



IRS Initiatives - Part II

In our last newsletter, I explained some of the primary accomplishments and focuses of the IRS's Exempt Organization unit ("EO") in the previous few years, based on a recent report released from the group.

This article summarizes some of the EO's primary focuses for the upcoming year. Again, the full report can be found at the IRS.gov website at http://www.irs.gov/pub/irs-tege/fy2011_eo_workplan.pdf.

- Controlling Organizations – The IRC §512(b)(13) Project –The IRS is gathering information on the issue of payments between controlled entities and their controlling tax-exempt parent organization. The information collected will give the IRS a better understanding of the prevalence of 512(b)(13) and related issues.
- Charitable Spending Initiative – EO is currently studying to learn more about sources and uses of funds in the charitable sector and their relationship to the accomplishment of charitable purposes. EO will select organizations for examination, including: those with high levels of fundraising expenses; organizations reporting unrelated business activity with relatively low levels of program service expenditures; and organizations with low levels of program service expenditures in comparison to total revenue.
- Colleges and Universities - In September 2008, EO sent 400 questionnaires to public and private 4 year colleges and universities asking about their UBI, endowments, and executive compensation practices. Over 30 entities are undergoing examinations that focus on UBI and compensation practices.
- Exempt Organizations Services and Assistance – The purpose of this program is to study the communications preferences and educational needs of small tax-exempt organizations and develop a targeted multi-year outreach plan to provide improved education and outreach services to these organizations.
- Form 990-N Mis-filers – This objective is to identify organizations that incorrectly file the Form 990-N while they should be filing Form 990 or Form 990-EZ based on their revenue and asset levels.

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- Form 990 as a Compliance Tool - EO will use the updated Form 990 to identify non-compliant and potentially non-compliant organizations for examination, to develop targeted compliance projects, and to inform and supplement educational efforts.
- Governance - EO began using a check sheet to capture governance practices and the related internal controls of the organizations being examined by the IRS. EO will analyze the data over the long term to gain a better understanding of the intersection between governance practices and tax compliance.
- Mortgage Foreclosure Assistance – This project will be to determine whether organizations are engaged in foreclosure assistance activities, whether their activities are fulfilling their exempt purpose in accordance with the IRC section under which they are recognized as tax-exempt, and whether they are complying with the requirements of §501(q).
- Mutual Organizations – The IRC §512(c)(12) Project – 512(c)(12) organizations are benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, or cooperative telephone companies. One of the requirements for status under this section is that the organization must collect at least 85% of its income from members for the sole purpose of meeting losses and expenses. Questionnaires were mailed to organizations not meeting the 85% member-income test every year, and 40% of the questionnaire respondents have been selected for examination.
- §501(c)(4), (5), and (6) Organizations – EO is increasing its focus on these organizations, especially in areas of political activity, inurement, and the extent of compliance with the requirements for tax exemption by organizations that self-identified themselves as one of these organizations.
- Voluntary Employees' Beneficiary Associations (VEBAs) – VEBAs are organization designed to pay the life, sick accident and similar benefits to its members or their dependents or designated beneficiaries as long as no part of the net earnings of the association inures to the benefit of any private shareholder or individual. EO developed a project to learn more about VEBAs and their compliance under the tax code. EO examinations will begin a statistically valid sample of 100 organizations with assets of more than \$100k during the year.

As you can see, the IRS EO unit has several primary initiatives dealing with issues it feels have a high level of non-compliance. It is important for you to ensure that your organization is compliant in all areas of tax law, but especially in these areas described above. If you have any questions regarding these EO projects, or any tax-related issues in general, feel free to contact Andy Arend (aarend@gbq.com or 614-947-5204) or any GBQ individual.

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