FY 2008 EO Implementing Guidelines

Introduction

Exempt Organizations (EO) has a new way of doing business. In place of separate and distinct determinations and examinations activities, we now bring a flexible and interdisciplinary array of new tools and talent to bear on the critical issues and opportunities that confront us in working toward our strategic goals: (1) to enhance the enforcement of the tax law, and (2) to improve customer service.

New Ways To Enhance Enforcement of the Tax Law.
We have new business processes that broaden and strengthen our enforcement presence. Effective enforcement efforts start with good strategic planning. First, our new Strategic Planning Working Group (SPWG), made up of representatives from Exam, Rulings and Agreements (R&A) and Customer Education and Outreach (CE&O), identifies potential areas of noncompliance using data mining, trend research, and analysis. The SPWG proposes projects to the EO executives, who select the most compelling compliance issues for inclusion in the EO work plan. Then, the Compliance Strategies and Critical Initiatives group (CSCI) develops a compliance strategy, oversees the selected projects, and periodically reports on the progress of the projects to the executives.

The success of a compliance project depends on the use of appropriate tools and resources. One of our most effective tools is the compliance check. Compliance checks enable us to gather information from a large number of organizations about their activities by using letters and questionnaires rather than resource-intensive examinations. We use that information to identify compliance problems and to fashion the most appropriate strategy for addressing them—from educational outreach to new guidance to examinations to follow-up by our Review of Operations (ROO). Recommendations resulting from our compliance projects, often included in public reports, are reviewed and used as the foundation on which to build our strategic plan for future years.

New Ways To Improve Customer Service.
We have an expanded vision of customer service – to use the power of the computer to make it easier for tax-exempt organizations to get information to and from the IRS. That vision is seen in our efforts to:

- develop and implement an electronic case processing system that will shorten the time it takes us to process an exemption application;
- develop a computer program that guides users through the exemption application process, and generates a completed application;
- implement a simple and cost-free e-Postcard program for small organizations to use in transmitting their annual notice; and
- harness the power of the Internet to conduct workshops and deliver educational material.

The pages that follow recount our accomplishments of FY 2007 and tell of our plans for FY 2008. We continue to seek new ways of doing business that raise the levels of customer satisfaction and tax compliance.

I. Enhancing Enforcement of the Tax Law: FY 2007 Accomplishments

A. Implementation of the Pension Protection Act of 2006

Enactment of the Pension Protection Act of 2006 (PPA 2006) dramatically altered the tax law landscape for FY 2007. PPA 2006 contained many complicated EO tax law provisions. Implementing those provisions and educating the tax-exempt community was a top priority in FY 2007 and will continue to command our attention in FY 2008. The scope of our efforts can be seen from the following list of accomplishments:

- Guidance
    - Announcement 2006-93 describes procedures by which organizations classified under section 509(a)(3) may request a change in their public charity status to section 509(a)(1) or (2).
    - Notice 2006-109 discusses new provisions affecting supporting organizations, donor-advised funds, and private foundations that make grants to supporting organizations.
    - Notice 2007-45 explains to section 501(c)(3) organizations the new requirement that they make their unrelated business income tax return on Form 990-T available for public inspection.
- Revised Forms 990, 990-PF, 990-T, 4720, and 8282, and related instructions to reflect PPA 2006 law changes;
- Mailed letters to 10,237 supporting organizations with gross receipts of $25,000 or less, informing them that they are now required to file Form 990 or Form 990-EZ; and
- Designed the e-Postcard program to implement a new requirement that small exempt organizations file an annual notice with the IRS.

B. Implementation of Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)

TIPRA defined certain transactions as prohibited tax shelter transactions and imposed excise taxes and disclosure requirements with respect to prohibited tax shelter transactions to which a tax-exempt entity is a party. TIPRA created new section 4965 and amended sections 6033(a)(2) and 6011(g) of the Code. In FY 2007 we worked on several TIPRA-related guidance items:

- Notice 2007-18 addressed when a tax-exempt entity would be considered a "party" to a prohibited tax shelter transaction, the allocation of net income or proceeds of a prohibited tax shelter transaction to a particular taxable year, and the treatment of net income or proceeds received before the effective date of TIPRA;

- Temporary regulations on disclosure requirements for tax-exempt entities that are parties to proposed tax shelter transactions;
- Temporary and final regulations relating to timing and return requirements for section 4965 excise tax payments; and
- Proposed regulations relating to excise taxes and disclosure requirements for prohibited tax shelter transactions.

C. Form 990 Redesign

Our ability to regulate the tax-exempt sector depends on the quality of the information that tax-exempt organizations report to us. Unlike the sector, our most important reporting vehicle, the Form 990 information return filed by tax-exempt organizations, has not changed much since 1979.

On June 14, 2007, we released a discussion draft of a completely redesigned Form 990. The draft consists of a ten-page core form, fifteen specialized schedules, and instructions. The draft is the culmination of several years of effort to design a better Form 990 based on three guiding principles:

- Enhance transparency to provide the IRS and the public with a realistic picture of the organization;
- Promote compliance by accurately reflecting the organization's operations so the IRS may efficiently assess the risk of noncompliance; and
- Minimize the burden on filing organizations.

Owing to the importance of Form 990, we worked energetically to disseminate the draft of the redesigned form and instructions, and to gather comments and suggestions from the broadest possible cross-section of the nonprofit community and the public. We initiated numerous meetings with representatives of the nonprofit sector to discuss the form and get their opinions. We held press conferences, gave speeches, and made the draft redesigned Form 990 a topic of discussion at our tax forums. As a result, we received over 650 comments amounting to more than 3,000 pages, which are posted on our public website. Further work on the redesign will continue in FY 2008.

D. Compliance Initiatives

We initiated or followed through on a variety of major compliance initiatives in FY 2007, and published reports on several of the projects.

1. Political Activity

In 2006, we re-instituted the Political Activity Compliance Initiative (PACI) started in 2004 in response to an increase in allegations of political intervention by 501(c)(3) organizations.

PACI 2006 saw similar numbers and types of allegations as PACI 2004. PACI 2006 also added a new component--the Political Contribution Sub-Project (PACI-PC). PACI-PC analyzes reports filed by political candidates and organizations with state campaign finance offices to identify campaign contributions made by section 501(c)(3) organizations. The 2006 PACI-PC identified 269 cases of direct monetary contributions by section 501(c)(3) organizations to political candidates, totaling $343,963. Our initial contacts resulted in charities receiving over $121,000 in refunds of political contributions. We reported out the findings to date in a report issued June 1, 2007.

In 2007, we issued formal guidance on the political campaign prohibition. Revenue Ruling 2007-41 posits 21 hypothetical situations and examines the facts and circumstances of each to determine whether the organization involved in the situation intervened in a political campaign.

2. Executive Compensation

In light of reports on the high salaries and generous benefits afforded to executives at some charities and foundations, we initiated an Executive Compensation Compliance Project to review the compensation practices of a broad spectrum of exempt organizations. In the first phase of the project, we sent compliance check letters to 1223 organizations. In the second phase, we followed up with examinations of 782 organizations. Because a number of participants reported that they had made loans to officers, we initiated a third phase to focus on organizations making such loans.

On March 1, 2007, we released a report on our progress in the first two phases of the project. The compliance checks found significant reporting errors and omissions. While the project did not uncover wide-spread excess benefit transactions or instances of self-dealing, we did assess $21 million in excise taxes in the cases we pursued.

As a result, the project report recommended that we include a compensation component in future compliance initiatives. It also recommended that we revise the Form 990 to facilitate accurate and complete reporting of compensation.

3. Tax-Exempt Hospitals

Tax-exempt hospitals must meet a community benefit standard. In early 2006, we began a Hospital Compliance Project to determine how tax-exempt hospitals report that they meet the community benefit standard and to review their compensation practices. The project involved 487 compliance check questionnaires on community benefit issues as well as approximately 20 examinations regarding hospital compensation practices.

On July 19, 2007, we released an interim report on the project. The interim report summarizes 487 hospitals' responses to a compliance check questionnaire that was sent to a broad cross-section of nonprofit hospitals. Results show that hospitals are inconsistent in how they report community benefit, particularly uncompensated care.

The project report recommended adding a separate hospital schedule to the Form 990 to increase consistency and transparency in reporting. It also recommended that we analyze the data to determine whether demographics are a factor in the types and amounts of community benefit expenditures.

We will be reporting further on this project in FY 2008.

4. Credit Counseling Organizations

We began our Credit Counseling Initiative by examining 63 large credit counseling organizations, the combined revenues of which represent over 50% of the total revenues of the credit counseling industry. To date, we have revoked, or proposed the revocation of, 47 of these organizations, while two others have terminated. Through greater scrutiny of incoming applications, we also have significantly reduced the number of new credit counseling organizations. Our enforcement efforts influenced Congressional legislation that literally rewrote the exemption standards for all credit counseling organizations.

We then turned our attention to the rest of the credit counseling industry. Through compliance checks and other research techniques, we identified 357 credit counseling organizations and sent them education letters. We selected 111 organizations for examination in FY 2007 and another 80 for examination in FY 2008.

5. Seller-Funded Down Payment Assistance Programs

Our Down Payment Assistance (DPA) Initiative uncovered problems with seller-funded programs that purport to help low income persons buy a home. Under a typical program, the seller of the house makes a "contribution" to a charity, which then gives the money to the low-income home buyer to use as the down-payment. In many cases, the price of the house is inflated to cover the seller's contribution. As a result, the low-income buyer ends up paying a higher price for the house, and the home seller recoups his or her contribution through the purchase price.

We began scrutinizing exemption applications for the presence of seller-funded down payment assistance programs that were incompatible with exempt purposes for such organizations, and we issued Revenue Ruling 2006-27, which provides a detailed discussion of the guidelines for DPA organizations--describing those that meet the requirements for tax-exempt status, and those that do not.

In FY 2007, we began examinations of almost 200 organizations to determine whether they were violating the requirements for exempt status through their conduct of seller-funded down payment assistance programs. Thus far, we have determined that only some of the organizations are facilitating seller-funded down payment assistance. We will be reporting the results of the project in FY 2008.

6. Employment Taxes

We are engaged in a multifaceted project to identify organizations that file inconsistent employment tax information with the Social Security Administration (SSA) and the IRS. We use the Combined Annual Wage Reporting (CAWR) program to compare Form W-2 data reported to the Social Security Administration with the employer (payer) data reported to the IRS on Form 941.

In FY 2007, we conducted compliance checks of approximately 100 organizations that deposited employment taxes but apparently have failed to file the necessary employment tax returns. In addition, we started 100 of approximately 400 potential examinations of organizations that did not file employment tax returns.

II. Improving Customer Service: FY 2007 Accomplishments

A. Determinations & Inventory Reduction

We continued the inventory reduction efforts began in 2006, including the development of determination guide sheets to streamline the determination process, and the more efficient use of technical screening to reduce the time it takes to assign and complete an application case. In 2007, we made great strides by:

- Issuing determination letters to over 90,000 customers;
- reducing the unassigned inventory--down to 5,625 cases, from 8,693 cases at the beginning of the fiscal year;
- reducing our assigned inventory by 6,544 cases, a reduction of 27%;
- dropping the average time to assign an application case from 7 months to 3 months; and
- cutting the average application processing time by 12 days.

B. e-Postcard

For tax years beginning after December 31, 2006, small tax-exempt organizations with annual gross receipts of $25,000 or less will have to file an annual electronic notice on Form 990-N, otherwise known as an "e-Postcard." PPA 2006 added this filing requirement to ensure that donors and the IRS have current information about these organizations. In 2007, we began developing the processes by which small organizations can easily and without cost submit their e-Postcard to us and by which the public will be able to view the information disclosed.

The PPA states that any organization that fails to meet its annual filing requirement for three consecutive years automatically will lose its tax-exempt status. Therefore, an organization that does not file an e-Postcard or an information return (e.g., Form 990 or 990-EZ) will have its tax-exempt status revoked as of the filing due date of the third unfiled notice or return.

To ensure that tax-exempt organizations understand the new e-Postcard filing requirement, in FY 2007, we:

- launched a diligent and comprehensive educational campaign with the theme "Don't Throw Away Your Tax-Exempt Status." The campaign features flyers, posters, and drop-in materials that interested parties can use in their publications or on websites;
- began mailing educational letters to more than 650,000 small tax-exempt organizations. We also sent letters to parent organizations, asking them to inform their subordinates of the new filing requirement;
- posted FAQs on our public website and published informative articles in a variety of print and electronic newsletters and
- reached out to not-for-profit, for-profit organizations and governments that interact with EOs and asked them to help educate the public about this new requirement.

C. Improving Federal/State Relations

The Pension Protection Act of 2006 includes a provision that expands, under strict guidelines, information-sharing with State Charity Officials. In 2007, we worked closely with the officials in several states to implement this expanded information-sharing process, and to ensure that such processes meet the strict confidentiality and safeguard requirements imposed by PPA.

State investigative files and audits can be a valuable resource for EO examinations. During the year, we received 158 referrals from state officials from twenty-one different states, a significant increase from the previous year.

D. Web-Based Training

Our web-based training offerings continue to grow. In FY 2007, we added new "Life Cycles" and launched our first interactive workshop, *Stay Exempt*.

1. *Stay Exempt*--Tax Basics for 501(c)(3) Organizations

In January 2007, we deployed *Stay Exempt*, a free, web-based workshop covering tax compliance issues faced by small- and mid-sized tax-exempt organizations. The workshop consists of five interactive modules and covers criteria for:

- maintaining exempt status;
- unrelated business income;
- employment tax issues;
- Form 990; and
- disclosure requirements.

Stay Exempt enjoyed an enthusiastic reception from practitioners and positive reviews in the media. The *Stay Exempt* site received over 114,000 unique visits in its first nine months. Ninety percent of the users responding to the site's survey rated the workshop either effective or very effective.

2. Life Cycles

We added four new Life Cycles to our public website in FY 2007. Life Cycles are web-based learning tools that help exempt organizations navigate the tax law at every stage of their existence.

Each Life Cycle provides a graphical snapshot of the five stages an organization typically goes through in the course of its existence:

- starting the organization;
- applying for tax-exempt status;
- filing required returns and other documents;
- maintaining compliance; and
- notifying the IRS of material changes, including termination.

The new Life Cycles, covering section 501(c)(4) social welfare organizations, section 501(c)(5) labor and agricultural organizations, and section 501(c)(6) business leagues, join the original Life Cycles on public charities and private foundations.

III. Enhancing Enforcement of the Tax Law: FY 2008 Plans

A. New Compliance Tools

In FY 2008, we are adding three new compliance tools: participation in the National Research Program (NRP); an EO Research and Compliance Initiative; and a voluntary compliance program for delinquent filers.

1. National Research Program (NRP)

NRP is a comprehensive effort by the IRS to measure compliance for different types of taxes and various sets of taxpayers. NRP will provide a statistically valid representation of the compliance characteristics of taxpayers. To date, NRP's efforts have focused on measuring compliance and the tax gap for individual and business taxpayers.

The NRP is currently developing a Servicewide reporting compliance study for employment taxes, which will involve all employment tax filers, including exempt organizations and government entities. EO is committed to supporting the design and delivery of the Servicewide employment tax research study.

2. EO Research and Compliance Initiative (Colleges and Universities)

In addition to participating in the NRP, EO will conduct a research/compliance initiative involving colleges and universities, which make up one of the largest segments of the exempt organization universe.

In FY 2008, we will gather information from a stratified sampling of colleges and universities to gain a better understanding of this important sector. In particular, we will be looking at how colleges and universities:

- report income and expenses on Form 990;
- calculate and report losses on Form 990-T;
- allocate income and expenses in calculating their unrelated business taxable income;
- invest and use their endowments; and
- determine executive compensation.

Similar to the Hospital project, the Colleges and Universities project will involve a compliance check questionnaire sent to a cross-section of small, medium and large colleges and universities. Based on the results of the questionnaire, we will conduct focused examinations of some of the organizations.

3. Voluntary Compliance Program

Under the PPA 2006, any tax-exempt organization that fails to file the required annual returns or notices for three consecutive years is automatically revoked.

In its June 2007 report, the Advisory Committee on Tax Exempt and Government Entities (ACT) identified the PPA provision of automatic revocation as a powerful incentive for non-filing tax exempt organizations to rectify their reporting failures, and recommended the IRS implement a voluntary compliance program (VCP) to help assist in bringing them into compliance.

In FY 2008, the IRS will develop a VCP along the lines recommended by the ACT. The program will enable organizations with un-filed returns for the three most recent tax years to avoid the automatic revocation provisions of the PPA by filing the missing returns and paying all taxes and applicable interest, without facing any penalties.

B. Donor Control and Non-cash Contributions

Donor control and contribution valuation, particularly for non-cash contributions, are continuing concerns for EO. We have seen an increase in situations where donors take deductions for purported charitable contributions, while retaining control over their contributed assets. Or, a contributor may put a generous valuation on the gift for deduction purposes without a clear basis for the valuation. In FY 2008, we will have several programs focusing on these issues.

1. Section 509(a)(3) Supporting Organizations

Before PPA 2006 improved the accountability of supporting organizations, they were often the subjects of abuse. We have seen promoters market the use of supporting organizations to donors as a means of avoiding the significant oversight constraints placed on private foundations. These entities were set up to be controlled by the donor to enable the donor to engage in transactions that would be penalized if the entity were a private foundation. In some cases, the contribution was routed through various organizations before coming back to the donor in the guise of a loan or mortgage.

The IRS implemented a cross-functional team to address the abuse and, in FY 2007 EO examined a combination of organizations, some established by promoters, others selected from a compliance check of recently-created supporting organizations.

For FY 2008, the ROO will begin reviewing 500 organizations that are in their 3rd to 5th year of existence to determine whether they continue to qualify as supporting organizations. We will also conduct compliance checks of 300 supporting organizations that were expected to file a Form 990 but did not.

2. Charitable Trusts

The closely held structure of charitable remainder trusts and non-exempt charitable trusts lend themselves to potential abuse or personal gain. Both types of trusts involve a large donation in the initial year. In the case of a charitable remainder trust, the donation is set aside, but a distribution to charity is not made until the final year of the trust (usually after the donor dies). Non-exempt charitable trusts generally involve a large donation but the trust must distribute the income to charity in the same year or file Form 1041 and pay any tax due. Non-exempt charitable trusts are generally required to file Form 1041 and Form 990 or 990-PF.

In FY 2008, the Exempt Organizations Compliance Area (EOCA) will continue a project begun in 2007 designed to identify and examine charitable remainder trusts that did not distribute their assets in the final year. In the area of overvaluation of charitable contributions, EOCA will look at the first year of the charitable remainder trust to ensure that it was set up properly and that the donor properly computed and claimed the deduction. The charitable contribution deduction is limited to the contribution's value at the end of the life of the trust. Determining this value takes into consideration a number of factors, but generally the value is 10% to 20% of the original donation.

In the area of non-exempt charitable trusts, we sent compliance checks in late FY 2007 to trusts that had filed Form 990 or Form 990-PF, but did not file Form 1041 even though they had taxable income. We anticipate examining a number of these trusts in FY 2008.

3. Deconstruction

"Deconstruction" is the selective dismantling or removal of material from buildings before or instead of demolition. Tax-exempt organizations are increasingly entering the deconstruction business as a way to revitalize deteriorated communities. These organizations compete for building removal contracts with for-profit “dismantlers” (i.e., demolition contractors that salvage building components and materials.)

In FY 2008, the ROO will review the activities of a sample of section 501(c)(3) organizations involved in deconstruction to determine if their manner of operation is consistent with their tax-exempt status. Based on what we learn, we will evaluate whether there is a need for educational materials and/or further compliance activity in this area.

4. Conservation Easements
Last year, as part of a Service-wide initiative, EO began examining organizations that may be promoting overvaluations of conservation and façade easements. Our goal is to ensure that these exempt organizations do not act as accommodation parties to improper charitable contribution deductions and that they properly monitor the easements they receive.

In light of what we have seen so far, in FY 2008 we will continue examining a sample of organizations that receive conservation or façade easements. We also will develop a conservation easements determination guide sheet. Guide sheets provide Determination Specialists with direction on what to look for when reviewing applications from specific types of entities. Guide sheets are posted on irs.gov to help the public understand the IRS's thinking on such issues.

In addition, in FY 2008, we will design a compliance check project to evaluate a cross section of the conservation easement population, to be implemented in FY 2009.

5. Successor Member Interests
In October 2007, we began examinations of exempt organizations and government entities that may have received certain interests in real property (known as “successor member interests”) in a type of transaction described in Notice 2007-72. Such transactions are considered transactions of interest, which are reportable transactions for purposes of section 6111 and 6112. Organizations chosen for examination were sent an Information Document Request (IDR) and cover letter.

C. Form 990 Redesign
EO reviewed and analyzed over 3,000 pages of comments received on the draft redesigned Form 990 released in FY2007. Based on these comments, we are revising the Form and expect to release the final during the first quarter of FY 2008. We will continue our dialogue with stakeholders and are planning a public release of the corresponding instructions and glossary in early calendar year 2008. We continue to work toward making the Form available for filing in 2009.

The new form will remedy major shortcomings of the current Form 990 and be a much better tax compliance tool. It will enable us to get more complete and useful information about an organization's exempt purposes, its unrelated business activities, and its executive compensation practices. The information solicited on the schedules will provide valuable information about an organization's foreign activities, its related organizations and joint ventures, and its use of tax-exempt bond proceeds. We will have a schedule devoted to one of our largest sectors, tax-exempt hospitals. And, for the first time, we will have a better picture of an organization's governance practices, including its governing body, policies and disclosures.

D. Other Compliance Projects

1. Franchises or Business Ventures

Increasing numbers of tax-exempt organizations are operating business franchises and engaging in business ventures with for-profit organizations, purportedly for the purposes of furthering their mission or of earning revenue to finance their exempt activities. They are encouraged by franchisers who earn franchise fees and royalties.

In FY 2008, we will examine a sample of exempt organizations that operate franchises or business ventures with a view to answering questions such as:

- Is the franchise or venture part of the organization's overall mission or is it an unrelated trade or business, the income from which should be reported on Form 990-T?
- Does the scope of the franchise have an impact on the organization's exempt status?
- Does the franchise pay reasonable compensation and properly report and withhold employment taxes?

2. Small Insurance Companies

In 2004, in the face of 501(c)(15) insurance companies being used to shelter investment income, Congress tightened the requirements for tax exemption under section 501(c)(15). The law now caps annual gross receipts at $600,000 and requires that more than 50 percent of gross receipts come in as premiums.

In FY 2008, we will examine 96 tax-exempt insurance companies whose gross receipts or premium amounts appear to violate the amended 501(c)(15) provisions.

E. On-going Compliance Projects

1. Political Activity

As in 2004 and 2006, during the 2008 election season, our Political Activity Compliance Initiative (PACI) will continue to investigate allegations of political campaign intervention by section 501(c)(3) organizations, including direct contributions to candidates through our PACI-PC project.

Also in FY 2008, we will expand the PACI-PC project to look at public charities that made a contribution to political action committees (PACs). We also will look at private foundations that contributed to a candidate for public office or a PAC, or made a payment to a ballot initiative committee. In addition, the ROO will follow-up on previously contacted or examined organizations to ensure that they are not involved in prohibited campaign intervention.

In response to an increase in section 501(c)(4) activity in this area, we will conduct an outreach effort to educate 501(c)(4)s and the public on the specific rules applicable to 501(c)(4) political activity, and address allegations of wrongdoing regarding those rules.

2. Executive Compensation

Executive Compensation has become an important component in a number of EO compliance initiatives. In FY 2008, we will:

- continue phase III of the Executive Compensation Compliance Project, which involves 200 compliance checks and 50 additional single issue examinations focusing on organizations with loans to officers, directors and trustees;
- continue executive compensation examinations initiated in the Hospital Compliance Project;
- conduct over 90 limited scope field examinations regarding the compensation practices of small and mid-size 501(c)(3) organizations; and
- review executive compensation paid by colleges and universities, through the responses received on compliance check questionnaires.

3. Community Foundations

Community foundations began as groups of small charitable trusts established at local banks or trust companies to benefit community residents through scholarship and other similar grantmaking programs. Over the last decade, there has been a significant increase in the number, size, and complexity of community foundations and their grantmaking and other operations.

In 2007, EO sent questionnaires to 3,700 purported community foundations to determine if they are complying with section 501(c)(3), to gather information on how community foundations operate and to learn about their relationships with other entities.

In FY 2008, we will evaluate the responses we receive to the questionnaires. We expect that, of this group, approximately 100 organizations will be selected for examination.

4. Gaming

Organizations that conduct gaming activities sometimes fail to report gaming winnings or withhold income tax, pay employment taxes, or report unrelated business income with the IRS. Many of these organizations are required to report this information with their state tax agencies.

In FY 2007, we secured and researched nine state databases to identify organizations that had filed with the state, but not with the IRS. Based on this information, we identified and opened examinations of 381 organizations that failed to file 572 Forms 990. The examinations uncovered numerous other delinquent filings, including Forms 990-T, 940, 941, 945, 730 and 11.

At the same time, our Data Analysis Unit (DAU) identified, through our risk modeling project, 50 other organizations that conduct gaming and have a high likelihood of non-compliance.

In FY 2008, we will expand the project to additional states and report the results of our findings.

5. Section 527 Organizations
Generally, political organizations are required to electronically file periodic reports on contributions and expenditures, Form 8872, unless they notify the IRS that they meet the requirements of a qualified state or local political organization (QSLPO). In FY 2008, we will complete our review of 300 compliance check letters mailed in FY 2007 to determine whether organizations that claim to be QSLPOs are making the claim properly. Organizations making questionable claims will be examined.

IV. Improving Customer Service: FY 2008 Plans

A. TE/GE Determination System (TEDS)

We are developing and implementing an electronic determinations case processing and tracking system, TEDS, to replace the EP/EO Determination System (EDS) we currently use to track paper files of applications for tax-exempt status. TEDS will give us the ability to store, assign, and eventually process application files in a totally online environment, making paper files a thing of the past.

In FY 2008, TEDS will pilot the scanning of incoming applications and paper case files to create electronic case files that are processed by technical screeners. We also will continue efforts begun last year to scan and store in TEDS closed case files as well, making it easy to search and retrieve these historic records electronically. The TEDS process will simplify the generation of determination letters and expedite the closing of cases.

B. Cyber Assistant

To help new organizations meet the requirements for obtaining and maintaining tax-exempt status and to assist them in completing their exemption application, we have developed "Cyber Assistant."

Cyber Assistant is a web-based tool that will guide an applicant through the application process while educating the applicant about the duties and responsibilities that go along with tax-exempt status. The program solicits information about the applicant and builds an exemption application based on the user's responses. The program also alerts the user to errors in the application and prompts the user to supply missing information. The final product is a complete exemption application that the user can print and mail to the IRS, along with printed barcodes that help us process the application in TEDS.

In FY 2008, we will test a pilot version of Cyber Assistant and work with interested developers to make Cyber Assistant available to the public.

C. Education and Outreach

We will continue to reach out to larger audiences and provide more information to the exempt organization community by:

- Expanding the scope of our StayExempt web-based training modules;
- Converting our educational phone forums to audio and visual podcasts available anytime from our website;
- Developing a new compliance guide for non-501(c)(3) organizations, patterned after the new Publications 4221-PC and PF;
- Creating a "Life Cycle" for section 527 political organizations; and
- Cultivating internal IRS partnerships with SB/SE, National Public Liaison, Taxpayer Advocate Service, and others to support our outreach and educational efforts.

We will devote significant resources to communicating the changes resulting from the redesigned Form 990 and to alerting small tax exempt organizations of the e-Postcard filing requirement.

D. Formal Guidance

To help tax-exempt organizations understand their tax law obligations, EO, Chief Counsel, and Treasury will develop and issue formal guidance on a variety of subjects during FY 2008, including:

- Proposed or final regulations pertaining to new requirements added by the Pension Protection Act of 2006 on:
  - supporting organizations;
  - new excise taxes on donor-advised funds; and
  - the e-Postcard notification requirement for organizations not required to file Form 990.
- Regulations to implement Form 990 revisions;

- Regulations governing qualified tuition programs under section 529;
- Final regulations on excise taxes on prohibited tax shelter transactions and related disclosure requirements;
- Final regulations under sections 501(c)(3) and 4958 on revocation standards for organizations that engage in excess benefit transactions; and
- Guidance relating to charitable trusts, including:
  - the ordering rules for charitable payments made by a charitable lead trust under section 642(c);
  - the division of charitable remainder trusts under section 664;
  - proposed regulations under section 664(c) concerning the effect of unrelated business income on charitable remainder trusts; and
  - providing sample inter vivos charitable lead unitrusts under section 2522.