

Charities Ready and Willing to E-file

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EXECUTIVE SUMMARY

The Internal Revenue Service and state charity offices have been seriously considering the possibility of implementing an electronic filing system for nonprofit organizations filing IRS Form 990 and annual state charity registration documents, in order to improve the quality of filed returns and reduce the cost of processing them. In order to provide objective information to decision makers about the potential for widespread adoption of e-filing in the nonprofit sector, the National Center for Charitable Statistics at the Urban Institute conducted a telephone survey of 485 nonprofit financial executives. The purpose of the survey was to assess nonprofit capacity to e-file, identify existing concerns and possible incentives, and describe the methods nonprofits currently use to prepare Form 990.

Responses of the executives surveyed were analyzed according to two variables—the size of the organization, and whether Form 990 was prepared in-house (internally) or by an outside, paid professional (externally). These variables were selected to test whether technical capacity is a barrier to e-filing; that is, whether smaller nonprofits have access to an Internet connection necessary for e-filing or appending an electronic signature, and whether those organizations that prepare their returns internally have the technical sophistication to download and use software for preparing and e-filing their return. The survey results showed that technical capacity is not a serious barrier to electronic filing. Of the very smallest organizations—those with zero paid staff—that prepare Form 990 internally, 86 percent report having Internet access. This percentage rose to over 96 percent in those organizations with 50 or more employees.

The survey showed that a large majority of nonprofit financial executives are likely to e-file their Form 990. **Seventy-three percent of all financial executives surveyed said that they would be very likely or somewhat likely to electronically file their Form 990**, or to recommend e-filing to their professional preparers, as long as there were free, easy-to-use software available to do so. Those who file their Form 990 internally, and those whose organizations have 50 or more employees, are even more enthusiastic.

Survey respondents were offered lists of potential incentives to promote e-filing and concerns that may prevent them from doing so. Their responses showed that nonprofit CFOs are price-sensitive when it comes to filing their Form 990. The incentives that generated the most interest were reducing state registration fees for e-filers (with 57 percent reporting that they would be more likely to e-file if this incentive were offered), free or low cost e-filing (55 percent) and provision of an electronic receipt (53 percent.) On average, organizations that prepare their returns internally and have zero paid employees were most likely to be influenced by all of the incentives listed.

The possible concerns that generated the most trepidation among nonprofit financial executives were the ability to append complex attachments to e-filed returns (with 72 percent of respondents strongly or somewhat agreeing that this was a concern) and the security and confidentiality of information (57 percent). Respondents reported a low level of concern for the effort required to learn the process of e-filing and issues surrounding the accuracy of e-filed returns.

INTRODUCTION

Electronic filing and other forms of e-government are changing the way that government agencies do business. For example, the Internal Revenue Service Restructuring and Reform Act of 1998 requires that the IRS take action to receive 80 percent of all filed returns electronically by 2007. To achieve this goal with the nonprofit sector, the IRS is developing a business case in support of building an electronic filing system for Form 990, which is filed by most tax-exempt organizations. Part of the planning process includes studying the likelihood that nonprofit organizations and those who prepare their IRS returns will take advantage of an e-filing system. Many states are also involved in researching and designing electronic systems for nonprofit organizations to use in their initial and annual registrations. The National Center for Charitable Statistics at the Urban Institute has been working closely with the Internal Revenue Service team responsible for electronic filing of Form 990, as well as with charity officials in 12 states participating in a pilot e-registration project.

Scope of Survey and Methodology Used

Scope

In order to provide objective information to policymakers about the feasibility of widespread nonprofit adoption of e-filing, the Urban Institute designed a telephone survey. The purpose of the survey was to assess nonprofit capacity to e-file, identify existing concerns and possible incentives, and describe the methods nonprofits currently use to prepare Form 990.

The survey probed nonprofit financial executives' attitudes, opinions, and practices. Some of the main topics explored were the following:

- Form 990 preparation practices.
- Computer and Internet access and capacity of internal 990 preparers (as opposed to those organizations that pay an outside CPA, audit firm or other professional to prepare Form 990).
- Electronic filing (e.g., prior experience e-filing other forms, incentives and barriers that may influence an organization's decision to e-file, general attitudes toward e-filing Form 990).
- Communications (e.g., popular sources of accounting-related information).

A copy of the questionnaire is included in Appendix A to this report.

Methodology

A random sample of 1,392 organizations was drawn from the NCCS-GuideStar National Nonprofit Database of a sampling frame of 206,000 501(c)(3) charities that filed IRS Form 990 or 990-EZ for FY 1999. The organizations in the sample had approximately the same distribution by size and activity type as the sampling frame from which the sample was drawn.

The survey was designed and pretested with a small group of nonprofit financial executives – chief financial officers, controllers, or directors of the accounting department (referred to in the

rest of this report as CFOs). In February and March 2002, the University of Virginia Center for Survey Research conducted a 12-minute telephone survey of the organizations.¹ **Four hundred eighty-five nonprofit CFOs completed the telephone survey**, providing a response rate of 35 percent. The rest of this document provides a summary of key findings.

Some policymakers have expressed concern that small organizations may not have adequate capacity—in the form of computer access and technical sophistication—to take advantage of electronic filing. To test this hypothesis, the Urban Institute analyzed all responses by organization size as well as in aggregate. As table 1 shows, approximately 60 percent of the organizations surveyed have fewer than 10 paid (full-time or part-time) employees. These results roughly mirror the distribution in the entire universe of charities. Results of the survey by organization size will be analyzed in the rest of this report.

Table 1. Survey Respondents by Organization Size

Paid staff size	Percent
None	19.2
1–9	39.0
10–49	22.5
50–249	12.2
250 or more	6.0
Unknown	1.2 ^a
Total	100.0

a. Because the number of respondents of unknown size is not material, these respondents' answers to survey questions are combined with organizations reporting zero staff in future tables for ease of presentation.

Note: Figures may not add to total shown due to rounding.

FORM 990 PREPARATION PRACTICES

Nonprofit organizations can prepare Form 990 internally or hire an external professional to prepare it. This section explores the relevant characteristics of organizations that use either internal or external Form 990 preparers, since those organizations with internally or externally prepared Forms 990 require different levels of technical capacity in order to e-file. In many cases, organizations that use an external professional to prepare the form will also rely on that person to make a decision about whether to e-file or mail the return. The preparer—not the organization—will need to have the computer equipment and Internet access required for e-filing. Likewise, it is important to know whether organizations that prepare Form 990 internally have the technical capacity and know-how to file electronically. Those that do may be especially

¹ Callers attempted to contact the CFOs three times. If they were unsuccessful in completing the survey by telephone, the surveyors followed up with a mailed survey. The results in this report are from the telephone surveys only. It is expected that the mail surveys will not substantively change the results.

receptive to the message that e-filing is an important tool for simplifying form preparation and filing.

Overall, 72 percent of organizations use an external professional to prepare Form 990. Virtually all of the external preparers are certified public accountants (CPAs), and almost 70 percent of them work for a local or regional accounting firm, which in many cases has a nonprofit specialty practice. Clearly, local or regional firms with a nonprofit specialty practice prepare a large portion of the Forms 990 that are filed each year. In organizations that prepare Form 990 internally, the chief financial officer prepares the form 79 percent of the time. In the case of organizations with both internal and external preparers, the person who prepares Form 990 fits a consistent profile, and therefore should be easy to reach by educational or marketing efforts.

External Preparer Characteristics

- Virtually all of the external professional preparers are certified public accountants.
- Seventy-two percent of organizations use an external professional to file Form 990. The percentage is slightly lower for organizations with zero employees (61 percent) or more than 50 employees (66 percent), and is highest for medium-sized organizations—those with 10 to 49 employees (83 percent).
- The smaller the organization, the more likely it was to use a CPA other than its auditor to prepare its Form 990. Only 11.7 percent of organizations with no paid staff used their auditors to also prepare Form 990, whereas 62.1 percent of the largest organizations used their auditors to prepare Form 990, as shown in table 2.
- The survey asked about the size of the CPA firm that prepares the organization's Form 990. Over 69 percent of the organizations surveyed use a local or regional CPA firm.
 - As might be expected, a higher percentage of the smallest organizations used sole practitioners (29.8 percent of organizations with no paid staff, in contrast to 6.9 percent of those with 50 or more employees).
 - Likewise, a higher percentage of the largest organizations used national or large regional firms (22.4 percent of organizations with 50 or more staff, in contrast to 8.8 percent of those with no staff).
- Thirty-six percent of respondents used a CPA that specializes in nonprofits. The larger the staff size of the organization, the more likely it was to use a CPA with a specialty nonprofit practice. For example, only 19.3 percent of organizations with no paid staff used a Form 990 preparer with a nonprofit specialty, but 53.5 percent of Form 990 preparers used by organizations with 50 or more employees had a nonprofit specialty practice.

Table 2. Characteristics of External Preparers by Organization Size

(in percent)

Staff size	Total	Auditor	Other CPA	Other professional	Nonprofit specialty	Sole practitioner	Local firm	Large firm
No staff	100.0	11.7	85.0	3.3	19.3	29.8	57.9	8.8
1–9	100.0	37.6	61.7	0.7	31.2	21.3	66.0	8.5
10–49	100.0	47.3	50.6	2.2	44.0	12.1	81.3	4.4
50 +	100.0	62.1	36.2	1.8	53.5	6.9	69.0	22.4
Total	100.0	39.7	58.6	1.7	36.0	17.7	69.4	9.7

Internal Preparer Characteristics

Twenty-seven percent of respondents prepare their returns internally. Those organizations with zero employees and those with more than 50 employees are the most likely to prepare their Form 990 internally (39 percent and 32 percent, respectively). Least likely to do so are the medium-sized organizations, with only 16.5 percent preparing the returns internally. A possible explanation is that the smallest organizations do not have the budget to hire an external preparer, while the largest organizations maintain the required expertise in-house.

For 79 percent of the organizations, the CFO prepares the return. Board members and volunteers rarely prepare an organization’s Form 990. CFOs who prepare the return themselves may be receptive to electronic filing’s ease, efficiency, and enhanced accuracy. A breakdown of internal preparers’ relationships to the organizations is found in table 3 below.

Technical capacity for e-filing does not seem to be an issue; more than 86 percent of the organizations with zero employees that prepare Form 990 internally report having access to the Internet. Overall, 89 percent of the organizations that prepare the form internally have Internet access, which is necessary for transmitting the return electronically. One potential capacity issue is the platform on which the organization runs its software. Most software programs, including NCCS’ *Desktop990* state e-registration program, are designed to run on Windows. Sixty-five percent of internal preparers report that they use the Windows platform. Of the remainder, 12 percent do not know which platform they use or did not respond to the question, 10 percent report that they use DOS, 9 percent use Macintosh, and 14 percent use another platform, such as UNIX.

Table 3. Characteristics of Internal Preparers by Organization Size

Number of employees	CFO	Other staff accountant	Board member	Other internal	Internet access
None	79.5%	7.7%	5.1%	7.7%	86.1%
1–9	75.6%	11.1%	2.2%	11.1%	86.7%
10–49	88.9%	0.0%	0.0%	11.1%	88.9%
50 +	75.0%	17.9%	0.0%	7.1%	96.4%

PRIOR E-FILING EXPERIENCE AND LIKELIHOOD OF E-FILING IN THE FUTURE

This section explores CFOs' prior experiences with electronic filing of other IRS forms, and their expectations for e-filing in the future. Almost one-third of CFOs surveyed have previously filed an IRS form, such as the 1040 personal income tax return or the 941 employer's quarterly federal tax return. Of the CFOs who have e-filed in the past, 86.9 percent describe their experience as excellent, very good, or good, which is a strong indicator of repeated e-filing in the future. Almost half of all respondents expect that they will e-file forms such as the 941 in the future. Prior e-filing experience is interpreted as an indicator of the filer's comfort level with electronic filing of additional forms in the future.

Nearly 73 percent of all CFOs would e-file Form 990 or recommend that their external preparers do so, if there were no barriers to e-filing such as cost or complexity. Those CFOs who prepare the form internally and those whose organizations have more than 50 employees are even more enthusiastic about their likelihood of e-filing. Some relevant percentages are laid out below.

E-filing History

- Approximately 30 percent of all surveyed CFOs have prior experience with electronic filing of an IRS form, such as a 1040 or 941.
- Only 13 percent of former e-filers described their electronic filing experience as negative (fair or poor.) Of the remainder,
 - 35.6 percent described their experience as excellent.
 - 26.0 percent described their experience as very good.
 - 25.3 percent described their experience as good.
- 48.2 percent of all CFOs plan to electronically file Form 1040 or 941 in the future.

Likelihood of E-filing Form 990

Surveyed CFO's were asked the following question: If free, easy-to-use software were available to e-file Form 990 and state registration documents, how likely do you think you would be to use it? The question was phrased in this way to eliminate any possible environmental barriers that CFOs might imagine, such as price or access to software, from their responses.

An overwhelming **72.6 percent** of organizations said they would be **very or somewhat likely to electronically file** or to recommend electronic filing to their preparers. More than **45 percent** are **very likely** to e-file. See table 4 for more detail.

The potential cost of electronic filing would be insignificant in relation to the price that charities currently pay for Form 990 preparation. The median cost of preparing Form 990 for those surveyed organizations that use external preparers was \$500, with half of the organizations reporting costs between \$200 and \$800. In a related survey of certified public accountants in Pennsylvania, almost half of CPAs reported that the cost of e-filing would not be a barrier to

their nonprofit clients, since the cost of e-filing would be included in the cost of preparing the form.

Likewise, organizations that prepare Form 990 internally spend a median of eight hours on preparation, with half reporting preparation time of between four and 30 hours. These organizations might benefit from using a system such as the NCCS *Desktop990*, which guides the user in filling out required line items, with IRS instructions and expert tips available for every line, as well as numerous arithmetic and consistency checks to verify the accuracy and completeness of the return before it can be e-filed. The potential for time savings and improved reporting with e-filing are significant.

Table 4. Likelihood of E-filing Form 990 by Organization Size

	Total	Number of employees				Unknown
		None	1–9	10–49	50 +	
<i>Percentage of responses</i>						
Very or somewhat likely	72.6	72.0	74.0	65.2	80.7	50.0
<i>Very likely</i>	45.8	46.2	46.0	40.4	53.4	16.7
<i>Somewhat likely</i>	26.8	25.8	28.0	24.8	27.3	33.3
Not likely	22.9	22.6	21.2	31.2	15.9	33.3
Other	4.5	5.4	4.8	3.7	3.4	16.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

While charitable organizations in all categories report a high likelihood of e-filing Form 990, two categories are especially likely, as shown in table 5:

- Organizations that file internally, with a total of 84.7 percent reporting that they would be very likely (63.9 percent) or somewhat likely (20.8 percent) to e-file, and
- Larger organizations—those with 50 or more employees. Eighty-one percent of these organizations reported that they would be likely to e-file. Of these largest organizations, 75.0 percent of internal preparers said they were very likely to e-file, while only 43.6 percent of organizations with external preparers were very likely to e-file.

Table 5. Likelihood of E-filing: Internal and External Preparers

	Grand Total	Internal				External			
		0–9	10–49	50+	Total	0–9	10–49	50+	Total
<i>Percentage of responses</i>									
Very or somewhat likely	72.6	83.3	83.3	89.3	84.7	67.9	64.3	80.0	71.6
<i>Very likely</i>	45.8	57.1	77.8	75.0	63.9	42.9	34.4	43.6	41.1
<i>Somewhat likely</i>	26.8	26.2	5.5	14.3	20.8	25.0	29.9	36.4	30.5
Not likely	22.9	13.1	16.7	10.8	13.1	32.1	35.6	20.0	28.4
Other	4.5	3.6	0.0	0.0	2.3	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Perceived Benefit to the Organization

All respondents were asked to indicate their level of agreement with the statement “E-filing will provide no benefit to my organization.” Fifty-four percent of all CFOs either strongly (21.4 percent) or somewhat (32.6 percent) *disagreed* with this statement. This left almost half of all respondents agreeing either strongly (18.4 percent) or somewhat (20.0 percent) that there was no benefit to be gained for their organizations in electronic filing. So, while only 54% of all respondents saw e-filing as providing a direct benefit to their organization, 73 percent were likely to try e-filing if it were available. This leaves at least 19% of respondents willing to try e-filing, even without any perceived benefits to their organization. Why the gap? One possible explanation is that many people who work in the nonprofit sector recognize the value of this technology to the accountability of the sector as a whole, which they care about, and for government monitoring, which they generally support, even if they don’t see an immediate payback for their individual organization.

In informal conversations with nonprofit staff and CPAs who work with nonprofit organizations, NCCS researchers have discovered that there is widespread recognition that electronic transactions – whether in the form of e-filing, e-commerce, or information sharing and reporting – are generally convenient, increasingly common, and inevitably the way that people will transfer money and information in the future. While people do feel some anxiety about this trend, they also see many benefits, both for themselves directly, as well as for government and society in general. The benefit to government and society seems to be a motivator in the nonprofit sector, where many work out of a desire to serve the community. Further research or test marketing efforts could shed greater light on this question.

Respondents had different rates of agreement with the statement depending on their organizations’ size and whether returns were prepared internally or externally. Internal preparers were more likely to perceive benefits to their organization from e-filing than were organizations with external preparers (65 percent versus 50 percent). This is an encouraging finding, in that internal preparers already see e-filing as beneficial to their organizations, even before any publicity has been generated.

Organizations with zero employees were the least likely to disagree with the statement, that is, they were most likely to believe that e-filing holds no benefits for them. Among internal preparers, organizations with 10 to 49 employees were the most likely to perceive benefits (72 percent). Among external preparers, organizations with more than 50 employees were the most likely to perceive benefits (64 percent).

INCENTIVES AND CONCERNS

Surveyed CFOs who said they were “somewhat likely” or “not likely” to e-file were asked to react to a list of potential incentives or features that may be offered in an e-filing system, in order to identify strategies for overcoming potential resistance to e-filing. Equally important for a

successful electronic filing program, all survey respondents were asked to discuss their level of concern about a list of possible barriers, for the purpose of addressing and defusing them in the design and marketing of the program. The initial list of incentives and concerns for this survey was identified in focus groups with nonprofit financial executives and in a review of published materials documenting public sentiment about Form 1040 e-filing.

Incentives

While 48 percent of all respondents reported that they would be very likely to e-file under ideal conditions, over half were less enthusiastic, reporting only that they were somewhat likely (28 percent) or unlikely (24 percent) to e-file even if e-filing were free, easy to use, and capable of filing state and federal forms simultaneously. These less enthusiastic CFOs were asked additional questions to discern whether there were particular incentives that might make them more likely to try e-filing.

The incentives proffered, in order of preference, were the following:

- Reduction in state registration fees for e-filers (57.0 percent would be much more or somewhat more likely to e-file if this incentive were offered).
- Free or low-cost e-filing option (54.9 percent).
- Electronic receipt issued from IRS (52.7 percent).
- E-filing of both Form 990 and state registration or renewal (37.3 percent).
- Automatic one-month extension for e-filers (28.8 percent).
- Ability to pay state registration fees by credit card (22.1 percent).

As seen in table 6, some of the incentives have the potential to change people’s minds. Nonprofit CFOs who are less likely to e-file are also price-sensitive. They may be enticed to try e-filing if there is a cost savings—or at least no additional outlay—to their organizations. Ability to pay by credit card and a one-month automatic filing extension were the incentives least likely to induce the CFOs to e-file Form 990.

Table 6. E-filing Incentives

Incentive	Much more likely	Somewhat more likely	Subtotal more likely	Wouldn’t matter	Less Likely	Grand total
Reduced reg. fees	22.5%	34.5%	57.0%	41.4%	1.6%	100.0%
Free or low cost	20.3%	34.6%	54.9%	43.5%	1.6%	100.0%
Electronic receipt	23.4%	29.3%	52.7%	46.1%	1.2%	100.0%
990 + state registration	8.8%	28.5%	37.3%	60.2%	2.4%	100.0%
One-month extension	9.0%	19.8%	28.8%	69.3%	2.0%	100.0%
Credit card payment	6.7%	15.4%	22.1%	75.1%	2.8%	100.0%

We also wanted to see if the responses varied depending on organization size or preparer type. Table 7 shows the percentage of organizations that provided a positive response to the incentives—that is, were either much more or somewhat more likely to e-file if the incentive were offered. Both internal preparers and organizations with external preparers as a whole rated their likelihood of e-filing with the incentives at similar percentages, but there was a great deal of variability in the responses given when the answers were analyzed by organization size. The results should be interpreted with caution given the small number of respondents in some categories. Given that caveat, some interesting trends were observed:

- On average, internal preparers with zero employees were the most influenced of all internal preparers by the incentives offered. In every single category, organizations with external preparers and zero employees were the least influenced of all organizations with external preparers by the incentives offered.
- The most influenced organizations with external preparers were those with 1 to 9 employees.
- The least influenced internal preparers were those organizations with 50 or more employees.
- Internal preparers were slightly more likely than organizations with external preparers to be influenced by simultaneous state and federal registration (44.4 percent versus 35.2 percent). Organizations with external preparers were slightly more likely to be influenced by reduced state registration fees (58.5 percent vs. 49.1 percent).
- The incentive with the most variability by size was offering federal Form 990 e-filing in tandem with state registration. The rate of likelihood for internal preparers with zero employees was 76.2 percent. Larger organizations were less likely to reconsider their choice to not e-file. Only 25 percent of organizations with 10 to 49 employees and 28.6 percent of those with 50 or more employees would reconsider. Organizations with external preparers also showed a great deal of variability, although in the opposite direction. Organizations with 50 or more employees would reconsider at a rate of 51.6 percent, while those with zero employees reported a reconsideration rate of only 21.2 percent.

Table 7. Influence of Incentives on Likelihood to E-file by Organization Size and Preparer

	Overall percentage	Internal					External				
		0	1 - 9	10 - 49	50 +	Total	0	1 - 9	10 - 49	50 +	Total
Number of respondents	n =	39	45	18	28	130	34	83	60	33	210
<i>Percentage of much more or somewhat more likely</i>											
990 + state registration	37.3%	76.2	56.3	25.0	28.6	44.4%	21.2	39.7	28.3	51.6	35.2%
Reduced reg. fees	57.0%	38.9	68.8	33.3	33.3	49.1%	39.4	65.9	55.9	64.5	58.5%
Credit card payment	22.1%	15.8	37.5	0.0	14.3	22.2%	3.0	29.3	18.3	31.3	22.2%
Free or low cost	54.9%	52.9	60.0	66.7	28.6	52.4%	33.3	65.8	56.9	48.5	55.2%
One month extension	28.8%	36.8	12.5	0.0	14.3	22.2%	14.7	42.1	25.0	23.5	29.9%
Electronic receipt	52.7%	63.2	62.5	66.7	28.6	57.8%	32.4	62.7	50.0	45.5	51.4%

Concerns

All respondents were asked to indicate their level of concern about a number of potential barriers to an organization’s willingness to e-file. These were the following:

- Cost of e-filing.
- Time required to e-file.
- Security of transmission and confidentiality of sensitive data.
- Accuracy of the information transmitted.
- The ability of an e-filing system to handle complex attachments and attachments explaining unusual situations.
- Difficulty learning how to e-file.

Two widely held concerns about e-filing were security and confidentiality of information (57 percent of respondents strongly or somewhat agreed that this is a concern) and the ability to include complex attachments (72 percent agreed), as shown in table 8 below. This relatively high rate of concern indicates that educational efforts will be needed to address and allay these concerns. CFOs agreed with the remaining concerns at much lower levels. The concern with the lowest overall agreement rate was “difficulty to learn” with a total agreement rate of 21 percent. In fact, 73.2 percent of the CFOs somewhat or strongly disagreed that learning to e-file was a concern.

Table 8. E-filing Concerns

	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree	Other or neutral	Total
Concerns						
Cost	6.0%	14.2%	41.7%	26.2%	12.0%	100.0%
Time to e-file	7.6%	16.5%	39.8%	28.7%	7.4%	100.0%
Security/confidentiality	22.9%	33.6%	19.2%	16.3%	8.0%	100.0%
Accuracy	7.0%	21.0%	40.4%	24.3%	7.2%	100.0%
Complex attachments, situations	33.4%	38.1%	12.0%	6.8%	9.7%	100.0%
Difficulty to learn	4.5%	16.5%	41.2%	32.0%	5.8%	100.0%
No benefit	18.4%	20.0%	32.6%	21.4%	7.6%	100.0%

Table 9 breaks out the level of each concern by organization size and whether the return is prepared internally or externally. The percentages show the number of CFOs who either strongly disagreed or somewhat disagreed with each statement; thus, a higher percentage reflects a lower level of concern.

Some of the more interesting findings are:

- Organizations with internally and externally prepared returns both ranked complex attachments as the most prevalent concern, followed closely by security/confidentiality. In both cases, a distant third concern was accuracy.
- For each feature, internal preparers exhibited a lower level of concern than organizations with an external preparer. This is counterintuitive; one might expect that organizations that must e-file themselves would more acutely worry about various barriers than those that outsource Form 990 preparation to an external CPA.
 - Internal preparers show less concern about time to e-file (77.8 percent disagree versus 64.9 percent of external), security/confidentiality (43.9 percent versus 32.6 percent), and complex attachments (26.1 percent versus 10.1 percent).
- Internal preparers with zero employees generally exhibit the highest level of concern (lowest rate of disagreement). This can most likely be explained by their reliance on volunteers in preparing Form 990, so that e-filing presents an additional challenge. Organizations with between 10 and 49 employees show the lowest level of concern, although caution must be taken in interpreting this result because of the small sample size—only 18 organizations in this category responded to the survey.
- Organizations that prepare their returns externally do not follow a pattern of concern by organization size. Organizations of each size display the highest level of concern for at least one concern, and also display the lowest level of concern for at least one concern. The only exception is those organizations with zero employees—they never display the lowest level of concern. Organizations with zero employees generally display the highest level of concern (lowest level of disagreement), while organizations with 50 or more employees show the lowest level of concern. A possible explanation is that organizations with more capacity are less intimidated by the process of e-filing, especially since they expect their CPA firms to e-file for them.

Table 9. Rate of Disagreement with Concerns by Organization Size and Preparer

	Overall percentage	Internal				External					
		0	1 – 9	10 – 49	50 +	Total	0	1 – 9	10 – 49	50 +	Total
Number of respondents	n =	39	45	18	28	130	60	141	91	58	350
<i>Percentage of Somewhat or Strongly Disagree</i>											
Cost	67.8%	61.1	66.6	77.8	85.7	70.8	70.2	64.5	63.7	77.6	66.9
Time to e-file	68.5%	75.0	73.3	88.9	82.2	77.7	59.7	64.5	61.5	39.4	64.9
Security/confidentiality	35.5%	36.1	46.7	44.4	46.4	43.9	29.8	29.1	38.5	32.8	32.6
Accuracy	64.7%	63.9	64.4	66.7	71.4	66.1	63.2	63.1	64.8	69.0	64.3
Complex attachments, situations	18.8%	33.3	15.6	38.9	21.4	26.1	10.5	21.3	11.0	17.2	16.0
Difficulty to learn	73.2%	75.0	75.6	88.9	78.6	77.7	68.4	73.8	63.7	82.8	71.4
No benefit	54.0%	55.5	68.9	72.2	60.7	64.6	40.3	51.1	46.2	63.8	49.7

CONCLUSION

Nonprofit financial executives surveyed were very optimistic about the likelihood that they would electronically file in-house or recommend e-filing to their external CPA or other preparer, if the option were available. Generally, they did not see any overwhelming obstacles to e-filing, although they did express some concerns about security and confidentiality of the information filed, and filing of complex attachments or explanations of unusual situations. Analysis of the responses by organization size and internal versus external preparer showed that different categories of nonprofit CFOs display differing attitudes, experiences, and concerns, which should be taken into account when constructing an e-filing system and education/outreach plan.

The survey identified the people most likely to prepare a charity's Form 990. Twenty-four percent of organizations surveyed prepare the form internally, and 72 percent used an external professional preparer. In most cases, internal preparers are the chief nonprofit financial executive, while external preparers are most frequently CPAs at local or regional accounting firms with a nonprofit specialty practice.

More than 72 percent of charities surveyed reported that they would be likely to try electronic filing or recommend e-filing to their external preparer. Organizations that file internally and those with more than 50 employees were especially likely to try e-filing.

The Urban Institute has conducted two additional surveys to provide supplementary information. One is a telephone survey of paid professional preparers in Pennsylvania. The other is a web-based questionnaire that was available on GuideStar for 6 weeks, from March 1 to April 15, 2002. It was a self-selected survey, and therefore not statistically valid, but it provides interesting qualitative information about CFO attitudes. Both these surveys are available on the National Center for Charitable Statistics' information web site on e-filing at <http://www.form990.org>.

APPENDIX A

Questions Asked in Telephone Survey of Nonprofit Financial Executives

March–April 2002

1. Can you connect me to your CFO, comptroller, or the director of your accounting department? [IF NECESSARY: “or person that handles your organization’s finances?”]
2. Are you the CFO, comptroller, director of accounting, or person that handles your organization’s finances?
3. First, may I confirm your job title? We have you listed as the _____. Is this correct?
4. Does your organization have paid staff?
5. If yes, how many paid staff does your organization have?
6. In the most recent fiscal year, did your organization have a financial audit by an independent CPA firm?
7. If yes, how often do you have audits by an independent CPA firm?
 - Every year
 - Less than once a year but at least every other year
 - Less than every other year
 - Never
 - Don’t know
 - Refused
8. Did someone outside of your organization, such as an auditor or independent CPA, prepare your most recent IRS Form 990?
9. If answer to Q8 is YES, was that person an auditor, independent CPA or accountant, or some other outside professional?
 - Auditor
 - Outside CPA or accountant
 - Other outside professional
 - Don’t know
10. If answer to Q8 is NO, did you or someone else within your organization prepare your most recent IRS Form 990?
 - Respondent prepared
 - Someone else prepared

11. If answer to Q10 is SOMEONE ELSE, was that person a paid CPA or accountant on your staff, a paid lawyer on your staff, some other staff member, a board member, or some other volunteer?
 - Paid CPA or accountant on your staff
 - Paid lawyer on your staff
 - Other staff member
 - Board member
 - Other volunteer
 - Some other position [specify position]
12. If answer to Q11 is BOARD MEMBER or OTHER VOLUNTEER, was the volunteer or board member a practicing CPA or attorney?
13. Have you always used _____ (auditor/outside CPA/other outside professional/staff accountant/ board member, etc.) to complete the 990?
14. How satisfied are you with your current 990 preparer?
 - Very satisfied
 - Somewhat satisfied
 - Neutral
 - Somewhat dissatisfied
 - Very dissatisfied
15. If answer to Q14 is SOMEWHAT DISSATISFIED or VERY DISSATISFIED, why aren't you satisfied?
16. If answer to Q8 is YES, does the auditor, accountant, lawyer, or other outside professional who prepared your Form 990 work...
 - As a sole practitioner?
 - For a local or regional firm?
 - For a large national CPA firm?
17. Follow-up to Q16: Does the organization that prepared your 990 specialize in nonprofit organizations?
18. Follow-up to Q16: Can you tell us how much your organization paid for just the preparation of the Form 990 or was the preparation included within the price of an audit or some other service?
 - Yes, I can tell you how much we paid for just Form 990
 - No, I can't tell you
19. If answer to Q18 is YES, approximately how much did your organization pay for just the preparation of Form 990?
20. Follow-up to Q16: Do you know how this person (professional preparer) prepared the 990?

21. If answer to Q10 is RESPONDENT PREPARED FORM 990, how did you prepare the 990?
Using tax preparation software like TurboTax or Taxcut
Using form software like the Adobe Acrobat forms that the IRS makes available
Manually with pencil or typewriter
Some other way
22. Follow-up to Q16: Do you have a sense of how long it took for them to prepare the form?
23. If answer to Q20 is YES and answer to Q22 is YES, excluding the amount of record keeping time, roughly how many hours do you think it took to complete the form?
24. Suppose software were available for preparing Form 990 or 990EZ that was free, easy to use, and worked like TurboTax. How likely would you be to use this software?
Very likely
Somewhat likely
Neutral
Somewhat unlikely
Very unlikely
25. If answer to Q24 is SOMEWHAT UNLIKELY or VERY UNLIKELY, what concerns do you have about using this kind of software?
26. If answer to Q24 is VERY LIKELY or SOMEWHAT LIKELY, what benefits do you see in using this software?
27. Follow-up to Q23: Suppose this software ran only on Windows 95 or later versions of Windows. Would you still be just as likely to use this software?
Yes, just as likely
No, not as likely
More likely
Don't know
28. The 990 asks organizations for detailed information on many revenue, expense, and balance sheet items. Would you say that you have accounts set up for some, most, or all of these items?
Some
Most
All
29. Is your accounting system set up to distinguish so-called functional expenses (program, fundraising, and management and general expenses)?
Yes
No

30. If answer to Q29 is NO, do you know why it is not set up to distinguish functional expenses?
Yes
No
31. What accounting software does your organization use?
32. Is the version of your accounting software based on Windows, DOS, Macintosh, or some other operating system?
Windows
DOS
Macintosh
Other
Do not use accounting software
33. Overall, how well do you feel your financial systems meet your needs?
Very well
Somewhat well
Neutral
Somewhat poorly
Very poorly
34. Do you have any other computer or software systems for managing your programs?
Yes
No
35. If answer to Q34 is YES, how well do you feel these other systems meet your need to track the information that is important to your organization?
36. Do you have access to the Internet from your office?
37. Have you ever filed an IRS form such as the 941 or a personal Form 1040 electronically?
Yes
No
38. If answer to Q37 is YES, how would you rate the quality of the experience?
Excellent
Very good
Fair
Poor
Other
39. Do you expect to file these forms electronically in the future?

40. If you had software that was readily available, free, and easy to use for electronically filing your organization's 990 and any state registration documents, how likely do you think you would be to use it [OR if organization uses an external preparer – how likely would you be to recommend it to your preparer]?
- Very likely
 - Somewhat likely
 - Neutral
 - Somewhat unlikely
 - Very unlikely
41. If answer to Q40 is SOMEWHAT LIKELY, NEUTRAL, SOMEWHAT UNLIKELY, or VERY UNLIKELY: Now I'm going to read a list of features that may be helpful for those who electronically file. For each one please tell me how much more likely it would make you or your organization to file your Form 990 electronically. How much more likely would you be to file electronically. . .
- a. If you could e-file both Form 990 and state registration or renewal?
 - b. If there were a reduction in state registration or renewal fees for e-filers?
 - c. If you had the ability to pay state registration fees by credit card?
 - d. If e-filing were free or low-cost?
 - e. If e-filers received a one month automatic filing extension?
 - f. If the IRS issued an electronic receipt?
42. Follow-up to Q41: Are there any other features that would make you or your organization more likely to file your Form 990 electronically?
43. What concerns do you or your organization have about filing your Form 990 electronically?
44. We're nearing the end of the survey. I'm going to read a list of concerns that some people have mentioned about filing electronically. For each statement please tell me if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with the following statements.
- a. It may cost more to e-file.
 - b. Electronic filing may require more time.
 - c. Data may not be secure or kept confidential when filing electronically.
 - d. The e-filing system may not be accurate.
 - e. It would be difficult to add complex attachments and deal with unusual situations.
 - f. It would be difficult to learn how to file electronically.
 - g. E-filing provides no benefit to my organization.
45. Do you read any publications, subscribe to any electronic lists, or read any Web sites on a regular basis about either the nonprofit sector or your industry?
46. Are you a member of any nonprofit sector or industry associations?
47. Do you subscribe to any accounting, management, or financial publications or electronic sources? [For example, the AICPA newsletter.]

48. How many years of finance, accounting, or management experience do you have?
49. Do you have a degree in accounting, management, or finance?
50. And what degree is that?
51. May we contact you for additional information about your thoughts on electronic filing?
52. Should we use this telephone number?

APPENDIX B

Summary of Survey Results from GuideStar Web Site

In order to supplement the results of the randomly selected telephone survey, NCCS adapted its questions on electronic filing to a self-administered survey, which was offered on the Internet in conjunction with GuideStar's March 2002 feature article on e-filing at the following Web address: http://www.guidestar.org/news/features/e_filing01.stm. The survey was featured in the article, in GuideStar's monthly newsletter (emailed to 20,000 charities nationwide), on the NCCS web site, and on the AOL Foundation's NetworkForGood.org web site.

The survey was offered over a six-week period, from March 1 to April 15, 2002. **Three hundred eighty-seven surveys were completed.** Because the respondents were not randomly selected, the results are not statistically valid; however, they do provide interesting insight into the attitudes of nonprofit financial executives, and confirm the results from the telephone survey.

Some of the findings are listed below:

- *Description of Respondents:* Survey respondents were mainly nonprofit managers: 27 percent were chief financial officers, 22 percent were executive directors, and 28 percent were other nonprofit managers. 55 percent of respondents have finance or management degrees.
- *Internal versus External Preparers:* Sixty-three percent of respondents have their Form 990 prepared by an outside professional, while 36 percent prepare it in-house.
- *Internal Preparers:* The most frequent internal preparer was the respondent (75 percent). Fifty-five percent of internally prepared returns were prepared manually, and the process took, on average, between 6 and 15 hours (40 percent of respondents). Thirteen percent of the internal preparers were dissatisfied with the current method of preparing Form 990, and only 53 percent were very satisfied.
- *External Preparers:* Slightly more than half (54 percent) of the respondents use a CPA firm other than the firm that conducted the audit. Most of the CPAs (59 percent) who prepare Form 990 have a nonprofit specialty, and most work for a local or regional firm (64 percent). Only 4 percent of respondents reported dissatisfaction with their external preparer; in fact, 72 percent are very satisfied.
- *Cost of External Preparation:* The most frequent price range for Form 990 preparation was \$1,001 – \$2,000, with 27 percent falling in that price range. The most frequent price range for Form 990 preparation plus an audit was either \$2,501 – \$5,000 or \$15,001 – \$20,000, with 20 percent of all returns plus audits falling into each of those price categories.
- *Would You E-file Yourself if Free, Easy-to-Use Software Were Available?* While the survey was in progress, NCCS received feedback that the question was being misunderstood, and that respondents who had no intention of filing Form 990 themselves

were answering the question from the point of view of their CPA. Even though the question was flawed, the comments provided by respondents are instructive.

- *Our CPA will do it:* Many respondents would prefer to rely on their CPA. Some respondents believed that their return was too complicated/confusing/difficult to do in-house, or that they were too busy to do the return in-house. A few respondents said that they would prepare it in-house and then send to a CPA for review.
- *Gimme e-file!* On the other hand, many respondents were very enthusiastic about electronic filing. Some said that they could not wait until it is offered.
- *E-filing Experience:* Forty-seven percent of respondents have e-filed an IRS form in the past. Sixty-two percent expect to e-file in the future.
- *Incentives:* The most well-received incentive out of the six offered (e-file federal and state forms simultaneously, reduce state registration fees, pay by credit card, free or low-cost e-filing, automatic extension, electronic receipt) was the electronic receipt, with 63 percent of respondents reporting that they would be much more likely to e-file if this were offered, and only 16 percent reporting that it would not matter to their decision. The least popular incentive was payment by credit card, with only 31 percent much more likely to e-file, and 47 percent reporting that it would not matter.
 - *Other incentives:* Respondents added other incentives in the comments section. Most frequently cited were ease of use, good instructions and technical support, and easy way to add attachments .
- *Barriers:* Possible barriers to widespread adoption were cost, time, security and confidentiality of data, accuracy, attachments, difficulty to use, and “no benefit to my organization.” Respondents reported strong agreement with only two of the barriers. Thirty-seven percent of all respondents strongly agreed that difficulty with complex attachments was a barrier; 51 percent somewhat agreed, and only 12 percent disagreed. A second barrier that caused concern was the confidentiality and security of data. Twelve percent strongly agreed that this might be a problem and 40 percent somewhat agreed.