IRS Exempt Organizations Division – On the Docket for 2012

March 29, 2012

The Exempt Organizations (EO) division of the Internal Revenue Service (IRS) published a report of its activities in 2011, along with a work plan for 2012 that outlines its goals in the areas of legislative implementation, compliance (based on Form 990), collaborative efforts and general work. The legislative implementation and compliance areas, in particular, have significance for exempt organization reporting.

Legislative Implementation

- **Revocation of exempt status** – More than 350,000 exempt organizations automatically lost their tax-exempt status in 2011 because they had not filed the required Form 990 annual return for three consecutive years. (For more information, refer to the Lindquist Solutions article “IRS Revokes Tax-Exempt Status” published June 30, 2011). In 2012, the IRS will continue to maintain the list of revoked organizations on its website, in multiple formats.

  Additionally, the IRS incorporated the revocation list into its new online application called Select Check, which the agency rolled out early in 2012. Select Check helps users determine an organization’s tax-exempt status, eligibility to receive tax-deductible charitable contributions and filing status (990-N filers only).

Compliance: Using the Form 990

The IRS is leveraging the information gained from three years of expanded exempt organization reporting to guide its efforts in 2012, with emphasis on the following areas:

- **Social welfare organizations, labor organizations and trade associations** – Certain organizations may declare themselves as tax-exempt without obtaining a determination letter from the IRS, including social welfare, labor and trade organizations that report as 501(c)(4), (5) and (6) of the Internal Revenue Code (IRC) on Form 990.
The EO division plans to send questionnaires to a sampling of such “self-declarers” to determine that the organization is appropriately classified under the correct IRC section and to assess compliance with reporting and tax requirements.

- **Political activities** – The IRS will concentrate on enforcement of rules relating to political campaigns and campaign expenditures, with examinations focusing on “serious allegations of impermissible political intervention.” The EO will also review compliance with reporting requirements and payment of taxes in accordance with IRC section 527(f).

- **Form 990-T and unrelated business income tax (UBIT)** – The IRS is using 990 data to identify organizations that report unrelated business activities on Form 990 (see Part VIII, Statement of Revenue), but do not file Form 990-T. In its work plan, the agency also alludes to a “coming UBIT project” involving organizations that report significant gross receipts from unrelated business activities on Form 990-T, yet declare no tax due.

- **Governance** – One area that garnered a lot of attention on the revised Form 990 was the Governance, Management and Disclosure section because most questions inquire about practices that are not required under the IRC. The IRS indicated that these good governance practices improve an organization’s ability to comply with tax laws, safeguard assets and accomplish the organization’s mission. The IRS will be examining the data from this section in search of correlations between governance practices and tax compliance.

Legislative implementation and compliance based on Form 990 information are on the EO’s radar screen for 2012. With the information already collected from the redesigned Form 990, the IRS is looking to develop advanced methods for pinpointing areas of non-compliance with reporting and tax requirements. Reviewing your organization’s annual Form 990 with your accounting professional can help you understand the maze of reporting requirements for your exempt organization, as well as help identify areas that may draw unwanted attention from the IRS.

The EO division is committing resources to a wide variety of areas in the
coming year.


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