

## Nonprofit Notes

# Form 990 Reimagined: What the IRS Transparency Push Means for Nonprofits

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The U.S. Department of the Treasury and the IRS recently announced plans to strengthen oversight of tax-exempt organizations through revisions to Form 990. It is anticipated that revisions will extend far beyond tax reporting. The changes signal regulators' expectation that nonprofit organizations demonstrate stronger governance, enhanced transparency and greater accountability in how they manage resources and fulfill their missions.

## Form 990 Is Evolving Beyond Year-End Compliance

For decades, Form 990 has served as the foundation of nonprofit reporting, providing financial and operational information to regulators, donors and the public. Traditionally, many organizations approached filing as a year-end compliance exercise managed primarily by finance departments or external tax preparers. Today, however, Form 990 is evolving into something far more significant. Regulators, grantmakers, watchdog organizations, journalists and donors increasingly rely on the filing to evaluate organizational integrity, governance practices and operational effectiveness.

## Key Areas of IRS Focus for Tax-Exempt Organizations

The IRS has indicated that future revisions may place additional emphasis on areas perceived as higher risk, including government grants, government contracts and fiscal sponsorship arrangements. These focus areas reflect growing concerns surrounding oversight of taxpayer-supported funds, governance of sponsored activities and the increasing complexity of nonprofit operating structures.

Fiscal sponsorship arrangements, in particular, are expected to receive heightened scrutiny. These structures have become increasingly common as organizations seek efficient ways to launch charitable initiatives and expand mission-driven programs without creating separate legal entities. While fiscal sponsorship can provide operational flexibility and encourage innovation, it also creates governance and compliance challenges that require careful oversight. Regulators appear increasingly focused on whether sponsoring organizations maintain sufficient accountability, financial oversight and documentation over sponsored projects and restricted funds.

Organizations receiving substantial government funding should also anticipate increased scrutiny surrounding grant reporting, documentation procedures and internal controls. Federal agencies and regulators continue to emphasize transparency regarding how public funds are allocated, monitored and safeguarded. Nonprofits lacking centralized grant management systems or clearly documented oversight procedures may face increased regulatory and reputational risk as reporting expectations continue to evolve. Given the extensive information reported on Form 990 and regulators' increasing ability to leverage technology and analyze filings electronically, gaps in governance policies and inconsistent disclosures may become easier to identify.

## Form 990 as a Public Governance and Transparency Tool

Importantly, the impact of these anticipated changes extends well beyond IRS examinations. Form 990 has become one of the most visible public documents available to stakeholders evaluating nonprofit organizations. Donors and grantmakers frequently review filings to assess financial stewardship, executive compensation, governance practices and program effectiveness. Charity watchdog organizations and journalists similarly use Form 990 as a key source of organizational insight. In many cases, the filing serves as a public reflection of how effectively an organization manages its mission and resources.

As transparency expectations continue to grow, nonprofit organizations can no longer afford to view Form 990 solely through a compliance lens. Instead, organizations should begin treating the filing as a strategic governance and communications document — one that conveys accountability, operational maturity and leadership credibility.

### Planning Ahead: Steps Nonprofits Should Consider Now

- **Reevaluate Governance and Oversight Practices:** Boards and executive leadership teams should assess whether current governance structures adequately support oversight responsibilities related to grants, sponsored programs, affiliated entities and restricted funding.
- **Review Fiscal Sponsorship Arrangements:** Organizations utilizing fiscal sponsorship models should revisit agreements, oversight procedures and reporting protocols to ensure responsibilities are clearly documented and appropriately monitored.
- **Strengthen Grant Compliance Processes:** Nonprofits receiving government funding should evaluate whether grant management systems and internal controls are sufficiently organized, centralized and capable of supporting increased reporting expectations.
- **Conduct a Form 990 Readiness Assessment:** Organizations may benefit from reviewing prior Form 990 filings to identify disclosure gaps, inconsistencies or areas that could attract future scrutiny.
- **Increase Cross-Functional Collaboration:** Preparing Form 990 should no longer be viewed solely as the responsibility of the finance department. Legal, compliance, development and program leadership teams should all contribute to the reporting process. The Form 990 should agree with and be consistent with an organization's public facing materials, including marketing materials, social media content and website information.
- **Educate Boards and Leadership Teams:** Board members and executive leadership should understand the growing strategic importance of Form 990 and the role it plays in shaping stakeholder confidence and public perception.

### The Bigger Picture

The anticipated Form 990 revisions represent more than a regulatory development; they reflect a broader transformation occurring across the nonprofit sector. Stakeholders today expect organizations not only to deliver measurable mission impact, but also to demonstrate strong governance, operational discipline and responsible stewardship of resources. Transparency is increasingly becoming a defining factor in how nonprofit organizations are evaluated by donors, grantmakers, regulators and the communities they serve.

Organizations that proactively strengthen governance practices, reporting frameworks and internal oversight procedures now will likely be better positioned for long-term success. As accountability expectations continue to evolve, Form 990 is no longer simply a tax filing, it is becoming a public reflection of organizational leadership, integrity and trust. Nonprofits that embrace this shift strategically will not only be better prepared for increased regulatory scrutiny, but will also strengthen stakeholder confidence and organizational sustainability for the future.

## Contact Us

If you have any questions, please contact your PKF O'Connor Davies client service team or:

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*This article was originally published on June 8, 2026.*

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