

Use the IRS's Work Plan to Avoid Unpleasant Surprises

Here's what the IRS is concentrating on this year. Make sure you're compliant in these areas.

By Bob Moreland



The Internal Revenue Service has released its work plan for exempt organizations, which describes the areas the IRS is focusing on this year. Use this information as a tool to see if there are any areas of exposure that might have a negative impact on your organization. By evaluating your activities against these focus areas, you can uncover any surprises that may be lurking. Here are some of the key topics in the IRS work plan:

Political activity. As 2012 is an election year, the IRS will focus on enforcing the rules relating to political campaigns and campaign expenditures for nonprofit organizations.

990-T and UBIT. The IRS focus in this area will be twofold: identifying organizations that list unrelated business activities on Form 990 but don't file Form 990-T, and those that consistently file Form 990-T with significant gross receipts yet declare no tax due.

Evaluate your activities against these focus areas.

Governance. The revised Form 990 now provides the IRS with a great deal of information regarding an organization's governance practices. The IRS plans to analyze this

Be sure you follow the rules for Unrelated Business Tax Income (UBIT).

information to look for connections between certain government practices and tax compliance.

Auto-revocation for non-filers. The Pension Protection Act of 2006 (PPA) requires most tax-exempt organizations to file some form of annual return or notice with the IRS. If an organization fails to file for three consecutive years, its tax exempt status is automatically revoked. As part of the PPA, the IRS is required to publish and maintain a list of the organizations that have had their exempt status revoked. This list, which is updated monthly, can be accessed via the IRS Web site using the new online application "Select Check."

To aid small nonprofits that have lost their exemptions, the IRS has issued Notice 2011-44, which provides rules for applying for reinstatement of tax exemption. The IRS has a reduced application fee of \$100 for these unfortunate organizations. The IRS reports that as of the beginning of fiscal year 2012, 5,000 organizations have already taken advantage of this transition relief.

501(c)(4),(5), and (6) self-declarers. Groups with these designations can declare themselves exempt without an IRS determination letter. The IRS will be reviewing these organizations to ensure they have classified themselves properly and are apply-

ing with the appropriate regulations.

International organizations. Because many exempt organizations have dealings outside the U.S. and the overall economy is moving toward greater globalization, the IRS will focus on organizations dedicated to charitable purposes internationally. It will create two publications to clarify the different rules that apply to foreign charities as opposed to domestic charities involved in overseas activities. And it will continue to examine exempt organizations that operate overseas to ensure that their activities are consistent with their charitable purposes.

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Exempt organizations services and assistance. In 2010, the IRS launched a research project to determine how best to educate small tax-exempt organizations and deliver tax-related information to them. The final stage of this research project will occur in 2012 and include a cost-benefit analysis of taxpayer preferences and IRS outreach efforts to measure cost-effectiveness. ■

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