, or 223(d) must report and pay tax due under 4965(a)(2) on Form 5330.*

Where To File

To file Form 4720, mail or deliver it to:

Internal Revenue Service Center
Ogden, UT 84201-0027

When To File

Part I taxes. File Form 4720 by the due date (not including extensions) for filing the organization's Form 990-PF, Form 990, Form 990-EZ, or Form 5227. If you are not required to file any of these forms, file Form 4720 by the 15th day of the 5th month after the entity's accounting period ends.

If the regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day.

Affiliated group member. For members of an affiliated group of organizations that have different tax years, and who are filing Form 4720 to report tax under section 4911, the tax year of the affiliated group is the calendar year, unless all members of the group elect under Regulations section 56.4911-7(e)(5) to make a member's year the group's tax year.

Part II taxes. If you are a manager, self-dealer, disqualified person, donor, donor advisor, or related person, owing taxes under Chapter 41 or 42 and filing a separate Form 4720, and your tax year ends on the same date as the organization, you must file by the due date for filing Form 990-PF, Form 5227, Form 990, or Form 990-EZ of the organization for which you owe tax. If your tax year ends on a date different from that of the organization, or your organization is not required to file a Form 990, Form 990-EZ, Form 990-PF, or Form 5227, you must file a Form 4720 by the 15th day of the 5th month after your tax year ends.

If the regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day.

Extension

If you cannot file Form 4720 by the due date, you may request an automatic 3-month extension of time to file by using Form 8868, Application for Extension of Time To File an Exempt Organization Return. The automatic 3-month extension will be granted if you properly complete this form, file it, and pay any balance due by the due date for Form 4720.

Form 8868 is also used to request an additional extension of time to file; however, these extensions are not automatically granted.

Name, Address, etc.

The name, address, and employer identification number of the organization or entity should be the same as shown on Form 990-PF, Form 5227, Form 990, Form 990-EZ, and Schedule A (Form 990 or 990-EZ). If you are a self-dealer, donor, donor advisor, related person, disqualified person, or manager filing a separate Form 4720, enter your name, address, and taxpayer identification number in Part II-A.

Include the suite, room, or other unit number after the street address.

If the Post Office does not deliver mail to the street address, show the P.O. box number instead of the street address.

If you want a third party (such as an accountant or an attorney) to receive mail for the foundation or charity, enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

Signature and Verification

If you are a manager, self dealer, disqualified person, donor, donor advisor, or related person, you should sign only in the spaces that apply, whether you use the return of the foundation or organization as your return, or file separately.

If you are signing on behalf of the foundation or organization and also because of personal tax liability, you must sign twice. You sign:

1. On behalf of the foundation or organization, and
2. For your own personal tax liability.

For a corporation (or an association), the form may be signed by one of the following: president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate officer (such as tax officer).

For a partnership, the form may be signed by a partner or partners authorized to sign the partnership return.

If the return is filed on behalf of a trust, the authorized trustee(s) must sign it.

A receiver, trustee, or assignee required to file any return on behalf of an individual, a trust, estate, partnership, association, company, or corporation must sign the Form 4720 filed for these taxpayers.

Also, a person with a valid power of attorney may sign for the organization, foundation, manager, self-dealer, donor, donor advisor, or related person. Include a copy of the power of attorney with the return.

Any person, firm, or corporation that prepared the return for a fee must also sign it and fill in the address of the preparer. If a firm or corporation prepares the return, it should be signed in the name of the firm or corporation.

Attachments

If you need more space, attach separate sheets showing the same information in the same order as on the printed form. Show the totals on the printed form.

Enter the organization's name and EIN on each sheet. Use sheets that are the same size as the form and indicate clearly the line of the printed form to which the information relates.

Organizations Organized or Created in a Foreign Country or U.S. Possession

Report all amounts in U.S. currency (state conversion rate used) and give information in English. Report items in total, including amounts and transactions from both inside and outside the United States.

Sections 4941 through 4945 and section 4955 do not apply to foreign private foundations that receive substantially all of their support (other than gross investment income) from sources outside the United States. These organizations must complete this form and file it in the same manner as other private foundations. However, these organizations, as well as foundation managers and self-dealers, do not have to pay any tax that would otherwise be due on this return.

Tax Payments

Managers, self-dealers, disqualified persons, donors, donor advisors, and related persons, paying tax on the organization's Form 4720 must pay with the return the tax that applies to them as shown in Part II-A, page 1. Managers, self-dealers, disqualified persons, donors, donor advisors, and related persons, who file separate Forms 4720 must pay the applicable tax with their separate returns. When managers do not sign the organization's Form 4720 to report their own tax liability, the amount of tax they owe should not be entered in Part II-B, line 1.

Payment by a private foundation of any taxes owed by the foundation managers or self-dealers will result in additional taxes under the self-dealing and taxable expenditure provisions. Managers and self-dealers should pay taxes imposed on them with their own check or money order.

Disqualified persons and entity managers should pay taxes on excess benefit transactions that are imposed on them with their own check or money order. Any reimbursement of a disqualified person's tax liability from excess benefit transactions by the organization will be treated as an excess benefit transaction subject to the tax unless the organization included the reimbursement in the disqualified person's compensation and the disqualified person's total compensation was reasonable. See the instructions to Schedule I on page 12 for information on excess benefit transactions.

Rounding Off to Whole Dollars

You may round off cents to whole dollars on your return and schedules. If you do round to whole dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3.

If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Penalties and Interest

There are penalties for failure to file or to pay tax. There are also penalties for willful failure to file, supply information or pay tax, and for filing fraudulent returns and statements, that apply to public charities, private foundations, managers, donors, donor advisors, related persons, and self-dealers who are required to file this return. See sections 6651, 7203, 7206, and 7207. Also, see section 6684 for penalties that relate to tax liability under Chapter 42.

Interest at the underpayment rate established under section 6621 is charged for any unpaid tax. The interest on underpayments is in addition to any penalties.

Abatement

See section 4962 for rules on abatement, refund, or relief from payment of first tier taxes under sections 4942 through 4945, 4955, and 4958. To request abatement, refund, or relief under section 4962, write "Request for Abatement Under Section 4962" in the top margin of Form 4720, page 1.

Initial Tax Liability

If you pay an initial tax on self-dealing or on investments that jeopardize charitable purpose (figured on Schedules A and D of Form 4720, respectively) for tax year 2006, the payment may not satisfy the entire tax liability for an act of self-dealing or a jeopardy investment. (For the definition of self-dealing, see the instructions for Schedule A of this form; for the definition of jeopardy investment, see the instructions for Schedule D of this form.) Paying the tax and filing a Form 4720 are required for each year or part of a year in the taxable period that applies to the act or investment. Generally, the taxable period begins with the date of the act or investment and ends with the date corrective action is completed, a notice of deficiency is mailed, or the tax is assessed, whichever comes first.

Similar rules apply for the initial tax liability resulting from failing to distribute income (Schedule B) and from acquiring excess business holdings (Schedule C). Thus, the initial tax liability for those taxes continues to accrue until the date a notice of deficiency is mailed, the violation is corrected, or the tax is assessed, whichever comes first.

Completing the Schedules

Before completing any of the schedules in this return, read the applicable instructions. If any completed schedule shows taxes owed, enter them on page 1 of this return.

The instructions for Schedules A through L describe acts or transactions subject to tax under Chapter 42. Also, go to *www.irs.gov/charities/foundations/index.html* for a list of exceptions that eliminate any tax liability that would otherwise be shown on Schedules A and E. Do not complete Schedules A and E if exceptions apply to all the acts or transactions. In general, question A on page 1 and Schedules A, B, C, D, and E do not apply to public charities. However, for tax years beginning after August 17, 2006, Schedule C will apply to some public charities including donor advised funds and certain supporting organizations that are treated as private foundations for purposes of section 4943. See the instructions for Schedule C for a description of the public charities to which section 4943 now applies.

Before completing Schedule C, determine whether the organization or donor advised fund has excess holdings in any business enterprise. If the organization or donor advised fund has holdings subject to the tax on excess business holdings, complete Schedule C for each enterprise.

Before completing Schedule D, determine whether the investment was program related. If not, complete Schedule D for each investment for which you answered "Yes" to Form 990-PF, Part VII-B, question 4a or b, or Form 5227, Part VI-B, question 4a or b.

Specific Instructions for Page 1

Question B. To avoid additional taxes and penalties under sections 4941 through 4945, 4955, and 4958, and in some cases further initial taxes on the foundation, organization, and related persons, a foundation, organization, disqualified person, or manager must correct the taxable event within the correction period. The taxable event is the act, failure to act, or transaction that resulted in the liability for initial taxes under these provisions.

Generally, the correction period begins on the date the event occurs and ends 90 days after the mailing date of a notice of deficiency, under section 6212, in connection with the second tier tax imposed on that taxable event. That time is extended by:

- Any period in which a deficiency cannot be assessed under section 6213(a) because a petition to the Tax Court for redetermination of the deficiency is pending, not extended by any supplemental proceeding by the Tax Court under section 4961(b), regarding whether correction was made, and
- Any other period the IRS determines is reasonable and necessary to correct the taxable event.

The taxable event will be treated as occurring:

- For the tax on failure to distribute income, on the first day of the tax year for which there was a failure to distribute income,
- For the tax on excess business holdings, on the first day on which there were excess business holdings, or
- In any other case, on the date the event occurred.

Generally, the term "correction" has the following meanings.

1. Section 4941 (Schedule A)—Undoing the transaction to the extent possible, but in any case placing the private foundation in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards.
2. Section 4942 (Schedule B)—Making sufficient qualifying distributions to compensate for deficient qualifying distributions for a prior tax year.
3. Section 4943 (Schedule C)—Action that results in the foundation no longer having excess business holdings in a business enterprise.
4. Section 4944 (Schedule D)—An investment is considered to be removed from jeopardy when the investment is sold or otherwise disposed of, and the proceeds of such sale or other disposition are not investments that jeopardize the carrying out of the foundation's exempt purposes.
5. Section 4945 (Schedule E)—

   a. Recovering part or all of the expenditure to the extent recovery is possible, and where full recovery is not possible, such additional corrective action as is prescribed by regulations, or

   b. Obtaining or making the report in question for a case that fails to comply with section 4945(h)(2) or (3) (expenditure responsibility).
6. Section 4955 (Schedule F)—Recovering part or all of the expenditure to the extent recovery is possible, establishment of safeguards to prevent future political expenditures, and where full recovery is not possible, such additional corrective action as is prescribed by the regulations.
7. Section 4958 (Schedule I)—Undoing the excess benefit to the extent possible and taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be if the disqualified person had been dealing under the highest fiduciary standards.

If, when the return is filed, the foundation, entity, managers, self-dealers, disqualified persons, donors, donor advisors, or related persons have corrected any acts or transactions resulting in liability for tax under Chapter 42, answer "Yes" to question B and give the following information separately for each correction:

- Schedule and item number of the act or transaction that has been corrected,
- A description of the act or transaction that resulted in the tax,
- A detailed description of the correction made,
- The amount of any political expenditure recovered,
- Description of safeguards to prevent future political expenditures, and
- The date of correction.

For any acts or transactions the foundation, entity, managers, self-dealers, disqualified persons, donors, donor advisors, or related persons have not corrected, give the following information separately for each act:

- Schedule and item number of the act or transaction that has not been corrected,
- A description of the act or transaction, and
- A detailed explanation of why correction has not been made and what steps are being taken to make the correction.

If you are correcting deficient distributions under section 4942 where an election under section 4942(h)(2) was filed with the IRS, provide a copy of the election. See the instructions for Form 990-PF, Part XIII, lines 4b and 4c for more information.

Part I

Line 8

TIP *If the organization has an entry on this line, it must also file Form 8870.*

Enter the total of all premiums paid by the organization on any personal benefit contract if the payment of premiums is in connection with a transfer for which a deduction is not allowed under section 170(f)(10)(A). Also, if there is an understanding or expectation that any person will directly or indirectly pay any premium on a personal benefit contract for the transferor, include those premium payments in the amount entered on this line.

A personal benefit contract is (to the transferor) any life insurance, annuity, or endowment contract that benefits directly or indirectly the transferor, a member of the transferor's family, or any other person designated by the transferor (other than an organization described in section 170(c)).

For more information, see Notice 2000-24, which is on page 952 of Internal Revenue Bulletin 2000-17 at *www.irs.gov/irbs/irs00-17.pdf*.

Part II-A

Columns (a) and (b). List the names, addresses, and taxpayer identification numbers of all persons who owe tax in connection with the foundation or organization, whether as managers, self-dealers, disqualified persons, donors, donor advisors, or related persons, as shown in Schedules A, D, E, F, H, I, J, K, and L.

Column (c). For each person listed in column (a), enter the sum of:

1. Taxes that person owes as a self-dealer, from Schedule A, Part II, column (d), and
2. Tax for acts of self-dealing in which the individual participated as a manager, from Schedule A, Part III, column (d).

Column (d). Enter for each person listed in column (a) the tax on jeopardy investments from Schedule D, Part II, column (d), that the individual took part in as a foundation manager.

Column (e). Enter for each person listed in column (a) the tax on taxable expenditures from Schedule E, Part II, column (d), that the individual took part in as a foundation manager.

Column (f). Enter for each person listed in column (a) the tax on political expenditures from Schedule F, Part II, column (d), that the individual took part in as an organization or foundation manager.

Column (g). Enter for each person listed in column (a) the tax on disqualifying lobbying expenditures from Schedule H, Part II, column (d), that the individual took part in as an organization manager.

Column (h). For each person listed in column (a), enter the sum of:

1. Taxes that person owes as a disqualified person, from Schedule I, Part II, column (d), and
2. Tax on excess benefit transactions in which the organization manager participated knowing that the transaction was improper, from Schedule I, Part III, column (d).

Column (i). Enter for each person listed in column (a) the tax on the entity manager who approved or otherwise caused the entity to be a party to a prohibited tax shelter transaction from Schedule J, Part II, column (d).

Column (j). Enter for each person listed in column (a) the tax on taxable distributions from sponsoring organizations maintaining donor advised funds from Schedule K, Part II, column (d) that the individual took part in as a manager.

Column (k). For each person listed in column (a), enter the:

1. Tax imposed on a donor, donor advisor, or related person, from Schedule L, Part II, column (d), and
2. Tax on each fund manager who agreed to the making of a distribution of a prohibited benefit from Schedule L, Part III, column (d) that the individual took part in as a manager.

A person's liability for tax as a manager, self-dealer, disqualified person, donor, donor advisor, or related person, under sections 4912, 4941, 4944, 4945, 4955, 4958, 4966, and 4967 is joint and several. Therefore, if more than one person owes tax on an act as a manager, self-dealer, disqualified person, donor, donor advisor, or related person, they may apportion the tax among themselves. However, when all managers, self-dealers, donors, donor advisors, related persons, or disqualified persons who are liable for tax on a particular transaction under sections 4912, 4941, 4944, 4945, 4955,4958, 4966, or 4967 pay less than the total tax due on that transaction, then the IRS may charge the amount owed to one or more of them regardless of the tax apportionment shown on this return.

Schedule A—Initial Taxes on Self-Dealing (Section 4941)

General Instructions

Requirement. All organizations that answered "Yes" to question 1b or 1c in Part VII-B of Form 990-PF, or "Yes" to question 1b or 1c in Part VI-B of Form 5227, must complete Schedule A. Complete Parts I, II, and III of Schedule A only in connection with acts that are subject to the tax on self-dealing.

Paying the tax and filing a Form 4720 is required for each year or part of a year in the taxable period that applies to the act of self-dealing. Generally, the taxable period begins with the date on which the self-dealing occurs and ends on the earliest of:

- The date a notice of deficiency is mailed under section 6212, in connection with the initial tax imposed on the self-dealer,
- The date the initial tax on the self-dealer is assessed, or
- The date correction of the act of self-dealing is completed.

Self-dealing. Self-dealing includes any direct or indirect:

- Sale, exchange, or leasing of property between a private foundation and a disqualified person (see *definitions* in Form 990-PF instructions),
- Lending of money or other extension of credit between a private foundation and a disqualified person,
- Furnishing of goods, services, or facilities between a private foundation and a disqualified person,
- Payment of compensation (or payment or reimbursement of expenses) by a private foundation to a disqualified person,
- Transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a private foundation, and
- Agreement by a private foundation to make any payment of money or other property to a government official (go to *www.irs.gov/charities/foundations/index.html* for more information), other than an agreement to employ or make a grant to that individual for any period after the end of government service if that individual will be ending government service within a 90-day period.

Exceptions to self-dealing. Go to *www.irs.gov/charities/foundations/index.html* for a description of acts that are not considered self-dealing.

Initial taxes on self-dealer. An initial tax of 10% (5% for acts that took place in a tax year beginning before August 18, 2006) of the amount involved is charged for each act of self-dealing between a disqualified person and a private foundation for each year or part of a year in the taxable period. Any disqualified person (other than a foundation manager acting only as such) who takes part in the act of self-dealing must pay the tax.

Initial taxes on foundation managers. When a tax is imposed on a foundation manager for an act of self-dealing, the tax will be 5% (2½% for acts that took place in a tax year beginning before August 18, 2006) of the amount involved in the act of self-dealing for each year or part of a year in the taxable period. However, the total tax imposed for all years in the taxable period is limited to $20,000 ($10,000 for acts that took place in a tax year beginning before August 18, 2006) for each act of self-dealing. The tax is imposed on any foundation manager who took part in the act knowing that it was self-dealing except those foundation managers whose participation was not willful and was due to reasonable cause. Any foundation manager who took part in the act of self-dealing must pay the tax.

Specific Instructions

Part I. List each act of self-dealing in Part I. Enter in column (d) the number designation from Form 990-PF, Part VII-B, question 1a, or Form 5227, Part VI-B, question 1a, that applies to the act. For example, "1a(1)" or "1a(4)."

Part II. Enter in column (a) the names of all disqualified persons who took part in the acts of self-dealing listed in Part I. If more than one disqualified person took part in an act of self-dealing, each is individually liable for the entire tax in connection with the act. But the disqualified persons who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax to be paid by each disqualified person.

Carry the total amount in column (d) for each self-dealer to page 1, Part II-A, column (c).

Part III. Enter in column (a) the names of all foundation managers who took part in the acts of self-dealing listed in Part I, and who knew that they were acts of self-dealing (except for foundation managers whose participation was not willful and was due to reasonable cause).

If more than one foundation manager took part in the act of self-dealing, knowing that it was such an act, and participation was willful and not due to reasonable cause, each is individually liable for the entire tax in connection with the act. But the foundation managers liable for the tax may prorate the payment among themselves. Enter in column (c) the tax to be paid by each foundation manager.

Carry the total amount in column (d) for each foundation manager to page 1, Part II-A, column (c).

Schedule B—Initial Tax on Undistributed Income (Section 4942)

Complete Schedule B if you answered "Yes" to Form 990-PF, Part VII-B, question 2b.

An initial excise tax of 30% (15% for tax years beginning before August 18, 2006) is imposed on a private foundation's undistributed income on the first day of the second or any succeeding tax year after the tax year in connection with which income remains undistributed.

Use the 2006 Form 4720 to report the initial tax on undistributed income for tax years beginning in 2005 or earlier that remains undistributed at the end of the foundation's current tax year beginning in 2006. The initial tax will not apply to a private foundation's undistributed income:

- For any tax year it is an operating foundation (as defined in section 4942(j)(3) and related regulations or in section 4942(j)(5)), or
- To the extent it did not distribute an amount solely because of an incorrect valuation of assets, provided the foundation satisfies the requirements of section 4942(a)(2), or
- For any year for which the initial tax was previously assessed or a notice of deficiency was issued.

Do not complete Schedule B for any year for which any of the above provisions apply to the undistributed income.

Schedule C—Initial Tax on Excess Business Holdings (Section 4943)

General Instructions

Private foundations are generally not permitted to hold more than a 20% interest in an unrelated business enterprise. They may be subject to an excise tax on the amount of any excess holdings. For purposes of section 4943, for tax years beginning after August 17, 2006, donor advised funds and certain supporting organizations are considered private foundations. For more information on the applicability of Schedule C to such organizations, see *General rules on the permitted holdings of donor advised funds and certain supporting organizations in a business enterprise* on page 9.

Requirement. If you answered "Yes" to Form 990-PF, Part VII-B, question 3b; Form 990, Part VI, question 89g; or Form 5227, Part VI-B, question 3b, complete a Schedule C for each business enterprise in which the foundation had excess business holdings for its tax year beginning in 2006.

Taxes. A private foundation that has excess holdings in a business enterprise may become liable for an excise tax based on the amount of holdings. The initial tax is 10% (5% for tax years beginning before August 18, 2006) of the value of the excess holdings and is imposed on the last day of each tax year that ends during the taxable period. The excess holdings are determined on the day during the tax year when they were the largest.

If the foundation keeps the excess business holdings after the initial tax has been imposed, it becomes liable for an additional tax of 200% of the remaining excess business holdings unless it disposes of them within the taxable period. However, if the foundation disposes of its excess business holdings during the correction period, the additional tax will not be assessed or, if assessed, will be abated and if collected, will be credited or refunded. For information on the correction period go to *www.irs.gov/charities/foundations/index.html*.

Business enterprise. In general, this means the active conduct of a trade or business, including any activity regularly conducted to produce income from selling goods or performing services, that is an unrelated trade or business described in section 513.

The term "business enterprise" does not include a functionally related business as defined in section 4942(j)(4). In addition, business holdings do not include program-related investments (such as investments in small businesses in economically depressed areas or in corporations to assist in neighborhood renovations) as defined in section 4944(c) and related regulations. Also, business enterprise does not include a trade or business at least 95% of the gross income of which comes from passive sources. Log on to *www.irs.gov/charities/foundations/index.html*.

Excess business holdings. Excess business holdings is the amount of stock or other interest in a business enterprise that the foundation would have to dispose of to a person other than a disqualified person in order for the foundation's remaining holdings in the enterprise to be permitted holdings (section 4943(c)(1)). Go to *www.irs.gov/charities/foundations/index.html* for more information.

Sole proprietorships. In general, a private foundation may not have any permitted holdings in a business enterprise that is a sole proprietorship. For exceptions, go to *www.irs.gov/charities/foundations/index.html*. For a definition of sole proprietorship, see Regulations section 53.4943-10(e).

Corporate voting stock. This stock entitles a person to vote for the election of directors. Treasury stock and stock that is authorized but unissued is not voting stock for these purposes. See Regulations sections 53.4943-3(b)(1)(ii) and 53.4943-3(b)(2)(ii).

For a partnership (including a limited partnership) or joint venture, the term "profits interest" should be substituted for "voting stock." For any unincorporated business enterprise that is not a partnership, joint venture, or sole proprietorship, the term "beneficial interest" should be substituted for "voting stock." See Regulations section 53.4943-3(c).

Nonvoting stock. Corporate equity interests that do not have voting power should be classified as nonvoting stock. Evidences of indebtedness (including convertible indebtedness), warrants, and other options or rights to acquire stock should not be considered equity interests. See Regulations section 53.4943-3(b)(2).

For a partnership (including a limited partnership) or joint venture, the term "capital interest" should be substituted for "nonvoting stock." For any unincorporated business that is not a partnership, joint venture, or sole proprietorship, references to nonvoting stock do not apply for computation of permitted holdings. See Regulations section 53.4943-3(c)(4).

Attribution of business holdings. In determining the holdings in a business enterprise of either a private foundation or a disqualified person, any stock or other interest owned directly or indirectly by or for a corporation, partnership, estate, or trust is considered owned proportionately by or for its shareholders, partners, or beneficiaries. In general, this rule does not apply to certain income interests or remainder interests of a private foundation in a split-interest trust described in section 4947(a)(2). See Regulations section 53.4943-8.

Taxable period. The taxable period begins on the first day the foundation has excess business holdings and ends on the earliest of:

- The mailing date of a notice of deficiency, under section 6212, in connection with the initial tax on excess

business holdings related to those holdings,
- The date the excess is eliminated, or
- The date the initial tax on excess business holdings related to those holdings is assessed.

When a notice of deficiency is not mailed because the restrictions on assessment and collection are waived or because the deficiency is paid, the date of filing the waiver or the date of paying the tax, respectively, will be treated as the end of the taxable period. See Regulations section 53.4943-9.

Exceptions to Tax on Excess Business Holdings

2% De minimis rule. A private foundation will not be treated as having excess business holdings in any enterprise in which it, together with related foundations as described in the instructions for Form 990-PF (under the definition for "disqualified person" in the *General Instructions*) owns not more than 2% of the voting stock and not more than 2% in value of all outstanding shares of all classes of stock.

Disposition of excess business holdings within 90 days. Generally, when a private foundation acquires excess business holdings other than as a result of purchase by the foundation (such as an acquisition by a disqualified person), the foundation will not be taxed on those excess holdings if it disposes of enough of them so that it no longer has an excess. To avoid the tax, the disposition must take place within 90 days from the date the foundation knew, or had reason to know, of the event that caused it to have excess business holdings. That 90-day period will be extended to include the period during which federal or state securities laws prevent the foundation from disposing of those excess business holdings. See Regulations section 53.4943-2(a).

General rules on the permitted holdings of a private foundation in a business enterprise. No excess business holdings tax is imposed (a) if a private foundation and all disqualified persons together hold no more than 20% of the voting stock of a business enterprise or (b) on nonvoting stock, if all disqualified persons together do not own more than 20% of the voting stock of the business enterprise.

If the private foundation and all disqualified persons together do not own more than 35% of the enterprise's voting stock, and effective control is in one or more persons who are not disqualified persons in connection with the foundation, then 35% may be substituted for 20% wherever it appears in the preceding paragraph. See sections 4943(c)(2) and 4943(c)(3).

If a private foundation and all disqualified persons together had holdings in a business enterprise of more than 20% of the voting stock on May 26, 1969, substitute that percentage for 20% and for 35% (if the holding is greater than 35%), using the principles of section 4943(c)(4) that apply. However, the percentage substituted may not be more than 50%.

The percentage substituted under the preceding paragraph is (a) subject to reductions and limitations (see sections 4943(c)(4)(A)(ii) and 4943(c)(4)(D)) and (b) applicable, both in connection with the voting stock and, separately, in connection with the value of all outstanding shares of all classes of stock (see section 4943(c)(4)(A)(iii)).

Interests held by a private foundation (other than donor advised funds and supporting organizations) on May 26, 1969. For private foundations, other than donor advised funds and supporting organizations considered to be private foundations for purposes of section 4943, that had business holdings on May 26, 1969 (or holdings acquired by trust or will as described below), that were more than the current limits permit, there are transitional rules that permit the foundation to dispose of the excess over time without being subject to the tax on excess business holdings.

During the first phase, no excess business holdings tax was imposed on a private foundation for interests held since May 26, 1969, if the foundation had excess holdings on that date. The first phase is:

- A 20-year period beginning on May 26, 1969, if on that date the foundation and all disqualified persons held more than a 95% voting interest in the enterprise (the 20-year first phase expired on May 25, 1989);
- A 15-year period beginning on May 26, 1969, if on that date the foundation and all disqualified persons together had more than a 75% voting stock interest (or more than a 75% profits or beneficial interest of any unincorporated business), or more than a 75% interest in the value of all outstanding shares of all classes of stock (or more than a 75% capital interest of a partnership or joint venture) in the enterprise (the 15-year first phase expired on May 25, 1984); and
- A 10-year period beginning on May 26, 1969, in all other cases in which the foundation had excess business holdings on May 26, 1969. The 10-year first phase expired on May 25, 1979.

During the second phase (the 15-year period after the first phase), if the foundation's disqualified persons hold more than 2% of the enterprise's voting stock, the foundation will be liable for tax if the foundation holds more than 25% of the voting stock or if the foundation and its disqualified persons together hold more than 50% of the voting stock.

However, during the second phase, if a foundation's disqualified persons purchase voting stock in a business enterprise after July 18, 1984, causing the combined holdings of the disqualified persons to exceed 2% of the enterprise's voting stock, the foundation has 5 years to reduce its holdings in the enterprise to below its second phase limit before the increase will be treated as held by the foundation. See sections 4943(c)(4)(D) and 4943(c)(6).

The first-phase periods may be suspended pending the outcome of any judicial proceeding the private foundation brings regarding reform or other procedure to excuse it from compliance with its governing instrument or similar instrument in effect on May 26, 1969. See section 4943(c)(4)(C) and Regulations section 53.4943-4.

Holdings acquired by trust or will. Holdings acquired under the terms of a trust that was irrevocable on May 26, 1969, or under the terms of a will executed by that date, are treated as held by the foundation on May 26, 1969, except that the 15- and 10-year periods of the first phase for the holdings start on the date of distribution under the trust or will instead of on May 26, 1969. See section 4943(c)(5) and Regulations section 53.4943-5. See section 4943(d)(1) and Regulations section 53.4943-8 for rules relating to constructive holdings held in a corporation, partnership, estate, or trust for the benefit of the foundation.

Gifts or bequests of business holdings. Except as provided in the exception regarding *Holdings acquired by trust or will* (discussed above), there is a special rule for private foundations that have excess business holdings as a result of a change in holdings after May 26,1969. This rule applies if the change is other than by purchase by the foundation or by disqualified persons (such as through gift or bequest) and the additional holdings result in the foundation having excess business holdings. In that case, the foundation has 5 years to reduce these holdings or those of its disqualified persons to permissible levels to avoid the tax. See section 4943(c)(6) and Regulations section 53.4943-6.

A private foundation that received an unusually large gift or bequest of business holdings after 1969, and that has made a diligent effort to dispose of excess business holdings, may apply for an additional 5-year period to reduce its holdings to permissible levels if certain conditions are met. See section 4943(c)(7).

General rules on the permitted holdings of donor advised funds and certain supporting organizations in a business enterprise. For tax years beginning after August 17, 2006, rules similar to those described above for interests held by private foundations on May 26, 1969, will be applied to determine if donor advised funds or certain supporting organizations with interests as of August 17, 2006, have any excess business holdings. However, the date of August 17, 2006, will be substituted for May 26, 1969.

Donor advised fund. In general, a donor advised fund is a fund or account separately identified by reference to contributions of a donor or donors that is owned and controlled by a sponsoring organization and for which the donor has or expects to have advisory privileges concerning the distribution or investment of the funds. See *Schedule K* for further details.

Sponsoring organization. A sponsoring organization is any section170(c) organization other than governmental entities (described in section 170(c)(1) and (2)(A)) that is not a private foundation as defined in section 509(a)(3) that maintains one or more donor advised funds.

Supporting organizations. Only certain supporting organizations are subject to the excess business holdings tax under section 4943. These include (1) Type III supporting organizations that are not functionally integrated and (2) Type II supporting organizations that accept any gift or contribution from a person who by himself or in connection with a related party controls the supported organization that the Type II supporting organization supports. (See the 2006 Instructions for Schedule A (Form 990 or 990-EZ), Part III, question 13, for help in determining the type of your supporting organization.)

Readjustments, distributions, or changes in relative value of different classes of stock. See Regulations section 53.4943-4(d)(10) for special rules whereby increases in the percentage of value of holdings in a corporation that result solely from changes in the relative values of different classes of stock will not result in excess business holdings.

See Regulations section 53.4943-6(d) for rules on treatment of increases in holdings due to readjustments, distributions, or redemptions.

See Regulations section 53.4943-7 for special rules for readjustments involving grandfathered holdings.

Exceptions from self-dealing taxes on certain dispositions of excess business holdings. Section 101(l)(2)(B) of the Tax Reform Act of 1969 provides for a limited exception from self-dealing taxes for private foundations that dispose of certain excess business holdings to disqualified persons, as long as the sales price equals or is more than fair market value.

The excess business holdings involved are interests that are subject to the section 4941 transitional rules for May 26, 1969, holdings. These interests would also be subject to the excess business holdings tax if they were not reduced by the required amount.

Specific Instructions

Complete columns (a) and (b) of Schedule C if sections 4943(c)(4), 4943(c)(3) (using the principles of 4943(c)(4)), or 4943(c)(5) apply.

Complete column (a) and column (c) (if applicable) if sections 4943(c)(2) or 4943(c)(3) (using the principles of 4943(c)(2)) apply.

Complete Schedule C for that day during the tax year when the foundation's excess holdings in the enterprise were largest.

Line 1. Enter in column (a) the percentage of voting stock the foundation holds in the business enterprise.

If the foundation is using the rules or principles for determining present holdings under section 4943(c)(4)(A) or (D) (or for tax years beginning after August 17, 2006, rules similar to that for donor advised funds and certain supporting organizations), enter in column (b) the percentage of value the foundation holds in all outstanding shares of all classes of stock.

Do not include in either column (a) or (b) stock treated as held by disqualified persons:

- Under section 4943(c)(6) or Regulations sections 53.4943-6 and 53.4943-10(d), or
- During the first phase if the first phase is still in effect (see Regulations sections 53.4943-4(a), (b), and (c)).

Line 2. If the foundation is using the rules or principles for determining present holdings under section 4943(c)(4)(or for tax years beginning after August 17, 2006, rules similar to that for donor advised funds and certain supporting organizations), refer to that section and Regulations section 53.4943-4(d) to determine which entries to record in columns (a) and (b). Enter in column (a) the excess of the substituted combined voting level over the disqualified person voting level. Enter in column (b) the excess of the substituted combined value level over the disqualified person value level.

If the foundation is using the rules or principles for determining permitted holdings under section 4943(c)(2), refer to that section to determine which entries to record in column (a). Enter in column (a) the percentage, using the general rule (section 4943(c)(2)(A)) or the 35% rule (see section 4943(c)(2)(B)), if applicable, of permitted holdings the foundation may have in the enterprise's voting stock. If the foundation determines the permitted holdings under section 4943(c)(2)(B), attach a statement showing effective control by a third party.

Line 3. Enter the value of any stock, interest, etc., in the business enterprise that the foundation is required to dispose of so the foundation's holdings in the enterprise are permitted. See section 4943 and related regulations.

A private foundation using the section 4943(c)(4) rules, or a donor advised fund or supporting organization using rules similar to that, has excess holdings if line 1 is more than line 2 in either column (a) or column (b). Do not include in column (b) the value of any voting stock included in column (a).

A private foundation using the section 4943(c)(2) rules has excess holdings if line 1 is more than line 2 in column (a) or if the private foundation holds nonvoting stock and all disqualified persons together own more than 20% (or 35%, if applicable) of the enterprise's voting stock, interest, etc. In the latter case, enter in column (c) the value of all nonvoting stock the foundation holds.

Line 4. Enter the value of excess holdings disposed of under the 90-day rule in Regulations section 53.4943-2(a)(1)(ii). If other conditions preclude imposition of tax on excess business holdings, include the value of the nontaxable amount on this line and attach an explanation.

Schedule D—Initial Taxes on Investments That Jeopardize Charitable Purpose (Section 4944)

General Instructions

Requirement. Complete Schedule D if you answered “Yes” to Form 990-PF, Part VII-B, question 4a or b, or Form 5227, Part VI-B, question 4a or b. Report each investment separately. Paying tax and filing a Form 4720 are required for each year or part of a year in the taxable period that applies to the investments that jeopardize the foundation’s charitable purpose. Generally, the taxable period begins with the date of the investment and ends with the date corrective action is completed, a notice of deficiency is mailed, or the initial tax is assessed, whichever comes first. Therefore, in addition to investments made in 2006, include all investments subject to tax that were made before 2006 if those investments were not removed from jeopardy before 2006 and the initial tax was not assessed before 2006.

Taxable investments. An investment to be taxed on this schedule is an investment by a private foundation that jeopardizes the carrying out of its exempt purposes (for example, if it is determined that the foundation managers, in making the investment, did not exercise ordinary business care and prudence, under prevailing facts and circumstances, in providing for the long- and short-term financial needs of the foundation to carry out its exempt purposes). See Regulations section 53.4944-1(a)(2). An investment is not taxed on this schedule if it is a program-related investment; that is, one whose primary purpose is one or more of those described in section 170(c)(2)(B) (religious, charitable, educational, etc.). A significant purpose of such an investment cannot be the production of income or the appreciation of property. See section 4944(c) and Regulations section 53.4944-3.

Initial taxes on foundation. The initial tax is 10% (5% for investments made in a tax year beginning before August 18, 2006) of the amount invested for each year or part of a year in the taxable period.

Initial taxes on foundation managers. When a tax is imposed on a jeopardy investment of the foundation, the tax will be10% (5% for investments made in a tax year beginning before August 18, 2006) of the investment for each year or part of a year in the taxable period, up to $10,000 ($5,000 for investments made in a tax year beginning before August 18, 2006) for any one investment. It is imposed on all foundation managers who took part in the act, knowing that it was such an act, except for foundation managers whose participation was not willful and was due to reasonable cause. Any foundation manager who took part in making the investment must pay the tax.

Specific Instructions

Part I. Complete this part for all taxable investments.

Part II. Enter in column (a) the names of all foundation managers who took part in making the investments listed in Part I. See *Initial taxes on foundation managers* above.

If more than one foundation manager is listed in column (a), each is individually liable for the entire amount of tax in connection with the investment. However, the foundation managers who are liable for the tax may prorate payment among themselves. Enter in column (c) the tax each foundation manager will pay.

Carry the total amount in column (d) for each foundation manager to page 1, Part II-A, column (d).

Schedule E—Initial Taxes on Taxable Expenditures (Section 4945)

General Instructions

Requirement. Complete Schedule E if you answered “Yes” to Form 990-PF, Part VII-B, question 5b, or Form 5227, Part VI-B, question 5b. Complete Parts I and II of Schedule E only for expenditures that are subject to tax.

Note. Also, see *Schedule F, Initial Taxes on Political Expenditures.*

Taxable expenditures. With certain exceptions, this means any amount a private foundation pays or incurs:

1. To carry on propaganda or otherwise influence any legislation through:

a. An attempt to influence general public opinion or any segment of it, and

b. Communication with any member or employee of a legislative body, or with any other government official or employee who may take part in formulating legislation;

2. To influence the outcome of any specific public election, or to conduct, directly or indirectly, any voter registration drive;

3. As a grant to an individual for travel, study, or other purposes;

4. As a grant to an organization not described in section 509(a)(1), (2), or (3) or that is not an exempt operating foundation (as defined in section 4940(d)(2)). After August 17, 2006, this includes grants to:

a. Type I, Type II, and Type III functionally integrated supporting organizations (as described in section 4942(g)(4)(B)) if a disqualified person of the foundation controls such supporting organization or the supported organizations of such supporting organizations, and

b. Type III supporting organizations (as described in section 4943(f)(5)(B)) that are not functionally integrated with its supported organizations; or

5. For any purpose other than religious, charitable, scientific, literary, educational, or public purposes, or the prevention of cruelty to children or animals.

Exceptions. Section 4945(d)(4)(B) provides an exception to taxable expenditures that applies to certain grants to organizations when the granting foundation exercises expenditure responsibility described in section 4945(h). Additional information on special rules and exceptions to the definition of taxable expenditures given above can be found at *www.irs.gov/charities/foundations/index.html*.

Initial tax on foundation. An initial tax of 20% (10% for expenditures made in a tax year beginning before August 18, 2006) of each taxable expenditure is imposed on the foundation.

Initial tax on foundation managers. When a tax is imposed on a taxable expenditure of the foundation, a tax of 5% ($2\frac{1}{2}$% for expenditures made in a tax year beginning before August 18, 2006) of the expenditure will be imposed on any foundation manager who agreed to the expenditure and who knew that it was a taxable expenditure. Foundation managers whose participation was not willful and was due to reasonable cause are not liable for the tax. Any foundation manager who took part in the expenditure and is liable for the tax must pay the tax. The maximum total amount of tax on all foundation managers for any one taxable expenditure is $10,000 ($5,000 for expenditures made in a tax year beginning before August 18, 2006). If more than one foundation manager is liable for tax on a taxable expenditure, all those foundation managers are jointly and severally liable for the tax.

Specific Instructions

Part I. Complete this part for all taxable expenditures. Enter in column (f) the number designation from Form 990-PF, Part VII-B, question 5a, or Form 5227, Part VI-B, question 5a, that applies to the act; for example, "5a(1)."

Part II. Enter in column (a) the names of all foundation managers who agreed to make the taxable expenditure. See *Initial Tax on Foundation Managers* on page 6. If more than one foundation manager is listed in column (a), each is individually liable for the entire tax in connection with the expenditure. However, the foundation managers who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax each foundation manager will pay.

Carry the total amount in column (d) for each foundation manager to page 1, Part II-A, column (e).

Schedule F—Initial Taxes on Political Expenditures (Section 4955)

General Instructions

Requirement. Complete Schedule F if you answered "Yes" to question 5a(2) and 5b of Form 990-PF, Part VII-B. Complete Schedule F if you entered an amount of political expenditure in question 81a, Part VI, of Form 990, or in question 37a, Part V, of Form 990-EZ.

Political expenditures. These include any amount paid or incurred by a section 501(c)(3) organization that participates or intervenes in (including the publication or distribution of statements) any political campaign on behalf of, or in opposition to, any candidate for public office. The tax is imposed even if the political expenditure gives rise to a revocation of the organization's section 501(c)(3) status.

These taxes apply in the case of both public charities and private foundations. When tax is imposed under this provision in the case of a private foundation, however, the expenditure in question will not be treated as a taxable expenditure under section 4945.

For an organization formed primarily to promote the candidacy or prospective candidacy of an individual for public office (or that is effectively controlled by a candidate or prospective candidate and is used primarily for such purposes), amounts paid or incurred for any of the following purposes are deemed political expenditures:

- Remuneration to the candidate or prospective candidate for speeches or other services;
- Travel expenses of the individual;
- Expenses of conducting polls, surveys, or other studies, or preparing papers or other material for use by the individual;
- Expenses of advertising, publicity, and fundraising for such individual; and
- Any other expense which has the primary effect of promoting public recognition or otherwise primarily accruing to the benefit of the individual.

Initial tax on organization or foundation. The initial tax on the organization or foundation is 10% of the amount involved.

Initial tax on organization managers or foundation managers. An initial tax of $2\frac{1}{2}$% of the amount involved (up to $5,000 of tax on any one expenditure) is imposed on any manager who agrees to an expenditure, knowing that it is a political expenditure, unless the agreement is not willful and is due to reasonable cause.

Any manager who agreed to the expenditure must pay the tax.

Specific Instructions

Part I. Complete this part for all political expenditures.

Part II. Enter in column (a) the names of all managers who took part in making the political expenditures listed in Part I. See *Initial tax on organization managers or foundation managers* above.

If more than one manager is listed in column (a), each is individually liable for the entire amount of tax on the expenditure. However, the managers who are liable for the tax may prorate payment among themselves. Enter in column (c) the tax each manager will pay.

Carry the total amount in column (d) for each manager to page 1, Part II-A, column (f).

Schedule G—Tax on Excess Lobbying Expenditures (Section 4911)

Requirement. Schedule G must be completed by eligible section 501(c)(3) organizations that elected to be subject to the limitations on lobbying expenditures under section 501(h) and that made excess lobbying expenditures as defined in section 4911(b).

Except as noted below, follow the line instructions on Schedule G.

Affiliated groups. If you are a nonelecting member of an affiliated group, you are not required to file Form 4720.

If you are an electing member of an affiliated group and are filing a separate return, enter on line 1 the amount from Schedule A (Form 990 or 990-EZ), Part VI-A, column (b), line 43. Enter on line 2 the amount from Schedule A (Form 990 or 990-EZ), Part VI-A, column (b), line 44.

If you are an electing member of an affiliated group and are included in a group return, enter on line 1 your share of the excess grassroots lobbying expenditures of the affiliated group, and on line 2 your share of the excess lobbying expenditures of the affiliated group. Take these amounts from the schedule of excess lobbying expenditures that must be attached to Schedule A (Form 990 or 990-EZ). See the instructions for Schedule A (Form 990 or 990-EZ), Part VI-A, for a discussion of the lobbying provisions, including how to figure the taxable amount.

Schedule H—Taxes on Disqualifying Lobbying Expenditures (Section 4912)

General Instructions

Requirement. Schedule H must be completed by certain organizations whose section 501(c)(3) status is revoked because of excess lobbying activities.

Exceptions. These taxes are not imposed on a private foundation (whose lobbying expenditures may be subject to the tax on taxable expenditures). These taxes also are not imposed on any organization for which a section 501(h) election was in effect at the time of the lobbying expenditures or that was not eligible to make a section 501(h) election.

Tax on organization. A tax of 5% of the lobbying expenditures is imposed on the organization whose section 501(c)(3) status is revoked because of excess lobbying activities.

Tax on organization managers. A tax of 5% of the lobbying expenditures is also imposed on any manager who willfully and without reasonable cause consented to the lobbying expenditures, knowing that they would likely result in the organization no longer qualifying under section 501(c)(3).

There is no limit on the amount of this tax that may be imposed against either the organization or its managers. Any organization manager who agreed to the expenditure must pay the tax.

Specific Instructions

Part I. Complete this part for all disqualifying lobbying expenditures.

Part II. Enter in column (a) the names of all organization managers who took part in making disqualifying lobbying expenditures listed in Part I. See *Tax on organization managers* above.

If more than one organization manager is listed in column (a), each is individually liable for the entire amount of tax in connection with the expenditure. However, the managers who are liable for the tax may prorate payment among themselves. Enter in column (c) the tax each manager will pay.

Carry the total amount in column (d) for each organization manager to page 1, Part II-A, column (g).

Schedule I—Initial Taxes on Excess Benefit Transactions (Section 4958)

General Instructions

Requirement. Complete Schedule I for any *Excess benefit transaction* in which an *Applicable organization* provides an *Excess benefit* to a *Disqualified person*. These terms are discussed below.

Applicable organization. In general, an applicable organization is any section 501(c)(3) (except a private foundation) or any 501(c)(4) organization.

Also, an applicable organization includes any organization that was a 501(c)(3) (except a private foundation) or 501(c)(4) organization at any time during a five-year period ending on the date of an excess benefit transaction (the lookback period).

Initial taxes. Excise taxes are imposed under section 4958 on each excess benefit transaction. If a manager receives an excess benefit from an excess benefit transaction, the manager may be liable for the tax on disqualified persons and the tax on the organization manager. See *Abatement* on page 4 for information on abatement, refund, or relief from this tax.

Tax on disqualified persons. The tax is 25% of the excess benefit and is paid by any disqualified person who improperly benefited from the excess benefit transaction.

Tax on organization managers. If tax is imposed on a disqualified person for any excess benefit transaction, then tax is also imposed on any manager who knowingly participated in the excess benefit transaction. The tax is 10% of the excess, not to exceed $20,000 ($10,000 for transactions entered in a tax year beginning before August 18, 2006) for each transaction.

Additional tax on the disqualified person. If the initial tax is imposed on an excess benefit transaction and the transaction is not corrected within the taxable period, then any disqualified person involved shall be liable for an additional tax equal to 200% of the excess benefit.

This additional tax is abated (refunded if collected) if the excess benefit transaction is corrected within the correction period (defined in *Question B,* under *Specific Instructions for Page 1* on page 3).

Taxable period. Taxable period means the period beginning with the date on which the excess benefit transaction occurs and ending on the earlier of:

1. The date a notice of deficiency was mailed to the disqualified person for the initial tax on the excess benefit transaction, or
2. The date on which the initial tax on the excess benefit transaction for the disqualified person is assessed.

Excess benefit transaction. An excess benefit transaction is any transaction in which:

1. An excess benefit is provided by the organization, directly or indirectly to, or for the use of, any disqualified person, or
2. The amount of any economic benefit provided to, or for the use of, a disqualified person is determined in whole or in part by the revenues of the organization and violates the private inurement prohibition rules (to the extent provided in regulations).

CAUTION *Until final regulations are issued regarding the special rules for revenue sharing transactions described in 2 above, these transactions will only be subject to section 4958 liability under the general rule described in 1 above.*

Supporting organization transactions occurring after July 25, 2006. For any supporting organization, as defined in section 509(a)(3), any grant, loan, compensation, or other similar payment provided to a substantial contributor (defined later), family member, or 35% controlled entity will be considered an excess benefit transaction. The amount of the excess benefit is the amount of such grant, loan, compensation, or other similar payment. Also, any loan provided to a disqualified person that is not an organization described in 509(a)(1), (2), or (4) is considered an excess benefit transaction as well.

Donor advised fund transactions occurring after August 17, 2006. Any grant, loan, compensation, or other similar payment from any donor advised fund to a donor, family member, or 35% controlled entity is an excess benefit transaction. The amount of the excess benefit is the amount of such grant, loan, compensation, or other similar payment.

Excess benefit. Excess benefit means the excess of the economic benefit received from the applicable organization over the consideration given (including services) by a disqualified person.

However, an economic benefit will not be treated as compensation for services unless the applicable organization clearly indicates its intent to treat the economic benefit (when paid) as compensation for a disqualified person's services. See Regulations section 53.4958-4(c) for more information.

Exception. Generally, section 4958 does not apply to any fixed payment made to a person under an initial contract. See Regulations section 53.4958-4(a)(3) for details.

Special rule. The initial and additional taxes of this section do not apply if the transaction described in 1 under *Excess benefit transaction* was pursuant to a written contract in effect on September 13, 1995, and at all times after that date until the time that the transaction occurs.

However, if a written contract is materially modified, it is treated as a new contract entered into as of the date of the material modification. A material modification includes amending the contract to extend its term or to increase the compensation payable to a disqualified person.

Disqualified person. For purposes of this Schedule I, a disqualified person means:

1. Any person (at any time during the 5-year period ending on the date of the transaction) in a position to exercise substantial influence over the affairs of the organization,
2. A family member of an individual described in 1, 2, or 3, and
3. A 35% controlled entity.

Family members. Family members of an individual (described in 1 above) include a disqualified person's spouse, ancestors, children, grandchildren, great grandchildren, and brothers and sisters (whether by whole- or half-blood). It also includes the spouse of the children, grandchildren, great grandchildren, brothers, or sisters (whether by whole- or half-blood).

35% controlled entity. The term 35% controlled entity means:

- A corporation in which a person described in 1 through 5 under *Disqualified person* owns more than 35% of the total combined voting power,
- A partnership in which such persons own more than 35% of the profits interest, or
- A trust or estate in which such persons own more than 35% of the beneficial interest.

In determining the holdings of a business enterprise, any stock or other interest owned directly or indirectly shall apply.

For donor advised funds, sponsoring organizations, and certain supporting organization transactions occurring after August 17, 2006. The following persons will be considered disqualified persons along with certain family members and 35% controlled entities associated with them:

- Donors of donor advised funds,
- Investment advisors of sponsoring organizations; and
- Disqualified persons of a section 509(a)(3) supporting organization for the organizations that organization supports.

For certain supporting organization transactions occurring after July 25, 2006. Substantial contributors to supporting organizations will also be considered disqualified persons along with their family members and 35% controlled entities.

Donor advised fund. See the *Schedule K* instructions for a definition of donor advised fund.

Investment advisor. Investment advisor means for any sponsoring organization, any person compensated by such organization (but not an employee of such organization) for managing the investment of, or providing investment advice for assets maintained in donor advised funds maintained by such sponsoring organization.

Sponsoring organization. See the *Schedule K instructions* for a definition of sponsoring organization.

Substantial contributor. In general, a substantial contributor means any person who contributed or bequeathed an aggregate of more than $5,000 to the organization, if that amount is more than 2% of the total contributions and bequests received by the organization before the end of the tax year of the organization in which the contribution or bequest is received by the organization from such person. A substantial contributor includes the grantor of a trust.

Specific Instructions

Part I. List each excess benefit transaction in Part I, column (c). Enter the date of the transaction in column (b) and the amount of the excess benefit in column (d). Compute the tax on the excess benefit for disqualified persons and enter it in column (e). Compute any tax on the excess benefit for organization managers and enter the amount in column (f).

For organization managers, the tax is the lesser of 10% of the excess benefit or $20,000 ($10,000 for transactions entered in a tax year beginning before August 18, 2006). This tax is computed on each transaction.

Part II. Enter in column (a) the names of all disqualified persons who took part in the excess benefit transactions. If more than one disqualified person took part in an excess benefit transaction, each is individually liable for the entire tax on the transaction. But the disqualified persons who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax to be paid by each disqualified person.

Carry the total amount in column (d) for each disqualified person to page 1, Part II-A,column (h).

Part III. Enter in column (a) the names of all managers who knowingly took part in the excess benefit transactions listed in Part I. If more than one manager knowingly took part in an excess benefit transaction, each is individually liable for the entire tax in connection with the transaction. But the managers liable for the tax may prorate the payment among themselves. Enter in column (c) the tax to be paid by each organization manager.

Carry the total amount in column (d) for each manager to page 1, Part II-A, column (h).

Schedule J—Taxes on Being a Party to Prohibited Tax Shelter Transactions (Section 4965)

General Instructions

Requirement.

1. Complete Schedule J if you are an entity described in section 501(c), 501(d), or 170(c) (other than the United States) or an Indian tribal government (within the meaning of section 7701(a)(40)) and you received proceeds from or have net income attributable to a prohibited tax shelter transaction (PTST).
2. Complete Schedule J if you are an entity manager of such an entity who approved the entity as (or otherwise caused the entity to be) a party to a PTST at any time during the tax year and who knew (or had reason to know) that the transaction is a PTST.

See Notice 2006-65, 2006-31 I.R.B. 102, and any future related guidance for details.

TIP *Managers of tax favored retirement plans, individual retirement arrangements, and savings arrangements described in sections 401(a), 403(a), 403(b), 529, 457(b), 408(a), 220(d), 408(b), 530, or 223(d) must report and pay tax due under 4965(a)(2) on Form 5330.*

Prohibited tax shelter transaction. In general, prohibited tax shelter transaction means any listed transaction and any prohibited reportable transaction.

Listed transaction. A listed transaction includes any transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction. These transactions are identified by notice, regulation, or other form of published guidance as a listed transaction. For existing guidance see:

- Notice 2004-67, 2004-41 I.R.B. 600
- Notice 2005-13, 2005-9 I.R.B. 630.

For updates to this list go to the IRS web page at *www.irs.gov/businesses/corporations* and click on Abusive Tax Shelters and Transactions. The listed transactions in the above notices and rulings will also be periodically updated in future issues of the Internal Revenue Bulletin.

Prohibited reportable transaction. A prohibited reportable transaction is any confidential transaction or any transaction with contractual protection that is a reportable transaction. See Regulations sections 1.6011-4(b)(3) and (4) for more information.

Specific Instructions

Part I. Complete this part for each transaction if during the tax year, the entity received proceeds from or has net income attributable to a PTST.

Figure the tax for each transaction as follows:

- If column (e) was answered "Yes," then enter the larger of the column (f) or column (g) amount in column (h).
- If column e was answered "No," then multiply the larger of the amount in column (f) or column (g) by 35% (.35) and enter the result in column (h).

After the tax has been figured for all PTSTs entered on Schedule J, then total column (h) and enter the amount on the Total line and on line 9 of Part I, page 1.

Part II. Enter in column (a) the names of all entity managers who approved the entity as (or otherwise caused the entity to be) a party to a PTST at any time during the tax year and who knew or had reason to know that the transaction is a PTST.

Carry the total amount in column (d) for each manager to page 1, Part II-A, column (i).

Schedule K—Taxes on Taxable Distributions of Sponsoring Organizations Maintaining Donor Advised Funds (Section 4966)

General Instructions

Requirement. Complete Schedule K if you answered "Yes" to question 4b in Part III of Schedule A (Form 990 or 990-EZ), or if you are a fund manager of a sponsoring organization who agreed to the making of a taxable distribution knowing that it was a taxable distribution. Report each taxable distribution separately. These terms are discussed below.

Taxable distribution. A taxable distribution is any distribution from a donor advised fund to any natural person or to any other person if:

1. the distribution is for any purpose other than one specified in section 170(c)(2)(B), or
2. the sponsoring organization maintaining the donor advised fund does not exercise expenditure responsibility with respect to such distribution in accordance with section 4945(h).

However, a taxable distribution does not include a distribution from a donor advised fund to:

1. any organization described in section 170(b)(1)(A) (other than a disqualified supporting organization),
2. the sponsoring organization of such donor advised fund, or (3) any other donor advised fund.

The tax on taxable distributions applies to distributions occurring in tax years beginning after August 17, 2006.

Sponsoring organization. A sponsoring organization is a section170(c) organization that is not a government organization (as referred to in section 170(c)(1) and (2)(A)) or a private foundation and maintains one or more donor advised funds.

Donor advised fund. A donor advised fund is a fund or account:

1. Which is separately identified by reference to contributions of a donor or donors,
2. Which is owned and controlled by a sponsoring organization, and
3. For which the donor (or any person appointed or designated by the donor) has or expects to have advisory privileges concerning the distribution or investment of the funds held in the donor advised funds or accounts because of the donor's status as a donor.

Exception. A donor advised fund does not include:

1. A fund or account that makes distributions only to a single identified organization or governmental entity, or
2. Any fund or account for a person described in **3** above that gives advice about which individuals receive grants for travel, study, or similar purposes, if;

a. The person's advisory privileges are performed exclusively by such person in their capacity as a committee member of which all the committee members are appointed by the sponsoring organization.

b. No combination of persons with advisory privileges, described in **3** above, or persons related to those in **3** above, directly or indirectly control the committee, or

c. All grants from the fund or account are awarded on an objective and nondiscriminatory basis according to a procedure approved in advance by the board of directors of the sponsoring organization. The procedure must be designed to ensure that all grants meet the requirements of section 4945(g)(1), (2), or (3).

Tax on sponsoring organization. A tax of 20% of the amount of each taxable distribution is imposed on the sponsoring organization.

Tax on fund manager. If a tax is imposed on a taxable distribution of the sponsoring organization, a tax of 5% of the distribution will be imposed on any fund manager who agreed to the distribution knowing that it was a taxable distribution. Any fund manager who took part in the distribution and is liable for the tax must pay the tax. The maximum amount of tax on all fund managers for any one taxable distribution is $10,000. If more than one fund manager is liable for tax on a taxable distribution, all such managers are jointly and severally liable for the tax.

Specific Instructions

Part I. Complete this part for all taxable distributions.

Part II. Enter in column (a) the names of all fund managers who agreed to make the taxable distribution. If more than one fund manager is listed in column (a) for one distribution, each is individually liable for the entire tax in connection with that distribution. However, the fund managers who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax each manager will pay for each distribution for which such manager owes a tax.

Carry the total amount in column (d) for each fund manager to page 1, Part II-A, column (j).

Schedule L—Taxes on Prohibited Benefits Distributed From Donor Advised Funds (Section 4967)

General Instructions

Requirement. All organizations that answered "Yes" in Part III of Schedule A (Form 990 or 990-EZ), questions 4c, must complete Schedule L. Report each taxable distribution separately. Complete Parts I, II, and III of Schedule L only in connection with distributions made by a sponsoring organization from a donor advised fund which results in a prohibited benefit. (See instructions to Schedule K for definitions of the terms sponsoring organization and donor advised fund).

Prohibited benefit. If any donor, donor advisor, or related party advises the sponsoring organization about making a distribution which results in a donor, donor advisor, or related party receiving (either directly or indirectly) a more than incidental benefit, then such benefit is a prohibited benefit. The tax on prohibited benefits applies to distributions occurring in tax years beginning after August 17, 2006.

Donor advisor. A donor advisor is any person appointed or designated by a donor to advise a sponsoring organization on the distribution or investment of amounts held in the donor's fund or account.

Related party. A related party includes any family member or 35% controlled entity. See the *General Instructions for Schedule I* for a definition of those terms.

Tax on donor, donor advisor, or related person. A tax of 125% of the benefit resulting from the distribution is imposed on both the party who advised as to the distribution (which might be a donor, donor advisor or related party) and the party who received such benefit (which might be a donor, donor advisor, or related party). The advisor and the party who received the benefit are jointly and severally liable for the tax.

Tax on fund managers. If a tax is imposed on a prohibited benefit received by a donor, donor advisor, or related person, a tax of 10% of the amount of the prohibited benefit is imposed on any fund manager who agreed to the distribution knowing that it would confer a prohibited benefit. Any fund manager who took part in the distribution and is liable for the tax must pay the tax. The maximum amount of tax on all fund managers for any one taxable distribution is $10,000. If more than one fund manager is liable for tax on a taxable distribution, all such managers are jointly and severally liable for the tax.

Exception. If a person engaged in an excess benefit transaction and received a prohibited benefit for the same transaction, the person is taxed under section 4958, and no tax is imposed under section 4967 for a prohibited benefit.

Specific Instructions

Part I. Complete this part for all prohibited benefits.

Part II. Enter in column (a) the names of all donors, donor advisors, and related persons who received a prohibited benefit. If more than one donor, donor advisor, or related person is listed in column (a) for one distribution, each is individually liable for the entire tax for that distribution. However, the donors, donor advisors, or related persons who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax each manager will pay for each distribution for which such manager owes a tax.

Carry the total amount in column (d) for each donor, donor advisor, or related person to page 1, Part II-A, column (k).

Part III. Enter in column (a) the names of all fund managers who agreed to make the distribution conferring the prohibited benefit. If more than one fund manager is listed in column (a) for one distribution, each is individually liable for the entire tax for that distribution. However, the fund managers who are liable for the tax may prorate the payment among themselves. Enter in column (c) the tax each manager will pay for each distribution for which such manager owes a tax.

Carry the total amount in column (d) for each fund manager to page 1, Part II-A, column (k).

Privacy Act and Paperwork Reduction Act Notice.
We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Certain individuals who owe tax under Chapter 41 or 42 of the Internal Revenue Code, and who do not sign the Form 4720 of the foundation or organization, must file a separate Form 4720 showing the tax owed and the name of the foundation or organization for which they owe tax. Sections 6001 and 6011 of the Internal Revenue Code require you to provide the requested information if the tax applies to you. Section 6109 requires you to provide your social security number or other identifying number. Routine uses of this information include disclosing it to the Department of Justice for civil and criminal litigation and to other federal agencies, as provided by law. We may disclose the information to cities, states, the District of Columbia, and U.S. Commonwealths or possessions to administer their laws. If you do not file this information, you may be subject to interest, penalties, and/or criminal prosecution.

We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	39 hr., 55 min.
Learning about the law or the form	16 hr., 30 min.
Preparing the form	23 hr., 22 min.
Copying, assembling, and sending the form to the IRS	1 hr., 36 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 3.