

IRS Update

Catholic Charities USA FRC Institute
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Learning Objectives

- At the end of this session, you will be able to:
 - Understand current IRS initiatives and focus areas
 - Identify the Form 990 filing requirements
 - Understand qualification as an integrated auxiliary

Regulatory Climate

- Exempt organization sector continues to be highly scrutinized
 - IRS oversight
 - State and local compliance
 - Legislative
 - Donors
 - Constituents
 - Media

EO Regulation Overview

- Federal - State Coordination
 - Sharing of information between federal and State regulators
 - Increase in the number of referrals
 - Common issues
 - ◇ Private benefit and inurement
 - ◇ Nonfilers
 - ◇ Political activities of 501(c)(3) organizations
 - ◇ Employment tax issues
 - ◇ Organizations not operated as required by their exempt status

EO Regulation Overview

- Affordable Care Act
 - Significant impact to tax exempt sector
 - Form 990 and Schedule H reporting
 - Charitable hospital 501(r) provisions including Community Health Needs Assessments
 - Small Business Health Care Tax Credit

EO Regulation Overview

- Governance Study
 - Study of various governance practices of 1,300 public charities selected for audit
 - Preliminary results released
 - Resulting in a statistical sampling of 501(c)(3) and (c)(4) organizations
 - Significant diversion of assets may trigger additional inquiries

EO Regulation Overview

- Review of Operations
 - Purpose is to follow up on organizations after exempt status is granted
 - Does not involve direct contact with taxpayer
 - Expanded scope includes:
 - ◇ Follow up on approvals, but where a subsequent look 1-2 years out may be warranted
 - ◇ Check on organizations where exempt status denied
 - ◇ Specialized issue reviews
 - Community benefit reviews
 - ◇ Uses information-gathering abilities to improve case selection for compliance projects and audits

EO Regulation Overview

- Automatic Revocation and Reinstatement
 - Required revocation of exempt status for non-filing for three consecutive years
 - Approximately 500,000 organizations revoked with 30,000 requesting reinstatement
 - IRS is publishing revocations monthly

EO Regulation Overview

- Determinations
 - EO receives approximately 60,000 applications annually
 - Screening of applications provides a systematic approach
 - Goal is to shorten the time between receipt of the application and final determination

2013 IRS Work Plan – Completed Projects

- Public Charity Status
 - Statistical sampling of 400 organizations at the end of their advance ruling period
 - Regular and ongoing monitoring of 501(c)(3) organizations
- Intermittent Non-Filers
 - Compliance check on organizations that filed in prior years, but failed to file a 2009 return.
 - Additional compliance check on 300 non-filers for tax year 2010

2013 IRS Work Plan – Completed Projects

- Community Foundations
 - EO questionnaires to approximately 3,700 organizations
- EO Examinations Resources Pages

2013 IRS Work Plan – Ongoing Projects

- National Research Program
 - Project focused on employment tax matters
 - ◇ 2012 was the final year in the three-year program
 - ◇ Employment tax compliance
 - ◇ Worker classification
 - ◇ Volunteers
- International Activities
 - Examination of organizations reporting a foreign bank account on the Form 990
 - ◇ Failure to file FBAR
 - ◇ Inadequate recordkeeping
 - ◇ Lack of discretion & control over funds sent abroad
 - ◇ Failure to file employment tax returns (or incorrect returns)

2013 IRS Work Plan – Ongoing Projects

- Group Ruling Questionnaire Issued
 - IRS ACT Report recommendation and large number of subordinates whose exemption was automatically revoked
 - Questionnaire issued to approximately 2,000 central organizations
 - Gathering information on relationship between central organizations and subordinates, practices, compliance, etc.
 - Qualification as an integrated auxiliary

2013 IRS Work Plan – Ongoing Projects

- Self Declarers Questionnaire
 - Compliance questionnaire issued to 501(c)(4), (5), and (6) organizations
 - Focus on whether organizations are classified correctly and compliance with applicable tax laws
- College and University Project
 - Final report being drafted

2013 IRS Work Plan – Ongoing Projects

- Form 990 Information in Compliance Efforts
 - Charitable spending initiative
 - Compensation transparency
 - Political activity
 - Unrelated business income and Form 990-T
- Interactive Form 1023
- Referral Selection Research Project

Form 990 Filing Requirements

- Form 990-N
 - Gross receipts normally \leq \$50,000
- Form 990-EZ
 - Gross receipts $<$ \$200,000 and
 - Total assets $<$ \$500,000
- Form 990
 - Gross receipts \geq \$200,000 or
 - Total assets \geq \$500,000
- Form 990-T
 - Unrelated business income \geq \$1,000

Exemption From Form 990 Requirement

- Church, interchurch organization of local units of a church, a convention or association of churches
- Integrated auxiliary of a church
 - Men's or women's organization
 - Religious school
 - Mission society
 - Religious group

Integrated Auxiliary Requirements

- Three prong test
 - Classified as a 501(c)(3) exempt organization
 - ◇ Operated exclusively for exempt purposes
 - Church affiliation
 - Internal support test

Church Affiliation

- Organizations covered by a group exemption letter
 - USCCB
- Operated, supervised, or controlled by or in connection with a church (convention or association of churches)
- Facts and circumstances to support affiliation

Facts and Circumstances

- Organizing document affirms common religious doctrines,
- Church has the authority to appoint, remove or control the appointment or removal of at least one of the organization's governing body,
- Corporate name indicates relationship,
- Financial data and general operations reported at least annually to the church,
- Institutional relationship with the church, and
- Upon dissolution, assets are required to be distributed to the church

Internal Support Test

- Organization is deemed to be internally supported unless it **both**
 - Offers admissions, goods, services or facilities for sale, other than on an incidental basis, to the general public
 - ◇ Exception when goods services, or facilities sold at a nominal charge or for an insubstantial portion of the cost
- Normally receives more than 50% of its support from a combination of
 - governmental sources
 - public solicitation of contributions
 - receipts from the sale of admissions, goods, performance of services, or furnishing of facilities in activities that are not unrelated trades or businesses

Form 990 Filing

- If required to be filed, must be completed in its entirety
 - Failure to complete for three consecutive years will result in statutory revocation of exempt status
 - If revocation occurs, organization is unable to gain exemption USCCB group ruling
- United Way and other funders may require completion
- Public accountability

Next Steps...

- Document qualification as an integrated auxiliary
- Consider necessity of voluntary filing

• Questions



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