John R. Seffrin, PhD
Chief Executive Officer

September 14, 2007

Form 990 Redesign
Internal Revenue Service, ATTN: SE:T:EO
1111 Constitution Avenue, N.W.
Washington, DC 20224

VIA Email to Form990Revision@irs.gov

Dear Form 990 Redesign Staff:

The American Cancer Society (the "Society"), the nation's largest voluntary health organization, applauds the Internal Revenue Service (IRS or the "Service") for its willingness to address a highly important issue for the nonprofit sector, the Form 990, and we welcome the opportunity to provide meaningful comments to the IRS, individually and in partnership with other organizations, on this important endeavor.

The Society's views are generally represented by the comments of both the Independent Sector and the Nonprofit Organizations Committee of the Association of Corporate Counsel. In addition, we have submitted a shared response with our voluntary public health partners, the American Heart Association and the American Diabetes Association, regarding specific concerns shared by our three organizations. In this specific submission, we offer additional observations with respect to the Society's concerns.

At the outset, we want to express our clear and unwavering support for the guiding principles of the IRS's efforts to redesign the Form: enhancing transparency, promoting compliance and minimizing the filing organization burden. After careful consideration, however, we still have fundamental concerns that the proposed changes fall short of providing meaningful transparency and actually increase the filing burden on charitable organizations.

Transparency

The American Cancer Society strongly believes in and encourages transparency for the organization and the entire non-profit sector. To that end, we have engaged in active dialogue with the many regulatory agencies and independent watchdog organizations in an effort to collaborate to provide the most consistent and meaningful information to the general public.

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Without question, transparency can ensure compliance. However for transparency to be truly effective, we believe it must be provided in proper context. The Society is fortunate to have earned and maintained its tax-exempt status for more than 94 years and believes very strongly in providing sufficient information to continue to merit the benefit of this status. However, we are concerned that the IRS Form 990 changes as currently proposed do not address transparency in the most effective way.

The donor public requires information that is easily understandable. We believe it is highly unlikely that the average donor will take the time to review a charitable organization's entire tax filing and supporting schedules. This reality makes the information provided on the summary page -- and the manner in which it is presented -- even more critical knowing it must stand absent context. Certain items -- such as total expenses as percentage of net assets and officer compensation as a percentage of program service expense -- when provided out of context force the public, the news media and others to disproportionately rely on the calculation as an absolute measure of a non-profit organization. This ensures that filing organizations will undoubtedly be compared to one another on such isolated measures. As just one example, an organization that happens to have a significant amount of permanently restricted net assets and/or net assets invested in capital will produce a skewed result, since these items are included in the formula, but in reality are not available for current operations. Not only can such calculations be misleading for an individual organization, but when compared with dissimilar organizations could produce misinformed conclusions and uninformed donor decisions.

The Society believes that effective transparency should *reduce* the amount of conflicting data currently available to the general public. We believe the fact that the Form 990 does not mirror the audited financial statements continues to create confusion. Although the Form 990 has always included a reconciliation section, it is -- in our view -- not widely understood. Additionally, the reconciliation section is now captured in supporting schedule D and is even less likely to be discovered. The summary form now presents category expenses as a percent of total expenses -- "functional allocation" for voluntary health and welfare organizations -- which will be different numbers than those on audited statements. Since generally accepted accounting principles (GAAP) and tax accounting continue to differ, the expenses and related percentages will be different. If the summary page is promoted as a "one-stop shop" for the general donor public and functional allocation continues to be the indicator that watchdog organizations drive them to, the metrics will be very different than the GAAP metrics. However, functional allocation is primarily a GAAP concept promulgated by the American Institute of Certified Public Accountants (AICPA). The American Cancer Society believes that one single, consistent version of an organization's financial status is the most genuine, transparent way to communicate with the general public. This is becoming harder and harder as evaluating organizations and special interests continue to self-define their own measures. <u>However, the Form 990 stands to significantly resolve this issue in the context of transparency if GAAP were required</u>.

Burden

The American Cancer Society unquestionably believes in providing the level of information necessary to demonstrate compliance. As a large voluntary health and welfare organization, the Society engages in a wide variety of diverse activities in support of its mission. This diversified portfolio results in an administrative dilemma when viewed in the context of the new form and related schedules. Specifically, eleven of the fifteen schedules will apply to the American Cancer Society, several of which will require an overwhelming level of detail given our volume of transactions. Compliance should be able to be achieved without an undue burden to the organization. For example, while we believe organizations should focus on conflict of interest transactions, we are concerned that the breadth and volume of disclosure will not only cause an additional administrative burden but will set a standard for disclosure that will be impractical to meet. In our case, we have received donations from tens of millions of people and cannot practically identify all potential conflicts with such a large population of donors as Schedules F and I would require.

Also, it is unclear how Schedule R applies to organizations with group returns. The Society and its multiple affiliated entities must conduct business with one another to advance the shared mission. These entities and resulting intra-Society transactions are not intended to confuse public reporting but rather to effectively conduct business at a community level as a nationwide collective enterprise. The proposed Schedule R appears to require disclosure of the millions of transactions within the collective American Cancer Society. Moving to a consolidated return approach through the elimination of the group return would appear to minimize the burden on affiliated organizations. However, a consolidated return is not proposed by the IRS at this time.

The American Cancer Society is committed to the highest achievable levels of stewardship. We remain very concerned that the redesigned Form 990 and supporting schedules are in direct conflict with our stewardship efforts. As we continuously strive to allocate every possible dollar directly to the lifesaving mission of the organization, the amount of time and resources necessary to comply with the proposed reporting is disheartening to us. We are among many other non-profits that have experienced a significant increase in independent auditor fees in addition to the growing amount of human and financial resources now being applied for governance and compliance initiatives -- many of which are voluntary but the Society believes necessary for good stewardship. We do not believe we should forsake those efforts nor do we have a choice with the independent audit. This will become an additional cost to the organization at a questionable benefit to the general public, not to mention the Service itself. Based on initial estimates, we anticipate these changes will result in a cost to the Society of a *minimum* of $250,000 per year. We remain deeply concerned that this is not the most effective use of donor dollars and further, does not achieve any additional level of compliance.

We look forward to the Service's consideration of all comments submitted and hope they are received in the collaborative spirit in which they are intended. Our sector bears a great amount of responsibility and we are proud to be part of this important endeavor with other non-profit organizations and the Internal Revenue Service.

Sincerely,

John R. Seffrin, PhD
Chief Executive Officer

Catherine E. Mickle, CPA
Chief Financial Officer