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A Day in the Life of an Exempt Organization Audit

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Exempt organizations agree to:

Meet organizational test

Meet operational test

Permit no private/insider benefit

Report to the IRS as required

Report accurately



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Exempt Organization Compliance

In 2010

11,449 returns examined

- Field examinations
- Multiple returns per organization

3,893 returns compliance checked

- Inquiries about specific items
- Less resource intensive



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Selecting Returns for Examination (Audit)

Risk Modeling

Overall IRS priorities

- National Research Project
- International Focus



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Handling Referrals

Assess facts; four options

1. No further action warranted
2. Reconsider organization later
3. Forward to specialists for further review
4. Case warrants examination

Form 13909, *Tax-Exempt Organization
Complaint (Referral) Form*



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Examination

Goal 1: Determine qualification for exemption

- Do activities further an exempt purpose?

Goal 2: Determine any tax liability

- Review books, records
- Compare with returns
- Third party interviews



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Examination Types

Correspondence

- Limited in scope
- Uses letters and phone calls to officers and representatives

In person – Field Exam

- EO General Program exam
- EO Team Examination Program exam



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Notification

Phone Call

- Appointment date determined
- Follow-up letter is sent confirming agreed appointment

If Initial Call Not Answered

- Letter sent with proposed exam date
- Letter also includes list of documents to be inspected



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IRS Publication 1 – *Your Rights as a Taxpayer*

Privacy and confidentiality

Professional and courteous service

The right to representation

Payment of only the correct amount of tax



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IRS Publication 1 – *Your Rights as a Taxpayer*

(continued)

Help with unresolved tax problems

The right to an appeal and judicial review

Relief from certain penalties and interest



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Field Examination Steps

Opening Conference

Confirm receipt of Publication 1

Explain why return was selected for audit
and audit plan

Interview and tour of facilities if requested

Request for specific documents

Describe how audit will conclude and the
organization's options



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Field Examination Steps

Agent will request participation of an officer of the organization

Organization may authorize a Power of Attorney

- Form 2848, *Power of Attorney and Declaration of Representative*

- Include appropriate years and issues

Third-party contacts



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Internal Controls

Timely recording of transactions

Returns match books

Bank statements match books

Segregation of duties

Active and independent board of directors

Third party oversight

Independent annual audit procedure



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Segregation of Duties

Who is responsible for what

- Are responsibilities assigned independently

How income is received/recorded

- Checks and balances



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Tour of Facilities

Establishes facts (verify assets, confirm who does what)

Gain a working overview of operations

Establish that books reflect business activities

Observe/test internal controls

Identify other audit issues



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Books/Records Review

May include

- Original organizing documents
- Determination letter/application
- Certain financial records



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Books/Records Review

Minutes of board meetings

Publications, operating manuals

Contracts, leases, mortgages, loans

Deeds and other title documents



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Books/Records Review

(Continued)

Correspondence files

Financial records

Third party records

Other returns



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Final Steps

Follow-up information may be requested

Conclusion of Examination

Results are explained

- No change
- No change with advisories
- Proposed change to exempt status or tax liability



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Potential Issues

Non-exempt activity (taxable or otherwise)

Excess compensation

Additional filing requirements

Employment or excise tax obligations

Name, address or EIN mis-matches

Sub-section or foundation status change



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Compliance Checks

Simpler, less invasive / limited scope

Usually about one or two items on a return

Conducted by letter/phone

Compliance is not required

Can be converted to examination



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More Information

Specialized assistance on tax-exempt organizations and IRS tax forms can be found at

www.irs.gov/charities

While you are there, sign up for *EO Update!*

Customer Account Services
(toll-free) 877-829-5500

Internal Revenue Service
TE/GE Customer Account Services
P.O. Box 2508, Cincinnati, OH 45201

