

**EXECUTIVE SUMMARY
EXEMPT ORGANIZATIONS
2004 IMPLEMENTING GUIDELINES**

WHAT'S NEW

In 2004, EO is focusing on several programs to enhance our enforcement presence in the community, improve the quality and quantity of information available to the Service and the public, and provide EO expertise in a variety of joint initiatives both inside and outside the agency.

NEW OFFICES

Exempt Organizations Electronic Initiatives Office: The office is responsible for the coordination, development, and deployment of new technology efforts in EO, including electronic E-File for 990, a new exam agent workcenter, increased public disclosure of filings, data acquisition and display, and EO efforts to modernize the determination letter process. The office, consisting of project managers and specialists, became operational in June 2003 and is located in Washington, DC.

Exempt Organizations Compliance Unit: The unit will question areas of suspected noncompliance through correspondence and telephone contacts. Through these efforts, as well as other actions outlined in these guidelines, the Service will increase EO's compliance presence in the community, as well as improve the reporting on EO forms. The unit, to be located in Ogden, UT, will consist of revenue agents and tax examiners and will become operational in January 2004.

Data Analysis Unit: This unit, which will be operational in Spring 2004, will use databases and information to investigate emerging compliance trends to improve the identification and selection of casework for EO. The unit, consisting of economists, statisticians, and research analysts may be expanded to include a functioning "lead development center" for improved case building.

AREAS OF INCREASED FOCUS

Support of Anti-Terrorism Efforts: EO will pursue a multi-layered approach to help ensure that exempt organizations' assets are used for charitable purposes. First, EO will continue its support of the anti-terrorism efforts of other law enforcement functions. Second, EO is exploring the establishment of a new office that will assist in this area and will deal more generally with fraud and financial transactions, pursuing our most complex financial cases. Third, EO will undertake several educational initiatives: (i) awareness training

for agents and determination specialists; (ii) an educational program to help charities implement internal controls to prevent the unknowing diversion of assets; and (iii) an educational program to help charities follow due diligence compliance with respect to foreign grants. Finally, based on public comments and the ongoing foreign grant making study, the Service may issue guidance in this area.

Tax Avoidance Schemes: EO is dedicating increased resources to the area of tax shelters and fraud. We are working with other parts of the Service on a number of projects and are currently identifying and pursuing both promoters and questionable transactions.

Political Activities: During the upcoming key election year, EO will focus on ensuring that organizations are aware of their responsibilities in this area. In addition, EO will analyze the impact on the regulated community of recent campaign legislation and related litigation, as well as pursue casework in the referral area. EO will also continue its work on the section 527 political organization disclosure website, and will initiate a follow-up compliance plan regarding 527 organization reporting responsibilities.

Electronic Filing of Forms 990: EO will continue to devote substantial resources to electronic filing, which will enhance the quantity and quality of the data available to the Service and the public. E-filing of returns for the calendar year 2003 is expected to be available in early 2004.

Determination Letter Process Redesign: EO is taking several steps to streamline the application process, including issuing the revised Form 1023 and instructions, expected to be available in Spring 2004, exploring the development of an interactive web-based Form 1023, and dedicating one or more technical screening groups to enhance application processing.

EO EXAMINATIONS

Tax Avoidance Schemes and Shelters: Exam will place special emphasis on addressing tax avoidance schemes and tax shelters. For each issue involving a large population or requiring complex coordination, a team will develop a compliance strategy, often with other parts of the Service. Generally, abusive transactions appear to follow one of three patterns: deductible funds are run through the exempt organization to pay personal benefits; income or appreciated assets are inappropriately sheltered from current taxes in an exempt organization; and the exempt organization is used to create inappropriate acceleration of business expenses. EO is aware of transactions involving the following types of organizations, recognizing that the organizations themselves are not tax avoidance schemes but, in some of these instances, are being utilized for questionable purposes:

- 501(c)(15) and Producer-Owned Reinsurance Companies (PORCs);
- Donor-advised funds;
- 509(a)(3) supporting organizations;
- Organizations enrolled in Housing and Urban Development (HUD) programs;
- Voluntary Employees' Beneficiary Associations (VEBAs); and
- Certain other schemes.

Ongoing Studies on Market Segments:

- Social clubs;
- Business leagues;
- Labor organizations;
- Social services organizations;
- Religious organizations;
- Community foundations;
- Colleges and universities;
- Hospitals;
- 509(a)(3) supporting organizations;
- Fraternal organizations;
- Arts & humanities organizations;
- Private foundations; and
- Elder housing organizations.

New Market Segment Studies, beginning in late FY 2004:

- Fundraising organizations – The Fundraising Organizations market segment is a subset of the larger grant-making market segment, and consists of publicly supported 501(c)(3) organizations that have limited exempt activity other than raising and distributing funds on behalf of other organizations. This study continues the Service's review of grant-making organizations, and as such, will be coordinated with other ongoing studies and compliance projects in the areas of community foundations, private foundations, supporting organizations, and donor-advised funds.
- Private schools – This study will capture data on issues relating to private schools other than colleges and universities.
- Non-exempt trusts – This study will capture data on issues relating to non-exempt charitable trusts as defined in IRC 4947(a)(1). The study may be expanded to include split-interest trusts defined in IRC 4947(a)(2).

Continuing Compliance/Educational Projects: Ongoing committee projects to develop strategies to address non-compliance, most often through one or more targeted examination projects, continue in the following areas:

- 501(c)(15) organizations;
- Form 990 delinquent filers & non-filers;
- Donor-advised funds;
- Inurement and intermediate sanctions;

- Fundraising activities;
- Donated property;
- Form 990 revision;
- Consumer credit services;
- Compliance with rules on foreign grants and distributions;
- September 11 disaster relief organizations;
- Gaming;
- Post voluntary compliance on alien withholding program; and
- Medical/Dental Resident FICA claims.

EO RULINGS AND AGREEMENTS

Continued Increase in Determination Applications: R&A will continue to develop efficiencies to effectively address the ever- increasing number of determination requests by establishing one or more full-time technical screening groups to enhance the processing of determination applications.

Revised Form 1023: R&A will finalize the revised form, making it easier for applicants to complete and determination agents to review. This is a preliminary step towards the development of a web-based interactive application as recommended in the Advisory Committee TE/GE report on the EO determination process.

Guidance: EO 2004 guidance items will include issuances on:

- Joint ventures between exempt organizations and for-profit companies;
- Low-income housing partnerships and 501(c)(3) organizations;
- Down payment assistance organizations;
- Activities of section 501(c)(4) organizations;
- The Internet and unrelated business income tax;
- Qualified tuition programs under section 529;
- Reporting requirements applicable to Coverdell education savings accounts; and
- Split interest trusts.

Fed/State Initiatives: R&A will implement a revised and invigorated federal-state information sharing process that will promote joint enforcement efforts and enhance our partnership with state charity officials.

EO CUSTOMER EDUCATION AND OUTREACH

Workshops and Other Presentations:

- Applying for Tax Exempt Status Workshops: CE&O will offer this new workshop to representatives of organizations and tax practitioners not familiar with the process of applying for tax-exempt status. In FY 2004, CE&O plans to co-sponsor the workshops with the National Association of State Charity Officials (NASCO) in two or three locations.
- Financial Safeguards Program: CE&O will begin planning for a program to be offered in early FY 2005 on financial safeguards that organizations can implement to ensure assets are used for charitable purposes.

Publications & Forms: CE&O will complete publications started in FY 2003 and continue to update and produce new plain-language publications for its customers, including the following:

- “Do’s and Don’ts for Exempt Organizations” (in progress);
- Donated Vehicle Program Brochures (in progress);
- Revise and update Publication 3079, *Gaming Publication for Tax Exempt Organizations* (in progress);
- Revise and Update Publication 892, *EO Appeal Procedures for Unagreed Issues*;
- Revise and Update Publication 578, *Tax Information for Private Foundations and Foundation Managers*;
- Publication regarding appropriate due diligence and internal financial safeguards to ensure assets are used for charitable purposes (new); and
- Publication for contributors on making educated giving decisions (new).

Charitable Gaming Outreach: CE&O will work with the National Gaming Strategy Committee to develop educational materials. Working with state offices that license gaming, coordinators will then arrange for presentations to groups of licensees and/or state agency personnel who examine licensees. There will also be an interactive video teletraining on gaming.

EO Annual Compliance Report: If resources permit, CE&O will inaugurate an annual EO report summarizing EO accomplishments and highlighting areas of significant non-compliance discovered through examinations and other activities. This report will detail the nature and level of the non-compliance, describe plans to address it, and report on compliance improvements attributable to initiatives.

FY 2004 EXEMPT ORGANIZATIONS (EO) IMPLEMENTING GUIDELINES

The Mission of Exempt Organizations is to provide Exempt Organizations customers top quality service by helping them to understand and comply with applicable tax laws, and to protect the public interest by applying the tax law with integrity and fairness to all.

SEPTEMBER 2003

FY 2004
IMPLEMENTING GUIDELINES

TELEPHONE CONTACTS

Questions regarding the Guidelines should be referred to the following individuals as indicated.

<p>Sanford Ayers, Executive Assistant to the Director Exempt Organizations</p> <p>Staff Contact: Regina Northan</p> <ul style="list-style-type: none"> • General Questions • Account Management and Assistance- Electronic/Correspondence Assistance Planning Guidelines • Unit General Management and Administration Planning Guidelines 	<p>(202)283-2300</p> <p>(202)283-2300</p>
<p>Midori Morgan-Gaide, Senior Manager for EO Electronic Initiatives Office</p> <p>Staff Contact: Sue Lehman</p>	<p>(202)283-8864</p> <p>(202)283-8857</p>
<p>Rosie C. Johnson, Director Examinations</p> <p>Staff Contact: Debra Petersen</p> <ul style="list-style-type: none"> • Field Examinations Planning Guidelines 	<p>(214)413-5425</p> <p>(626)312-3616</p>
<p>Lois G. Lerner, Director Rulings and Agreements</p> <p>Staff Contact: Michael Rachael</p> <ul style="list-style-type: none"> • Rulings and Agreements Planning Guidelines 	<p>(202)283-9488</p> <p>(404)338-8241</p>
<p>Roberta Zarin, Director Customer Education and Outreach</p> <ul style="list-style-type: none"> • Taxpayer Communication and Education Planning Guidelines 	<p>(202)283-2300</p>

FY 2004 IMPLEMENTING GUIDELINES

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OFFICE OF THE DIRECTOR, EXEMPT ORGANIZATIONS

The Director, Exempt Organizations is responsible for planning, managing, directing and executing nationwide activities for Exempt Organizations. The Director reports to the TE/GE Division Commissioner. The Executive Assistant to the Director and the Program Management Staff support the activities of the Director's office. The Director, Exempt Organizations also supervises and is responsible for the activities of the Directors of Customer Education & Outreach (CE&O), Rulings & Agreements (R&A), Examinations and the Manager, EO Electronic Initiatives.

WHAT'S NEW FOR 2004

NEW OFFICES

The following new offices are being designed and rolled out as discussed in the text below.

- **Exempt Organizations Electronic Initiatives Office**
- **Exempt Organizations Compliance Unit**
- **Data Analysis Unit(EOCU)**

FOCUS AREAS

The following will be the focus areas for EO in the coming year. Each is discussed in greater detail below in the body of the text.

- **Electronic Filing – Forms 990**
- **Determination Letter Process Redesign**
- **Support of Anti-Terrorism Efforts**
- **Tax Avoidance Schemes**
- **Political Activities**

EO ELECTRONIC INITIATIVES OFFICE

The Electronic Initiatives Office was established in FY 2003. The Manager for EO Electronic Initiatives is responsible for managing, directing, and coordinating the development and deployment of new automation efforts to support evolving and expanding business expectations using measures that balance customer satisfaction, employee satisfaction, and business results. The Manager reports to the Director, Exempt Organizations.

FY 2004 FOCUS AREAS

Electronic Filing

- Partner with other parts of the Service to deliver the Form 990 series electronic filing as part of the Modernized e-File (MeF) Program.
- Facilitate the necessary transition activities to enable impacted employees and managers to perform in the new electronic environment.
- Work with internal and external stakeholders to market the MeF Program.

Support implementation of the Data Analysis Unit

- Working with the DAU Implementation Team in the development of the organizational concept.
- Determining hardware, software, and data needs; and facilitating acquisition of data sources.

Support Cyber-Assistant – Interactive Form 1023 Internet Application

- Facilitate development of the feasibility assessment.
- Direct the program management approach through development.

Enhanced Public Disclosure

- Develop overall vision for electronic access to EO public documents.

Transition of Imaging Responsibilities from Statistics of Income to TE/GE

E-Services

- Determine EO strategic direction for conducting business over the Internet.
- Coordinate with Business Systems Planning and E-Services to ensure EO requirements are included.

Support Other Automation Initiatives

- Coordinate business requirements and support for revenue agent workcenterwork center.
- Provide consultation on project to redesign front-end determination letter process.

EO EXAMINATIONS

OVERVIEW

The Director, EO Examinations supervises the activities of EO Examination Programs and Review (EPR) and the six EO Area Offices, and reports to Director, Exempt Organizations. EPR is supervised by the Manager, EPR, and is made up of support functions, including Examination Planning and Programs (EPP), Classification, Mandatory Review, Special Review and Examinations Special Support. EO Examinations within the Area Offices is comprised of EO examination specialists, supervised by EO Group Managers who are supervised by the EO Area Manager within a given geographic area.

The TE/GE Strategic Plan calls for improving the IRS presence in the exempt organizations community to promote greater overall compliance and fairness in this sector. Meeting this operating priority has proven challenging in the face of increasing Form 990 series return filings, declining overall resources, and the diversion in the past of employees from the examination process to determination work. Beginning in FY 2002, actions were initiated to reverse the decline in EO examination coverage rates. The workforce was stabilized between the examination and determination programs, and limited scope examinations were implemented. These initiatives continued in FY 2003, and the EO enforcement emphasis was expanded to additional compliance techniques, allowing more efficient use of resources.

This year's examination plan expands our efforts to keep up with the growth in the exempt organizations sector. Examination coverage will continue to improve as more effective methods of allocating and utilizing resources are pursued. In addition to the increased use of alternative audit techniques, FY 2004 will see the introduction of the Exempt Organizations Compliance Unit (EOCU), where compliance checks will be the primary source of work. The Data Analysis Unit will also be formed in FY 2004, with a goal of identifying the most productive source work for Exempt Organizations.

The FY 2004 plan continues to recognize that the EO Examination function plays a key role in education and outreach and acknowledges that examination resources will be utilized in a flexible manner, well beyond use in the traditional direct examination context.

Lastly, the Strategic Plan provides for the continuation of a market segment approach in EO. What follows is an attempt to balance both the need to provide broad coverage with the need to focus resources in a manner that will allow the IRS to learn from its examinations.

NEW DEVELOPMENTS

Exempt Organizations Compliance Unit (EOCU)

The EOCU will be established, in part, to more effectively leverage limited EO resources. The EOCU, to be located in Ogden, will address EO customer noncompliance using correspondence and telephone contacts. The Unit will free up field examination personnel to conduct audit work requiring face-to-face contact. The Unit will be comprised of revenue agents and tax examiners. We expect the EOCU to become operational in January 2004.

Work projects are under development for implementation by the EOCU during FY 2004. As part of these projects, the EOCU will contact taxpayers about a specific compliance issue under review. Compliance check projects may involve a range of strategies such as:

- The issuance of information notices or other educational material on a given issue
- The issuance of targeted compliance notices to non-compliant organizations, with directions for taking appropriate actions
- Associated follow-up contacts
- Correspondence examinations, where the scope of the examination will generally be limited to the specific compliance issue

To date, 16 projects have been approved. An additional 13 projects are under consideration by a project development team. Prior to full-scale implementation of a given project, tests will be conducted on a sample of the population.

The first project that will be tested is an educational project on fundraising. Research shows that there are well over 2,000 entities that report substantial contributions but show no fundraising expenses. An educational letter explaining the proper reporting requirements will be sent out to organizations whose returns are due during the subsequent quarter. Those organizations contacted will be monitored to see if their subsequently filed returns show fundraising expenses. Appropriate actions will be taken if reporting requirements have not been met.

It is intended that through these efforts, as well as by the other actions outlined in these guidelines, the Service can improve the quality of the reporting on a variety of forms, including Forms 990, 990EZ, 990-T, 941, 730, 11-C, 8871 and 8872.

Data Analysis Unit

The Data Analysis Unit will use various databases and information to investigate emerging compliance trends to improve the identification and selection of source work for Exempt Organizations. The Unit will be comprised of economists, statisticians, and

research analysts. It is expected to become operational in Spring 2004. This unit may ultimately be expanded to include a functioning "lead development center" patterned in part after centers operating in SB/SE and LMSB.

EO Team Examination Program

We are continuing the transition from the prior Coordinated Examination Program (CEP) to the new Team Examination Program (TEP). This includes the development and refinement of key TEP processes and the eventual creation of TEP groups in the Areas.

The Team audit concept/design will be utilized on a wider array of taxpayers than have traditionally been the focus of the program. We will continue to expand our knowledge of the specific problems and needs of different market segments. Our focus will be directed toward establishment of the following:

- Refinement of the TEP universe population and identification procedures
- Development of Team Examination Knowledge Management Process
- Team Examination Selection and Documentation Process, including automated return scoring and screening
- Oversight of the Team Examination Program
- Development of a long-range planning process for TEP
- Completion of the creation of dedicated TEP groups
- Refinement of key TEP processes and procedures

TEP entities with significant potential noncompliance will be identified and examined. The project approach, through market segment studies and compliance projects, will play an increased role in Exempt Organizations' compliance efforts in TEP. Consistent with Exempt Organizations' examination priorities and focus on potential noncompliance, the FY 2004 TEP examination priorities will include the following:

- Referrals
- Cases selected under market segment studies and compliance projects
- Medical Resident FICA Claims requiring examination
- Requests for assistance/support from the Large & Mid-Size Business Division (LMSB)

Support of Anti-Terrorism Efforts

EO Examinations will continue supporting anti-terrorist efforts by the U.S. Government. This will be accomplished through participation in task force(s) as required to combat the funding of terrorism through U.S. or foreign charities. This work will include the provision of specific support to functions within or outside of the Service on specific cases. Exam also will work with other EO functions on possible guidance in this area, targeted outreach, and on various examination projects as discussed below, including the foreign grant study.

EXAMINATION PROGRAM

Audit Techniques

The audit techniques for conducting examination activities are field, office and correspondence/OCEP (Office Correspondence Examination Program). Field examinations of large, complex organizations that require a team of specialized revenue agents, as well as coordination between IRS functions and other governmental agencies, are conducted using team audit procedures. The appropriate audit technique for each case is based on the potential issues involved, the scope of the examination, and the most effective way to gather required information. Generally, group managers are responsible for determining the appropriate audit technique.

More cases will be examined using OCEP and limited scope in FY 2004. Cases identified for limited scope examinations have been selected by either manual classification by an experienced Revenue Agent or through the Return Inventory and Classification System (RICS) as being most likely to be non-compliant in specific areas. The scope of the examination for limited scope audits should be limited to the classified issues and large, unusual or questionable items (LUQ) reflected on the return. Additionally, the agent should review the organizing documents to determine the organization's exempt purpose. Where exempt purpose is not a classified issue, an analysis of the operational activities is not generally appropriate. On all cases the agent must also establish that the organization has filed all other required Federal returns. Additional issues can be pursued with the manager's documented approval. The case file must include proper documentation concerning the scope of the examination and the package audit requirements. Standard closing letters are used.

During FY 2004, EO Examinations will continue to encourage future voluntary compliance with filing and recordkeeping requirements by placing emphasis on the issuance of Inadequate Recordkeeping Reports and the imposition of penalties for incomplete returns (i.e., omitted or inaccurate information on the compensation of officers, etc.).

Continued emphasis also should be placed on the maximum collection of agreed deficiencies.

Referrals

Referrals are information items forwarded by those outside EO Examinations. Referrals that are classified as exam worthy will continue to be designated as priority. Among referrals, the highest priority will be given to those involving:

- Abusive tax shelters
- Financing terrorism (civil issues)
- Fraud

- Disaster relief
- Political activity
- Inurement

Other priorities will be established as necessary. All referrals and/or information items received by EO Examinations must be processed through EPR Classification prior to assignment to the field groups.

Program Areas

The EO Examination Program consists of two distinct program areas as follows:

- EO Team Examination (as described above)
- General Program, which includes regular casework as well as specialty areas such as Gaming, Medical/Dental FICA Claims, and the Compliance Program (e.g., market segment studies, compliance/education projects)

Each of these unique programs has its own examination emphasis, emerging issues, procedures and resource needs.

General Program

- Gaming (Gambling) Program

Area Gaming Coordinators have been identified for each of the Areas, along with a National Charitable Gaming Coordinator. A National Charitable Gaming Strategy and action plan have been developed to ensure compliance issues in the charitable gaming industry are addressed consistently and fairly nationwide, regardless of the state regulatory schemes. A multi-year plan has been developed which includes not only compliance efforts, but educational, legislative, and guidance actions.

In FY 2004, Area Gaming Coordinators, in conjunction with Group Managers and Government Liaison, will establish and maintain contacts with state/local gaming regulatory agencies to:

- Facilitate gathering information about the industry and emerging issues
- Build a database repository on state laws
- Learn what state enforcement efforts have uncovered
- Explore educational opportunities
- Develop inter-agency training
- Establish a referral pipeline from the states

Gaming examinations have been planned for FY 2004. As appropriate, Area Gaming Coordinators will work with Group Managers and the state gaming

authorities in their Areas to identify and implement projects to focus on gaming issues. Issues to be addressed will include the requirements for exemption, employment tax, excise tax and/or other filing requirements. The projects will be designed to focus on those organizations most likely to be non-compliant. As new initiatives are developed, they will be coordinated through the National Charitable Gaming Coordinator, and Examinations Planning and Programs (EPP) for approval and assistance in implementation. In addition, EO will attempt to profile this industry to learn the characteristics and compliance levels.

Team examination techniques may be used where there would be a material benefit from a team examination approach in concurrently examining the exempt organization, the for-profit gaming operator, and peripheral entities such as gaming suppliers and security firms.

We will also identify, develop and monitor projects for the EOCU to address gaming compliance issues.

Education and outreach initiatives will continue to be considered to encourage voluntary compliance by organizations engaging in gaming activities. All Education and Outreach initiatives will be coordinated with the Director, EO Customer Education and Outreach.

- Post Voluntary Compliance On Alien Withholding Program (Post VCAP)

VCAP was a voluntary compliance program for colleges, universities and related organizations that may not have been in compliance with the withholding tax regulations on payments to non-resident aliens. VCAP became effective on February 26, 2001 and ended on February 28, 2002. Only 12 VCAP submissions were received under the program. As a result, an action plan was developed to address the number of colleges/universities and related organizations that still may not be in compliance with the excise and withholding tax regulations on payments (such as wages, grants, scholarships, and other income) to non-resident aliens.

During FY 2004 enforcement actions will include compliance checks and limited scope examinations, focusing on the non-resident alien reporting and withholding issue, as well as other applicable employment tax related issues. The enforcement actions will provide a means to determine additional potentially non-compliant colleges and universities. The initial examination phase will continue from FY 2003 and be completed in FY 2004. Additional examinations will be dependent on responses to compliance check letters that were mailed to those selected colleges and universities. One or more samples of organizations were selected based on criteria that make it more likely that the non-resident issue exists with respect to the organization. The organizations were contacted to determine their ongoing compliance with the rules. After gathering the results of our examinations and compliance checks, we will determine the need for

additional outreach or enforcement actions. Consideration is also being given to expanding the project to the healthcare industry.

- **Medical/Dental FICA Claims**

Examinations will continue for entities that have filed claims for refund of FICA taxes paid on behalf of Medical/Dental Residents. Coordination between Counsel and EO Examinations is an essential factor in the examination of these cases. EO Examinations will generally conduct limited scope examinations both for entities that have filed claims for refund of FICA taxes paid on behalf of Medical/Dental Residents and for 403(b) Plan Participants.

Compliance Program

The EO Compliance Program is part of the IRS's overall Strategic Compliance Approach. The EO Compliance Program is a systematic method to understand and improve compliance through direct case examinations, non-examination compliance/education activities and general compliance research activities. Compliance activities are discussed in the following categories:

- Tax Avoidance Schemes and Shelters
- Market Segment Studies
- Compliance/Education Projects
- Emerging Issues and Focus Areas
- Non-Compliance Indicated on Returns/Condition Codes

The objective of the EO Compliance Program is to continually build knowledge through the research of all available internal and external data. Information will also be gathered through research sampling via examinations of various market segments within the exempt organizations universe. EO Compliance Program activities will be coordinated with the office of the Director, Research and Analysis.

Tax Avoidance Schemes and Shelters

Exam will place special emphasis on addressing tax avoidance schemes and shelters. For each issue involving a large population or requiring complex coordination, a team will develop a compliance strategy, often with other parts of the Service. Generally, abusive transactions may follow one of three patterns: deductible funds are run through the exempt organization to pay personal benefits; income or appreciated assets are inappropriately sheltered in the EO from current taxes; or the EO is used to create inappropriate acceleration of business expenses. Exam is aware of several transactions in this area, including those involving the following types of organizations, recognizing that the organizations themselves are not tax avoidance schemes but, in some instances, are being utilized for questionable purposes:

- Section 501(c)(15) Entities and Producer-Owned Reinsurance Companies (PORCs): Section 501(c)(15) provides tax exemption for small non-life mutual insurance companies. Existing compliance efforts concerning section 501(c)(15) organizations and PORCs were consolidated when a PORC Task Force Group was established in Spring 2003. This cross-functional group is addressing several perceived abuses in the 501(c)(15) and 1120 areas, including those described in Notices 2002-70 and 2003-35. While there are many issues being addressed, the EO team members will focus on whether the 501(c)(15) organization meets the requirements for exemption both at establishment and in operation over time. Additional cases are being pursued where a claimed 501(c)(15) organization is used to defer tax on investment earnings that are significantly in excess of insurance reserve requirements. The work of this team is also part of the 501(c)(15) Compliance Project.
- Donor-advised funds: A number of organizations have come to light through examinations, referrals from other parts of the Service, and public scrutiny, which appear to abuse the basic concepts underlying donor-advised funds. The organizations, while promoted as legitimate donor-advised funds, appear to be established for the purposes of generating questionable charitable deductions, providing impermissible economic benefits to the donors and their families (including tax-sheltered investment income for the donors), and providing management fees for the promoters. While not a part of the coming study on National donor-advised funds, a compliance strategy will be developed to address questionable donor-advised funds as an adjunct to this study.
- 509(a)(3) Supporting Organizations: Various promoters appear to be marketing purported supporting organizations that abuse the 509(a)(3) rules. Compliance activities will address, through examinations, identified schemes and will be coordinated with the Market Segment Committee on 509(a)(3) supporting organizations.
 - Organizations Enrolled in Housing and Urban Development (HUD) Programs: HUD has provided information concerning questionable practices by individuals setting up exempt organizations for the purpose of participating in a number of HUD programs. A team has been commissioned and will continue in FY 2004 to develop a compliance strategy to address the full scope of issues. One or more examinations projects will commence in FY 2004.
- Voluntary Employees' Beneficiary Associations (VEBAs): The IRS has identified certain section 419A deduction abuses, some of which employ VEBA trusts,
 - and designated them as listed transactions under the IRS tax shelter regulations. VEBA deduction abuses and designated them as listed transactions under the IRS tax shelter regulations. See IRS Notices 95-34 (listed by Notice 2000-1) and Notice 2003-24. In addition, EoO is forming a committee to address

two other emerging issues involving VEBA's, including exemption and UBIT issues. :

The committee will develop a strategy to determine the extent of the non-compliance and ways to increase compliance for these and other issues.

- Other Areas of Focus:
 - Use of Corporation Sole organizations to shelter assets and income from taxation and personal liability
 - Various estate tax schemes
 - Charitable Family Limited Partnerships
 - Use of certain exempt and non-exempt trusts.

Market Segment Approach

The Market Segment approach is based on the recognition that the EO community consists of widely diverse segments of organizations with widely diverse needs. For example, small volunteer organizations have very different issues and needs than larger non-profit hospital systems. Forty-two market segments have been preliminarily identified within EO. Available information, including compliance information for each segment, has been collated. The number and make-up of market segments will continue to be refined over time. The Service will conduct a review of most segments. To the extent the IRS does not have sufficient information upon which to assess the characteristics of a particular segment, market segment studies may be necessary. These studies may or may not require examinations.

The studies consist of research samples designed to profile unique segments of the EO universe and are essential to the risk assessment process. Profiling is an activity designed to obtain and collect data on market segments. The profile of a market segment contains information on its:

- characteristics;
- geographical location;
- compliance levels with
 - technical requirements under the Internal Revenue Code and Regulations
 - procedural requirements for completeness and accuracy of the return filing;
 - and
- examination coverage.

Each study will measure compliance with all requirements applicable to that segment. Long-range goals call for the ratable completion of studies on most or all identified EO market segments. Non-compliance identified through the market segment studies will then be assessed for the level of associated risk. Compliance improvement projects and educational activities will be designed to address areas of non-compliance identified through the risk assessment process.

The results of completed samples and profiling activities will be discussed in formulating the EO Compliance Program Plan. The plan will be submitted to the Director, Exempt Organizations for review and approval prior to implementation.

Market Segment Studies

The Market Segment Studies currently in process are:

- Social Clubs
- Business Leagues
- Labor Organizations
- Social Services Organizations
- Religious Organizations
- Community Foundations
- Colleges and Universities
- Hospitals
- 509(a)(3) Supporting Organizations
- Fraternal Organizations
- Arts & Humanities Organizations
- Private Foundations
- Elder Housing.

Final reports on Social Clubs, Business Leagues, and Labor Organizations are projected to be submitted during the third quarter of FY 2004. Studies on Religious Organizations, Social Services, Colleges and Universities, Hospitals, and 509(a)(3) Supporting Organizations, are projected to conclude by the fourth quarter of FY 2004, with final reports submitted by year-end. These reports will provide profiles of the market segments as well as recommendations for improving any non-compliance identified through the studies. Recommendations are expected to be broad in scope and may include a wide variety of measures such as proposals for legislation or regulations, educational initiatives, publications, forms revisions, compliance checks, targeted examinations, etc. Approved recommendations will be shared with the appropriate operating functions. Those within the jurisdiction of EO Examinations will be considered for incorporation into the EO Examination Program in subsequent fiscal years. Profiling information provided in the reports will be used in updating the EO Compliance Risk Assessment. The remaining studies listed above are expected to conclude in FY 2005.

Studies carried out in FY2002 and 2003 have demonstrated that the period of time needed for study development is longer than originally scheduled. In addition, a significant portion of EO Examinations resources will be needed to address the apparent increase in tax avoidance schemes and tax shelter activity. Consequently, fewer new market segment studies will be initiated during FY2004. In addition, this year's market segment studies will be rolled out at a slower pace than in prior years.

Development of three new studies will begin late in FY 2004:

- **Fundraising Organizations:** The Fundraising Market Segment is a subset of the larger grant-making market segment, and consists of publicly supported 501(c)(3) organizations that have limited exempt activity other than raising and distributing funds on behalf of other organizations. Data will be captured on issues relating to fundraising organizations such as filing requirements, employment tax, unrelated business income tax, gaming and other fundraising, non-exempt activities, inurement, public disclosure, and political activity. In addition, general demographic data will be captured for use in building the fundraising organization profile. This study continues the Service's review of grant-making organizations. As such, it will be coordinated with other ongoing studies and compliance projects in the areas of community foundations, private foundations, supporting organizations and donor-advised funds.
- **Private Schools:** Data will be captured on issues relating to private schools other than colleges and universities. Issues to be reviewed as part of the study include organizational test, filing requirements, employment tax, discrimination, unrelated business income tax, gaming and other fundraising, non-exempt activities, foundation status, lobbying and political activity, inurement/private benefit, intermediate sanctions, public disclosure, joint ventures, and scholarships. In addition, general demographic data will be captured for use in building the private schools profile.
- **Non-exempt Trusts:** Data will be captured on issues relating to non-exempt charitable trusts as defined in IRC 4947(a)(1) for filing requirements, unrelated business income tax, inurement/private benefit, intermediate sanctions, and Chapter 42 excise tax. In addition, general demographic data will be captured for use in building the non-exempt trust profile. The study may be expanded to include split-interest trusts defined in IRC 4947(a)(2).

Continuing Compliance/Education Projects

Coordinating committees were formed in FY 2003 to develop strategies to address additional areas of non-compliance. As these committees develop approved strategies, additional compliance activities will begin in FY 2004, most often involving examination projects, but also educational activities or other compliance or enforcement activity.

Each Coordinating Committee will prepare a final report to present its findings and strategy when the development process is completed (usually within 12 to 18 months). During the first quarter of FY 2004, final reports are due from committees working on Group Rulings, Private School Schedule A Filing, and Status 40/41 issues. These strategies are expected to cover procedural and processing changes. They will be reviewed for approval and appropriate implementation in future fiscal years.

Committees working on non-filer and IRC 501(c)(15) issues are expected to submit final strategy reports by the end of FY 2004.

Like the recommendations of the market segment studies, the strategies are expected to entail a wide range of activities, such as procedural revisions, processing improvements, proposals for legislation or regulations, educational initiatives, publications, forms revisions, compliance checks, targeted examination projects, etc. Recommendations for strategic actions will be shared with the appropriate operating functions, and those within the jurisdiction of EO Examinations will be considered in the development of future examination program plans.

The following committees will continue into FY 2004:

- 501(c)(15) Organizations: During FY 2003, this committee implemented a project to enhance compliance in these non-life insurance cases through activities in the areas of guidance, determinations and examinations. The determination program enhancements include increased training, published guidance and focused inquiry letters. The examination program includes examinations of returns manually selected for indications of one of the issue patterns compiled by this committee. These audits will enable us to ascertain how identified issues play out in operation and to understand how they can be identified on the returns. They will enable us to determine whether there is abuse of 501(c)(15) organizations and what additional examination or other compliance projects should be undertaken. This committee is coordinating with the cross-functional PORC team.
- Form 990 Delinquent Filers & Non-filers: The committee has designed a comprehensive strategy for improving compliance with Form 990 filing requirements. They have analyzed data from the current delinquency notice-processing program at the Ogden Campus. The efficacy of the notice program is being evaluated through test and control samples of delinquent non-filers. An examination effort will also be implemented to address non-filers that failed to respond during the notice program. Examinations are also contemplated for a statistical sample of moderate-to-large sized organizations that have a Form 990 filing requirement (as reflected on the Business Master File) but have not filed returns. These organizations will be selected from the entire EO universe, without regard to market segment designation. The examinations will be initiated by correspondence as part of the EO OCEP program, but may be converted to field examinations by the group manager as appropriate. The committee has also recommended improvements to the delinquent filer penalty program. As the team's recommendations are approved, they will be implemented in FY 2004.
- Donor-advised Funds: The committee has developed a process to begin the study of the donor-advised area. For inclusion in the donor-advised fund study, the committee considered so-called National donor-advised funds, other organizations having donor-advised mechanisms as their primary activity or purpose, and organizations utilizing donor-advised giving mechanisms as part of

their fundraising apparatus, but which operate the mechanism primarily as an additional method to get funding for the organization itself. Work is continuing on how to segment the entire grant-making sector. An examination study of a selection of National donor-advised funds will begin in FY 2004. While this is a separate study, the work in this area will be coordinated with the work relating to other grant-making areas including, community foundations, private foundations, supporting organizations, and fundraising organizations. In addition, work on donor-advised funds that utilize more aggressive tactics will be coordinated with the proposed study.

- Inurement and Intermediate Sanctions: This committee has made recommendations for consistent implementation of IRC 4958 and its regulations related to excessive benefit transactions. Approved recommendations are being implemented in both EO Examinations and Rulings and Agreements. As part of the project, organizations will be contacted and asked to explain the method by which compensation and other transactions for certain individuals has been set. Organizations likely to be contacted include at least one or more samples of organizations that have very highly compensated employees but low revenues or assets. Other categories of organizations for sampling (including those where contracts with disqualified persons exist) have also been identified. Work will also be done with respect to those organizations with a certain level of loan activity with disqualified persons. After consideration of the results of these samples, additional refinement will occur and identifying criteria for examination will be established. In addition, contacts are being made with those organizations that may have disclosed excess benefit transactions on their Forms 990.
- Fundraising Activities: This committee is continuing its work on developing strategies to deal with this issue and expects to test one or more samples of cases in FY 2004. One project will include contacting organizations that have taken certain contribution and expense positions on their returns (e.g. those with high contributions and relatively low fundraising expenses). Incomplete or accuracy-related penalties will be imposed as indicated. The committee will assist in ongoing examinations where agents who examine Forms 990 of public charities will continue to check to see whether fundraising income and expenses are being properly reported. Agents are asked to check amounts reported on Form 990 against the organization's audited financial statements and/or other books and records to determine whether the fundraising income and expenses are properly reported. Penalties under IRC 6652(c) should be imposed, where appropriate.
- Donated Property: This committee is developing proposals to address technical issues, education, exam issues and procedures. They will also coordinate strategies with the Fundraising Committee. In FY 2003, a project was developed to utilize one or more state licensing databases in order to study by examination

the operations of organizations in this area. The project implementation is expected through FY 2004.

- Form 990 Revision: A committee was formed in FY 2003 to redesign the Form 990 to make it a tool for EO to improve identification of compliance issues while continuing to serve as an informative document for any entity's contributors and other members of the general public. The team will integrate information from various groups addressing different aspects of Form 990 utilization. The team has recommended and secured approval for changes to address gaming and the use of donor advised funds on the 2003 Form 990. These changes have been coordinated to ensure compatibility with the Form 990 electronic filing initiative. It is anticipated that the overall redesign of the Form 990 will be achieved with the 2005 Form 990.
- Consumer Credit Services: The committee is pursuing strategies to address inurement/private benefit issues in credit counseling services, issues related to consumer credit services that operate as commercial businesses, as well as issues related to possible sham organizations established as part of a tax shelter promotion. The strategy will include an examination program covering consumer credit agencies, as well as possible public guidance.
- Compliance with rules on foreign grants and distributions: The committee is developing a strategy to measure and monitor compliance with expenditure responsibility by public charities making grants or distributing funds outside the United States. Of vital importance is the development of a strategy to ensure that funds leaving the U.S are used for their intended charitable purpose and not diverted for terrorist purposes. The project under development will focus on current practices, that is, the existence and effectiveness of controls put in place to monitor the distribution of overseas grants and other assistance. This committee will also address the need for possible guidance or other modifications to the rules in this area.
- Disaster Relief Organizations: The committee is in the process of designing a two-pronged approach to identify and monitor both those organizations that were formed in the wake of the terrorist attacks of September 11, 2001, and organizations that existed prior to September 11, and registered or operated as disaster relief organizations. The focus will be to ensure that distributions were made in compliance with the Victims of Terrorism Tax Relief Act of 2001, that there was no private benefit, inurement, or fraud, and that the organizations are fulfilling their exempt purpose. The monitoring effort will include a comprehensive review of all Forms 990 for these organizations and, as warranted after the review, examinations of some or all of these organizations. It is also expected that as part of the 990 review, EO will pursue non-filers and will compile key demographic and other information concerning the organizations.

Non-Compliance Indicated on Returns

Non-Compliance Indicator Return cases are those selected for examination because they meet certain condition codes developed by Examination Planning & Programs and Classification. The condition codes identify returns that have potential for non-compliance based on information provided by the taxpayer, usually through return information. The scope of Non-Compliance Indicator returns audits is generally limited to the potential compliance issue identified by the condition code, the operational/organizational test and large, unusual or questionable items on the return.

Based on feedback received during FY2003, some of the Non-compliance Indicator Return projects have not yielded the expected results. EO EPR staff will analyze the results of examination cases selected as part of these projects. The accuracy and effectiveness of the selection criteria will be assessed to determine whether the projects should be continued or whether new projects should be initiated.

EO RULINGS AND AGREEMENTS

OVERVIEW

The Director, EO Rulings & Agreements (EO R&A) is responsible for planning, managing, and executing nationwide activities for the EO Determinations and Technical Guidance programs. EO Determinations considers whether organizations meet the requirements to be recognized as exempt from federal income tax. Applications that do not raise issues or questions about the organization's qualification for exemption are approved upon initial review. Applications that cannot be closed through this initial review process are referred for more detailed processing. The EO Determination Quality Assurance Office promotes fair, impartial, courteous, and professional processing of determination cases, and advises management of areas needing attention.

EO Technical processes initial applications for recognition of exemption referred from EO Determinations, responds to Technical Advice and Assistance Requests from the EO Examinations, and issues private letter rulings. EO Technical Guidance & Quality Assurance provides technical interpretations of laws and procedures relating to exempt organizations in conjunction with the Department of Treasury and the Office of Chief Counsel.

FY 2004 FOCUS AREAS

Continued Increase in EO Determination Applications

EO determination requests have increased from 65,810 in 1994 to 89,000 in 2003. While staffing devoted to this process has increased since 1994, the level of staffing is now frozen at 2002 levels due to the need to stabilize the number of examination agents. Thus in 2004 EO R&A will need to continue to develop efficiencies to effectively address rising receipts by:

- Establishing one or more full-time technical screening groups to enhance the processing of determination applications. Experienced determination specialists will review and make closure decisions on initial applications assisted by clerical staff that will secure minor, additional information from applicants and generate the determination closing letters.

- Continuing efforts to ensure consistency of service and identify and share best practices across the geographically-dispersed EO Determinations workforce, such as, roundtable discussions among determination agents and managers.
- Issuing the revised Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, making it easier for applicants to complete and for determination agents to review and process.
- Revising the Form 1024, *Application for Recognition of Exemption Under Section 501(a) of the Internal Revenue Code*, to make it easier to complete and process.
- Supporting the development of TEGE Determination System (TEDS), to replace the current methods for handling and tracking determination application cases. Under TEDS, the vision is that all determination application filings will be imaged upon receipt, allowing for automated routing of cases through the various processing stages.
- Supporting the feasibility and eventual development of an internet application for the IRS web site that will provide an interactive method for filling out a Form 1023 through its “cyber assistant” program. The Cyber Assistant will guide an applicant organization through the Form 1023, explaining the need for and relevance of particular information, referring and linking to relevant IRS publications, defining essential and unfamiliar terms, and relating coordinated sections of Form 1023 to one another resulting in a more accurate and complete application.

Guidance to the Exempt Organizations Community

EO guidance items on the 2003/2004 IRS/Treasury Priority Guidance Plan are:

- Joint ventures between exempt organizations and for-profit companies
- Low-income housing partnerships and 501(c)(3) organizations
- Down payment assistance organizations
- Section 501(c)(4) organizations
- Internet and unrelated business income tax
- Section 529 regulations regarding qualified tuition programs
- Reporting requirements applicable to Coverdell education savings accounts
- Split interest trusts

Additional guidance will be issued, as necessary, throughout the year.

Market Segment Studies & Compliance Projects

R&A will participate on the Market Segment and Compliance projects that are studying the characteristics and compliance levels of identified customer segments. The results

of these studies will be used to improve examination selection and develop other methods to promote compliance.

Political Activity of Exempt Organizations

In November 2002, changes were made to the law concerning reporting requirements for political organizations, resulting in delayed development of compliance initiatives R&A originally planned for FY2003. Instead, the focus was directed toward guidance and outreach efforts to educate organizations and agents about the changes in the law and to completely redesign the electronic filing and disclosure website for political organizations. In July 2003 the IRS launched the new 527 filing and disclosure website that makes it easier for political organizations to electronically file required documents and greatly improves the public's access to these documents. During 2004, R&A will:

- Continue to provide support for further development and oversight of the 527 website.
- Develop a compliance plan relating to 527 reporting to be implemented by the second quarter of FY 2004, which includes validation of information filed by 527 organizations, as well as a strategy to identify and locate 527 organizations that have failed to file.
- Analyze, in conjunction with the 527 project, the impact on the regulated community of recent campaign finance legislation and related litigation.
- Work with Examination on casework developed out of referrals or compliance projects.
- Work with CE&O and others on possible public guidance in this area.

Tax Avoidance Schemes/Shelters and Fraud

EO is dedicating increased resources to these areas. In addition to work within EO, we have begun extensive work with SBSE and LMSB on a number of tax shelter projects. As part of these, R&A will:

- Work with Exam to develop a more effective system for handling fraud and tax shelter referrals -- both those we receive and those we refer. This new process will be in place during that first quarter of 2004.
- Continue to participate with other parts of EO in cross-functional efforts to combat abusive tax avoidance schemes or shelters and improve EO's ability to identify and pursue questionable transactions and promoters.
- Assist in the development work surrounding the exploration of a new office to be staffed with fraud specialists, forensic accountants and agents with expertise in tracking flows of funds overseas. This office will bridge the gap in our ability to provide specialized exempt organization expertise to law enforcement and would provide assistance in identifying and working fraud cases. The office would

specialize in our most complex financial cases including those involving the funding of terrorism.

- Develop a civil and criminal tax fraud awareness-training program for all EO front-line employees and managers in coordination with EO Examinations, Research & Analysis, EO Determinations, Criminal Investigations, and Chief Counsel.

Support of Anti-Terrorism Efforts

EO continues to support anti-terrorism efforts of the U.S. government. EO will also pursue a multi-layered approach to ensure that assets are used for appropriate purposes. R&A contributions to this support will include:

- Continue to provide technical expertise to other governmental agencies involved in anti-terrorist activities.
- Participate in the development of educational initiatives in this area, including awareness training for agents and determination specialists.
- Work with CE&O on educational products to help charities maintain internal controls to ensure that assets are used for charitable purposes and to help charities meet due diligence requirements with respect to foreign grants.
- Partner with Counsel and Treasury in determining what, if any, guidance is needed in this area.
- Assist Exam in its study of foreign grant-making as more fully discussed above.

Fed/State Initiatives

R&A will implement a revised and invigorated federal-state information sharing process within the limits of sections 6103 and 6104 of the Internal Revenue Code.

R&A will coordinate with the National Association of State Charitable Officials (NASCO) to enhance mutual support, such as, conducting joint training activities.

Education and Outreach Support

R&A will continue to work with CE&O to provide:

- Technical support for the development of materials, such as, plain language publications and web-site content, to assist customers in understanding and complying with their tax responsibilities.

- Speakers for meetings, conferences, symposiums, etc.

EO Continuing Professional Education (CPE)

R&A will release CPE articles as completed, rather than as a single yearly text.

R&A will develop additional technical training materials for EO employees using various means including: the Internal Revenue Manual (IRM), memoranda, the IRS intranet, CENTRA (virtual classroom application), and interactive video (IVT).

Quality Initiative

R&A will develop guide sheets for employees to use as a job aid to address:

- IRC 509(a)(3) Private Foundation exception – supporting organization
- IRC 501(c)(3) – Hospitals and Clinics
- IRC 501(c)(3) – Instrumentalities of Government

R&A also will conduct one or more saturation reviews of a given segment of exemption applications to identify opportunities to improve quality, efficiency, and customer service.

Virtual Library

In conjunction with EO CE&O, R&A will report on the feasibility of a virtual library for EO employees to facilitate web-based research.

Advisory Committee for TE/GE (ACT)

R&A will continue to support ACT members on their projects, and implement recommendations contained in the ACT's May 2003 report such as:

- Development of fully interactive Form 1023 and Form 1024
- Development of Form 1023 "Helpful Hints" Checklist
- Investigating the feasibility of a standard public charity reclassification
- Investigating the feasibility of a one-stop name change process

EO CUSTOMER EDUCATION AND OUTREACH

OVERVIEW

The Director, Customer Education and Outreach (CE&O), develops the strategic direction of the nationwide education and outreach programs for EO customers. The Director, Customer Education and Outreach, reports to the Director, Exempt Organizations.

The Director, CE&O, manages a staff of revenue agents, tax law specialists, and support personnel who develop and deliver programs and products designed to assist exempt organizations understand their tax responsibilities. These activities, conducted with the involvement and participation of EO Exam and R&A, improve compliance by exempt organizations, one of TE/GE's major goals in the Strategic Plan.

During FY 2004, CE&O will continue to develop and expand existing programs. Using the experience learned during its first two years, CE&O will build a strategic multi-year education and outreach plan for the coming years. CE&O plans to complete a draft of this plan for comment in late FY 2004.

CE&O's work falls into five main categories:

- Workshops and Other Presentations
- Publications & Forms
- Web-based Programs
- Marketing and Communication Programs
- Support for Exam Programs

Workshops and Other Presentations

CE&O will continue to coordinate and oversee delivery of speeches and other presentations made by Exempt Organizations specialists. EO's FY 2004 speech and presentation activity will focus on the following four areas:

EO-Sponsored or Co-Sponsored Workshops

- Workshops for Small and Mid-size Exempt Organizations: Since FY 2001, EO has presented a series of one-day workshops for small and mid-size exempt organizations in various cities throughout the country. In most cases, these target organizations cannot or do not use a tax practitioner for their interactions with the IRS.

These workshops, presented by teams of experienced revenue agents and tax law specialists, offer guidance on a variety of topics such as EO filing requirements, unrelated business income, and public inspection and disclosure requirements, among others. In response to feedback received from attendees, the FY 2004 workshops will include new emphases on political activities of 501(c)(3) organizations, as well as a discussion of internal financial controls by exempt organizations.

In FY 2003, the program was conducted 36 times in twelve locations. While these workshops have been a success, limited resources and competing work priorities will force CE&O to cut the workshop program to 18 workshops in six locations in FY 2004. To reach the most organizations possible under these limitations, CE&O will increase the audience size per workshop.

- Applying for Tax Exempt Status Workshops: CE&O developed and piloted this 3½-hour workshop at the six 2003 IRS Tax Forums, using Exam, R&A and CE&O specialists as presenters. Based on positive feedback received, CE&O will offer this new workshop to representatives of organizations and tax practitioners not familiar with the process of applying for tax-exempt status.

In FY 2004, CE&O plans to co-sponsor the workshops with the National Association of State Charity Officials (NASCO) in two or three locations. NASCO also will coordinate the participation of other state agencies that regulate charities and/or non-profit organizations on issues such as gaming and sales tax.

CE&O's workshop programs draw their presenters from the Workshop Presenters Cadre that CE&O established in FY 2002. In conjunction with Learning and Education specialists, CE&O plans to develop and offer a Presentation Skills refresher class to the Workshop Presenters Cadre early in FY 2004.

- Financial Safeguards Program: CE&O will begin the planning for a program to be offered in early FY 2005 on financial safeguards for exempt organizations to ensure that assets are used for charitable purposes. This is part of EO's attempt to protect charitable assets and activities from misuse; particularly by individuals and organizations promoting terrorism. This planning work will dovetail with two new publications CE&O plans to begin in FY 2004: due diligence requirements for exempt organizations and guidance for contributors on making educated giving decisions.

IRS Tax Forums

The IRS Tax Forums are offered every summer in six locations around the country and last three days. The Forums offer tax professionals, such as enrolled agents and sole practitioner CPAs, educational opportunities on a variety of tax topics.

In FY 2003, CE&O presented two 50-minute seminars (“Introduction to EOs” and “Do’s and Don’ts for Churches and Religious Organizations”) and piloted the 3½ hour “Applying for Tax Exempt Status” workshop. Due to the overwhelming demand, EO repeated the workshop two to three times at each forum, reaching approximately 2,000 people. The seminars drew audiences ranging from 500 to 1,000. EO presentations reached a total audience of about 9,150 at the Tax Forums.

For the 2004 Tax Forums, CE&O will again develop proposals for EO seminars and workshops, coordinate the delivery of these presentations, and continue to sponsor a booth with the other TEGE offices.

Individual speeches

In FY 2003, EO accepted about 200 invitations to provide specialists to speak to a variety of audiences about tax issues affecting exempt organizations. CE&O provides the overall coordination of EO speeches by:

- Overseeing the procedures for requesting, approving and assigning speeches;
- Helping to prepare and edit speeches and presentations;
- Ordering appropriate forms and publications, and
- Coordinating the shipping of outreach equipment.

CE&O will continue to provide this coordination in FY 2004 and also will focus on:

- Proactive approach to speeches: CE&O will develop a more efficient and proactive approach to requests for EO speakers, seeking to reach more people and use travel funds more economically. For example, instead of responding to requests for speakers at various meetings of several different units of a parent organization (e.g., local PTAs), CE&O will offer to present a workshop at a regional or state conference of the parent where all of the subordinate organizations will be represented. In instances where speakers are requested to repeat a presentation throughout the year, CE&O will work with the requester early in the year to develop an agreed-upon schedules.
- Library of Materials: CE&O will expand and refine the library of presentation materials available via the Intranet to all EO presenters.
- Talking Points/Key Messages: CE&O will develop and regularly update talking points and key messages on selected topics, focusing on current issues of

interest to exempt organizations for speakers to incorporate in all of the workshop and presentation activities described above.

- Improved Communications: CE&O will develop a system of regular communication to alert specialists when presentation materials are added or updated.

Charitable Gaming Outreach

- Presentation materials: In conjunction with the Exam's National Gaming Strategy Committee, CE&O will develop educational materials (PowerPoint shows, presentation outlines, etc.) and provide them to Area Gaming Coordinators. Working with state offices that license gaming, the Coordinators will then arrange for presentations to groups of licensees and/or groups of the state agency personnel who examine licensees.
- Interactive Video Teletraining (IVT) on Gaming: CE&O, Exam and R&A will produce an IVT on gaming. CE&O will work with the Area Gaming Coordinators to invite state agency regulatory personnel to attend and possibly participate in the IVT broadcasts. In addition, CE&O will coordinate the reproduction and distribution of copies of the IVT to state regulatory agencies for future use with their employees and licensees.

Publications & Forms

CE&O is responsible for developing and updating EO publications and forms, in conjunction with other offices within EO and IRS Forms and Publications.

Publications

CE&O will complete publications started in FY 2003 and continue to produce new plain-language publications for its customers, including:

- "Do's and Don'ts for Exempt Organizations" (in progress; publication number not yet assigned)
- Donated Vehicle Program Brochures (in progress; publication numbers not yet assigned)
- Revise and update Publication 3079, *Gaming Publication for Tax Exempt Organizations* (in progress)
- Update Publication 892, *EO Appeal Procedures for Unagreed Issues*
- Update Publication 578, *Tax Information for Private Foundations and Foundation Managers*
- Publication regarding appropriate due diligence and internal financial safeguards to ensure assets are used for charitable purposes (new)
- Publication for contributors on making educated giving decisions (new)

EO Annual Compliance Report

If resources permit, CE&O will inaugurate an annual EO report summarizing EO accomplishments and highlighting areas of significant non-compliance discovered through examination and other activities. This report will detail the nature and level of the non-compliance, describe plans to address it, and report on compliance improvements attributable to initiatives.

Forms

In FY 2004, CE&O will facilitate:

- Major changes to the Form 990, as proposed by the Form 990 Project Team and EO Electronic Initiatives Office; and
- Revisions to Form 1023, including the development of an electronic version ("Cyber Assistant," see discussion below under Internet.)

Web-based Programs

CE&O is responsible for overseeing the EO portion of both the Internet and the Intranet websites. In FY 2004, more emphasis will be placed on improving and expanding internal and external communication and education via web-based programs so that EO can reach its customers more efficiently and timely.

Internet (www.IRS.gov)

During FY 2004, CE&O will continue to maintain and develop the EO portions of the IRS website, concentrating on improving the structure and accessibility of the Charities and Non-Profit pages. Specifically, CE&O will focus on:

- Computer-based Educational Products. These may include CDs, streaming video or on-line tutorials. These products extend the reach of the workshop programs CE&O has traditionally conducted, as well as provide customers with a wealth of EO-related tax publications, forms, and links all in one place. CE&O will research the appropriate types of products for various audiences and begin to develop and refine the material to be used in these products. Final production and distribution to the public is not expected until FY 2005.
- EO Life Cycle Charts. Developed by the Advisory Committee for TE/GE (ACT), these charts permit access to EO information in an easy and logical manner. CE&O will continue to work to add the charts to the IRS.gov.

- Interactive Form 1023 (“Cyber Assistant”). Cyber Assistant will guide an applicant organization through the Form 1023, explaining the need for and relevance of particular information, referring and linking to relevant IRS publications, defining essential and unfamiliar terms, and relating coordinated sections of Form 1023 to one another. CE&O will work with R&A to begin feasibility and ultimately the development of Cyber Assistant, working toward integrating it into the IRS Life Cycle and posting it on the IRS website.

EO Intranet

- Intranet Redesign: CE&O represents EO on the TE/GE Intranet Redesign Steering Committee. CE&O actively participated in drafting the new design for the Intranet site. When the site launches, CE&O will have significant responsibility for maintaining the site as well as educating EO employees about resources available on the site.
- Virtual Library: A major component of the new Intranet site will be a virtual library – a web-based research tool for EO employees. In FY 2004, CE&O will continue working with R & A and the Office of Servicewide Policy, Directives and Electronic Research (SPDER) to develop this library. CE&O will coordinate the development of the library, the posting of the content, and the education of the library’s functionality for EO employees.

Marketing and Communication Programs

Electronic Filing

CE&O will support the EO Electronic Initiatives Office in marketing electronic filing of EO returns. Marketing efforts are coordinated with various IRS offices including the Small Business/Self-Employed (SB/SE) Division’s Business Marketing Services, ETA and C&L and with various external stakeholders. Tasks will include assisting with the development of a communications plan, drafting and reviewing promotional materials, and identifying target customers and additional stakeholders.

Distribution Plans for Publications

In FY 2004, CE&O will work with the Communication & Liaison office to develop individual promotion and distribution plans for each new or revised publication. These plans will include consulting and working with appropriate outside stakeholders to ensure that appropriate customers are aware of the new or revised EO publications. Planning for distribution of three publications will begin in early FY 2004. They are as follows:

- The revised Publication 1828, *“Tax Guide for Churches and Religious Organizations,”* which will be printed in English and Spanish in early FY 2004.
- “Applying for 501(c)(3) Tax-Exempt Status”.
- “Compliance Guide for 501(c)(3) Tax-Exempt Organizations”.

CE&O will make the latter two publications available at state charity offices that grant state non-profit status to organizations.

Communicating Legislative Changes

Pending legislation affects the reporting requirements of many tax-exempt organizations. CE&O will take the lead in communicating any changes to the affected organizations and educating them about their new responsibilities. Such communications could involve postings on the Internet, mass mailings, and interaction with stakeholders and media alerts.

Notice Clarity

CE&O continues to serve as the EO “notice clarity” review function for all of EO. CE&O will review all taxpayer communications developed or “owned” by EO. This role will grow in FY 2004 as the EO Compliance Unit in Ogden becomes operational, and CE&O reviews all of the new office’s initial communications with taxpayers.

Support for Compliance Projects

EO has a variety of Compliance Projects underway. These are committee efforts, typically led by an Exam manager with representation from other EO functions, including CE&O. Some of these compliance projects will result in education or outreach efforts. In FY 2004, CE&O will continue to participate on Compliance Project committees and evaluate the feasibility of resulting outreach proposals.

