



*Appropriate Actions Were Taken to Prepare
for the Receipt of New Filing Information
From Smaller Tax-Exempt Organizations*

December 21, 2007

Reference Number: 2008-10-051

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 21, 2007

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Appropriate Actions Were Taken to Prepare for
the Receipt of New Filing Information From Smaller Tax-Exempt
Organizations (Audit # 200710034)

This report presents the results of our review to assess the adequacy of the Internal Revenue Service's (IRS) efforts to prepare for the receipt of new filing information by tax-exempt organizations with gross receipts of \$25,000 or less as required by the Pension Protection Act of 2006.¹ This review was initiated due to the short time period between when the law was enacted and its effective date.

On August 17, 2006, President Bush signed the Pension Protection Act requiring tax-exempt organizations² previously not required to file an annual information return because their gross receipts were \$25,000 or less, to electronically file specific identifying information on an annual basis. This new filing requirement is effective beginning January 2008. The Pension Protection Act also established a new requirement that organizations failing to provide this information or failing to file an annual information return for 3 consecutive years will have their tax-exempt status revoked.

¹ Pub. L. 109-280, 120 Stat. 780 (2006).

² Exceptions to this requirement include churches and certain religious organizations, organizations included in a group return, and private foundations or Internal Revenue Code Section 509(a)(3) organizations required to file an information return.



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Impact on the Taxpayer

The IRS is taking appropriate actions to prepare for the receipt and processing of annual electronic notices, also known as e-Postcards, submitted by smaller tax-exempt organizations. However, a draft letter and some outreach materials used to inform organizations of the new filing requirement did not include all information required by the new law. Exempt Organizations function management took immediate action to revise the letter and outreach materials, which will ensure the IRS provides clear and accurate information about smaller tax-exempt organizations' new filing requirements and prevent confusion by these organizations about what information to provide. Inaccurate guidance to organizations could have resulted in increased burden as these organizations try to determine what information should be provided and possibly increased calls to the IRS to confirm what information is required.

Synopsis

The IRS identified approximately 650,000 tax-exempt organizations affected by Section 1223 of the Pension Protection Act and began informing them³ of the new filing requirement and the consequences for nonfiling. In addition, the IRS has initiated or planned a number of education and outreach events to inform the tax-exempt community about the Pension Protection Act's requirements and has begun efforts to update notices, forms, and publications. Finally, the IRS has begun development of an electronic system that will allow smaller tax-exempt organizations to electronically submit an e-Postcard to comply with the filing requirements in the new law. As of October 2007, based on our review of available documentation and discussions with Exempt Organizations function and Modernization and Information Technology Services organization management, the expected implementation of the e-Postcard in January 2008 is on schedule.⁴

We identified some areas of improvement related to the letter used to inform organizations of the new filing requirement as well as outreach efforts performed to inform tax-exempt organizations about the change in the law. For example, we reviewed a draft of the letter before it was issued and determined that it omitted a provision to require organizations to notify the IRS when they have terminated operations. In addition, we also reviewed documents that had already been completed or updated as part of the IRS' outreach efforts and determined that information could be clarified in two of the documents to ensure that affected tax-exempt organizations understood what information would be required from them beginning in January 2008.

³ As of November 13, 2007, the IRS had sent 577,713 letters to affected tax-exempt organizations.

⁴ Issues identified during testing of the e-Postcard system, implementation delays, or any proposed changes necessary based on management's review could affect whether the system is timely and successfully implemented.



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Recommendations

During the audit, we recommended the letter used to inform organizations of the new filing requirement and other documents be updated to include all information required to be submitted as part of the new e-Postcard filing requirement. Exempt Organizations function management took immediate action to correct the letter prior to issuing it to affected tax-exempt organizations. In addition, the IRS revised a document used to assist employees during education and outreach efforts and agreed to revise a publication prior to its next reprinting.

Response

Since the IRS took immediate actions in response to recommendations made during the audit, we made no additional recommendations in this report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the IRS managers affected by the report conclusions. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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Abbreviations

IRS

Internal Revenue Service



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Background

In Fiscal Year 2006, there were approximately 1.6 million tax-exempt organizations (excluding churches) with \$2.4 trillion in assets and \$1.2 trillion in annual revenues. Although these organizations are exempt from filing and paying income taxes, the larger organizations with gross receipts of more than \$25,000 are required to file annual information returns on their tax-exempt activities. To maintain records for all tax-exempt organizations, the Internal Revenue Service (IRS) uses the Exempt Organizations Business Master File.¹ Information from the Exempt Organizations Business Master File is used to update a comprehensive listing² of organizations that can receive tax deductible contributions.

However, both the Treasury Inspector General for Tax Administration and outside stakeholders, such as the Panel on the Nonprofit Sector, have raised concerns regarding the accuracy and reliability of information on the Exempt Organizations Business Master File.³ Both organizations have reported this system contains errors or outdated information (e.g., exempt organizations that have terminated operations). The Panel on the Nonprofit Sector recommended Congress amend Federal tax laws to require smaller tax-exempt organizations excused from filing an annual information return with the IRS to file an annual notice containing basic contact and financial information. This information could then be used by the IRS to verify that the exempt organization is still active. In addition, the Panel on the Nonprofit Sector recommended the IRS be authorized to suspend the tax-exempt status of organizations that fail to file the required notification form for 3 consecutive years.

On August 17, 2006, President Bush signed the Pension Protection Act of 2006⁴ requiring tax-exempt organizations⁵ previously not required to file an annual information return because their gross receipts were \$25,000 or less,⁶ to electronically file specific identifying information with the IRS on an annual basis. This new filing requirement is effective beginning

¹ The IRS computer system for all exempt organizations that have had an application for exemption processed.

² *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986* (Publication 78).

³ Treasury Inspector General for Tax Administration report *The Reliability of the Information on the Exempt Organizations Business Master File Needs to Be Improved* (Reference Number 2001-10-023, dated December 2000) and Panel on the Nonprofit Sector report *Strengthening Transparency Governance Accountability of Charitable Organizations* (dated June 2005).

⁴ Pub. L. 109-280, 120 Stat. 780 (2006).

⁵ Exceptions to this requirement include churches and certain religious organizations, organizations included in a group return, and private foundations or Internal Revenue Code Section 509(a)(3) organizations required to file an information return.

⁶ For example, parent-teacher and animal welfare organizations may not be required to file annual information returns because their gross receipts are \$25,000 or less.



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January 2008. The Pension Protection Act also established a new requirement that organizations failing to provide this information or failing to file an annual information return for 3 consecutive years will have their tax-exempt status revoked. This change in the tax law will assist the Exempt Organizations function in identifying many tax-exempt organizations that have ceased operations.

This audit was conducted while the web-based system required to process these annual electronic notices (e-Postcards) was still being tested and implemented. As a result, this report may not reflect the most current status of the e-Postcard system. In addition, this review focused on the IRS' efforts to prepare for the processing of annual information notices from smaller, tax-exempt organizations and was not a systems development review of the new system. A separate Treasury Inspector General for Tax Administration review⁷ will determine whether this project was adequately implemented and met the intent of the Pension Protection Act.

This review was performed at the Office of Business Systems Planning and the Exempt Organizations function in the National Headquarters of the Tax Exempt and Government Entities Division in Washington, D.C., as well as the Modernization and Information Technology Services organization office in New Carrollton, Maryland, during the period May through October 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁷ The proposed audit will review the Modernized e-File project, which develops the modernized, web-based platform for filing approximately 330 IRS forms electronically and will accept e-Postcard information. The proposed audit objectives are to determine whether Modernized e-File requirements development activities are providing clear and complete requirements and whether the IRS and its contractors are using sound systems development practices in developing the current Modernized e-File release. Also, the audit will determine whether the e-Postcard project was adequately implemented and met the intent of the Pension Protection Act.



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Results of Review

The Internal Revenue Service Is Taking Action to Inform Exempt Organizations of a New Filing Requirement and to Prepare for the Receipt of Electronic Information

The IRS is taking appropriate actions to prepare for the receipt and processing of annual electronic notices, also known as e-Postcards, submitted by smaller tax-exempt organizations. Specifically, IRS personnel have identified tax-exempt organizations affected by the legislation, performed outreach and education to inform these organizations that they may need to file an e-Postcard, and are developing an electronic system that will allow smaller tax-exempt organizations to electronically submit an e-Postcard. However, we identified some areas of improvement related to the letter used to inform affected organizations and outreach performed to notify tax-exempt organizations about the change in the law.

The IRS is taking appropriate actions to prepare for the receipt and processing of e-Postcards.

Information received via e-Postcards will assist the IRS in improving the reliability of information maintained on its computer systems. Organizations that fail to provide this information or fail to file an annual information return for 3 consecutive years will have their tax-exempt status revoked. As a result, they will no longer be shown on the IRS' computer system as tax-exempt organizations.

The IRS has taken significant initial steps to prepare for the new filing requirements of Section 1223 of the Pension Protection Act

The IRS is taking action to implement Section 1223 of the Pension Protection Act. Specifically, the IRS is identifying affected tax-exempt organizations, informing them of the new filing requirement and the consequences for nonfiling, and working with the Modernization and Information Technology Services organization to develop a system to accept annual e-Postcards.

The Exempt Organizations function properly identified tax-exempt organizations that may be affected by the new filing requirements of the Pension Protection Act

The Exempt Organizations function prepared a work request⁸ that established the criteria used to identify the organizations affected by the new filing requirements. We reviewed the criteria

⁸ A work request provides requirements to information technology specialists for the purpose of system testing, changes to current or planned systems, or IRS hardware.



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developed by the Business Systems Planning office to identify the affected organizations and did not identify any errors or omissions. We also obtained our own data extract of exempt organizations meeting the requirements of Section 1223 of the Pension Protection Act and matched it against the exempt organizations identified by the Modernization and Information Technology Services organization for the first 2 weeks that letters were generated. We compared the two sets of data and determined the Exempt Organizations function took appropriate actions to identify the affected organizations requiring notification. The IRS plans to notify approximately 650,000 tax-exempt organizations of the new filing requirement.

The Exempt Organizations function is providing outreach and education about the new filing requirement to affected tax-exempt organizations

The Exempt Organizations function is notifying affected organizations of the new filing requirement through direct mailings of letters, as well as performing various education and outreach activities.

The Exempt Organizations function developed a letter to notify affected tax-exempt organizations of the new filing requirement. Generally, exempt organizations with gross receipts of \$25,000 or less are required to provide the organization's legal name, any other name the organization uses, mailing address and Internet web site address, employer identification number,⁹ name and address of a principal officer, annual tax period, verification that the annual gross receipts are normally \$25,000 or less, and a notification if the organization has terminated business.

In addition, Exempt Organizations function personnel developed procedures to process letters that were returned as undeliverable after mailing. Specifically, these procedures identify the internal and external information that employees should research to identify an accurate mailing address. These procedures also include instructions to resend the letter if a new address is found or update the IRS computer system if the research efforts are unsuccessful and the exempt organization cannot be located.

We also determined the IRS has initiated or planned a number of education and outreach initiatives to inform the overall tax-exempt organization population about the new Section 1223 Pension Protection Act filing requirements, as well as the fact that any organizations' tax-exempt status will be revoked for noncompliance with the statute's requirements. These efforts, along with plans to update notices, publications, and forms were documented in a Communications Plan developed by the Exempt Organizations function's Customer Education and Outreach office to track the status of planned, ongoing, and completed initiatives.¹⁰

Based on our review of the Communications Plan, discussions with Exempt Organizations function management, and research of the IRS Internet and Intranet web sites, we believe all

⁹ A unique nine-digit number used to identify a taxpayer's business account.

¹⁰ Appendix V contains examples of education and outreach efforts from the Communications Plan.



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relevant internal and external sources of information have been identified and are either in development or planned for revision to include information about the provisions of Section 1223 of the Pension Protection Act for the tax-exempt population.

The IRS is working to develop an electronic system that will allow smaller tax-exempt organizations to submit an e-Postcard to the IRS via the Internet

While the Pension Protection Act requires the filing of e-Postcards by certain tax-exempt organizations starting in January 2008, the IRS did not have a system in place that would accept this information when this legislation was enacted in August 2006. As a result, the Exempt Organizations function began working with the Modernization and Information Technology Services organization to develop the e-Postcard system using IRS personnel and contractor support. Development of the e-Postcard system was divided into several segments. These include:

- Developing a front-end portal that will allow smaller tax-exempt organizations to register and file the required information.
- Transmitting the information to the IRS.
- Processing the information on IRS computer systems.
- Ensuring e-Postcard data are publicly available on the IRS Internet.

As of October 2007, based on our review of available documentation and discussions with Exempt Organizations function and Modernization and Information Technology Services organization management, the expected implementation of the e-Postcard in January 2008 is on schedule. However, the IRS was still working to complete, test, and implement the system. Issues identified during testing of the e-Postcard system, implementation delays, or any proposed changes necessary based on management's review could affect whether the system is timely and successfully implemented.

The Exempt Organizations function is notifying affected organizations of the new filing requirement of the Pension Protection Act, but we identified areas of improvement necessary to fully comply with the law

To meet the requirements of Section 1223(e) of the Pension Protection Act, the IRS must timely publicize via forms, instructions, and other appropriate means the fact that organizations' tax-exempt status will be revoked for noncompliance with the statute's requirements. As stated earlier, the statute also requires affected tax-exempt organizations to provide the IRS the organization's legal name, mailing address and Internet web site address (if any), as well as notify the IRS if the organization is no longer in existence.



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As noted previously, the Exempt Organizations function took timely action to inform affected organizations of the requirements of the Pension Protection Act using a letter and other outreach materials included in its Communications Plan. However, we reviewed a draft of the new letter before it was issued and determined that improvements were needed to fully comply with the notification requirements of the Pension Protection Act. Specifically, we determined the letter:

We determined improvements were needed to fully comply with the notification requirements of the Pension Protection Act.

- Omitted the provision that requires organizations to notify the IRS when they have terminated operations.
- Informed affected tax-exempt organizations that they would need to provide their organization's name instead of their legal name. Some tax-exempt organizations have a name they use for day-to-day business that is different from their legal name (e.g., the organization's name on its web site versus the legal name on the articles of incorporation).
- Informed affected tax-exempt organizations that they would need to provide their organization's address instead of their mailing address. Some tax-exempt organizations have a street address that is different from the address where they receive mail.

In addition, we also reviewed the documents contained in the Communications Plan that had already been completed or updated and determined that information could be clarified in two of the documents to ensure that affected tax-exempt organizations understood what information would be required from them. Specifically:

- A document used to assist employees during education and outreach events indicated that affected tax-exempt organizations would be required to provide their name instead of their legal name.
- The *Compliance Guide for 501(c)(3)¹¹ Tax-Exempt Organizations* (Publication 4221) indicates that affected tax-exempt organizations are required to provide their name instead of their legal name and their address instead of their mailing address.

During the audit, we recommended the letter used to inform organizations of the new filing requirement and other documents be updated to include all information required to be submitted as part of the new e-Postcard filing requirement. Exempt Organizations function management took immediate action to correct the letter prior to issuing it to affected tax-exempt

¹¹ This refers to Internal Revenue Code Section 501(c)(3).



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organizations.¹² At the time of our review, the IRS had issued 577,713 letters.¹³ In addition, the IRS revised the document used to assist employees during education and outreach efforts and agreed to revise Publication 4221 prior to its next reprinting. These changes will ensure the IRS provides clear and accurate information about smaller tax-exempt organizations' new filing requirements and prevent confusion by these organizations about what information to provide. Inaccurate guidance to organizations could have resulted in increased burden as these organizations try to determine what information should be provided and possibly increased calls to the IRS to confirm what information is required.

¹² See Appendix VI for an example of a corrected letter.

¹³ This figure is as of November 13, 2007.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the adequacy of the IRS' efforts to prepare for the receipt of new filing information by tax-exempt organizations with gross receipts of \$25,000 or less as required by the Pension Protection Act of 2006.¹ To accomplish our objective, we:

- I. Determined whether actions required to implement Section 1223 of the Pension Protection Act were identified and on schedule for tax years beginning after 2006.
 - A. Identified what actions were required to implement the notification requirement for entities currently not required to file.
 - B. Assessed whether all required actions were identified and documented.
 - C. Determined whether actions were on schedule.
- II. Determined efforts taken to identify and timely inform tax-exempt organizations affected by Section 1223 of the Pension Protection Act.
 - A. Interviewed Exempt Organizations function management to determine how affected organizations were identified.
 - B. Obtained and reviewed the documentation used by the IRS to identify exempt organizations meeting the notification requirements.
 - C. Obtained a Master File² extract of exempt organizations described in Section 6033(i) of the Internal Revenue Code of 1986, as amended by Section 1223 of the Pension Protection Act, and compared it to the affected organizations identified by the IRS to assess whether the IRS correctly identified organizations required to be notified of the revised filing requirements. We validated the accuracy of the extracted data and found no inaccuracies or missing information.
 - D. Obtained and reviewed the letter used to inform affected tax-exempt organizations to ensure that it clearly included the requirements under Section 6033(i) and the penalty established under Section 6033(j).
 - E. Determined whether the Internet and other methods of outreach were being used to notify affected tax-exempt organizations.

¹ Pub. L. 109-280, 120 Stat. 780 (2006).

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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- F. Interviewed Exempt Organizations function management to determine what actions would be taken with regard to letters returned as undeliverable.
- III. Assessed efforts to prepare for the filing of e-Postcards.
 - A. Interviewed Exempt Organizations function management to identify computer changes necessary to implement Section 1223 of the Pension Protection Act.
 - B. Interviewed personnel with the Tax Exempt and Government Entities Division Office of Business Systems Planning and responsible Modernization and Information Technology Services organization officials to discuss the scope of programming changes needed to implement Section 1223 of the Pension Protection Act and obtained related work requests.
 - C. Determined whether work requests addressed all issues necessary to timely implement Section 1223 of the Pension Protection Act.
 - D. Researched the Work Request Tracking System³ to determine whether work requests were on schedule.
- IV. Assessed efforts to update guidance and procedures related to the implementation of Section 1223 of the Pension Protection Act.
 - A. Identified taxpayer guidance and internal procedures that required updating.
 - B. Determined whether relevant guidance and procedures were updated or scheduled for updating.
 - C. Reviewed guidance and procedures that have been updated for consistency with Section 1223 of the Pension Protection Act.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: Exempt Organizations function's policies, procedures, and practices for planning, managing, and monitoring the IRS' efforts to implement Section 1223 of the Pension Protection Act. We reviewed these controls by interviewing management and analyzing applicable information and documents. We did not identify any significant weaknesses.

³ The Work Request Tracking System generates and tracks work requests from initiation to completion.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Troy D. Paterson, Director
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Michael A. McGovern, Auditor
Carol A. Rowland, Auditor
Arlene Feskanich, Information Technology Specialist



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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Chief Information Officer OS:CIO
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Associate Chief Information Officer, Applications Development OS:CIO:AD
Director, Business Systems Planning, Tax Exempt and Government Entities Division SE:T:BSP
Director, Exempt Organizations, Tax Exempt and Government Entities Division SE:T:EO
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Associate Chief Information Officer, Applications Development OS:CIO:AD
 Director, Communications and Liaison, Tax Exempt and Government Entities Division
 SE:T:CL



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual, 577,713 tax-exempt organizations that received the corrected letter (see page 3).

Methodology Used to Measure the Reported Benefit:

During the audit, we recommended that the letter used to inform organizations about the new filing requirement be updated to include all information required to be submitted as part of the new e-Postcard filing requirement. Exempt Organizations function management took immediate action to correct the letter prior to issuing it to affected tax-exempt organizations.¹ At the time of our review, the IRS had issued 577,713 letters.²

¹ See Appendix VI for an example of a corrected letter.

² This figure is as of November 13, 2007.



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Appendix V

Examples of Outreach and Education Efforts Included in the e-Postcard Communications Plan

The IRS has initiated or planned education and outreach initiatives to inform tax-exempt organizations about the new Section 1223 of the Pension Protection Act of 2006¹ filing and reporting requirements, as well as the fact that organizations' tax-exempt status will be revoked for noncompliance with the statute's requirements. These efforts, along with plans to update notices, publications, and forms were documented in a Communications Plan. Examples of these initiatives include:

- News releases and articles to inform the media, public, and IRS employees about the new filing requirement and filing process that will affect smaller tax-exempt organizations.
- A “talking points” document about the new e-Postcard filing requirement to assist employees during education and outreach events.
- Flyers, posters, and leaflets to inform customers about the new provisions of Section 1223 of the Pension Protection Act during education and outreach events, such as tax forums and workshops.
- Workshops and tax forums to inform smaller and mid-size organizations about the provisions of Section 1223 of the Pension Protection Act.
- New and revised notices for noncompliant tax-exempt organizations to include pertinent information about the new filing and reporting requirements, as well as penalties (revocation of tax-exempt status) for not complying with the new provisions of Section 1223 of the Pension Protection Act.
- Inserts about the new provisions of Section 1223 of the Pension Protection Act that will be included with future determination letters.
- Relevant tax publications, forms, and related instructions to include information about the new provisions of Section 1223 of the Pension Protection Act.
- Meeting with State charity regulators, Attorneys General, and National Association of State Charity Officials board members to request their assistance to notify tax-exempt organizations about the new filing requirement provisions of Section 1223 of the Pension Protection Act.

¹ Pub. L. 109-280, 120 Stat. 780 (2006).



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Appendix VI

2008 Annual Electronic Notice Filing Requirement



Department of the Treasury
Internal Revenue Service

Date of this notice:
Notice Number: CP-
Taxpayer Identification Number:

Tax Form:
Tax Period:

For assistance, call:

2008 Annual Electronic Notice Filing Requirement

Why Are You Getting This Notice?

Our records indicate that you did not file an information return last year because you normally have gross receipts of \$25,000 or less. However, your filing requirements may have changed. Because of legislative changes, you may be required to file an annual electronic notice for tax periods beginning after December 31, 2006.

New Notification Requirement for Organizations With Gross Receipts of \$25,000 or Less

The Pension Protection Act of 2006 requires you to file an annual electronic notice for tax periods beginning after December 31, 2006, if you are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax, because your gross receipts are normally \$25,000 or less.

If you are a section 509(a)(3) supporting organization, generally, you must file a paper or electronic Form 990 (or Form 990-EZ) even if your gross receipts are normally \$25,000 or less. However, if you are a supporting organization of a religious organization and your gross receipts are normally \$5,000 or less you may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of your tax period. For example, if your tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

What Information Will the Annual Electronic Notice Include?

The notice will require you to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization,
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).



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TIN:

Form:

Tax Period:

How Does the Organization File the Annual Electronic Notice?

The IRS, through its E-Postcard initiative, is developing a filing system for the annual electronic notice and will be publicizing filing procedures upon completion of the filing system. For the latest information about filing the annual electronic notice, you can:

- Sign up for Exempt Organization's EO Update, a regular e-mail newsletter that highlights new information posted on the charities pages of irs.gov. To subscribe go to www.irs.gov/eo and click on "EO Newsletter."
- Check our website at www.irs.gov/eo.

What Happens if the Organization Fails to File the Annual Electronic Notice or Return?

If you fail to file the annual electronic notice or Form 990 or Form 990-EZ for three consecutive years, your tax-exempt status is revoked as of the filing due date of the third year. Similarly, if an organization is required to file an information return under Internal Revenue Code section 6033(a) (for example Form 990, Form 990-PF or Form 990-EZ) and fails to file for three consecutive years, its tax-exempt status is revoked as of the filing due date of the third year.

Can an Organization Have its Tax-Exempt Status Reinstated if it Was Revoked for Failing to File for Three Consecutive Years?

If your tax-exempt status is revoked for failing to file the annual electronic notice or information return, such as Form 990, Form 990-EZ, or Form 990-PF, for three consecutive years, you must apply (or reapply) for exemption using Form 1023, Application for Recognition of Exemption, or Form 1024, Application for Exemption Under Section 501(a), and pay the appropriate user fee. Reinstatement of tax-exempt status may be retroactive if you can show that you had reasonable cause for not filing the annual electronic notices or information returns.

Keep This Letter for Your Records

Be sure to keep a copy of this letter for your records and provide a copy to future officers. It will serve as a reminder of your filing requirement.