



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

MEMORANDUM

TO: Steven T. Miller
Commissioner TE/GE

FROM: Lois G. Lerner /s/
Director, Exempt Organizations

SUBJECT: Political Activities Compliance Initiative

Attached for your consideration is a report from the Political Activity Compliance Initiative (PACI) Project Team summarizing the 2004 project and the results, thus far. The report includes a discussion of the project methodology, as well as sections on lessons learned and the Team's recommendations. In conjunction with the Director, EO Exam, I prepared the attached executive summary, which focuses on the major points and recommends adopting a number of changes to the program to be implemented in 2006. The 2006 Program will be a two-part effort including both education and enforcement. Procedures revised to reflect those changes are attached to the Team's report. We will periodically update the procedures as we continue to assess the effectiveness of our methods for educating the exempt organization community and enforcing the prohibition on political intervention. For your information, we have also included a one-page summary of our results-to-date. Finally, we have prepared and attached an educational fact sheet. The fact sheet represents our views on a number of issues that came up in our examinations and is the ambitious beginning of additional guidance in this area. We anticipate that the public release of this information, and the resulting discussion, will facilitate further development of the procedures, as well as our educational efforts in this area.

Subject to your concurrence, we will release the following attachments to this memorandum and begin implementation of the PACI for 2006:

1. Executive Summary
2. Final report including procedures and attachments
3. One page summary of results thru 2/16/06
4. Fact Sheet 2006-17

CONCUR:

Steven T. Miller /s/
Steven T. Miller, Commissioner TE/GE

Date: 02/22/2006