



Treasury Inspector General for Tax Administration Office of Audit

APPROPRIATE ACTIONS WERE TAKEN TO IDENTIFY THOUSANDS OF ORGANIZATIONS WHOSE TAX-EXEMPT STATUS HAD BEEN AUTOMATICALLY REVOKED, BUT IMPROVEMENTS ARE NEEDED

Issued on March 30, 2012

Highlights

Highlights of Report Number: 2012-10-027 to the IRS Acting Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The Pension Protection Act of 2006 requires the IRS to maintain a list of organizations whose tax-exempt status had been automatically revoked for failing to file a return or notice for three consecutive years. The Exempt Organizations function educated tax-exempt organizations on the requirements of the Act and identified and informed organizations that their tax-exempt status had been automatically revoked. However, it did not identify all organizations that should have been informed about their revocations and did not clearly inform organizations on how to regain their tax-exempt status if they were still operating.

WHY TIGTA DID THE AUDIT

This review was requested by the IRS and addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to assess the Exempt Organizations function's readiness for and implementation of the provisions of the Pension Protection Act of 2006 related to the automatic revocation of an organization's tax-exempt status for not filing an annual return or notice for three consecutive years.

WHAT TIGTA FOUND

The IRS performed extensive outreach and took actions to prepare for automatic revocations and, on June 8, 2011, informed more than 279,500 organizations that their tax-exempt status had been automatically revoked. In most cases, the IRS appropriately identified organizations that did not file a return or notice for three consecutive years. However, TIGTA determined that programming changes were incomplete and did not potentially identify more than 15,000 organizations that failed to file for three consecutive years. As a result, these organizations were not informed that their

tax-exempt status had been automatically revoked. In addition, TIGTA identified that improvements were needed to 1) provide better guidance to organizations that had their tax-exempt status automatically revoked and 2) ensure accurate information is posted to the IRS's taxpayer database.

WHAT TIGTA RECOMMENDED

Throughout the review, TIGTA raised issues and the IRS took actions to address them. Specifically, programming issues were corrected to ensure identification of organizations that had their tax-exempt status automatically revoked, guidance provided on an IRS website was updated, and changes were made to an electronic filing website to reduce inaccurate address updates. In addition, TIGTA recommended 1) programming changes to more accurately identify organizations that did not file for three consecutive years, 2) more detailed guidance in the revocation notice, and 3) programming changes to ensure accurate information is posted on the accounts of tax-exempt organizations that have terminated operations.

In response to our report, IRS management agreed with our recommendations and has already taken corrective actions. Two work requests have been submitted to change the programming to more accurately identify organizations that did not file and to ensure accounts of tax-exempt organizations are accurate. In addition, a request to update the automatic revocation notice with additional guidance has been initiated.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201210027fr.pdf>

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