



*Appropriate Actions Were Taken to Identify
Thousands of Organizations Whose
Tax-Exempt Status Had Been Automatically
Revoked, but Improvements Are Needed*

March 30, 2012

Reference Number: 2012-10-027

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information

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HIGHLIGHTS

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

Highlights

Final Report issued on March 30, 2012

Highlights of Reference 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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 30, 2012

MEMORANDUM FOR ACTING COMMISSIONER, TAX EXEMPT AND GOVERNMENT
ENTITIES DIVISION

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Appropriate Actions Were Taken to Identify
Thousands of Organizations Whose Tax-Exempt Status Had Been
Automatically Revoked, but Improvements Are Needed
(Audit # 201110014)

This report presents the results of our review of the Exempt Organizations function's readiness for and implementation of the provisions of the Pension Protection Act of 2006¹ related to the automatic revocation of an organization's tax-exempt status for not filing an annual return or notice for three consecutive years. This review was requested by the Internal Revenue Service, is included in our Fiscal Year 2012 Annual Audit Plan, and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

¹ Pub. L. No. 109-280, 120 Stat. 780.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

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Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Abbreviations

IRS

Internal Revenue Service

TE/GE

Tax Exempt and Government Entities



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

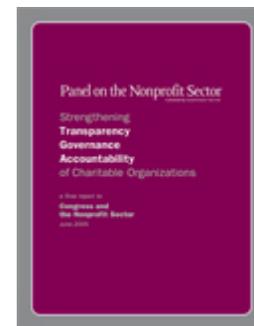
Background

In Fiscal Year 2006, the Internal Revenue Service (IRS) reported there were approximately 1.6 million tax-exempt organizations (excluding churches)¹ holding more than \$2.4 trillion in assets and collecting approximately \$1.2 trillion in annual revenues.² However, the total number of tax-exempt organizations was unknown because some organizations are not required to notify the IRS of their existence and terminated organizations did not always notify the IRS they were no longer in business. Although tax-exempt organizations are exempt from filing and paying income taxes, the larger organizations with gross receipts of more than \$25,000 were required to file annual information returns on their tax-exempt activities.

To assist the IRS in identifying tax-exempt organizations that were still active, the Panel on the Nonprofit Sector recommended Congress amend Federal tax laws to require smaller tax-exempt organizations excused from filing an annual information return with the IRS to file an annual notice containing basic contact and financial information. In addition, the Panel recommended the IRS be authorized to suspend the tax-exempt status of organizations that fail to file the required notification form for three consecutive years.

Some of the Panel's recommendations became law on August 17, 2006, when the Pension Protection Act of 2006³ was enacted. The Pension Protection Act contains significant changes to the laws that govern tax-exempt organizations. Section (§) 1223 mandates that tax-exempt organizations previously not required to file an annual information return because their gross receipts were under a certain amount⁴ are now required to file certain information electronically with the IRS. There are no

To assist the IRS in identifying active tax-exempt organizations, the Panel on the Nonprofit Sector recommended Congress amend Federal tax laws to require smaller tax-exempt organizations to file an annual notice and suspend the tax-exempt status of those organizations that do not file for three consecutive years.



¹ This includes organizations organized and operated exclusively for religious, charitable, scientific, educational, and other specified exempt purposes.

² *Speech Before the Taxation Section of the Bar of Michigan* (May 11, 2006) (remarks of Steven T. Miller, former Commissioner, Tax Exempt and Government Entities Division).

³ Pub. L. No. 109-280, 120 Stat. 780.

⁴ Prior to Tax Year 2010, tax-exempt organizations with gross receipts under \$25,000 were not required to file an information return. Beginning in Tax Year 2010, this amount was raised to \$50,000. A tax year is a 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due.



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monetary penalties for failing to comply with this statute. However, organizations that fail to provide this information or fail to file an annual information return for three consecutive tax years will have their tax-exempt status automatically revoked. The Act requires the IRS to publish and maintain a list of organizations whose tax-exempt status has been automatically revoked. The first three-year filing deadline that could trigger automatic revocation of tax-exempt status was May 17, 2010.

To maintain records for all tax-exempt organizations, the IRS uses a computer system known as the Business Master File (hereafter referred to as the taxpayer database).⁵ Information from this database is used to update the list of organizations whose tax-exempt status has been automatically revoked. Once an organization loses its tax-exempt status, its activities become taxable and it may be required to file a Federal income tax return (Form 1120, *U.S. Corporation Income Tax Return*, or Form 1041, *U.S. Income Tax Return for Estates and Trusts*).

After conducting an extensive outreach program to notify and assist tax-exempt organizations that were unaware of the tax law changes and the new filing requirements,⁶ the IRS announced, on July 26, 2010, a one-time relief program to bring small tax-exempt organizations back into compliance. This program extended the Tax Year 2009 filing deadline to October 15, 2010, for the smallest organizations, those eligible to file the Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ*.⁷ After this initial extension of time to file, the Tax Exempt and Government Entities (TE/GE) Division proceeded cautiously before informing organizations that their tax-exempt status had been automatically revoked.⁸

The revocation of an organization's tax-exempt status is effective on the filing due date of the third consecutive year in which an organization does not file. Once the IRS identifies organizations whose tax-exempt status has been automatically revoked, it adds them to its list of organizations who can no longer receive tax deductible contributions. Until the list is published, taxpayers may continue to make tax deductible contributions to these organizations. If an organization is still in operation and wishes to regain its tax-exempt status, it must apply to request its tax-exempt status be reinstated. This is true even if the organization was not originally required to file an application for tax exemption. An organization may request to have its date of reinstatement effective retroactive to the date of revocation.⁹ This request will be

⁵ The IRS database that stores various types of taxpayer account information. This database includes business and employee plans and exempt organizations.

⁶ Appendix V contains further details on the outreach efforts taken by the Tax Exempt and Government Entities Division.

⁷ A different relief program was also provided to filers of Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, with a deadline of October 15, 2010.

⁸ See Appendix VI for a timeline of events that led up to the initial notifications of automatic revocations on June 8, 2011.

⁹ Retroactive reinstatement can only be requested for revocations related to not filing for three consecutive years.



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granted only if the TE/GE Division determines that the organization had reasonable cause for not filing an annual return or notice for three consecutive years and approves the organization's tax-exempt application. However, under a special transitional relief program, the smallest organizations eligible to file an e-Postcard do not have to prove reasonable cause to receive retroactive reinstatement. Instead, they must certify that they were eligible to file an e-Postcard and did not have annual gross receipts of more than \$25,000 during the three-year period. Small organizations requesting this transitional relief must file their requests for retroactive reinstatement by December 31, 2012.

Throughout our review, we raised issues and the TE/GE Division took actions to address them. Actions taken by IRS management are noted throughout this report as *Management Actions*. This audit was conducted while the computer programming was still being updated. As a result, this report may not reflect the most current status of the automatic revocation process.

This review was performed at the TE/GE Division offices in Washington, D.C., and Ogden, Utah, during the period June through September 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Results of Review

On June 8, 2011, the IRS identified and informed more than 279,500 organizations that their tax-exempt status had been automatically revoked for not filing returns or notices with the IRS for three consecutive years. We found that, in most cases, the IRS appropriately identified organizations that did not file a return or notice for three consecutive years. However, we identified several areas where improvements were needed to 1) ensure that all organizations that did not file for three consecutive years were identified and informed of their automatic revocations, 2) improve guidance to organizations that had their tax-exempt status revoked, and 3) ensure accurate information is posted to the IRS's taxpayer database.

The TE/GE Division understood the major impact the Pension Protection Act of 2006 would have on tax-exempt organizations and performed extensive outreach to notify tax-exempt organizations of their new filing requirements. Computer programming changes were also implemented to systemically identify tax-exempt organizations whose tax-exempt status was automatically revoked. However, these programming changes were incomplete and did not potentially identify more than 15,000 organizations that failed to file for three consecutive years and potentially qualified for automatic revocation. As a result, these organizations were not informed that their tax-exempt status had been automatically revoked. In addition, the revocation notice used to inform organizations that their tax-exempt status had been automatically revoked did not include complete guidance on how organizations could regain their tax-exempt status if they wanted to reapply for tax exemption. Lastly, we identified about 500 tax-exempt organizations whose addresses were inaccurately updated on the IRS's taxpayer database and several organizations whose requirements to file were not removed after informing the IRS that they had ceased operations.

If some organizations that do not file for three consecutive years are not informed their tax-exempt status has been revoked and account information is not accurate, the Exempt Organizations function will be treating its customers inconsistently and not ensuring that the IRS's taxpayer database includes the most reliable data on the universe of active tax-exempt organizations. Furthermore, tax-exempt organizations that were automatically revoked may be confused about the process established for regaining their tax-exempt status due to the lack of detailed guidance included in the revocation notice mailed to them.



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Extensive Outreach Was Performed and Actions Were Taken to Prepare for Automatic Revocations, but About 25,000 Organizations Did Not Receive Reminders to File

The TE/GE Division prepared for the impact of the new filing requirements in the Pension Protection Act of 2006 by communicating new requirements to the tax-exempt community, educating its employees regarding the new law, issuing notices to tax-exempt organizations, and developing guidance for organizations whose tax-exempt status was revoked.

- **Communicating new requirements to the tax-exempt community** – Initial notices were issued in Calendar Year 2007 to hundreds of thousands of tax-exempt organizations informing them of the new filing requirements. We previously reviewed this initial effort and found that, overall, the IRS identified the tax-exempt organizations affected by the new law and initiated outreach efforts.¹⁰ Also in Calendar Year 2007, the TE/GE Division began issuing news releases, conducting training webcasts, issuing e-mails, and including information on its public website to educate the tax-exempt community. Third parties were also used to inform organizations about the new filing requirements. For example, information was included in a Social Security Administration newsletter, various State offices were informed and asked to help educate tax-exempt organizations, flyers and posters were developed for use in places like local libraries, and tax software companies were asked for their assistance in informing tax-exempt organizations of their new filing requirements.
- **Educating IRS employees regarding the new law** – Postings to the employee website and articles in the internal newsletter provided information on the new filing requirements. In addition, procedures were developed for implementing the changes for different offices affected within the TE/GE Division as well as other IRS functions, including the Small Business/Self-Employed and the Wage and Investment Divisions.
- **Issuing notices to tax-exempt organizations** – Many new notices were developed for issuance to tax-exempt organizations. Several new delinquency notices informed organizations if the IRS had not received a filing for a particular tax year and cautioned them about potential revocation if they did not file for three consecutive years. An automatic revocation notice was developed to inform tax-exempt organizations when their tax-exempt status was automatically revoked for failure to file a return or notice for three consecutive years.
- **Developing guidance for organizations whose tax-exempt status was revoked** – The Exempt Organizations function, in conjunction with Chief Counsel and the Department

¹⁰ Treasury Inspector General for Tax Administration, Ref. No. 2008-10-051, *Appropriate Actions Were Taken to Prepare for the Receipt of New Filing Information From Smaller Tax-Exempt Organizations* (Dec. 2007).



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of the Treasury, developed detailed guidance for tax-exempt organizations wanting to apply for tax-exempt status after being automatically revoked. This included specific guidance for organizations wanting to request retroactive reinstatement.

All of these actions helped prepare the tax-exempt community and the IRS for the new process of identifying and informing organizations that their tax-exempt status had been automatically revoked.

Almost 25,000 tax-exempt organizations may not have received reminders to file prior to revocation

Although the TE/GE Division developed new delinquency notices to remind tax-exempt organizations to file or risk revocation, not all organizations that failed to file a return or notice for a particular tax year received one. The IRS assigns filing requirements to each taxpayer's account so it can identify which returns should be filed each year by the taxpayer. A computer program produces delinquency notices by identifying tax-exempt organizations that have filing requirements on their accounts but have not filed a return or notice. However, some tax-exempt organizations did not have filing requirements on their accounts because they were not required to file a return prior to the Pension Protection Act of 2006. If these tax-exempt organizations did not file a return or notice, they would not receive a delinquency notice due to the lack of filing requirements on their accounts. About 3,700 of 24,450 tax-exempt organizations that did not receive delinquency notices due to the lack of filing requirements had their tax-exempt status revoked because they did not file a return or notice for three consecutive years.¹¹

Some tax-exempt organizations did not receive warnings to file prior to having their tax-exempt status revoked.



In addition, as part of the one-time relief program offered in July 2010, the IRS published an At-Risk Listing on its website of tax-exempt organizations that had not filed a return or notice for Tax Years 2007 and 2008, and their Tax Year 2009 return or notice was due on or after May 17 through October 15, 2010. These organizations were at risk of losing their tax-exempt status. However, this list did not include all tax-exempt organizations that were eventually included in the automatic revocation process. This occurred because the criteria used to develop the At-Risk Listing was different than the criteria that was later used to identify tax-exempt organizations that were automatically revoked. More than 9,580 of the approximately

¹¹ Although these tax-exempt organizations may not have received delinquency notices throughout the three-year period, they were included in the issuance of the notice in Calendar Year 2007 informing them of the law change, the new filing requirements, and the risk of revocation.



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24,450 tax-exempt organizations that did not receive a delinquency notice also may have been excluded from the At-Risk Listing.¹²

The lack of filing requirements which prevented the issuance of delinquency notices was corrected, so this situation should not occur in the future. In addition, the At-Risk Listing was a one-time publication. Therefore, we are not making any recommendations to correct these issues.

Generally, the Tax-Exempt Status of Organizations Was Appropriately Identified as Revoked, but Computer Programming Flaws Were Found

The TE/GE Division correctly identified thousands of organizations whose tax-exempt status was automatically revoked. More than 279,500 tax-exempt organizations were informed in June 2011 that they lost their tax-exempt status when the first automatic revocation notices were issued. However, some organizations were not identified as automatically revoked due to computer programming flaws. By not identifying all organizations that have been automatically revoked and publishing a complete list, the TE/GE Division is not fully complying with the requirements of the Pension Protection Act of 2006 and is treating its customers inconsistently.

Thousands of tax-exempt organizations were appropriately identified and informed that their tax-exempt status was automatically revoked

Generally, the TE/GE Division appropriately identified organizations that did not file a return or notice for three consecutive years. We reviewed two random samples of 100 cases each from different sources and did not find any instances where the IRS inappropriately identified the tax-exempt status as automatically revoked.

- Our first sample was composed of organizations included on the June 2011 revocation list. This list included all the organizations that had their tax-exempt status initially revoked. We verified that all 100 organizations met the criteria for revocation and were appropriately identified as such.
- Our second sample was from a download of data from the taxpayer database of organizations that had their tax-exempt status automatically revoked. We verified that 100 organizations listed as automatically revoked on the taxpayer database were appropriately included on the June 2011 revocation list published on the IRS website.

Although these tax-exempt organizations were identified appropriately as having their tax-exempt status automatically revoked, some organizations were excluded due to programming flaws.

¹² Some of the organizations that did not receive a delinquency notice may have filed a return or notice. If so, these organizations should not have been included on the At-Risk Listing.



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during our audit. These organizations are now being properly identified and informed that their tax-exempt status has been automatically revoked, if required.

- **Some organizations were excluded from programming.** Black Lung Trusts are tax-exempt organizations required by the Pension Protection Act of 2006 to have their tax-exempt status revoked if they fail to file a return or notice for three consecutive years. However, the computer programming used to identify organizations whose tax-exempt status had been automatically revoked did not include a check for Black Lung Trust filings.

We identified 30 Black Lung Trust organizations on the taxpayer database. Further research by an IRS employee determined that 25 of these organizations had not filed a return or notice in the last three consecutive years and should have been identified.¹⁴

The IRS has several different taxpayer databases that store return filing information. The computer program designed to identify organizations whose tax-exempt status has been automatically revoked checks only one of these databases. However, Black Lung Trust filings are included on a different database and, as a result, were excluded from the automatic revocation programming. Exempt Organizations function management stated that a decision was made upfront to focus immediately on the large volume of tax-exempt organizations included on the primary database first and, upon perfecting that programming, will seek a request to include Black Lung Trust filings in future programming updates.

- **The TE/GE Division determined that some organizations received erroneous notices that their tax-exempt status had been automatically revoked.** The initial revocation programming checked for tax-exempt organizations that did not file a return or notice for Tax Years 2007, 2008, and 2009. However, some newer organizations that were not established until Calendar Year 2008 were being erroneously informed that their tax-exempt status was automatically revoked even though they were not in existence or not required to file a return or notice for Tax Year 2007. As a result, the three-year period had not yet elapsed, and these organizations retained their tax-exempt status.

Management Actions: The IRS corrected these organizations' accounts on the taxpayer database to reflect that the organizations were still tax-exempt and the organizations received a second notice informing them that they received the initial revocation notices in error. The TE/GE Division identified more than 2,270 tax-exempt organizations that were erroneously informed about the automatic revocations. The programming was corrected to prevent this from happening in the future.

¹⁴ See Appendix IV for further details.



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Recommendation

Recommendation 1: The Director, Exempt Organizations, should develop and submit a work request to move the posting of the Black Lung Trust returns to the database being reviewed for organizations whose tax-exempt status has been automatically revoked. Once the returns are moved, the automatic revocation programming should be updated to include a check for Black Lung Trust organizations.

Management's Response: IRS management agreed with the recommendation and has submitted a work request to move the postings of the Black Lung Trust returns to the database being reviewed for organizations whose tax-exempt status has been automatically revoked.

Guidance Provided to Tax-Exempt Organizations Could Be Improved

The Exempt Organizations function developed a new automatic revocation notice for tax-exempt organizations that have had their tax-exempt status automatically revoked for failing to file a return or notice for three consecutive years. The notice informs the organizations that their tax-exempt status was automatically revoked, they are now a taxable entity, and they can reapply for tax-exempt status. However, the automatic revocation notice does not provide any guidance for those organizations that believe they were automatically revoked in error or are looking for detailed guidance on how to reapply for retroactive reinstatement. Incomplete guidance can lead to taxpayer confusion and, if the organization does not provide all required information for reapplying for tax-exempt status, could delay the organization from being reinstated as a tax-exempt entity.

In June 2011, the IRS mailed automatic revocation notices to more than 279,500 tax-exempt organizations whose tax-exempt status was automatically revoked.¹⁵ At the same time, the IRS also released several guidance documents on its website for those organizations that had their tax-exempt status automatically revoked:

- **Notice 2011-43** – Transitional Relief Under Internal Revenue Code § 6033(j) for Small Organizations.
- **Notice 2011-44** – Application for Reinstatement and Retroactive Reinstatement for Reasonable Cause Under Internal Revenue Code § 6033(j).
- **Revenue Procedure 2011-36** – Rulings and Determination Letters.

¹⁵ See Appendix IV for further details.



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However, the notice mailed to organizations whose tax-exempt status was automatically revoked does not refer the recipients to the above website guidance for additional information. Instead, the automatic revocation notice refers readers to a particular IRS web page for further guidance on what to do if the organizations want to reapply for tax-exempt status. The web page referred to in the automatic revocation notice did not mention this additional guidance either. In addition, both the notice and the web page did not mention what tax-exempt organizations should do if they believe their tax-exempt status was automatically revoked in error.

Exempt Organizations function management stated this occurred because IRS notices have to be developed months prior to their intended use date to ensure enough time for the programmers to develop them. The automatic revocation notice was developed prior to the approval of the guidance for reapplying for tax-exempt status and retroactive reinstatement. As a result, the guidance was not available at the time the notice was developed to include a reference to it in the notice.

The automatic revocation notice did not include detailed guidance on how to request retroactive reinstatement of tax-exempt status.



Many small organizations are staffed with volunteers who are not tax experts, so the notices need to be clear and easy to follow. Tax-exempt organizations that believe their automatic revocations were in error may not know what to do to resolve the issue and may call the IRS for guidance. In addition, organizations that do not follow the guidance may experience delays in the processing of their reapplication for tax-exempt status.

Management Actions: The IRS web page referred to in the automatic revocation notice has been updated with guidance on what to do if the tax-exempt organization believes its tax-exempt status was automatically revoked in error. In addition, links to the retroactive reinstatement guidance have also been added to the IRS web page referred to in the automatic revocation notice. Both actions were taken during our audit.

The IRS also posted a Fact Sheet to its website entitled *Automatic Revocation of Tax-Exempt Status*. It outlines the effects of losing tax-exempt status and the process to follow when requesting retroactive reinstatement. However, the Fact Sheet had the incorrect deadline for requesting retroactive reinstatement for small organizations. This may cause confusion for those organizations wanting to file for retroactive reinstatement.

Notice 2011-43 includes a deadline of December 31, 2012, for retroactive reinstatement. The Fact Sheet initially included a deadline of December 31, 2011. This could prevent some organizations from applying for retroactive reinstatement because they thought they missed the deadline. This error was caused by an oversight on the part of the preparer of the Fact Sheet.



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Management Actions: The Exempt Organizations function corrected the Fact Sheet on the same day we notified it about the error.

Recommendation

Recommendation 2: Since automatic revocation notices will continue to be sent to organizations that do not file for three consecutive years, the Director, Exempt Organizations, should ensure the automatic revocation notice is updated with references to both the guidance for tax-exempt organizations that believe their tax-exempt status was revoked in error and the guidance for applying for retroactive reinstatement.

Management's Response: IRS management partly agreed with the recommendation. In its response, the IRS states that the guidance items we requested be referred to in the automatic revocation notice (Notice 2011-43 and Notice 2011-44) are transitory guidance items. The IRS does not believe that it would be appropriate to reference them in the automatic revocation notice without the ability to update it more frequently than programming deadlines allow. However, the automatic revocation notice will be updated with a phone number to call if an organization believes it received the notice in error.

Office of Audit Comment: We agree with the partial implementation of the recommendation. Notice 2011-43 will be obsolete on December 31, 2012, before changes can be made to the automatic revocation notice. Also, Exempt Organizations function management informed us that changes to the retroactive reinstatement guidance can occur at any time, which would make Notice 2011-44 obsolete and could cause taxpayer confusion.

Some Tax-Exempt Organization Accounts Contain Inaccurate Information

Addresses of some tax-exempt organizations from their e-Postcard filings are being inaccurately updated to their IRS computer accounts. In addition, filing requirements on some accounts are not being removed after tax-exempt organizations have terminated operations. As a result, the taxpayer database does not include accurate information that can be used by the IRS for future contacts with the organizations.

Inaccurate address information from e-Postcards is being updated to the IRS's taxpayer database

IRS computer accounts are being updated with inaccurate address information from tax-exempt organization e-Postcard filings. As a result, the IRS may be unable to contact a tax-exempt organization when necessary.



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The Pension Protection Act of 2006 requires organizations to file their e-Postcards electronically with the IRS. The IRS contracted with an outside organization to develop and maintain a website for tax-exempt organizations to electronically file their e-Postcards. The e-Postcard includes two fields for the tax-exempt organization to use for providing its mailing address. The information from the first mailing address field is updated to the tax-exempt organization's IRS account if it is different than the existing address on the account. The second address field is not used by the IRS.

Our analysis of the e-Postcard filings database¹⁶ identified 495 filings¹⁷ where only numerals were input to the first mailing address field of the e-Postcard. Many of these organizations input the numeral of their address in the first mailing address field and the street name in the second mailing address field. For example, a "12" would be input in the first mailing address field and "Smith Street" would be input in the second mailing address field. Only the "12" from the first address field is updated to the IRS's account as the tax-exempt organization's mailing address. This numeral-only update results in incomplete address information on the taxpayer database.

Inaccurate address information is being uploaded to the IRS's taxpayer database.



Inaccurate address information increases the likelihood of the IRS being unable to contact a tax-exempt organization when necessary and could result in an increase in undeliverable mail for the IRS, wasting limited resources.

Management Actions: During our audit, the Exempt Organizations function instructed the outside contractor to remove the second mailing address field from the e-Postcard filing website to prevent organizations from splitting their addresses and causing inaccurate updates to their IRS accounts. The contractor confirmed that the second address field had been removed.

Inaccurate filing requirements on tax-exempt organization accounts have resulted from the automatic revocation process

The accounts of some organizations whose tax-exempt status was automatically revoked include inaccurate return filing requirements. This could result in the IRS attempting to obtain tax returns in the future from organizations that are not required to file.

¹⁶ As of May 24, 2011.

¹⁷ See Appendix IV for further details.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

When the tax-exempt status of an organization is automatically revoked for not filing a return or notice for three consecutive years, the organization's computer account is updated to show it is now a taxable organization instead of a tax-exempt organization. In at least 13 cases,¹⁸ the computer account was later updated to indicate that the organization had terminated operations and no longer exists. However, the taxable filing requirements were not removed when the organization terminated operations. As a result, the IRS's taxpayer database still indicates the organization is required to file a return even when it is no longer in existence. Since the accounts still have filing requirements, the IRS will try and obtain the returns from the organizations that have terminated operations. This results in wasted resources for the IRS.

Inaccurate filing requirements may cause the IRS to waste resources on trying to obtain returns from terminated organizations.



The Exempt Organizations function determined that some organizations are filing a "final" return after their tax-exempt status has been automatically revoked. This means that the organization files a tax-exempt information return with the IRS and checks the box indicating that this is the last return for the organization. A "final" return causes the computer account to be updated to terminated status systemically. However, a change to terminated status does not remove all existing filing requirements.

Recommendation

Recommendation 3: The Director, Exempt Organizations, should develop and submit a work request to remove filing requirements on former tax-exempt organization accounts that have been updated from revoked to terminated status.

Management's Response: IRS management agreed with our recommendation and provided an alternate corrective action. The Director, Exempt Organizations, submitted a work request to not allow the account of an organization that has been automatically revoked to be further updated to show that it has been terminated.

Office of Audit Comment: We discussed the alternate corrective action with Exempt Organizations function management. Once an organization's tax-exempt status has been automatically revoked, it cannot file an additional return as a tax-exempt organization, even if it indicates termination of operations. The taxable filing requirements updated to the organization's account cannot be removed due to a tax-exempt return filed after

¹⁸ See Appendix IV for further details.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

automatic revocation. Since a tax-exempt return should not be filed by an organization after its tax-exempt status is automatically revoked, we agree with the alternate corrective action. However, we suggest that the Exempt Organizations function work with the Small Business/Self-Employed Division to develop guidance for organizations that have been revoked but want to inform the IRS that they have terminated operations and may no longer need filing requirements on their tax accounts.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the Exempt Organizations function's readiness for and implementation of the provisions of the Pension Protection Act of 2006¹ related to the automatic revocation of an organization's tax-exempt status for not filing an annual return or notice for three consecutive years. We used computer-processed data to select some of our samples and verified the data by performing validity checks to ensure the data were accurate. To accomplish our objective, we:

- I. Determined whether the Exempt Organizations function adequately prepared for the automatic revocation of the tax-exempt status of organizations that did not file an annual return or notice for three consecutive years.
 - A. Interviewed Exempt Organizations function and Business Systems Planning personnel and determined actions taken to prepare for the automatic revocations and how the revocations may affect other operating divisions/functional offices.
 - B. Obtained and reviewed documentation for programming changes related to the automatic revocations and ensured all necessary actions were taken, including updates to organizations' accounts to indicate revocation of tax-exempt status and issuance of notices to inform organizations of the revocations.
- II. Determined whether the Exempt Organizations function accurately identified tax-exempt organizations that did not file for three consecutive years, updated their accounts on IRS computer systems, and notified them of their revocations.
 - A. Obtained a Master File² extract of tax-exempt organizations with a Form 990 series³ filing requirement and determined whether they filed any returns or notices for Tax Years 2007, 2008, or 2009 and, if not, whether accounts were updated and revocation notices issued.
 1. Selected a random sample⁴ of 100 tax-exempt organizations from a universe of 1,263,758 organizations from our Master File extract to ensure programming changes identified in Step I.B. were properly implemented and were working as intended. We used a random sample to ensure each account had an equal chance

¹ Pub. L. No. 109-280, 120 Stat. 780.

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

³ Form 990 series includes returns filed by tax-exempt organizations.

⁴ We did not use a statistical sample because we did not plan to project the results.



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of being selected, which enabled us to obtain sufficient evidence to support our results.

2. Determined whether the tax-exempt organizations filed a return or notice during the last three consecutive years. If not, we verified that the Master File accounts had been updated to revoked status and revocation notices had been issued. This was completed, in part, to validate the Master File accounts.
- B. Obtained a list from the Exempt Organizations function of tax-exempt organizations that had their tax-exempt status automatically revoked and verified that the revocations were appropriate.
1. Selected a random sample⁵ of 100 tax-exempt organizations from a universe of 279,593 organizations on the list to verify their filing histories and determine if the revocation was appropriate. We used a random sample to ensure each account had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results.
 2. Verified that the tax-exempt organizations had filing requirements and did not file returns or notices for three consecutive years.
 3. Verified that the tax-exempt status of organizations that did not file for three consecutive years had been revoked, the filing requirements had been updated, and revocation notices had been issued.
- C. Obtained a Master File extract of tax-exempt organizations that had their tax-exempt status revoked and determined whether the revocations were appropriate.
1. Selected a random sample⁶ of 100 tax-exempt organizations from a universe of 279,529 organizations that had their tax-exempt status revoked to ensure they were on the list of organizations obtained in Step II.B. that should have been revoked.⁷ We used a random sample to ensure each account had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results.
 2. Verified that tax-exempt organizations that had their tax-exempt status revoked are on the list of organizations that should have been revoked. This was completed, in part, to validate the revocation list and the Master File accounts.

⁵ We did not use a statistical sample because we did not plan to project the results.

⁶ We did not use a statistical sample because we did not plan to project the results.

⁷ This universe is slightly lower than the Exempt Organizations function list in Step II.B. because it covers a different timeframe.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: TE/GE Division policies, procedures, and practices for planning, managing, and identifying tax-exempt organizations that did not file a return or notice for three consecutive years. We evaluated these controls by interviewing personnel, reviewing programming documentation, and reviewing random samples of organizations whose tax-exempt status was automatically revoked.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Deputy Commissioner for Services and Enforcement SE
Acting Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Director, Exempt Organizations, Tax Exempt and Government Entities Division SE:T:EO
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 15,701 taxpayer accounts (see page 7).

Methodology Used to Measure the Reported Benefit:

Tax-exempt organizations with certain coding on their IRS computer accounts were excluded from being identified as having their tax-exempt status automatically revoked. During our case reviews, *****1*****. Further research found several other organizations that were not correctly identified. TE/GE Division Business System Planning personnel worked with the programmer and found the sequencing of the checks for tax-exempt organizations was bypassing some organizations whose tax-exempt status had been automatically revoked. After the programming was corrected, 15,701 tax-exempt organizations with the same coding were identified and informed their tax-exempt status had been automatically revoked.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 25 taxpayer accounts (see page 7).

Methodology Used to Measure the Reported Benefit:

Black Lung Trust tax-exempt organizations were excluded from the automatic revocation process. Analysis of the taxpayer database identified 30 Black Lung Trusts in the IRS's records. However, Black Lung Trust returns are posted to a different database than most tax-exempt organizations. Further research completed by an IRS employee of this second database found that 25 of the 30 Black Lung Trusts had not filed a return or notice for three consecutive years and should have been identified and informed their tax-exempt status had been automatically revoked.



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Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 279,593 taxpayers (see page 10).

Methodology Used to Measure the Reported Benefit:

The TE/GE Division issued 279,593 automatic revocation notices on June 8, 2011. On the same day, several guidance documents for those organizations that wanted to apply for retroactive reinstatement of their tax-exempt status were also made available on the IRS's public website. However, neither the revocation notice nor the website referred to in the notice directed the organizations to the retroactive reinstatement guidance. Many small organizations are staffed with volunteers who are not tax experts, so the notices need to be clear and easy to follow. Tax-exempt organizations that believe their revocations were in error may not know what to do to resolve the issue and may call the IRS for guidance. In addition, organizations that do not follow the guidance may experience delays in the processing of their applications for tax-exempt status.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 495 taxpayer accounts (see page 12).

Methodology Used to Measure the Reported Benefit:

The Pension Protection Act of 2006¹ requires small tax-exempt organizations to file a notice with the IRS electronically. The filings include two fields for the mailing address of the tax-exempt organization. However, only the first address field is updated to the taxpayer's account on the IRS's Master File² database. Our analysis of the e-Postcard database³ identified 495 filings where only numerals were input to the first mailing address field of the e-Postcard. Many of these organizations input the numeral of their address in the first mailing address field and the street name in the second mailing address field. For example, a "12" would be input in the first mailing address field and "Smith Street" would be input in the second mailing address field. Only the "12" from the first address field is updated to the IRS's account as the tax-exempt organization's mailing address. This numeral-only update results in incomplete address information in the IRS's computer accounts. Inaccurate address information increases the likelihood of the IRS being unable to contact a taxpayer when necessary and could result in an increase in undeliverable mail for the IRS, wasting limited resources.

¹ Pub. L. No. 109-280, 120 Stat. 780.

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

³ As of May 24, 2011.



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Type and Value of Outcome Measure:

- Reliability of Information – Actual; 13 taxpayer accounts (see page 12).

Methodology Used to Measure the Reported Benefit:

When the tax-exempt status of an organization is automatically revoked for not filing a return or notice for three consecutive years, the organization's computer account is updated to show it is now a taxable organization instead of a tax-exempt organization. In at least 13 cases, the computer account was later updated to indicate that the organization had terminated operations and no longer exists. However, the taxable filing requirements were not removed when the organization terminated operations. As a result, the IRS's taxpayer database still indicates the organization is required to file a return even when it is no longer in existence. Since the accounts still have filing requirements, the IRS will try and obtain the returns from the organizations that have terminated operations. This results in wasted resources for the IRS.



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Appendix V

Outreach Efforts to Educate Tax-Exempt Organizations on Their New Filing Requirements

The IRS conducted extensive outreach to educate the tax-exempt community about the new filing requirements in the Pension Protection Act of 2006.¹ The chart below provides a sample of the efforts the IRS took to publicize the new filing requirements since the law was enacted on August 17, 2006.

Date	Communication Vehicle	Details
March 2007	Tax Talk Today Webcast	Training on the Pension Protection Act of 2006, including new filing requirements.
April 2007	EO ² Update (e-mail)	E-mail to subscribers of communications about the Exempt Organizations function announcing new filing requirements.
April 2007	Social Security Administration/ IRS Reporter	Newsletter that announced new filing requirements.
April 2007	IRS Public Website	Provided information and updates about the Pension Protection Act of 2006, including Frequently Asked Questions.
May 2007	Software Developers Conference	Provided information on new filing requirements.
June 2007	State Charity Regulators, Attorney Generals	Discussed new filing requirements and how they could help communicate the requirements.
June 2007	Taxpayer Advocate Service	The Exempt Organizations function asked for help from the Taxpayer Advocate Service in promoting e-Postcard filing.
July 2007	IRS News Release	Announced new filing requirements. ³
July 2007	Information Notice	Issued notices to tax-exempt organizations advising them of their new filing requirements.

¹ Pub. L. No. 109-280, 120 Stat. 780.

² Exempt Organizations.

³ The media can use IRS news releases to write articles or publicize the IRS news release, which helps inform tax-exempt organizations of changes in the tax-exempt law.



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Date	Communication Vehicle	Details
July 2007	IRS Tax Forums	Information on new filing requirements was discussed at workshop and seminar.
July 2007	State Offices	Provided information to share with tax-exempt organizations.
August 2007	IRS Marketing Council	Developed radio spot to inform the tax-exempt community about new filing requirements.
October 2007	Small and Mid-Size Exempt Organization Workshops	New filing requirements were discussed in training.
October 2007	State/County/City Associations	Provided information to share with tax-exempt organizations.
January 2008	National Tax Forums	Developed television spot informing tax-exempt community about new filing requirements.
January 2008	EO Update (e-mail)	Included e-Postcard reminder.
February 2008	EO Update (e-mail)	Announced launch of e-Postcard filing website.
March 2008	Conference Call With Software Developers	Discussed high error rate of filings and provided additional guidance.
August 2008	Contractor	Hired contractor to help locate and communicate with small tax-exempt organizations.
December 2009	Small and Mid-Size Exempt Organization Workshops	Training where new filing requirements were discussed.
December 2009	Feature Article	Distributed to small, local newspapers to educate the tax-exempt community on the new filing requirements.
January 2010	National Public Liaison	Asked for assistance in communicating new requirements.
March 2010	National Association of Enrolled Agents	Requested article in Association's newsletter on new filing requirements.
March 2010	American Institute of Certified Public Accountants	Requested article in Institute's newsletter on new filing requirements.
April 2010	Audio Spot for Podcast	Also translated into Spanish.
July 2010	IRS Public Website	Posted information on one-time relief program and At-Risk Listing.

Source: IRS e-Postcard communication plans and IRS website.



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Appendix VI

Timeline of Events Leading Up to the Initial Automatic Revocation Notices

On May 17, 2010, the first three-year period requiring potential automatic revocation for not filing a return or notice for three consecutive years ended. The first automatic revocation notices were issued on June 8, 2011. Below is a timeline of events that led up to the first revocation notices.

Date	Actions/Decisions
May 17, 2010	Deadline for filing a return or notice to avoid automatic revocation of tax-exempt status if an extension of time to file is not requested. The Exempt Organizations function decided to postpone informing any organizations of automatic revocation because tax-exempt organizations are allowed to request two three-month extensions of time to file their returns. Adding six months to the original due date brings the filing due date to November 15, 2010.
December 2010	IRS computer systems run programs on a certain schedule. Programs are not run for most of December each year to allow time for necessary changes to the programs to be made for the upcoming tax season. As a result, the program run to identify organizations whose tax-exempt status had been automatically revoked could not take place until January 2011.
January 2011	IRS testing of the automatic revocation programming found errors that needed to be corrected prior to issuing revocation notices. The program misidentified tax-exempt organizations as automatically revoked.
February 2011	Programmers corrected the problem identified in January 2011.
February 2011	Exempt Organizations function management postponed the automatic revocation program run until March 2011 because they did not want the first revocation notices issued so close to the annual tax filing deadline of April 15, which could cause long wait times on IRS customer service telephone lines at the end of the filing season. This meant the revocation notices would be produced in March 2011 and issued in May 2011.
March 2011	Discussions with senior leadership were held on the scope of the retroactive reinstatement guidance being prepared for those tax-exempt organizations wanting to reapply for tax-exempt status after being revoked. The IRS decided to develop a streamlined retroactive reinstatement process for small organizations seeking reinstatement.
June 2011	IRS Chief Counsel, the Department of the Treasury, and the IRS Commissioner approved the retroactive reinstatement guidance.
June 8, 2011	The first automatic revocation notices were issued.

Source: Exempt Organizations function management.



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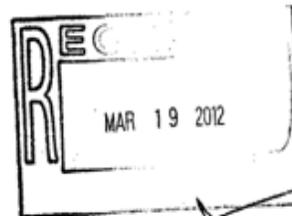
Appendix VII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

MAR 19 2012



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Joseph H. Grant, Acting Commissioner
Tax Exempt and Government Entities Division *Joseph H. Grant*

SUBJECT: "Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed" (Audit # 201110014)

Thank you for undertaking this review of our effort to implement certain provisions of the Pension Protection Act of 2006 (PPA). These provisions require the IRS to identify those organizations whose tax-exempt status is automatically revoked, by operation of law, because they fail to file an annual return or notice for three consecutive years. We appreciate your recognition of our successes in implementing the new provision.

Implementing the PPA changes required an extraordinary effort by many parts of the IRS. Our first task was to identify hundreds of thousands of entities that previously had very little interaction with the IRS. Next, we needed to let them know they each had new filing requirements. These efforts required that we collaborate not only across the IRS, but with external stakeholders, as well. In addition, we conducted two special filing relief programs to help smaller exempt organizations adjust to the law's requirements. Even now our efforts are not yet concluded: currently, we are providing transitional relief to smaller revoked organizations that wish to have their tax-exempt status reinstated.

In short, as your report notes, the IRS made a significant effort to implement the new law. In the end, we identified and published on the Auto-Revocation List nearly every organization whose tax-exempt status was automatically revoked for not filing for three consecutive years.

We appreciate the assistance you provided during the audit in alerting us to issues where immediate changes in our approach would result in program improvements. In nearly every case, we were able quickly to make the changes your auditors suggested, and the program benefitted as a result.

Our specific responses to each of your three recommendations are found in the attachment. We agree with the recommendations, and have implemented all of them. We concur with your description of the measurable benefit on tax administration. If you have any questions about this response, please contact Lois Lerner, Director, Exempt Organizations, at (202) 283-8848.



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Attachment

Recommendation 1

The Director, Exempt Organizations, should develop and submit a Work Request to move the posting of the Black Lung Trust returns to the database being reviewed for organizations whose tax-exempt status has been automatically revoked. Once the returns are moved, the automatic revocation programming should be updated to include a check for Black Lung Trust organizations.

Corrective Action

Black Lung Trusts, which are granted exemption under section 501(c)(21) of the Internal Revenue Code, are required each year to either file Form 990-BL or submit Form 990-N. Forms 990-BL, alone among 990-series returns, are posted to the Non-Master File rather than the Business Master File. Programming to identify organizations whose tax-exempt status was automatically revoked focused on the significantly larger volume of organizations that file on the Business Master File. A very small number of Black Lung Trusts were therefore excluded from the initial list of organizations whose tax-exempt status was automatically revoked.

We prepared a resolution for this issue as soon as it was identified, and submitted a Unified Work Request for 2013 to have Forms 990-BL, Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Person, post to the Business Master File rather than the Non-Master File. Thereafter, the auto-revocation programming will be able to identify non-filers of Form 990-BL whose tax-exempt status has been automatically revoked.

Implementation Date

Completed on October 19, 2011

Responsible Official

Director, Exempt Organizations



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Recommendation 2

Since automatic revocation notices will continue to be sent to organizations that do not file for 3 consecutive years, the Director, Exempt Organizations, should ensure the automatic revocation notice is updated with references to both the guidance for tax exempt organizations that believe their tax-exempt status was revoked in error and the guidance for applying for retroactive reinstatement.

Corrective Action

The IRS sends a notice of automatic revocation (CP120A) to each organization after it is identified in the Business Master File as having had its tax-exempt status automatically revoked for failing to file an annual return or notice for three consecutive years. The CP120A refers recipients to a notice-specific website at www.irs.gov/cp120a. This website can be updated much more quickly and frequently than is possible with the CP120A. We think it is more appropriate to place much of the available information on this website in order to ensure that the information is current as well as to improve the notice's readability by not encumbering it with pages of information that may be applicable to only a small number of recipients. This also reduces the cost of the notice.

In addition, the guidance items you requested be mentioned in the CP120A (Notice 2011-43 and Notice 2011-44) are transitory guidance items. We do not believe that it would be appropriate to reference them in the CP120A without the ability to update it more frequently than programming deadlines allow. We believe it is preferable to put this information on the website because it can be quickly and easily updated and will reduce customer confusion. We have, however, requested that the CP120A provide more information to an organization that believes it received the notice of automatic revocation in error.

We submitted changes to the Office of Taxpayer Correspondence (OTC) to update the CP120A to provide a phone number to call if an organization believes it received the notice in error because the organization has a letter from the IRS stating it is not required to file an annual return or notice, or it has proof that it met its filing requirements. OTC included this change as part its Unified Work Request for 2013.

Implementation Date

Completed on February 15, 2012

Responsible Official

Director, Exempt Organizations



Appropriate Actions Were Taken to Identify Thousands of Organizations Whose Tax-Exempt Status Had Been Automatically Revoked, but Improvements Are Needed

Recommendation 3

The Director, Exempt Organizations, should develop and submit a Work Request to remove filing requirements on former tax-exempt organization accounts that have been updated from revoked to terminated status.

Corrective Action

We prepared a resolution for this issue as soon as it was identified, and submitted a Unified Work Request for 2013 to provide that the account of an organization that has been updated to reflect that the organization has been automatically revoked for non-filing may not be further updated to show that it has been terminated.

Implementation Date

Completed on February 6, 2012

Responsible Official

Director, Exempt Organizations