



## Treasury Inspector General for Tax Administration Office of Audit

### IMPROVEMENTS HAVE BEEN MADE, BUT ADDITIONAL ACTIONS COULD ENSURE THAT SECTION 527 POLITICAL ORGANIZATIONS MORE FULLY DISCLOSE FINANCIAL INFORMATION

Issued on February 4, 2010

## Highlights

Highlights of Report Number: 2010-10-018 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

Section 527 tax-exempt political organizations that desire to be tax exempt must report their contributions and expenditures to the Internal Revenue Service (IRS) periodically. Although the Exempt Organizations (EO) function has taken action to identify noncompliant political organizations, TIGTA believes EO function management should focus on increased enforcement actions for noncompliant political organizations. With additional focus, the EO function will promote the full and accurate disclosure of political organizations' financial information, which will help the public gain an accurate understanding of political organizations' activities (e.g., tracking the flow of funds related to legislative issues and political campaigns).

### WHY TIGTA DID THE AUDIT

This review was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2009 Annual Audit Plan related to the major management challenge of Tax Compliance Initiatives. In a prior audit report of political organizations, TIGTA identified areas where the IRS could improve the timeliness and completeness of political organizations' public disclosure of financial information. The overall objective of this review was to determine whether the IRS had taken the corrective actions needed to develop an effective program to identify and address noncompliant Section 527 political organizations.

### WHAT TIGTA FOUND

The IRS has taken significant actions to improve its ability to identify political organizations that do not timely notify the IRS of their existence or timely submit reports of their contributions and expenditures. However, the IRS has not fully addressed noncompliance among political

organizations. For example, one out of every four Political Organization Report of Contributions and Expenditures (Form 8872) that TIGTA reviewed had incomplete or missing contributor or recipient information. TIGTA determined the IRS is not reviewing these filings to determine if they are complete or if penalties should be assessed. Also, the IRS is not always issuing notices at the appropriate time that include all information needed by political organizations to become compliant. Lastly, the IRS is not following up on information it has requested from political organizations to verify compliance.

After our prior Fiscal Year 2005 review was completed, the EO function focused its efforts on completing actions that would better enable it to identify noncompliant political organizations. These included establishing new electronic tax accounts to track the activity of political organizations filing Political Organization Notice of Section 527 Status (Form 8871) and Form 8872, issuing notices to inform political organizations of untimely and missing Forms 8871 and 8872, providing more detailed instructions to political organizations that improved the completeness of Form 8872 filings, and performing a compliance project focused on the filing compliance of Qualified State or Local Political Organizations.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, EO, Tax Exempt and Government Entities Division, 1) conduct periodic reviews to determine whether political organizations are submitting complete filings, 2) develop procedures for reviewing responses and following up on nonresponses to notices, including assessing additional tax or penalties as appropriate, 3) correct untimely and missing notices, and 4) revise forms and instructions to improve compliance.

In their response to the report, IRS officials stated that they generally agreed with our recommendations and plan to take appropriate corrective actions.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201010018fr.pdf>

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