



Treasury Inspector General for Tax Administration

APPROPRIATE ACTIONS WERE TAKEN TO PREPARE FOR THE RECEIPT OF NEW FILING INFORMATION FROM SMALLER TAX-EXEMPT ORGANIZATIONS

Issued on December 21, 2007

Highlights

Highlights of Report Number: 2008-10-051 to the Internal Revenue Service Commissioner for Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (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. IRS 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.

WHY TIGTA DID THE AUDIT

Both TIGTA and outside stakeholders, such as the Panel on the Nonprofit Sector, have raised concerns regarding the accuracy and reliability of information the IRS maintains on exempt organizations.

On August 17, 2006, President Bush signed the Pension Protection Act of 2006 requiring tax-exempt organizations previously not required to file an annual information return because their gross receipts were \$25,000 or less, to electronically file specific identifying information to the IRS on an annual basis, 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. This change in the tax law will assist the Exempt Organizations

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function in identifying many tax-exempt organizations that have ceased operations.

This review was initiated due to the short time period between when the law was enacted and its effective date. TIGTA's objective was to assess the adequacy of 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.

WHAT TIGTA FOUND

The IRS identified approximately 650,000 tax-exempt organizations affected by Section 1223 of the Pension Protection Act and began informing them 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 began efforts to update notices, forms, and publications. Finally, the IRS began 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.

TIGTA identified some areas of improvement related to the letter used to inform organizations of the new filing requirement. In addition, TIGTA 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.

WHAT TIGTA RECOMMENDED

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

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200810051fr.pdf>.

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