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Department of the Treasury
Internal Revenue Service

7.20.6

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EFFECTIVE DATE

(12-04-2024)

PURPOSE

- (1) This transmits a revision of IRM 7.20.6, Exempt Organizations Determination Letter Program, Anti-Terrorism and Other Emerging Issues.

MATERIAL CHANGES

- (1) Incorporated editorial changes throughout the IRM.

EFFECT ON OTHER DOCUMENTS

This IRM supersedes IRM 7.20.6 dated July 7, 2022.

AUDIENCE

Tax Exempt and Government Entities
Exempt Organizations

Stephen A. Martin
Director, Exempt Organizations, Rulings and Agreements
Tax Exempt and Government Entities

7.20.6

Anti-Terrorism and Other Emerging Issues

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7.20.6.1
(07-07-2022)
Program Scope and Objectives

- (1) **Purpose:** As part of TE/GE's mission to protect the public interest by applying tax law with integrity and fairness to all, Exempt Organizations and Government Entities (EO/GE) employees will consider and address indicators of potential abusive transactions, fraud, terrorism, and other issues when reviewing determination letter requests.
 - a. To ensure consistency in how these issues are addressed, EO/GE has established procedures for anti-terrorism, announcement of IRC 501(p) suspension, and emerging issues.
 - b. IRM 7.1.2, Exempt Organizations Administrative Procedures, and IRM 7.20.1, Exempt Organizations Determination Letter Overview, provide guidance to EO Rulings and Agreements for requesting assistance on technical issues.
 - c. IRM 1.54.1, TE/GE Roles and Responsibilities, provides guidance on elevating issues other than as described in this IRM.
- (2) **Audience:** The procedures in this manual apply to all EO/GE employees processing determination requests.
- (3) **Program Owner:** Director, Exempt Organizations Rulings and Agreements.
- (4) **Policy Owner:** Exempt Organizations and Government Entities.
- (5) **Primary Stakeholders:** Exempt Organizations Rulings and Agreements.

7.20.6.1.1
(07-07-2022)
Background

- (1) EO/GE includes two primary operational areas administering the tax law related to exempt organizations: Rulings and Agreements and Examinations.
- (2) EO Rulings and Agreements (R&A) is responsible for issuing determination letters on exempt status, private foundation status, and other determinations related to exempt organizations.
- (3) Organizations submit applications for tax-exempt status either electronically through Pay.gov when required (such as, Forms 1023, 1023-EZ, 1024, and 1024-A) or through the Cincinnati Accounts Management Campus Support (Campus Support) for all other requests (such as, Form 1028, Form 8940, and other letter applications).
- (4) Campus Support processes the user fee payment in the Letter Information Network and User Fee System (LINUS) and scans the application/request into the Modified EO-EP Determination System (MEDS). MEDS transmits the information to the Employee Plans/Exempt Organizations Determination System (EDS).
- (5) Campus Support sends open hard copy case files to an IRS facility in Ogden, UT.
- (6) Cases are generally processed electronically in MEDS. See IRM 7.22.4, Modified EO-EP Determination System (MEDS) User Manual, for specific instructions on using MEDS, including how to process cases.

7.20.6.1.2
(07-07-2022)
Authority

- (1) Rev. Proc. 2022-5, updated annually, sets forth procedures for issuing determination letters on issues under the jurisdiction of the Director, EO Rulings and Agreements. It explains the procedures for issuing determination letters on exempt status in response to applications for recognition of exemption from federal income tax under Section 501 or 521 (other than those subject to Rev.

Proc. 2022-4, updated annually), private foundation status, and other determinations related to exempt organizations. Rev. Proc. 2022-5 also provides guidance on the exhaustion of administrative remedies for purposes of declaratory judgment under IRC 7428 and guidance on applicable user fees for requesting determination letters.

7.20.6.1.3
(07-07-2022)
Responsibilities

- (1) EO R&A is responsible for issuing determination letters on exempt status, private foundation status, and other determinations related to exempt organizations.

7.20.6.1.4
(07-07-2022)
Program Controls

- (1) Exempt Organizations Determinations Quality Assurance (EODQA) reviews cases to ensure:
- a. Technical accuracy
 - b. Adherence to written procedures
 - c. Uniform and impartial treatment of exempt organizations' interests while protecting the government's interest
 - d. Identification of unfavorable case patterns, trends affecting processing quality, problem areas, unique issues, and new or novel techniques that EO Determinations specialists develop

7.20.6.1.5
(07-07-2022)
Terms and Acronyms

- (1) Commonly used abbreviations include:

Abbreviation	Name
ACC:EEE	Associate Chief Counsel: Employee Benefits, Exempt Organizations and Employment Taxes
ATC	Anti-Terrorism Coordinator
CCR	Case Chronology Record
CI-NCT	Criminal Investigation - Narcotics, Counterterrorism, and Transnational Organized Crime
EO	Exempt Organizations
EODQA	Exempt Organizations Determinations Quality Assurance
IRB	Internal Revenue Bulletin
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
OFAC	Office of Foreign Assets Control
MEDS	Modified EO-EP Determination System (formerly known as TEDS)
R&A	Rulings & Agreements

Abbreviation	Name
SDN	Specially Designated Nationals and Blocked Persons

7.20.6.1.6
(07-07-2022)

Related Resources

- (1) Information about the Office of Foreign Assets Control (OFAC) sanctions program is available at treasury.gov/ofac.

7.20.6.2
(07-07-2022)

Exempt Organizations' Role in Anti-Terrorism

- (1) In the aftermath of the 9/11 terrorist attacks, uncovering sources of terrorist financing has become one of the biggest challenges facing the United States. Terrorist supporters have used charities and non-profit organizations to raise money, move persons and materials, and provide logistical support for their operations.
- (2) OFAC administers and implements Executive Orders (E.O.) pursuant to a delegation of authority from the Secretary of the Treasury. OFAC has published comprehensive regulations implementing E.O. 13224 (31 CFR part 594) and E.O. 12947 (31 CFR part 597). It acts under presidential national emergency powers as well as authority granted by specific legislation to impose controls on transactions and freeze assets under U.S. jurisdiction.
- (3) As part of the comprehensive and sustained campaign against terrorist financing, all U.S. persons, including U.S.-based charities, are prohibited from dealing with persons (individuals and entities) identified as being associated with terrorism on OFAC's Specially Designated Nationals and Blocked Persons List (SDN List). The OFAC SDN List is available at <https://sanctionssearch.ofac.treas.gov>.
- (4) EO employees will consider and address indicators of potential involvement in or a heightened risk of diversion of funds to terrorism in cases they review. These procedures provide guidance for considering and addressing these indicators.

7.20.6.2.1
(07-07-2022)

Identifying Organizations with Potential Involvement in or Risk of Terrorism

- (1) Employees must review every case for potential indicators of involvement in terrorism and heightened risk of diversion of funds to terrorism. This includes all exemption applications (including Form 1023-EZ), foundation reclassification requests, and other miscellaneous determination requests.
- (2) Indicators of potential involvement in terrorism or heightened risk of diversion of funds to terrorism may include:
 - Name or address matches against OFAC's online Sanctions List Search
 - Foreign grants or activities in a foreign country
 - Other facts and circumstances
- (3) Employees complete Form 14503, Potential Terrorism Connection Checksheet, if they identify indicators of potential involvement in terrorism or heightened risk of diversion of funds to terrorism in a case (see IRM 7.20.6.2.2).

7.20.6.2.1.1
(07-07-2022)

**OFAC's Online
Sanctions List Search
Match Identification**

- (1) EO R&A employees will use OFAC's online Sanctions List Search (sanctionssearch.ofac.treas.gov) to identify potential name and address matches. This check is required on **all** determination letter requests.
- (2) Check the names and addresses of individuals and organizations listed in the application. A "match" of two or more names requires further review. A single name match (first or surname) does not require further review unless other facts and circumstances indicate a higher risk of terrorism or diversion of funds. A "match" can be an exact match or a near match due to alternative spelling, omission, or name order (for example, some cultures place a surname first).
- (3) Document the completion and result of the Sanctions List Search review/check in the case chronology record (CCR).

Example: "Completed Sanctions List Search review/check - no matches found" or "Completed Sanctions List Search review/check - found match."

- (4) Request the following additional information as necessary to help identify a match, as many people and organizations share the same or similar names.

If the match is	Then request
A board member, officer, or employee	Information for the past 3 years that includes first and last names, residential addresses, and employment information.
A contractor, individual grantee, or donor	The address of the individual.
An entity connected with the applicant	The entity's legal name, any acronyms or alternate names, names and addresses of principal officers, and any location(s) where it conducts activities.

Note: Requesting the above information is not required if previously submitted information appears sufficient to correctly identify a match.

Note: Tax examiners processing Form 1023-EZ will generally not complete this step. Instead, the request will be assigned to a specialist (see IRM 7.20.9, Processing Form 1023-EZ).

- (5) Complete Form 14503, Potential Terrorist Connection Checksheet, for all matches that need to be coordinated following the procedures listed in IRM 7.20.6.2.2.

Note: Do NOT list all names in the application.

Note: Document the CCR noting "Prepared Form 14503 per IRM 7.20.6.2.1.1 and sent to Anti-Terrorism Coordinator."

- (6) If the Anti-Terrorism Coordinator (ATC) or their manager determines the referral does not require further development, the ATC completes the appropriate section of Form 14503 and returns it to the employee (copying to the employee's manager) along with any information developed during the consideration of the referral. If you or your manager disagree with the ATC, your manager may elevate the case to the Area Manager.
- (7) If the ATC or their manager determines the referral does require further development, they will follow instructions in IRM 7.20.6.2.3.1.
- (8) Once returned from the ATC, the specialist imports Form 14503 and the related email indicating whether development is required into the MEDS Non-Disclosable folder.

7.20.6.2.1.2
(07-07-2022)
**Foreign Grants or
Activities**

- (1) Cases involving grants or activities in foreign countries present a higher risk of terrorism, especially in countries where there is war and civil unrest. Also, in some foreign countries an organization's assets are at higher risk for diversion to support terrorism regardless of the organization's intent.
- (2) The U.S. Department of State maintains the official list of state sponsors of terrorism on its website. OFAC administers comprehensive sanctions programs against the State Department's designated state sponsors of terrorism. OFAC lists these countries on its website, treasury.gov/ofac. An organization needs to apply to OFAC for a special license to conduct charitable operations in such countries if OFAC has not granted a general license. See treasury.gov/ofac for more information on the various sanctions programs.

Note: For information on state sponsors of terrorism and safe havens for terrorists, see the U.S. Department of State's Country Reports on Terrorism, available at state.gov/j/ct/rls/crt.

- (3) See Rev. Rul. 63-252, Rev. Rul. 66-79, Rev. Rul. 68-489, and Rev. Rul. 75-65 for guidance on foreign grants and activities. See also Rev. Rul. 68-117, Rev. Rul. 71-460, and Rev. Rul. 74-229.
- (4) The following may be helpful in ensuring an organization's funds or goods are used for the intended purposes:
 - a. Requiring written grant agreements that specify how grant funds may be used
 - b. Requiring feedback reports from foreign grantees or agents
 - c. Employing report verification procedures such as on-site visits (by U.S. personnel or independent persons) or documentation (such as photos or receipts)
- (5) In cases where an organization will make foreign grants or conduct activities in foreign countries, request sufficient information (if not included in the taxpayer's initial submission) to determine:
 - a. In which countries the organization will operate or make grants
 - b. Whether the organization will check the OFAC SDN List for names of individuals and entities with whom it is dealing to determine if they are included on the list
 - c. Whether the organization has any other practices to ensure that foreign expenditures or grants are not diverted to support terrorism or other non-charitable activities

Exception: Tax examiners processing Form 1023-EZ will not complete this step if foreign activities or grants are indicated on Form 1023-EZ (see IRM 7.20.9, Processing Form 1023-EZ).

- (6) In cases where an organization will make foreign grants, also request sufficient information (if not included in the taxpayer's initial submission) to determine:
- What funds or goods have been or will be distributed and for what purposes
 - How the organization processes grant requests, including its application, review, and approval process
 - How the organization ensures the funds or goods are used for the intended purposes

Exception: Tax examiners processing Form 1023-EZ will not complete this step (see IRM 7.20.9).

- (7) If it appears that the facts and circumstances of a case suggest a potential for diversion of funds to support terrorism, the specialist will discuss with his/her manager. If the specialist and manager agree that the facts and circumstances of the case suggest a potential for diversion of funds to support terrorism, the specialist will complete Form 14503 following the procedures listed in IRM 7.20.6.2.2 for foreign activities or grant making, except if indicated on Form 1023-EZ (see IRM 7.20.9).

Note: Document the CCR noting the discussion with your manager and resolution. If preparing Form 14503 and sending to ATC, make sure to document those actions.

Reminder: American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, and the U.S. Virgin Islands are U.S. territories and are not considered foreign countries.

Exception: These procedures are not required for Canadian charities registered by the Canada Revenue Agency (CRA) that are requesting a determination on foundation status.

7.20.6.2.1.3
(07-07-2022)
**Other Facts and
Circumstances**

- (1) Consider whether other facts and circumstances suggest that an organization promotes terrorism or whether there appears to be a heightened risk of diversion of funds to terrorism.
- (2) If facts and circumstances warrant completing Form 14503, Potential Terrorism Connection Checksheet, obtain manager concurrence before completing the form following the procedures listed in IRM 7.20.6.2.2.

Note: Document the CCR noting "Prepared Form 14503 with manager concurrence per IRM 7.20.6.2.1.3 and sent to Anti-Terrorism Coordinator."

7.20.6.2.2
(07-07-2022)
**Form 14503, Potential
Terrorism Connection
Checksheet**

- (1) Complete Form 14503 based on indicators of potential involvement in terrorism or heightened risk of diversion of funds to terrorism (see IRM 7.20.6.2.1).
 - Indicate the reason(s) for completing the form.

- b. Enter relevant case details. Relevant details may include names, addresses, countries of activity, descriptions of activities, website information, any representations the organization makes regarding OFAC compliance (or other safeguards in place to ensure funds or goods are not diverted from their intended purposes), and other facts and circumstances of concern.

Note: If completing the form based on a name or address match with the Sanctions List Search, include the matched information as entered on the Sanctions List Search as well as the information secured from the determination or additional information letter request. Only the name or address match needs to be listed. All names and addresses on the application shouldn't be listed.

- (2) Email the completed form and any related documents to the ATC at **TE/GE-EO-Anti Terrorism*.

Note: The case remains in its current assigned status while awaiting a response from the ATC.

- (3) Place the form and any other supporting information in the MEDS Non-Disclosable folder and document actions in the CCR.

7.20.6.2.3
(07-07-2022)
**Anti-Terrorism
Coordinator (ATC)**

- (1) EO Determinations designates a specialist as its ATC.
- (2) The ATC:
 - a. Reviews Form 14503 and coordinates cases identified as having a risk of terrorism.
 - b. Serves as the EO Determinations liaison for this issue with IRS Criminal Investigation Narcotics, Counterterrorism, and Transnational Organized Crime (CI-NCT).
 - c. Updates and distributes the Comprehensive List of Terrorists and Groups.

7.20.6.2.3.1
(07-07-2022)
**ATC Checksheet Review
and Recommendations**

- (1) The ATC reviews the completed Form 14503 and:
 - a. Evaluates the content.
 - b. Completes additional research as necessary.
 - c. Submits the referral and recommendation to his or her manager for concurrence.
 - d. Makes a recommendation or referral within five work days as follows:

If	Then the ATC
A recommendation to continue processing is made	Returns the form to the originating employee with the recommendation.
Additional information is needed to make a recommendation	Returns the form to the originating employee for clarification or additional information before continuing the process.

If	Then the ATC
A Sanctions List Search match cannot be confirmed as a non-match to the identified Sanctions List Search person or entity	Refers the form to CI-NCT for review and recommended action. See IRM 7.20.6.2.3.2.
None of the above situations apply	Takes other actions based on the facts and circumstances (consulting with TEGE Division Counsel, as necessary).

- (2) Once a recommendation or referral is approved by the ATC's manager, the ATC:
- Documents any findings, actions taken, and recommendations on the form.
 - Returns the form to the originating employee by email with a copy to the employee's manager.
 - Provides the employee with information developed during the consideration of Form 14503 that may help resolve the underlying case.

Note: If the employee and their manager disagree with the recommended actions from Form 14503, the employee's manager may elevate the issue to the Area Manager.

Note: Import the completed Form 14503 and relevant emails into the MEDS Non-Disclosable folder. Place prior copies of Form 14503 in the MEDS Purge folder.

- (3) The ATC maintains an archive of all Forms 14503.

7.20.6.2.3.2
(07-07-2022)

**ATC as Liaison with
Criminal Investigation -
Narcotics,
Counterterrorism and
Transnational Organized
Crime (CI-NCT)**

- (1) The ATC is responsible for coordinating Form 14503, as necessary, with CI-NCT:

If	Then the ATC
CI-NCT confirms a match is an identified Sanctions List Search person or there are other terrorism concerns and requests the case	Notifies the employee to transfer the case to CI-NCT (using Form 3210), and copies the employee's manager, the ATC's manager, and the Area Manager.
CI-NCT confirms a match is an identified Sanctions List Search person or there are other terrorism concerns but does not request the case	Consults with CI-NCT and TEGE Division Counsel for case processing guidance.
CI-NCT is unable to determine that the match is an identified Sanctions List Search person	If necessary, coordinates Form 14503 with TEGE Division Counsel for case processing guidance.

If	Then the ATC
CI-NCT does not respond within 60 days of sending the Form 14503	<ol style="list-style-type: none"> a. Contacts CI-NCT to follow up on the status of the review. b. If no response is received within five business days from follow up, elevates the issue to the manager, who will follow up with the CI-NCT contact's manager. c. The ATC's manager will simultaneously elevate the issue to the Area Manager.

7.20.6.2.3.3
(12-04-2024)

The Comprehensive List of Terrorists and Groups and the ATC

- (1) The ATC maintains the CLTG spreadsheet (see IRM 7.20.6.2.1.1).
- (2) Once per month, the ATC:
 - a. Accesses the OFAC website to secure updated information regarding the OFAC SDN List (for CLTG).
 - b. Adds names and addresses to the CLTG at the request of other agencies (with management approval).
 - c. Emails the spreadsheet to Taxpayer Services and other employees as directed by management.

7.20.6.3
(07-07-2022)

Announcement of Section 501(p) Suspension

- (1) Under IRC 501(p), if an exempt organization is designated as a terrorist organization as described in IRC 501(p)(2), its exempt status under IRC 501(a) is suspended.
- (2) EO Rulings & Agreements (R&A) is responsible for monitoring terrorist designations.
- (3) EO R&A will designate an employee (the designated employee) to monitor changes to the OFAC SDN List (which includes the State Department's Terrorist Exclusion List) and serve as a point of contact for coordination with Associate Chief Counsel: Employee Benefits, Exempt Organizations and Employment Taxes (ACC:EEE).
- (4) The designated employee will:
 - a. Check the names of organizations added to the list against the EO Business Master File (EO/BMF) to determine whether any of the designations involve an exempt organization. The monitoring will be done on a regular basis.
 - b. If any of the designations involve an exempt organization, request confirmation from ACC:EEE whether the designation is described in IRC 501(p)(2).
 - c. Working with ACC:EEE and the Disclosure Office (for advice on what information can be disclosed to OFAC or State Department personnel for this purpose), consult with OFAC and/or the State Department to verify an apparent match. See IRM 11.3.21, Disclosure of Official Information,

Disclosure of Returns and Return Information for Tax Administration Purposes under IRC 6103(k), and IRM 4.2.5.2, Investigative Disclosures.

- d. Coordinate with Ogden Service Center, EO Examinations (see IRM 4.75.34), and other offices within the IRS, if an exempt organization appears to be listed.

- (5) If a match is verified and determined to be described in IRC 501(p)(2), ACC:EEE will prepare and circulate an electronic clearance package (including a draft announcement) of 501(p) suspension.
- (6) The designated employee will circulate the clearance package received from ACC:EEE within TE/GE for ultimate approval by the TE/GE Deputy Commissioner for the IRS Commissioner, and return it to ACC:EEE for approval by the EEE Associate Chief Counsel for the Chief Counsel.
- (7) Once the announcement is approved
 - a. EO R&A will provide advance notice to pertinent officials in CI-NCT.
 - b. ACC:EEE will provide advance notice to pertinent officials in the Treasury Department, and will arrange for publication.
- (8) Once the announcement is publicly released, EO R&A will:
 - a. Forward it to the National Association of State Charity Officials for circulation among state officials.
 - b. Complete and submit Form 2363-A, Request for IDRS Input for BMF/EO Entity Change, to update the EO/BMF status to 98 to designate as a terrorist organization, remove the Form 990 filing requirement, and add a filing requirement for either Form 1041, U.S. Tax Return for Estates and Trusts, or Form 1120, U.S. Corporation Income Tax Return, as appropriate, as well as any employment tax returns.

7.20.6.4
(07-07-2022)
**TE/GE Compliance Issue
Submission Portal**

- (1) New or emerging compliance issues that arise that need development into a potential Compliance Strategy should be submitted to the *TE/GE Compliance Issue Submission Portal*.
- (2) The following issue information should be submitted:
 - An explanation of the issue including how the issue was identified
 - Internal Revenue Code references and applicable forms
 - Related files

7.20.6.5
(07-07-2022)
**Potential Indicators of
Fraud**

- (1) If the specialist identifies potential indicators (signs or symptoms) of fraud in an application, or if a referral is received from an external source alleging fraud, the specialist will initiate a discussion with the group manager.

Note: See IRM 25.1.2.3, Indicators of Fraud, for a list of the common indicators of fraud. For various types of fraudulent scenarios, refer to IRM 25.1.9.5.4.

- (2) The specialist will conduct MEDS research to check for related cases.
- (3) If the group manager agrees that the indicators of fraud have fraud potential, the specialist will contact the TE/GE Fraud Specialist for advice and guidance on how to proceed.

Note: The TE/GE Points of Contact can be found under *Fraud Enforcement Advisors and Other Related Contact Information* on *The Fraud Development Knowledge Base Site*.

- (4) Document all actions taken in the CCR, including any rationale if indicators of fraud do not have fraud potential, and import all email chains relating to the case into the MEDS Non-Disclosable folder, including any with the manager or SME.

