



Treasury Inspector General for Tax Administration Office of Audit

STATISTICAL PROFILE OF ALLEGED POLITICAL INTERVENTION BY TAX-EXEMPT ORGANIZATIONS IN THE 2004 ELECTION SEASON

Issued on May 12, 2009

Highlights

Highlights of Report Number: 2009-10-080 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The objective of the 2004 Political Activities Compliance Initiative (hereafter referred to as the Initiative) was to promote compliance with the prohibition against political campaign intervention by reviewing allegations and initiating examinations of political intervention by tax-exempt organizations on an expedited basis. As part of the 2004 Initiative, the Internal Revenue Service (IRS) has completed 107 of 110 examinations and issued letters to the majority of examined tax-exempt organizations warning them of the consequences of future prohibited political activity. However, closing letters sent to tax-exempt organizations did not always state whether the IRS determined the prohibition against political intervention had been violated, which can be confusing for tax-exempt organizations.

WHY TIGTA DID THE AUDIT

The overall objective of this review was to provide nationwide statistical information for the 2004 Initiative and determine how the Exempt Organizations function addressed political activity noncompliance. This audit was requested by the United States Senate Committee on Finance and was conducted as part of the TIGTA Fiscal Year 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Examinations most often were initiated after referrals were received from sources external to the IRS and were almost evenly distributed between churches and charities. The examinations mainly concerned tax-exempt organizations that had allegedly been involved in a single instance of potentially prohibited political intervention and involved issues/campaigns at the national level slightly more than at the State and local level. In addition, examinations involved a wide array of issues, such as distribution of printed and

electronic information, as well as verbal statements and direct political contributions.

The majority of the examinations resulted in closing letters issued by the IRS to the tax-exempt organizations, warning them of the consequences of future prohibited political activity. The IRS revoked the tax-exempt status of six organizations as a result of examining the organizations for political campaign intervention. We determined that the facts and circumstances of the cases that involved an organization whose tax-exempt status was revoked were clearly different from those of organizations that received only a warning.

However, TIGTA found that the IRS had overstated the number of examinations with substantiated prohibited political activity that it reported to stakeholders. TIGTA's review of the case files showed that the IRS incorrectly recorded the results of 14 examinations as violating the prohibition on political intervention when no violations had occurred, due to confusion over how to classify case results on the inventory system.

In addition to incorrectly reporting examination results, TIGTA identified 15 closing letters that did not appropriately state whether the IRS determined that the prohibition against political intervention had been violated, which can be confusing to tax-exempt organizations that spend resources on a lengthy examination. This occurred due to a lack of guidance to ensure that closing letters clearly state whether prohibited political activities occurred.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Exempt Organizations, create and issue guidance to ensure that 1) IRS examiners are guided on the use of the correct disposal code when political intervention is not substantiated and 2) closing letters to tax-exempt organizations clearly state whether a prohibited political activity violation was substantiated.

In response to the report, the IRS stated it had created and issued guidance, including sample closing letters, as part of its Initiative training materials. In addition, the Initiative Team Leader reviews all closing letters before they are issued to ensure they clearly state whether a prohibited political activity violation occurred. The Initiative Team Leader also provides the correct disposal code to be used by the examiner.

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/200910080fr.pdf>

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