

GAO

Fact Sheet for the Chairman,
Subcommittee on Oversight,
Committee on Ways and Means,
House of Representatives



January 1987

TAX ADMINISTRATION

Information on Lobbying and Political Activities of Tax- Exempt Organizations



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General Government Division

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January 16, 1987

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This document responds to your November 12, 1986, request for information on the lobbying and political activities of tax-exempt organizations. Specifically, you asked us to provide a brief description of relevant statutes which address political and lobbying activities by tax-exempt organizations; any readily available statistics on the number and type of tax-exempt organizations which engage in political and lobbying activities; and general information on the Internal Revenue Service's (IRS) program(s) designed to monitor lobbying and political activities of tax-exempt organizations.

To answer your request, we (1) obtained general background information on the types of tax-exempt organizations that, according to IRS program officials, have been found most likely to engage in lobbying and/or political activities; (2) identified and reviewed pertinent laws relating to lobbying and political activities of tax-exempt organizations; (3) obtained and analyzed available statistical data from IRS' Exempt Organizations/Business Master File and a current IRS Taxpayer Compliance Measurement Program survey which identified some information on the lobbying and political activities of tax-exempt organizations; and (4) discussed with IRS officials the programs which identify and monitor the lobbying and political activities of tax-exempt organizations. Our work was conducted during the period November through December 1986.

The information we obtained is presented in the appendixes, and some highlights follow.

-- Most tax-exempt organizations are exempt under section 501(c) of the Internal Revenue Code (IRC). This section contains 25 categories of tax-exempt organizations, including section 501(c)(3) charitable, educational, and religious organizations; 501(c)(4) social welfare

organizations; and 501(c)(5) labor unions. IRS statistics indicate that there are over 800,000 section 501(c) tax-exempt organizations, not including section 501(c)(3) religious organizations which did not apply for tax-exempt status. Other sections of the IRC provide exempt status for political organizations, various cooperatives, and other organizations. However, there are no readily available statistics on the number of organizations exempt under those code sections.

- In the Revenue Act of 1934 and in subsequent legislation, Congress amended the IRC to address the lobbying and political activities of tax-exempt organizations. Under current law, for example, section 501(c)(3) organizations are prohibited from engaging in political activities. Also, such public charities must limit their lobbying activities to an insubstantial portion of their total activities unless they make an election to be governed by specific dollar expenditure limitations pursuant to section 501(h). Churches, private foundations, and certain other organizations may not elect this expenditure test. In this regard, IRS has recently proposed regulations to clarify the section 501(h) election, and these proposed regulations were still out for comment at the time our work was completed. Further, an excise tax is placed on the lobbying activities of private foundations exempt under this same section. Other exempt organizations are subject to different, but generally less restrictive, rules relating to lobbying and political activities.

- According to IRS program officials, organizations found most likely to engage in lobbying and/or political activities are section 501(c) public charities, social welfare organizations, labor unions, business leagues, war veteran groups, and section 527 political organizations. Data on the nature and extent of lobbying and political activities by tax-exempt organizations are not available. However, limited data which are reported by section 501(c) tax-exempt organizations to IRS indicate that less than 1 percent of these organizations appear to be engaging in lobbying and/or political activities. The data indicate that most of the lobbying and/or political activities by section 501(c) organizations seem to be concentrated among section 501(c)(4) social welfare organizations, section


501(c)(5) labor unions, and section 501(c)(6) business leagues.

- IRS does not have a separate compliance program to monitor the lobbying and political activities of all tax-exempt organizations. The Office of the Assistant Commissioner (Employee Plans and Exempt Organizations) is responsible for monitoring these activities as part of its overall efforts to administer IRS programs pertaining to tax-exempt organizations. In this regard, the office, among other things, issues revenue rulings and provides overall guidance on lobbying and political activities, identifies and reviews lobbying and political activities as part of routine compliance examinations, and maintains limited statistical data on lobbying and political activities.

IRS program officials reviewed a draft of this document and suggested some clarification that we considered in preparing the final product. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the issue date. At that time, we will send copies to IRS and other interested parties upon request.

If you have questions about the information we obtained, please contact Gerald Stankosky on 566-6503.

Sincerely yours,


Jennie S. Stathis
Associate Director

C o n t e n t s

		<u>Page</u>
APPENDIXES		
I	Background information on tax-exempt organizations found most likely to engage in lobbying and political activities	6
II	Major legislation addressing lobbying and political activities	9
III	Available statistics on the lobbying and political activities of tax-exempt organizations	14
IV	IRS programs for monitoring the lobbying and political activities of tax-exempt organizations	21
TABLES		
I.1	Types of Tax-Exempt Organizations Most Likely to Engage in Lobbying and/or Political Activities	7
I.2	Number of Tax-Exempt Organizations in the Categories Most Likely to Engage in Lobbying and/or Political Activities as of October 31, 1986	8
II.1	Major Prohibitions on and Tax Consequences of Lobbying and Political Activity by Selected Tax-Exempt Organizations	12
III.1	Planned Lobbying and/or Political Activities Reported by Tax-Exempt Organizations on Their Applications for Exempt Status	16
III.2	Number of Exempt Organizations Reporting Primary Activity of a Legislative or Political Nature	17
III.3	Political Activities of Organizations in IRS' TCMP Survey	19

ABBREVIATIONS

IRS	Internal Revenue Service
IRC	Internal Revenue Code
EO/BMF	Exempt Organizations/Business Master File
TCMP	Taxpayer Compliance Measurement Program

BACKGROUND INFORMATION ON TAX-EXEMPT
ORGANIZATIONS FOUND MOST LIKELY TO ENGAGE
IN LOBBYING AND POLITICAL ACTIVITIES

Most tax-exempt organizations are exempt from federal income taxation under section 501(a) as organizations described in section 501(c) of the IRC. Section 501(c) contains 25 categories of tax-exempt organizations, including charitable, educational, and religious organizations; social welfare organizations; and labor unions. IRS statistics show that as of October 1986, there were over 800,000 section 501(c) tax-exempt organizations, not including section 501(c)(3) religious organizations which did not apply for tax-exempt status. Other sections of the IRC grant exempt status to political organizations, various cooperatives, and other organizations.

Lobbying and political activities have been defined for tax purposes. IRC section 4911(d) defines "lobbying" or "influencing legislation" as

"(A) any attempt to influence any legislation through an attempt to affect the opinions of the general public or any segment thereof, and (B) any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of the legislation."

Treasury regulation 1.501(c)(3)-1(c)(3)(iii) defines "political activity" as all direct or indirect participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office, including publication or distribution of written statements on behalf of or in opposition to such a candidate.

According to IRS program officials, the tax-exempt organizations which have been found most likely to engage in lobbying and/or political activity are section 501(c)(3) public charities, section 501(c)(4) social welfare organizations, section 501(c)(5) labor unions, section 501(c)(6) business leagues, section 501(c)(19) war veteran organizations, and section 527 political organizations. Table I.1 provides a general description of the organizations in these categories and

table I.2 provides data on the number of organizations included in these categories. However, IRS program officials said they do not have reliable data on the number of these organizations which actually participate in lobbying and/or political activities, the types of activities in which they participate, and the extent to which they participate. Appendix III provides some data on the types of organizations which appear to be engaging in such activities.

Table I.1:
TYPES OF TAX-EXEMPT ORGANIZATIONS
MOST LIKELY TO ENGAGE IN LOBBYING
AND/OR POLITICAL ACTIVITIES

<u>Organization category</u>	<u>Type of Tax-Exempt Organization</u>
Section 501(c)(3)	Entities organized and operated exclusively for religious, charitable, scientific, testing for public safety, literacy, or educational purposes, or for the prevention of cruelty to children or animals, or to foster amateur sports.
Section 501(c)(4)	Civic leagues or organizations operated exclusively for the promotion of social welfare and local associations of employees devoted to charitable, educational, or recreational purposes.
Section 501(c)(5)	Labor, agricultural, or horticultural organizations operated to provide education or instruction on improving working conditions and products.
Section 501(c)(6)	Business leagues, chambers of commerce, real estate boards, professional football leagues, etc., established to improve business conditions.
Section 501(c)(19)	Post or organization established to promote the welfare of past or present members of the Armed Forces.
Section 527	Political organizations established to accept contributions and make expenditures for a political candidate.

Table I.2:
NUMBER OF TAX-EXEMPT ORGANIZATIONS
IN CATEGORIES MOST LIKELY TO
ENGAGE IN LOBBYING AND/OR POLITICAL
ACTIVITIES AS OF OCTOBER 31, 1986^a

<u>IRC section</u>	<u>Number of organizations</u>	<u>Percent of total</u>
501(c)(3) ^b	371,395 ^c	44
501(c)(4)	126,664	15
501(c)(5)	71,679	9
501(c)(6)	54,654	6
501(c)(19)	24,310	3
All other 501(c) organizations	<u>193,264</u>	<u>23</u>
Total 501(c) organizations	<u>841,966</u>	<u>100</u>

Source: IRS Exempt Organization/Business Master File.

^aIRS does not have statistics on the number of section 527 political organizations.

^bExcludes religious organizations which did not apply for tax-exempt status.

^cAccording to an IRS program official, this figure includes about 37,000 private foundations.

MAJOR LEGISLATION ADDRESSING
LOBBYING AND POLITICAL ACTIVITIES

The IRC was silent, until 1934, on whether lobbying and political activities were permitted for tax-exempt organizations. Since then, the Congress has on several occasions addressed the lobbying and political activities of tax-exempt organizations. Under current law, for example, section 501(c)(3) organizations are prohibited from engaging in political activities. Also, such public charities must limit their lobbying activities to an insubstantial portion of their total activities unless they make an election to be governed by specific dollar expenditure limitations pursuant to section 501(h). Churches, private foundations, and certain other organizations may not elect this expenditure test. Further, an excise tax is placed on the lobbying activity of private foundations exempt under this same section. Other tax-exempt organizations are subject to different, but generally less restrictive, rules relating to lobbying and political activity.

According to IRS program officials, the prohibitions on, specific limits for, and major IRC clarifications pertaining to lobbying and political activities were enacted in six public laws. These public laws are (1) the Revenue Act of 1934, (2) the Internal Revenue Code of 1954, (3) the Revenue Act of 1962, (4) the Tax Reform Act of 1969, (5) Public Law 93-625, and (6) the Tax Reform Act of 1976. A summary of these laws follows.

Under the Revenue Act of 1934, Public Law 73-216, an organization is granted exempt status under section 501(c)(3) of the IRC only if "no substantial part of the activities of [the organization constitutes] carrying on propaganda or otherwise attempting, to influence legislation." Under this law and its successors, taxpayers can deduct only contributions made to 501(c)(3) organizations which adhere to this lobbying restriction.

The Internal Revenue Code of 1954, Public Law 83-591, prohibited political activity by section 501(c)(3) organizations. Political activity includes any intervention in any political campaign on the behalf of any candidate for public office.

Under the Revenue Act of 1962, Public Law 87-834, taxpayers can deduct certain membership dues paid to a tax-exempt organization as a business expense under section 162 of the IRC. Such dues must be attributable, however, to the organization's expenses for those lobbying activities of direct interest to the taxpayer.

The Tax Reform Act of 1969, Public Law 91-172, strengthened the prohibition of political activity by providing that taxpayers cannot deduct contributions made to section 501(c)(3) tax-exempt organizations which intervene in any political campaign on behalf of any candidate for public office. The act also places an excise tax on private foundations' lobbying and voter registration activities.

Under Public Law 93-625, enacted on January 3, 1975, tax-exempt status was granted to political organizations under section 527 of the IRC. In contrast, organizations exempt under subsections of section 501(c) that permit a certain level of political activities are taxed on expenditures made for such purposes by the exempt organization. Under the law, however, certain section 501(c) tax-exempt organizations are permitted to establish a separate segregated fund under section 527(f)(3). The purpose of this fund is to receive political contributions and make political expenditures. This fund is treated as a separate entity and is not taxed if expenditures are used for certain political purposes.

Prior to 1976, there was no specific statutory formula available to determine when lobbying activities by a section 501(c)(3) organization had reached the substantial level. Section 501(h), enacted as part of the Tax Reform Act of 1976, Public Law 94-455, was designed to alleviate uncertainty about when a 501(c)(3) organization's lobbying was significant enough to jeopardize exempt status. Section 501(h) is a safe harbor; it allows certain 501(c)(3) organizations to elect to be governed by fixed dollar guidelines with regard to lobbying expenditures. In this regard, IRS has recently proposed regulations to clarify the section 501(h) election, and these proposed regulations were still out for comment at the time our work was completed. Also, under the Tax Reform Act of 1976, section 501(c)(3) organizations which lose their exempt status because they engaged in substantial lobbying can not become section 501(c)(4) tax-exempt organizations.

Table II.1 outlines prohibited lobbying and political activities for the six types of tax-exempt organizations which, according to IRS program officials, are most likely to engage in these activities. The table also outlines some tax consequences of these activities on the organizations or their members. Restrictions for section 501(c)(3) public charities and private foundations are shown in separate columns. It should be noted, however, that there are many rules with respect to lobbying and political activities and the deductibility of contributions to organizations which engage in lobbying and political activities. However, they are too detailed to be addressed in this report.

Table II.1: MAJOR PROHIBITIONS ON AND TAX CONSEQUENCES OF LOBBYING AND POLITICAL ACTIVITY BY SELECTED TAX-EXEMPT ORGANIZATIONS

	Section 501(c)(3) public charities not electing section 501(h)	Section 501(c)(3) public charities electing section 501(h)	Section 501(c)(3) private foundations	Section 501(c)(4) social welfare organizations Section 501(c)(5) labor unions Section 501(c)(6) business leagues Section 501(c)(19) veterans groups Section 527 political organizations	
Prohibited Lobbying activities	Substantial lobbying is prohibited.	Lobbying beyond specific dollar amounts is prohibited.	Substantial lobbying is prohibited, and most lobbying related expenditures are heavily taxed. Willful repeated acts or a willful and flagrant act of lobbying could cause termination of the organization's private foundation status.	Lobbying is not prohibited and can be the primary means of achieving the exempt purpose.	Lobbying is permitted, but it cannot be the primary purpose of the organization.
Prohibited political activities	All direct or indirect participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office, including publication or distribution of written statements on behalf of or in opposition to such a candidate, is prohibited.	All direct or indirect participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office, including publication or distribution of written statements on behalf of or in opposition to such a candidate, is prohibited.	All direct or indirect participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office, including publication or distribution of written statements on behalf of or in opposition to such a candidate, is prohibited. All such acts are heavily taxed.	Political activity cannot be the organization's primary purpose. According to an IRS publication, this is also IRS' position with respect to section 501(c)(5) labor unions.	None.
	Unbiased voter registration activities are not considered to be political activities. Expenditures related to nonpartisan and wide ranging voter registration activities are not taxable. Expenditures related to other voter registration activities are taxable.				

Tax consequences	Contributions are deductible for donors unless funds are earmarked for lobbying.	Contributions are deductible for donors unless funds are earmarked for lobbying.	Contributions are deductible for donors unless funds are earmarked for lobbying.	Contributions are generally not deductible as charitable contributions. a/ Membership dues may be deductible as ordinary and necessary business expenses, except those used for political action or grassroots lobbying.	Business deductions are not allowed for any contributions to a political party, group, committee, or candidate.
<p>Substantial lobbying causes revocation of exempt status.</p> <p>There are no specific criteria for substantial lobbying. The facts and circumstances of each individual case determines if substantial lobbying is taking place.</p>	<p>Under the section 501(h) election, permitted lobbying expenditures are calculated on a sliding scale and are equal to 20 percent of the first \$500,000 of exempt purpose expenditures, plus 15 percent of the second \$500,000, plus 10 percent of the third \$500,000, plus 5 percent of any additional expenditures. The maximum nontaxable amount that can be spent on general lobbying is \$1 million. The tax rate on expenditures that exceed this ceiling is 25 percent.</p>	<p>A 10 percent excise tax is initially imposed on lobbying expenditures. If such expenditures are not corrected within the taxable period, a 100 percent excise tax is imposed on the lobbying expenditures.</p>	<p>Membership dues used for lobbying not germane to the exempt purpose are not deductible by members of section 501(c)(5) and (6) organizations.</p>	<p>Investment income is taxed at the highest corporate tax rate. If a principal campaign committee of a candidate for Congress is designated, investment income will be taxed at the regular corporate rate.</p>	
<p>Expenditures for nonpartisan analysis, and testimony at the request of a legislative body, are not taxable as lobbying expenditures.</p>	<p>Grass roots lobbying is limited to 25 percent of the lobbying nontaxable amount.</p>	<p>A 50 percent excise tax on lobbying expenditures can be imposed on foundation management if it refuses to agree to part or all of the correction.</p>	<p>Any amounts spent by these section 501(c) organizations for political purposes are taxed at the highest corporate rate.</p>		
<p>Exempt status will be revoked if excess expenditures continue over a 4-year period.</p>	<p>Expenditures for nonpartisan analysis, and testimony at the request of a legislative body, are not taxable as lobbying expenditures.</p>	<p>Expenditures for nonpartisan analysis, and testimony at the request of a legislative body, are not taxable as lobbying expenditures.</p>	<p>These section 501(c) organizations can establish separate segregated funds to receive political contributions and make political expenditures. Separate segregated funds are taxed in the same manner as section 527 political organizations.</p>		

Source: Internal Revenue Code and Regulations

a/ Complex rules govern the deductibility of contributions to some section 501(c) organizations. For example, taxpayers can deduct contributions made to section 501(c)(19) war veteran organizations even though no lobbying limitation has been placed on these organizations.

AVAILABLE STATISTICS ON THE
LOBBYING AND POLITICAL
ACTIVITIES OF TAX-EXEMPT ORGANIZATIONS

According to IRS program officials, the data needed to reliably quantify the extent and nature of lobbying and political activities are not available. Available data from IRS' Exempt Organizations/Business Master File (EO/BMF) and a current Taxpayer Compliance Measurement Program (TCMP)¹ survey indicate, however, that a small percentage of tax-exempt organizations appear to be engaging in these activities, and that these activities seem to be concentrated in a few types of organizations.

EO/BMF data on lobbying
and political activities

The Office of the Assistant Commissioner (Employee Plans and Exempt Organizations) maintains selected lobbying and political activity statistics in the EO/BMF. Data on some religious organizations are not included in the EO/BMF. From a list of 266 activities, organizations applying for tax-exempt status can indicate on their applications up to 3 activities in which they plan to engage. Six of the 266 activities relate to lobbying and/or political activities. These activities are (1) proposing, supporting, or opposing legislation; (2) providing voter information on issues or candidates; (3) providing voter education on the mechanics of registering and voting; (4) supporting, opposing, or rating political candidates; (5) providing facilities or services for political campaigns; and (6) engaging in other legislative or political activities.

The EO/BMF data as of June 30, 1986, indicate that 6,119 tax-exempt organizations reported plans to engage in lobbying activity in the form of proposing, supporting, or opposing legislation. Also, 1,384 organizations reported plans to engage

¹The TCMP is a survey conducted by IRS to (1) measure levels of compliance with tax laws and regulations and (2) provide IRS management with the information necessary to improve the efficiency and effectiveness of operations.

in voter education activities, and a number of organizations reported plans to engage in other political activities. Since organizations may report planned involvement in more than one of the lobbying and political activities listed, the data available do not indicate the exact number of tax-exempt organizations that are engaging in these activities. However, despite this limitation, EO/BMF data indicate that less than 1 percent of the tax-exempt organizations appear to be engaging in lobbying and/or political activity. Table III.1 shows the types of planned lobbying and political activities which tax-exempt organizations reported.

Table III.1:
PLANNED LOBBYING AND/OR POLITICAL ACTIVITIES
REPORTED BY TAX-EXEMPT ORGANIZATIONS ON
THEIR APPLICATIONS FOR EXEMPT STATUS^a

<u>Activity</u>	<u>Number of reporting organizations</u>
Propose, support, or oppose legislation	6,119
Voter information on issues or candidates	385
Voter education on registering and voting	1,384
Support, oppose, or rate political candidates	25
Provide facilities or services for political campaign activities	4
Other lobbying and political activities	239

Source: IRS Exempt Organizations/Business Master File as of June 30, 1986.

^aSome organizations may have reported plans to engage in more than one of the above activities.

The EO/BMF data indicate that some tax-exempt organizations reported plans to engage in lobbying and/or political activities as their primary activities. Table III.2 shows that 2,657 tax-exempt organizations reported lobbying and/or political activity as the primary activity of the organization. Most of these organizations are section 501(C)(4) and section 501(c)(5) organizations.

Table III.2:
NUMBER OF EXEMPT ORGANIZATIONS
REPORTING PRIMARY ACTIVITY OF
A LEGISLATIVE OR POLITICAL NATURE

<u>Activity</u>	<u>Number and Type of Exempt Organization</u>					<u>Total</u>
	<u>Section</u> <u>501(c)(3)</u>	<u>Section</u> <u>501(c)(4)</u>	<u>Section</u> <u>501(c)(5)</u>	<u>Section</u> <u>501(c)(6)</u>	<u>Other</u>	
Propose, support, or oppose legislation	33	947	725	194	35	1,934
Voter information on issues or candidates	43	108	2	3	0	156
Voter education on registering and voting	40	451	3	1	2	497
Support, oppose, or rate political candidates	0	1	0	0	0	1
Provide facilities or services for political campaign activities	0	1	0	0	1	2
Other legislative and political activities	<u>28</u>	<u>26</u>	<u>1</u>	<u>7</u>	<u>5</u>	<u>67</u>
Total	<u>144</u>	<u>1,534</u>	<u>731</u>	<u>205</u>	<u>43</u>	<u>2,657</u>

Source: IRS Exempt Organizations/Business Master File as of April 27, 1986.

EO/BMF data as of April 30, 1986, also show that 3,284 section 501(c)(3) public charities elected to have their lobbying expenditures considered under section 501(h) of the IRC. As shown in appendix II, table II.1, the section 501(h) election permits certain public charities to calculate their nontaxable lobbying expenditures on a sliding scale and allows nontaxable expenditures up to \$1 million for these activities.

The breakdown of the lobbying and political activities of tax-exempt organizations using EO/BMF data are subject to some errors, the extent of which are unknown. Exempt organization activities are reported by the organization at the time an organization applies for exemption. According to IRS program officials, tax return examinations have disclosed that tax-exempt organizations sometimes misunderstand IRS activity

classifications and may report plans to engage in an activity in which they do not become involved, or they may fail to report an activity in which they do become involved. Also, the organization may change its actual activities over time. EO/BMF data are rarely changed to reflect the organization's actual activities unless IRS finds during an examination that the data are erroneous.

TCMP data pertaining to
lobbying and political activities

IRS' current TCMP survey of tax-exempt organizations has attempted to capture selected information about the lobbying and political activities of organizations exempt from taxation under section 501(c)(3) through section 501(c)(8). Survey results are based on data from 17,502 organizations which filed the appropriate tax returns for tax years 1980 through 1983. Some tax-exempt organizations, such as religious organizations, private elementary and secondary schools, and organizations with income or assets over \$50 million, were excluded from the TCMP survey for a variety of reasons.

The TCMP survey obtained limited data on the lobbying activities of the selected tax-exempt organizations. The data indicate that of those organizations surveyed, most lobbying activities were concentrated among section 501(c)(5) and section 501(c)(6) organizations.

With respect to political activities, TCMP data indicate that a small percentage of the tax-exempt organizations surveyed engage in political activities. Since an organization could have been involved in more than one type of political activity, the exact number of organizations engaging in such activities could not be determined. As shown in table III.3, most of the political activities identified in the survey seem to be concentrated in section 501(c)(5) and section 501(c)(6) organizations. TCMP data also show that section 501(c)(5) and section 501(c)(6) organizations accounted for about 91 percent of the \$5.2 million expended for political activities by all the tax-exempt organizations surveyed.

Table III.3:
POLITICAL ACTIVITIES OF
ORGANIZATIONS IN IRS' TCMP SURVEY^a

	Number and type of organization								Total
	Section 501(c)(3) private	Section 501(c)(3) public	Section 501(c)(4)	Section 501(c)(5)	Section 501(c)(6)	Section 501(c)(7)	Section 501(c)(8)		
Total TCMP sample	2,307	3,240	2,072	2,613	2,623	2,585	2,062		17,502
<u>Political activity reported:</u>									
Non-exempt political activities ^b	1	2	2	153	22	1	1		182
Expended funds for political purposes	3	5	8	286	99	2	3		406
Maintained a separate segregated fund	1	2	7	180	158	0	0		348
Participated or intervened in a political campaign ^c	4	-	-	-	-	-	-		4

Source: IRS 1986 Taxpayer Compliance Measurement Program Survey.

^aSome organizations may be reported as engaging in more than one of the listed activities.

^bAn IRS official defined nonexempt political activity as political activity not germane to the organization's exempt purpose.

^cNumber reported on form 990-PF--Return of Private Foundation.

Table III.3 shows that the TCMP survey identified several section 501(c)(3) organizations which were engaged in political activity. As previously mentioned, section 501(c)(3) organizations are prohibited from engaging in the political activities listed in table III.3. Information concerning the disposition of these cases was not readily available. However, an IRS program official said that IRS is authorized to revoke the organization's exempt status when such prohibited activity is discovered.

IRS PROGRAMS FOR MONITORING
THE LOBBYING AND POLITICAL ACTIVITIES
OF TAX-EXEMPT ORGANIZATIONS

IRS does not have a separate compliance program to monitor the lobbying and political activities of all tax-exempt organizations. Within IRS, the overall responsibility for tax-exempt organizations, including monitoring of lobbying and political activities, rests with the Office of the Assistant Commissioner (Employee Plans and Exempt Organizations). This office issues revenue rulings and provides overall guidance in this area, reviews lobbying and political activities as part of routine compliance examinations, and maintains limited statistical information on lobbying and political activities.

The Exempt Organizations Technical Division of the Office of the Assistant Commissioner (Employee Plans and Exempt Organizations) is responsible for providing technical advice and guidance for the administration and operation of tax-exempt organization activities, including advice and guidance relating to lobbying and political activities. The Technical Division works with the Employee Plans and Exempt Organization Division in IRS' Office of the Chief Counsel to issue revenue rulings to clarify sections of the IRC pertaining to lobbying and political activities. This division also works with the Employee Plans and Exempt Organization Division in IRS' Chief Counsel's office, which writes General Counsel Memorandums providing legal opinions on substantive or procedural tax issues. To date, there are 37 revenue rulings and 79 General Counsel Memorandums pertaining to lobbying and political activities.

IRS program officials said that some revenue rulings are more important than others, as they clarify policy and are key to program administration. According to these program officials, two significant revenue rulings for lobbying activities are (1) Revenue Ruling 64-195, which allows the tax-exempt organization to perform nonpartisan studies pertaining to prospective legislation; and (2) Revenue Ruling 70-449, which allows tax-exempt organization testimony, if requested by a legislative committee. The four significant revenue rulings on political activities are Revenue Rulings 78-160, 78-248, 80-282, and 86-95. These four rulings define the criteria IRS uses to

determine whether an organization is participating in prohibited political activities.

As previously mentioned, lobbying and political activities of tax-exempt organizations are to be reviewed when IRS representatives perform routine examinations of the tax returns of tax-exempt organizations. In this regard, these representatives are most interested in (1) expenditures for lobbying activities for which an unallowable deduction may have been taken, (2) expenditures for voter education activities which may make the tax-exempt organization a political organization, (3) the filing of appropriate tax returns for taxable lobbying and/or political activities, and (4) greater than usual lobbying and political activities by tax-exempt organizations during an election year.

In fiscal year 1986, IRS processed 414,789 tax returns filed by tax-exempt organizations. IRS examined 20,084, or about 5 percent, of these returns and lobbying or political activity was the principal issue in 432, or about 2 percent, of the returns examined. As a result of these examinations, IRS revoked the exempt status of 25 organizations, modified the status of 24 organizations, and changed the tax liability of 11 organizations.

In addition to routine examinations, IRS reviews the income and expenditures of some tax-exempt organizations engaging in political activities. IRS screens selected forms 1120-POL--U.S. Income Tax Return for Certain Political Organizations--which are submitted to IRS to report taxable income. According to IRS officials, IRS screens the forms submitted by section 501(c) organizations and tax-exempt organizations which maintain a separate segregated fund under section 527(f)(3). In 1986, IRS screened about 700 of these forms for audit potential and examined 145 forms 1120-POL. Statistics similar to those cited in the paragraph above are not available on the results of these examinations.

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