



Treasury Inspector General for Tax Administration Office of Audit

STATUS OF ACTIONS TAKEN TO IMPROVE THE PROCESSING OF TAX-EXEMPT APPLICATIONS INVOLVING POLITICAL CAMPAIGN INTERVENTION

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Highlights

Highlights of Report Number: 2015-10-025 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

In a prior audit, TIGTA found that ineffective management resulted in 1) inappropriate criteria being used to identify for review organizations applying for tax-exempt status based on names and policy positions instead of indications of political campaign intervention, 2) substantially delayed processing of certain applications, and 3) unnecessary information requests being issued. Recommendations from the prior audit were made to help ensure that applications for tax-exempt status are processed in a fair, impartial, and timely manner.

WHY TIGTA DID THE AUDIT

The overall objective of this audit was to assess the IRS's actions in response to TIGTA's recommendations to improve the identification and processing of applications for tax-exempt status involving political campaign intervention.

WHAT TIGTA FOUND

The IRS has taken significant actions to eliminate the selection of potential political cases based on names and policy positions, expedite processing of Internal Revenue Code (I.R.C.) Section (§) 501(c)(4) social welfare organization applications, and eliminate unnecessary information requests.

First, the IRS eliminated the use of Be On the Look Out (BOLO) listings, which TIGTA determined had contained inappropriate criteria regarding political advocacy cases. TIGTA conducted interviews with a random sample of employees, who confirmed that BOLOs or similar listings were no longer being used.

Second, the Exempt Organizations function completed processing for 149 of the 160 applications for tax-exempt status that, as of December 2012, had been open for lengthy periods. To expedite processing of

I.R.C. § 501(c)(4) social welfare applications, the IRS developed an optional expedited self-certification process. This expedited process is not available to other types of organizations, e.g., labor organizations and business leagues, with similar political campaign intervention limitations.

Third, the IRS has developed preapproved questions and has instituted a quality review process to provide better assurance that unnecessary information requests are not sent to applicants.

The Department of the Treasury is revising draft guidance to address how to measure the "primary activity" of social welfare organizations. Until this guidance is finalized, the IRS does not have a clearly defined test for determining whether an organization's request for exemption as a social welfare organization should be approved. As a result, for those applicants not choosing the optional expedited process, the IRS continues to use a subjective facts and circumstances process.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS take action to improve the timing and execution of future training. In addition, if the optional expedited self-certification process for I.R.C. § 501(c)(4) organizations becomes a permanent process, the IRS should consider providing this option to additional organizations with similar political campaign intervention limitations.

In their response to our report, IRS management agreed with both recommendations. The IRS plans to improve the timing and execution of future training and consider extending the optional expedited process to other types of organizations, if it becomes a permanent process.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2015reports/201510025fr.pdf>

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