Caution: *DRAFT—NOT FOR FILING*

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information as a courtesy. **Do not file draft forms.** Also, do not rely on draft instructions and publications for filing. We generally do not release drafts of forms until we believe we have incorporated all changes. However, unexpected issues sometimes arise, or legislation is passed, necessitating a change to a draft form. In addition, forms generally are subject to OMB approval before they can be officially released. Drafts of instructions and publications usually have at least some changes before being officially released.

Early releases of draft forms and instructions are at IRS.gov/draftforms. Please note that drafts may remain on IRS.gov even after the final release is posted at IRS.gov/downloadforms, and thus may not be removed until there is a new draft for the subsequent revision. All information about all revisions of all forms, instructions, and publications is at IRS.gov/formspubs.

Almost every form and publication also has its own easily accessible information page on IRS.gov. For example, the Form 1040 page is at IRS.gov/form1040; the Form W-2 page is at IRS.gov/w2; the Publication 17 page is at IRS.gov/pub17; the Form W-4 page is at IRS.gov/w4; the Form 8863 page is at IRS.gov/form8863; and the Schedule A (Form 1040) page is at IRS.gov/schedulea. If typing in the links above instead of clicking on them: type the link into the address bar of your browser, not in a Search box; the text after the slash must be lowercase; and your browser may require the link to begin with “www.”. Note that these are shortcut links that will automatically go to the actual link for the page.

If you wish, you can submit comments about draft or final forms, instructions, or publications on the Comment on Tax Forms and Publications page on IRS.gov. We cannot respond to all comments due to the high volume we receive, but we will carefully consider each one. Please note that we may not be able to consider many suggestions until the subsequent revision of the product.

2016

Instructions for Schedule R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

DRAFT AS OF July 26, 2016

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

Future Developments

For the latest information about developments related to Form 990 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form990*.

General Instructions

Note. Terms in **bold** are defined in the *Glossary* of the Instructions for Form 990, Return of Organization Exempt From Income Tax.

Purpose of Schedule

Schedule R (Form 990) is used by an organization that files Form 990 to provide information on **related organizations**, on certain transactions with related organizations, and on certain unrelated partnerships through which the organization conducts significant activities.

Who Must File

The chart below sets forth which organizations must complete all or a part of Schedule R and attach Schedule R to Form 990. If an organization isn't required to file Form 990 but chooses to do so, it must file a complete return and provide all of the information requested, including the required schedules.

Overview

Part I of Schedule R (Form 990) requires identifying information on any organizations that are treated for federal tax purposes as **disregarded entities** of the filing organization. Part II requires identifying information on related tax-exempt organizations. Part III requires identifying information on any **related organizations** that are treated for federal tax purposes as partnerships. Part IV requires identifying information on any related organizations that are treated for federal tax purposes as C or S corporations or trusts. Part V requires information on transactions between the organization and related organizations (excluding disregarded entities). Part VI requires information on an **unrelated organization** taxable as a partnership through which the organization conducted more than 5% of its activities (as described in Part VI).

Parts I-VI of Schedule R (Form 990) may be duplicated if additional space is needed to report additional related organizations for Parts I-IV, additional transactions for Part V, or additional unrelated organizations for Part VI. Use as many duplicate copies as needed, and number each page of each part.

Part VII of Schedule R (Form 990) may be used to provide additional information in response to questions in Schedule R.

Relationships

An organization, including a nonprofit organization, a stock corporation, a partnership or limited liability company, a trust, and a **governmental unit** or other government entity, is a **related organization** to the filing organization if it stands, at any time during the **tax year**, in one or more of the following relationships to the filing organization.

- Parent—an organization that controls (see definitions of **control** under *Definition of Control*) the filing organization.
- Subsidiary—an organization controlled by the filing organization.
- Brother/Sister—an organization controlled by the same person or persons that control the filing organization.
- Supporting/Supported—an organization that is (or claims to be) at any time during the organization's tax year (i) a **supporting organization** of the filing organization within the meaning of section 509(a)(3), if the filing organization is a **supported organization** within the meaning of section 509(f)(3), or (ii) a supported organization, if the filing organization is a supporting organization.
- Sponsoring Organization of a VEBA—an organization that establishes or maintains a section 501(c)(9) voluntary employees' beneficiary association (VEBA) during the tax year. A sponsoring organization of a VEBA also includes an employee organization, association, committee, joint board of **trustees**, or other similar group of representatives of the parties which establish or maintain a VEBA.
- Contributing Employer of a VEBA— an employer that makes a contribution or contributions to the VEBA during the tax year.

Although a VEBA must report sponsoring organizations and contributing employers as related organizations, sponsoring organizations and contributing employers shouldn't report a VEBA as a related organization, unless the VEBA is related to the sponsoring organization or contributing employer in some other capacity listed above.

Type of filer	IF you answer "Yes" to . . .	THEN you must complete . . .
All organizations	Form 990, Part IV, line 33 (regarding disregarded entities)	Schedule R, Part I.
All organizations	Form 990, Part IV, line 34 (regarding related organizations)	Schedule R, Parts II, III, IV, and V, line 1 as applicable.
All organizations	Form 990, Part IV, line 35b (regarding payments from or transactions with controlled entities)	Schedule R, Part V, line 2.
Section 501(c)(3) organization	Form 990, Part IV, line 36 (regarding transfers to exempt noncharitable related organizations)	Schedule R, Part V, line 2.
All organizations	Form 990, Part IV, line 37 (regarding conduct of activity through unrelated partnership)	Schedule R, Part VI.

VEBA contributing employers and sponsoring organizations. If the filing organization is a section 501(c)(9) VEBA, it must list its sponsoring organizations and contributing employers on Schedule R (Form 990). The filing organization must report all information on its sponsoring organizations in Parts II through IV, as applicable. However, the filing organization is only required to list the name of its contributing employers in Parts II through IV, and isn't required to report any additional information in those parts. The filing organization must also report its related transactions with sponsoring organizations and contributing employers in Part V, line 1, and, if applicable, line 2.

Disregarded entity exception. Disregarded entities are treated as related organizations for purposes of reporting on Schedule R (Form 990), Part I, but not for purposes of reporting transactions with related organizations in Part V, or otherwise on Form 990. A disregarded entity of an organization related to the filing organization is generally treated as part of the related organization and not as a separate entity. See *Appendix F* in the Instructions for Form 990.

Bank trustee exception. If the filing organization is a trust that has a bank or financial institution trustee that is also the trustee of another trust, the filing organization isn't required to report the other trust as a brother/sister related organization on the ground of common control by the bank or financial institution trustee.

Definition of Control

Related organizations. For purposes of determining **related organizations:**

Control of a nonprofit organization (or other organization without owners or persons having beneficial interests, whether the organization is taxable or tax-exempt).

One or more persons (whether individuals or organizations) **control** a nonprofit organization if they have the power to remove and replace (or to appoint, elect, or approve or veto the appointment or election of, if such power includes a continuing power to appoint, elect, or approve or veto the appointment or election of, periodically or in the event of vacancies) a majority of the nonprofit organization's **directors** or **trustees**, or a majority of the members who have the power to elect a majority of the nonprofit organization's directors or trustees. Such power can be exercised directly by a (parent) organization through one or more of the (parent) organization's **officers**, directors, trustees, or agents, acting in their capacity as officers, directors, trustees, or agents of the (parent) organization. Also, a (parent) organization controls a (subsidiary) nonprofit organization if a majority of the subsidiary's directors or trustees are trustees, directors, officers, **employees**, or agents of the parent.

Control of a stock corporation. One or more persons (whether individuals or organizations) control a stock corporation if they own more than 50% of the stock (by voting power or value) of the corporation.

Control of a partnership or limited liability company. One or more persons control a partnership if they own more than 50% of the profits interests or capital interests in the partnership (including a limited liability company treated as a partnership or **disregarded entity** for federal tax purposes, regardless of the designation under state law of the ownership interests as stock, membership interests, or otherwise). A person also controls a partnership if the person is a managing partner or managing member of a partnership or limited liability company which has three or fewer managing partners or managing members (regardless of which partner or member has the most actual control), or if the person is a general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control). For this purpose, a “managing partner” is a partner designated as such under the partnership agreement, or regularly engaged in the management of the partnership.

Control of a trust with beneficial interests. One or more persons control a trust if they own more than 50% of the beneficial interests in the trust. A person’s beneficial interest in a trust shall be determined in proportion to that person’s actuarial interest in the trust as of the end of the tax year.

In some situations a named beneficiary may have no determinable interest in the trust. For instance, if Trust A allows the trustee to distribute income and principal in the trustee's sole discretion for 10 years to the then-living issue of X, with the remainder (if any) to Charity B, then Charity B has no interest in the trust that can be determined before the 10-year period is ended, and therefore doesn't control the trust for purposes of Form 990 and Schedule R.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

Examples of control by multiple persons.

Example 1. Organizations A and B each appoint one-third of the board members of Organizations C and D, and aren't otherwise related to Organizations C and D. Although neither Organization A nor Organization B is a parent of Organization C or Organization D, Organizations C and D are controlled by the same persons, and therefore are brother/sister related organizations with respect to each other.

Example 2. Organization E has 1,000 individual members who elect its board members. The membership of Organization E also is the membership of Organization F, and elects the board members of Organization F. Organizations E and F are brother/sister related organizations with respect to each other.

Indirect control. Control can be indirect. For example, if the filing organization controls Entity A, which in turn controls (under the definition of control in these instructions) Entity B, the filing organization will be treated as controlling Entity B. To determine indirect control through constructive ownership of a corporation, rules under section 318 apply. Similar principles apply for purposes of determining constructive ownership of another entity (a partnership or trust). If an entity (X) controls an entity treated as a partnership by being one of three or fewer partners or members, then an organization that controls X also controls the partnership.

Example 1. B, an exempt organization, wholly owns (by voting power) C, a taxable corporation. C holds a 51% profits interest in D, a partnership. Under the principles of section 318, B is deemed to own 51% of D (100% of C's 51% interest in D). Thus, B controls both C and D, which are therefore both related organizations with respect to B.

Example 2. X, an exempt organization, owns 80% (by value) of Y, a taxable corporation. Y holds a 60% profits interest as a limited partner of Z, a limited partnership. Under the principles of section 318, X is deemed to own 48% of Z (80% of Y's 60% interest in Z). Thus, X controls Y. X doesn't control Z through X's ownership in Y. Y is a related organization with respect to X, and (absent other facts) Z isn't.

Example 3. Same facts as in *Example 2*, except that Y is also one of three general partners of Z. Because Y controls Z through means other than ownership percentage, and X controls Y, in these circumstances, Z is a related organization with respect to X. The other general partners of Z (if organizations) aren't related organizations with respect to X, absent other facts.

DRAFT AS OF July 25, 2016

Example 4. Organizations A, B, C, and D are nonprofit organizations. Organization A appoints the board of Organization B, which appoints the board of Organization C. A majority of the board members of Organization D are also board members of Organization A. Under these circumstances, Organizations B and D are directly controlled by Organization A, and Organization C is indirectly controlled by Organization A. Therefore, Organizations B, C, and D are subsidiaries of Organization A; Organization C is also a subsidiary of Organization B; and Organizations B and C have a brother/sister relationship with Organization D.

Example 5. T, an exempt organization described in section 501(c)(3), owns 40% of the stock of U, a taxable C corporation. T and U each own 40% of the stock of V, another taxable C corporation. Under these facts, T and U aren't related organizations as parent/subsidiary because T doesn't own more than 50% of U's stock. Under section 318(a)(2)(C), none of U's holdings are attributed to T by virtue of T's ownership of U stock, because T owns less than 50% of U stock. Thus, T and V aren't related organizations as parent/subsidiary.

Example 6. Same facts as in *Example 5*, except that U is an S corporation. Under section 318(a)(5)(E), T constructively owns 16% of V through U (40% of U's 40% ownership of V), giving T a total ownership interest of 56% in V, and making T and V related organizations as parent/subsidiary.

Example 7. Same facts as in *Example 5*, except that T owns 50% of U's stock. T and U aren't related organizations as parent/subsidiary because T doesn't own more than 50% of U's stock. Under section 318(a)(2)(C), U's holdings are attributed to T by virtue of T's 50% ownership of U's stock. Thus, T constructively owns 20% of V through U (50% of U's 40% ownership of V), giving T a total ownership interest of 60% in V, and making T and V related organizations as parent/subsidiary.

Example 8. F is a 501(c)(3) public charity that appoints the governing body of G, another 501(c)(3) public charity. G is supported by H, a Type III supporting organization, but G doesn't control H. G and H are thus related organizations because of the supporting/supported relationship. Absent other facts, F and H aren't related organizations.

Group exemption. Central organizations and **subordinate organizations** of a **group exemption** aren't required to be listed as **related organizations** in Schedule R (Form 990), Part II. All other related organizations of the central organization or of a subordinate organization are required to be listed in Schedule R (Form 990). The following rules apply:

- An organization that is a central or subordinate organization in a group exemption (whether filing an individual return or a **group return**) isn't required to list any of the subordinate organizations of the group in Part II.
- In the case of a group return, the central organization must attach a list of the subordinate organizations included in the group return in response to Form 990, page 1, Item H(b). The central organization must list in Schedule R (Form 990), Parts II-IV the related organizations of each subordinate organization other than (1) related organizations that are included within the group exemption, or (2) related organizations that the central organization knows to be included in another group exemption. If an organization isn't listed because it is known to be included in another group exemption, the central organization must explain in Part VII the relationship between its own group and members and the related organization known to be included in another group exemption (but you needn't include the names of such related organizations).
- An organization that isn't included in a group exemption isn't required to list in Part II a related organization that is included in a group exemption. Similarly, an organization that is included in a group exemption isn't required to list in Part II a related organization that is included in another group exemption. In either case, the organization must explain in Part VII the relationship between it and the related organization included in another group exemption (but you needn't include the names of such related organizations).

Even if a related organization isn't required to be listed in Part II of Schedule R (Form 990), however, the organization must report its transactions with the related organization in Part V, as required by the Part V instructions (for example, checking "Yes" to Part V, line 1b if the organization made a grant to a related organization included in a group exemption, and reporting on Part V, line 2 the organization's receipt of interest or annuities from a **controlled entity** included in a group exemption), including listing the name of the related organization in Part V, line 2, column (a), for transactions that must be reported in line 2.

Specific Instructions

Part I. Identification of Disregarded Entities

Enter the details of each **disregarded entity** on separate lines of Part I. If there are more disregarded entities to report in Part I than space available, use as many duplicate copies of Part I as needed, and number each page.

Column (a). Name, address, and EIN. Enter the full legal name and mailing address of the **disregarded entity**. Also enter the **employer identification number (EIN)** of the disregarded entity, if it has one.

TIP *A disregarded entity generally must use the EIN of its sole member. An exception applies to employment taxes: for wages paid to* ***employees*** *of a disregarded entity, the disregarded entity must file separate employment tax returns and use its own EIN on such returns. See Regulations sections 301.6109-1(h) and 301.7701-2(c)(2)(iv).*

Column (b). Primary activity. Briefly describe the primary activity of the **disregarded entity**.

Column (c). Legal domicile. List the U.S. state (or **U.S. possession**) or foreign country in which the **disregarded entity** is organized (the state or foreign country whose law governs the disregarded entity's internal affairs).

Column (d). Total income. Enter the amount of the filing organization's total revenue reported in Form 990, Part VIII, line 12, column (A), attributable to the **disregarded entity**.

Column (e). End-of-year assets. Enter the amount of the organization's **total assets** reported in Form 990, Part X, line 16, column (B), attributable to the **disregarded entity**.

Column (f). Direct controlling entity. Enter the name of the entity that directly controls the disregarded entity. For instance, if B is a disregarded entity of the filing organization, and if C is a disregarded entity of B, report B as the direct controlling entity of C. If the filing organization directly controls, enter its name.

Part II. Identification of Related Tax-Exempt Organizations

For purposes of Schedule R (Form 990), treat **governmental units** and instrumentalities and **foreign governments** as tax-exempt organizations.

Enter the details of each **related organization** on separate lines of Part II. If there are more related organizations to report in Part II than space available, use as many duplicate copies of Part II as needed, and number each page.

DRAFT AS OF July 28, 2016

Column (a). Name, address, and EIN. Enter the related organization's full legal name, mailing address, and **EIN.**

Column (b). Primary activity. Briefly describe the primary activity of the **related organization**.

Column (c). Legal domicile. List the U.S. state (or **U.S. possession**) or foreign country in which the **related organization** is organized. For a corporation, enter the state of incorporation (or the country of incorporation for a foreign corporation formed outside the United States). For a trust or other entity, enter the state whose law governs the organization's internal affairs (or the foreign country whose law governs for a **foreign organization** other than a corporation).

Column (d). Exempt Code section. Enter the section that describes the related organization (for example, section 501(c)(3) for a **public charity**, section 501(c)(6) for a business league, or section 527 for a separate segregated fund). For purposes of Schedule R, an organization that claims exemption is treated as exempt. Also for purposes of Schedule R, treat as a section 501(c)(3) organization a related **foreign organization** recognized as a charity by the foreign country, or for which the filing organization has made a reasonable judgment (or has an opinion of U.S. counsel) that the foreign organization is described in section 501(c)(3). The filing organization isn't required to make or obtain such a determination for purposes of Schedule R. For **governmental units**, instrumentalities, and **foreign governments** that don't have a section 501(c) determination letter, leave blank.

Column (e). Public charity status. For a related section 501(c)(3) organization, report its **public charity** status, using the appropriate line number (line 1 through 11d) corresponding to the public charity status checked on Schedule A (Form 990), Public Charity Status and Public Support, Part I. If the related organization is a **private foundation**, use the designation "PF." If the related organization is a section 509(a)(3) **supporting organization**, also indicate its type: I, II, III-FI, or III-O (for Type I, Type II, Type III functionally integrated, or Type III other, respectively).

For purposes of Schedule R, treat as a public charity a related **foreign organization** that hasn't been recognized as a section 501(c)(3) public charity by the IRS but for which the filing organization has made a good faith determination, based on an affidavit from the foreign organization or the opinion of counsel, that the foreign organization is the equivalent of a public charity. The filing organization isn't required to make or obtain such a determination for purposes of Schedule R; if it hasn't, leave column (e) blank.

Column (f). Direct controlling entity. Enter the name of the entity (if any) that directly controls the related organization; otherwise enter "N/A." If the filing organization directly controls, enter its name.

Column (g). Section 512(b)(13) controlled entity. Check "Yes" if the related organization is a **controlled entity** of the filing organization under section 512(b)(13). If not, check "No."

DRAFT AS OF July 29, 2016

Part III. Identification of Related Organizations Taxable as a Partnership

In this part, identify any **related organization** treated as a partnership for federal tax purposes. If the partnership is related to the filing organization by reason of being its parent or brother/sister and the filing organization isn't a partner or member in the partnership, then complete only columns (a), (b), and (c), and enter "N/A" in columns (d), (e), (f), (g), (i), and (k).

Enter the details of each related organization on separate lines of Part III. If there are more related organizations to report in Part III than space available, use as many duplicate copies of Part III as needed, and number each page.

Some of the information requested in this part is derived from Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., issued to the organization. If the Schedule K-1 (Form 1065) isn't available, provide a reasonable estimate of the required information.

Column (a). Name, address, and EIN. Enter the related partnership's full legal name, mailing address, and **EIN**.

Column (b). Primary activity. Briefly describe the primary business activity conducted, or product or service provided, by the related partnership (for example, investment in other entities, low-income housing, etc.).

Column (c). Legal domicile. List the U.S. state (or **U.S. possession**) or foreign country in which the related partnership is organized (the state or foreign country whose law governs the related partnership's internal affairs).

Column (d). Direct controlling entity. Enter the name of the entity (if any) that directly controls the related partnership; otherwise enter "N/A." If the filing organization directly controls, enter its name.

Column (e). Predominant income. Classify the predominant type of partnership income as:

- Related;
- Unrelated; or
- Excluded from tax under section 512, 513, or 514.

In other words, enter which of the three types listed above is more prevalent than the others.

For classification purposes, use the definitions set forth in the instructions to the Statement of Revenue in Form 990, Part VIII, columns (B), (C), and (D).

Column (f). Share of total income. Enter the dollar amount of the filing organization's distributive share of the related partnership's total income, in accordance with the organization's profits interest as specified by the partnership or LLC agreement, for the related partnership's **tax year** ending with or within the filing organization's tax year. Use the total amount reported by the related partnership on Schedule K-1 (Form 1065) for the partnership's tax year ending with or within the filing organization's tax year (total of Schedule K-1, Part III, lines 1 through 11 and 18, tax-exempt income).

Column (g). Share of end-of-year assets. Enter the dollar amount of the filing organization's distributive share of the related partnership's end-of-year **total assets**, in accordance with the organization's capital interest as specified by the partnership or LLC agreement, for the related partnership's **tax year** ending with or within the filing organization's tax year. Use Schedule K-1 (Form 1065) for the partnership's year ending with or within the organization's tax year to determine this amount by adding the organization's ending capital account to the organization's share of the partnership's liabilities at year end reported on the Schedule K-1.

Column (h). Disproportionate allocations. Check "Yes" if the interest of the filing organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the filing organization's investment in such partnership or LLC at any time during the filing organization's **tax year**. Otherwise, check "No."

Column (i). Code V—UBI amount in box 20 of Schedule K-1 (Form 1065). Enter the dollar amount, if any, listed as the Code V amount (**unrelated business taxable income**) in box 20 of Schedule K-1 (Form 1065) received from the related partnership for the partnership's **tax year** ending with or within the filing organization's tax year. If no Code V amount is listed in box 20, enter "N/A."

TIP *If the organization has reason to believe that the stated amount in box 20 is incorrect, it should consult with the partnership. The stated amount in box 20 isn't controlling with respect to the organization's unrelated business income tax liability.*

Column (j). General or managing partner. Check "Yes" if the filing organization was at any time during its **tax year** a general partner of a related limited partnership, or a managing partner or managing member of a related general partnership, LLC, or other entity taxable as a partnership. Otherwise, check "No."

Column (k). Percentage ownership. Enter the filing organization's percentage interest in the profits or in the capital of the related partnership, whichever is greater.

DRAFT AS OF July 25, 2016

Part IV. Identification of Related Organizations Taxable as a Corporation or Trust

In this part, identify any **related organization** treated as a C or S corporation or trust for federal tax purposes (such as a charitable remainder trust), other than a related organization reported as a tax-exempt organization in Part II of Schedule R (Form 990). If the corporation or trust is related to the filing organization as its parent or as a brother/sister organization, and the filing organization doesn't have an ownership interest in the corporation or trust, then complete only columns (a), (b), (c), and (e), and enter "N/A" in columns (d), (f), (g), and (h). Don't report trusts described within section 401(a).

Some of the information requested in this part is derived from Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., or Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc., issued to the organization. If the Schedule K-1 isn't available, provide a reasonable estimate of the required information.

Enter the details of each related organization on separate lines of Part IV. If there are more related organizations to report in Part IV than space available, use as many duplicate copies of Part IV as needed, and number each page.

Column (a). Name, address, and EIN. Enter the related organization's full legal name, mailing address, and **EIN**.

Column (b). Primary activity. Briefly describe the primary business activity conducted, or product or service provided, by the **related organization** (for example, holding company, **management company**).

Column (c). Legal domicile. List the U.S. state (or **U.S. possession**) or foreign country in which the **related organization** is organized. For a corporation, enter the state of incorporation (or the country of incorporation for a foreign corporation formed outside the United States). For a trust or other entity, enter the state whose law governs the organization's internal affairs (or the foreign country whose law governs for a **foreign organization** other than a corporation).

Column (d). Direct controlling entity. Enter the name of the entity (if any) that directly controls the related organization; otherwise enter "N/A." If the filing organization directly controls, enter its name.

Column (e). Type of entity. Use one of the following codes to indicate the tax classification of the related organization: C (corporation or association taxable under subchapter C), S (corporation or association taxable under subchapter S), or T (trust, including a split-interest trust).

Column (f). Share of total income. For a **related organization** that is a C corporation, enter the dollar amount of the organization's share of the C corporation's total income. To calculate this share, multiply the total income of the C corporation (as reported on its Form 1120, U.S. Corporation Income Tax Return) by the following fraction: the value of the filing organization's shares of all classes of stock in the C corporation, divided by the value of all outstanding shares of all classes of stock in the C corporation. The total income is for the related organization's **tax year** ending with or within the filing organization's tax year.

For a related organization that is an S corporation, enter the filing organization's allocable share of the S corporation's total income. Use the amount on Schedule K-1 (Form 1120S) for the S corporation's tax year ending with or within the filing organization's tax year (Part III, lines 1 through 10 of Schedule K-1 (Form 1120-S)).

For a related organization that is a trust, enter the total income and gains reported on Part III, lines 1 through 8 of Schedule K-1 (Form 1041) issued to the filing organization for the trust's tax year ending with or within the filing organization's tax year.

TIP *A section 501(c)(3) organization that is an S corporation shareholder must treat all allocations of income from the S corporation as **unrelated business income**, including gain on the disposition of stock.*

Column (g). Share of end-of-year assets. Enter the dollar amount of the filing organization's allocable share of the **related organization's total assets** as of the end of the related organization's **tax year** ending with or within the filing organization's tax year. For related C and S corporations, this amount is determined by multiplying the corporation's end-of-year total assets by the fraction described in column (f). For related trusts, this amount corresponds to the filing organization's percentage ownership in the trust.

Column (h). Percentage ownership. For a **related organization** taxable as a corporation, enter the filing organization's percentage of stock ownership in the corporation (total combined voting power or total value of all outstanding shares, whichever is greater). For a related S corporation, use the percentage reported on Schedule K-1 (Form 1120S) for the year ending with or within the filing organization's **tax year**. For a related organization taxable as a trust, enter the filing organization's percentage of beneficial interest. In each case, enter the percentage interest as of the end of the related organization's tax year ending with or within the filing organization's tax year.

Column (i). Section 512(b)(13) controlled entity. Check "Yes" if the **related organization** is a **controlled entity** of the filing organization under section 512(b)(13). If not, check "No."

Split-interest trusts. If the related organization is a split-interest trust described in section 4947(a)(2), the organization may enter in column (a) the term "Charitable remainder trust," "Charitable lead trust," or "Pooled income fund," as appropriate, instead of the trust's name, EIN, or address. If the organization was related to more than one of a certain type of related split-interest trust during the tax year, it should enter the number of that type of trust in parentheses after the name. For instance, if the organization had two related charitable remainder trusts and three related charitable lead trusts, it should enter "Charitable remainder trusts (2)" on one line of column (a) and "Charitable lead trusts (3)" on another line in column (a). The organization may leave columns (e), (f), (g), and (h) blank for these lines. Use Part VII if the organization needs space to provide additional information for columns (b), (c), (d), or (i).

Part V. Transactions With Related Organizations

Line 1. Check "Yes" in the appropriate boxes of line 1 if the filing organization engaged in any of the transactions listed in Part V with any **related organizations** (other than disregarded entities listed in Part I). A single transaction may be

described by and reported in more than one line. A "transfer," for purposes of Part V, lines 1r and 1s, includes any conveyance of funds or property not described in lines 1a through 1q, whether or not for consideration, such as a merger with a related organization.

Line 2. The filing organization must report on this line any of the following transactions that it engaged in with a **controlled entity** of the filing organization, as defined in section 512(b)(13), during the **tax year**.

- All transactions described in line 1a, which includes all receipts or accruals of interest, annuities, royalties, or rent from a controlled entity under section 512(b)(13), regardless of amount.
- Any other type of transaction described in lines 1b through 1s with controlled entities, if the amounts involved during the tax year between the filing organization and a particular controlled entity exceed $50,000 for that type of transaction.

Section 501(c)(3) organizations must also report on line 2 transactions described in Part V, lines 1b through 1s that they engaged in with related tax-exempt organizations not described in section 501(c)(3) (including section 527 political organizations), if the amounts involved during the tax year between the filing organization and a particular related tax-exempt organization exceed $50,000.

Enter the details of each related organization and each transaction type on a separate line of the table. If there are more related organizations or transaction types to report than space available, use as many duplicate copies of Part V as needed, and number each page. Transactions of a specified type described in lines 1b through 1s with a particular organization don't need to be reported if the total amount of transactions of such type during the tax year didn't exceed $50,000.

Column (a). Name of related organization. Enter the full legal name of the **related organization**.

Column (b). Transaction type (a-s). Enter the transaction type (lines 1a through 1s). Aggregate all transactions of the same type with the same related organization.

Column (c). Amount involved. The amount involved in a transaction is the **fair market value** of the services, cash, and other assets provided by the filing organization during its **tax year**, or the fair market value received by the filing organization, whichever is higher, regardless of whether the transaction was entered into by the parties in a prior year. Any reasonable method for determining such amount is acceptable.

Column (d). Method of determining amount involved. Describe the method used to determine the value of the services, cash, and other assets reported in column (c).

Split-interest trusts. If the organization engaged in a type of transaction reportable in Part V, line 2 with one or more split-interest trusts described in section 4947(a)(2), the organization may enter in column (a) the term "Charitable remainder trust," "Charitable lead trust," or "Pooled income fund," as appropriate, instead of the trust's name. For instance, if the organization carried a $100,000 liability for a loan it received from a related charitable lead trust, it should enter "Charitable remainder trust" in column (a), transaction type "e" in column (b), and "$100,000" in column (c). Multiple transactions of the same type with the same type of split-interest trust may be aggregated on the same line, with the number of each type of trust listed in parentheses. For instance, if the organization received $60,000 from one related charitable remainder trust as payment for investment services and $70,000 from another related charitable remainder trust as payment for investment services during the tax year, it may enter "Charitable remainder trusts (2)" in column (a), transaction type "l" in column (b), and "$130,000" in column (c).

Part VI. Unrelated Organizations Taxable as a Partnership

In this part, provide information on any **unrelated organization** (an organization that isn't a related organization with respect to the filing organization) that meets all of the following conditions.

1. The unrelated organization is treated as a partnership for federal tax purposes (S corporations are excluded).

2. The filing organization was a partner or member of the unrelated partnership at any time during the filing organization's **tax year**.

3. The filing organization conducted more than 5% of its activities, based on the greater of its **total assets** at the end of its tax year or its total revenue for its tax year, through the unrelated partnership.

In determining the percentage of the filing organization's activities as measured by its total assets, use the amount reported on Form 990, Part X, line 16, column (B) as the denominator, and the filing organization's ending capital account balance for the partnership tax year ending with or within the filing organization's tax year as the numerator (the amount reported on Schedule K-1 (Form 1065) can be used). In determining the percentage of the filing organization's activities as measured by its total revenue, use the amount reported on Form 990, Part VIII, line 12, as the denominator, and the filing organization's distributive share of the partnership's gross revenue for the partnership tax year ending with or within the filing organization's tax year as the numerator.

Example. X, a section 501(c)(3) organization, is a partner of Y, an unrelated partnership, which conducts an activity that constitutes an **unrelated trade or business** with respect to X. X's distributive share of Y's total income is $60,000 for Y's tax year ending with or within X's tax year. X has an ending capital account balance in Y of $120,000 as reported on Schedule K-1 (Form 1065). X's total revenue and total assets for its tax year are $1,000,000 and $1,200,000, respectively. Because X's total assets exceed X's total revenue for its tax year, X must consider total assets in determining whether X conducted more than 5% of its activities through Y for X's tax year. X conducted 10% of its activities through Y, as measured by X's total assets ($120,000/$1,200,000), and thus must identify Y in Schedule R (Form 990), Part VI, and provide the required information. If, instead, X's total revenue for its tax year was $1,300,000, then total revenue would be considered rather than total assets; X's activities conducted through Y, as measured by X's total revenue ($60,000/$1,300,000) wouldn't be greater than 5% of X's total activities, and therefore X wouldn't be required to identify Y in Schedule R (Form 990), Part VI.

Disregard unrelated partnerships that meet both of the following conditions.

1. 95% or more of the filing organization's total revenue from the partnership for the partnership's tax year ending with or within the organization's tax year is described in sections 512(b)(1)–(3) and (5), such as interest, dividends, royalties, rents, and capital gains (including unrelated debt-financed income).

2. The primary purpose of the filing organization's investment in the partnership is the production of income or appreciation of property and not the conduct of a section 501(c)(3) charitable activity such as program-related investing.

Enter the details of each organization on separate lines of Part VI. If there are more organizations to report in Part VI than space available, use as many duplicate copies of Part VI as needed, and number each page.

Some of the information requested in this part is derived from Schedule K-1 (Form 1065) issued to the organization. If the Schedule K-1 isn't available, provide a

DRAFT AS OF July 21, 2016

reasonable estimate of the required information.

Column (a). Name, address, and EIN. Enter the unrelated partnership's full legal name, mailing address, and **EIN**.

Column (b). Primary activity. Briefly describe the primary business activity conducted, or product or service provided, by the unrelated partnership.

Column (c). Legal domicile. List the U.S. state (or **U.S. possession**) or foreign country in which the unrelated partnership is organized (the state or foreign country whose law governs the unrelated partnership's internal affairs).

Column (d). Predominant income. Classify the predominant type of income as:

- Related;
- Unrelated; or
- Excluded from tax under sections 512, 513, or 514.

In other words, enter one of the three types of income listed above that is more prevalent than the others. For classification purposes, use the definitions set forth in the instructions to the Statement of Revenue in Form 990, Part VIII, columns (B), (C), and (D).

Column (e). Section 501(c)(3) partners. Check "Yes" if all the partners of the unrelated partnership (or members of the LLC) are section 501(c)(3) organizations or **governmental units** (or wholly-owned subsidiaries of either). Otherwise, check "No."

Column (f). Share of total income. Enter the dollar amount of the filing organization's distributive share of the related partnership's total income, in accordance with the organization's profits interest as specified by the partnership or LLC agreement, for the related partnership's **tax year** ending with or within the filing organization's tax year. Use the total amount reported by the related partnership on Schedule K-1 (Form 1065) for the partnership's tax year ending with or within the filing organization's tax year (total of Schedule K-1, Part III, lines 1 through 11 and line 18, tax-exempt income).

Column (g). Share of end-of-year assets. Enter the dollar amount of the filing organization's distributive share of the unrelated partnership's **total assets**, in accordance with the filing organization's capital interest as specified by the partnership or LLC agreement, as of the end of the unrelated partnership's **tax year** ending with or within the filing organization's tax year. Use the ending capital account reported on Schedule K-1 (Form 1065) for the year ending with or within the filing organization's tax year.

Column (h). Disproportionate allocations. Check "Yes" if the interest of the filing organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the organization's investment in such partnership or LLC at any time during the filing organization's **tax year**. Otherwise, check "No."

Column (i). Code V—UBI amount in box 20 of Schedule K-1 (Form 1065). Enter the dollar amount, if any, listed as the Code V amount (**unrelated business taxable income**) in box 20 of Schedule K-1 (Form 1065) received from the unrelated partnership for the partnership's **tax year** ending with or within the filing organization's tax year. If no Code V amount is listed in box 20, enter "N/A."

TIP *If the organization has reason to believe that the stated amount in box 20 is incorrect, it should consult with the partnership. The stated amount in box 20 isn't controlling with respect to the organization's unrelated business income tax liability.*

Column (j). General or managing partner. Check "Yes" if the filing organization was at any time during its **tax year** a general partner of an unrelated limited partnership, or a managing partner or managing member of an unrelated general partnership, LLC, or other entity taxable as a partnership. Otherwise, check "No."

Column (k). Percentage ownership. Enter the filing organization's percentage interest in the profits or in the capital of the related partnership, whichever is greater.

Part VII. Supplemental Information

Use Part VII if the organization needs space to provide additional information in response to questions in Schedule R (Form 990). In Part VII, identify the specific part and line number that each response supports, in the order in which those parts and lines appear on Schedule R (Form 990). Part VII can be duplicated if more space is needed.

DRAFT AS OF July 25, 2016