
EOTS NewsFlash

Exempt Organizations Tax Services

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FY 2012 EO Work Plan signals increased IRS scrutiny of unrelated business activities, large private foundations

The IRS's Exempt Organizations ("EO") division has released its 2011 Annual Report and 2012 Work Plan. Released annually, the Work Plan provides insight into new and ongoing projects that EO will be focused on during the current fiscal year.

This year's Work Plan signals increased scrutiny for organizations with unrelated business activities, large private foundations, and organizations with international operations. The Work Plan also calls attention to the work of the Advisory Committee on Tax Exempt and Government Entities ("ACT") with respect to group exemptions and returns and explains that a new questionnaire for central or parent organizations is forthcoming.

According to the Work Plan, EO's focus areas for the year include:

- **990-T and UBIT**—EO will be looking at organizations that report unrelated business activities on Form 990 but have not filed Form 990-T. In addition, EO will analyze Form 990-T data to develop risk models that will help identify organizations that consistently report significant gross receipts from unrelated business activities but declare no tax due. EO will use this work in connection with a coming UBIT project.
- **Large private foundation examinations**—EO is examining a selection of the largest private foundations based on information reported on Form 990-PF. No additional details were provided regarding the scope or selection process regarding these examinations. EO also will be examining a number of large private foundations with international activities.
- **International**—EO will continue to examine exempt organizations that operate overseas to ensure that those activities are consistent with their charitable purposes. This will include a number of large private foundations that have international activities with assets or total annual revenue greater than \$500 million. EO will be looking at compliance issues unique to private

foundations, such as self-dealing, failure to distribute income, excess business holdings, jeopardy investments, and taxable expenditures.

In addition, EO will continue to look at organizations that report ownership of foreign bank accounts to determine whether the organization complies with substantiation and filing requirements and how the organization assures that the foreign activities or grantmaking furthers its exempt purpose. EO plans to release two new publications describing special rules that apply to foreign and domestic charities involved in overseas activities.

- **501(c)(4), (5) and (6) self-declarers**—EO will review organizations to ensure that they have classified themselves correctly and that they are complying with applicable rules. EO will send a comprehensive questionnaire to organizations based on Form 990 filings to assess compliance in this area.
- **Political activity**—EO will combine what it has learned from past projects on political activities with new information gleaned from the redesigned Form 990 to focus its examination resources on serious allegations of impermissible political intervention and ensure reporting and payment compliance with section 527(f).

The Work Plan also provides updates on the status of several ongoing projects, including:

- **Colleges and universities**—EO is completing a wide-ranging review of this important part of the tax-exempt sector. Although no expected release date was provided in the Work Plan, EO will issue a final report that will highlight its findings drawn from the questionnaire data and exam results.
- **Tax-exempt hospital guidance under section 501(r)**—EO will continue to work with Treasury and Counsel to develop guidance on the new section 501(r) requirements applicable to tax-exempt hospital organizations described in section 501(c)(3).
- **Governance**—IRS will be using Form 990 information about organizational governance practices to look at connections between certain governance practices and tax compliance.
- **Group rulings**—EO will develop and send to a cross-section of group ruling holders a new questionnaire that will explore the practices used by the central or parent organization to meet the requirements of Rev. Proc. 80-27, which sets forth the current group exemption procedures, and include questions about the methods used to satisfy annual filing requirements. EO also plans to expand educational efforts for group ruling members.
- **National Research Program**—EO will continue to work on the NRP employment tax project, focusing on completing all remaining exams and providing data for the overall IRS project.

Click [here](#) to access the FY 2012 EO Work Plan

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