

Executive Summary
Credit Counseling Compliance Project
May 15, 2006

The Internal Revenue Service's Credit Counseling Compliance Project focused on abuse by tax-exempt credit counseling organizations and established an on-going program to ensure continuous compliance with the tax laws through education, examinations, a comprehensive determination process, and a public awareness program.

Over the last few years, the IRS has seen an increasing number of credit counseling organizations become mere sellers of debt-management plans. They appear motivated primarily by profit, and offer little or no counseling or education. In many cases the credit counseling organizations also appear to serve the private interests of related for-profit businesses, officers, and directors.

During the course of this project, the IRS developed enhancements to its tax-exempt Examination program and refined its Determinations program to better identify potential abuses. As a result, the IRS has revoked, terminated or proposed revoking the exemptions of credit counseling organizations representing 41% of the revenue in the industry, based on the latest available IRS filing data. The IRS also halted the growth of abusive credit counseling organizations. Of 110 applications reviewed, only 3 met the requirements for tax-exempt status; 95 were not approved and the remaining 12 are pending. A one-page summary of compliance activity is attached to the report.

The IRS Credit Counseling Compliance Project report describes the development and use of new legal and analytical tools that will help IRS agents apply the law expeditiously and consistently. The first of these is a Chief Counsel Advice Memorandum, which provides legal framework to determine whether a credit counseling organization that offers counseling and debt management plans to the general public operates in furtherance of educational purposes consistent with section 501(c)(3). The other is a Core Analysis Tool (CAT), which helps the Service evaluate whether a credit counseling organization furthers an educational purpose. Finally, the report describes continuous IRS oversight of tax-exempt credit counseling organizations and enhanced public awareness programs to help keep the public informed. Partnering with other stakeholders (e.g., FTC, Department of Justice's Executive Office of the U.S. Trustee), the IRS will unveil a website containing links and other information for consumers regarding credit counseling organizations. While consumer education is generally outside the IRS responsibilities, in this case, the IRS believes it is advisable given that its enforcement activities are reaching the entire industry.

The significant level of abuse the IRS found during this project raises concerns about the remaining universe of credit counseling organizations. To address those concerns, the IRS has:

1. Revised Forms 1023 and 990 to obtain more information about new and existing credit counseling organizations;
2. Issued and released a Chief Counsel Advice Memorandum explaining whether a credit counseling organization that offers counseling and debt management plans to the general public is operating in furtherance of educational purposes;
3. Developed a Core Analysis Tool, an audit guide to facilitate expeditious evaluation of credit counseling organizations;
4. Sent all tax-exempt credit counseling organizations not previously selected for examination a compliance check questionnaire seeking information to determine whether they operate compliant credit counseling programs;
5. Established closing agreement procedures to help bring non-compliant credit counseling organizations meeting specific criteria into compliance with the requirements of section 501(c)(3);
6. Instituted follow-up procedures to continue to oversee the credit counseling industry; and
7. Coordinate with FTC and EOUST to develop a public awareness program regarding credit counseling organizations.