



Treasury Inspector General for Tax Administration Office of Audit

A DOCUMENTED COMPREHENSIVE STRATEGY IS NEEDED TO FOCUS EFFORTS ON ENSURING COMPLIANCE BY TAX-EXEMPT NON-FILERS

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Highlights

Highlights of Report Number: 2009-10-056 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

Tax-exempt organizations are generally required to file an annual information return with the Internal Revenue Service. TIGTA believes steps could be taken to more fully identify and address tax-exempt non-filers. The filing of required tax-exempt organization returns in a timely manner is critical to increasing the ability of taxpayers to accurately view the operations of tax-exempt organizations and make contribution decisions.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the TIGTA Office of Audit Fiscal Year 2008 Annual Audit Plan. The overall objective of this review was to assess the Tax Exempt and Government Entities Division's efforts to effectively address Return of Organization Exempt From Income Tax (Form 990) filing compliance.

WHAT TIGTA FOUND

The Exempt Organizations function within the Tax Exempt and Government Entities Division has taken many actions to identify non-filers and obtain delinquent returns. However, TIGTA believes steps could be taken to more fully identify and address non-filers. Specifically, the Exempt Organizations function needs to develop and document a comprehensive non-filer strategy. This strategy could address several areas where TIGTA believes current and future efforts should be improved.

This could allow the Exempt Organizations function to: 1) evaluate and improve case selection criteria to ensure that cases with the best potential for affecting the non-filer population are selected; 2) allocate sufficient resources to work cases; 3) develop indicators specific to the non-filer inventory; and 4) measure the effectiveness of the non-filer strategy and make changes as needed.

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Exempt Organizations, Tax Exempt and Government Entities Division, develop a documented, comprehensive non-filer strategy with program goals and measures, as well as short-term action plans to implement the strategy. TIGTA also recommended that the Director, Exempt Organizations, determine how best to use Small Business/Self-Employed Division data on non-filer cases and evaluate its agreement with the Small Business/Self-Employed Division to ensure that it meets the Exempt Organizations function's needs.

The Commissioner, Tax Exempt and Government Entities Division, responded that Exempt Organizations function officials plan to evaluate the Memorandum of Understanding for collection services with the Small Business/Self-Employed Division and plan to consider whether changes to the Memorandum are needed.

The Commissioner, Tax Exempt and Government Entities Division, provided alternate corrective actions for TIGTA's recommendations to develop a documented, comprehensive non-filer strategy with program goals and measures, as well as short-term action plans to implement the strategy. The Exempt Organizations function plans to continue working with the agency-wide Non-filer Executive Advisory Council. The Tax Exempt and Government Entities Division also plans to review its non-filer initiatives and identify how they align with agency-wide non-filer strategic measures and work to develop projects for the future consistent with the overall agency-wide non-filer strategy.

In addition, the Commissioner, Tax Exempt and Government Entities Division, stated that it would be more effective to concentrate on educational activities than to immediately begin work on TIGTA's recommendation to determine how best to use Small Business/Self-Employed Division data.

While educational activities are important, TIGTA continues to believe the Exempt Organizations function should also concentrate on filing compliance by improving current non-filer efforts. For example, although the Exempt Organizations function is working with the Internal Revenue Service to develop a non-filer strategy, it did not agree to track and monitor against non-filer goals and measures or make a commitment to conduct analyses on current non-filer cases to determine reasons for non-filing, impact of delinquent return notices, and non-filer trends.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200910056fr.pdf>.

Phone Number: 202-622-6500