

**GAO**

Report to the Honorable Bill Thomas,  
Chairman, Committee on Ways and  
Means, House of Representatives

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July 2002

# POLITICAL ORGANIZATIONS

## Data Disclosure and IRS's Oversight of Organizations Should Be Improved



**G A O**

Accountability \* Integrity \* Reliability

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## **Abbreviations**

EIN	employer identification number
FEC	Federal Election Commission
FECA	Federal Election Campaign Act
GPRA	Government Performance and Results Act
IRS	Internal Revenue Service
PAC	Political Action Committee
PDF	portable document format
SSN	Social Security Number



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Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

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July 17, 2002

The Honorable Bill Thomas  
Chairman, Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

Certain tax-exempt organizations seeking to influence political elections—called Section 527 organizations—are estimated to annually spend hundreds of millions of dollars.<sup>1</sup> In federal elections, these organizations have been able to use unregulated “soft money”<sup>2</sup> for indirect or “issue advocacy,” such as that conducted when an organization sponsors an advertisement that supports or opposes a candidate’s position on an issue.<sup>3</sup> Although all states required these organizations to provide some type of data on their finances and activities to the public, no central source provided such data. In July 2000, Congress passed P.L. 106-230 to require Section 527 organizations to provide the Internal Revenue Service (IRS) with data on their purposes, officers, contributors, and expenses.<sup>4</sup> Congress established tight time frames for reporting these data to IRS and the law, or implementing regulations, calls for IRS to then disclose these data to the public.

You asked us to study three related issues associated with responsibilities IRS gained in P.L. 106-230. Given the requirements of P.L. 106-230, our objectives were to determine the extent to which IRS (1) discloses to the public in an accessible manner the data that Section 527 organizations file with IRS, (2) oversees Section 527 organizations’ compliance with the specified filing requirements, and (3) develops a strategic plan for carrying out its new responsibilities. To meet these objectives, we reviewed P.L.

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<sup>1</sup>No reliable estimate of this spending has been developed because of the lack of a readily available source to fully aggregate the expenditures. IRS officials said that they might have enough data during 2003 to compute this spending, at least to some degree.

<sup>2</sup>Unlike hard money, soft money is not spent directly for or against federal candidates.

<sup>3</sup>Appendix I describes the use of Section 527 organizations to conduct issue advocacy.

<sup>4</sup>Section 527 organizations also may be required to report to the Federal Election Commission (FEC), if they raise and spend hard money to be used directly for or against federal candidates.

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106-230 and relevant Internal Revenue Code rulings on Section 527 political organizations. We interviewed responsible IRS officials and obtained documentation about processes, plans, and initiatives for disclosure and oversight related to Section 527 organizations. We also interviewed officials at the Federal Election Commission (FEC), which publicly discloses data about federal election activities, to understand the similarities and differences in disclosure and oversight processes between FEC and IRS. On disclosure to the public, we tested IRS's Section 527 disclosure Web site and spoke with public users of the Web site who also represent public interest groups. Our scope and methodology are discussed in more detail in a separate section of this report.

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## Results in Brief

IRS has been publicly disclosing the data reported by Section 527 organizations on a Web site it established for this purpose but our work found that this Section 527 Web site has shortcomings in making the disclosed data accessible to the public. Based on discussions with public users and our tests, the Web site is difficult to use, and most of the disclosed data are not electronically searchable and downloadable, which can inhibit timely analysis of the relationships between political organizations and the influence of soft money on federal campaigns. Although IRS intends to make some improvements to its disclosure Web site, such improvements are not a top priority because, in part, IRS officials believe that IRS has fulfilled its public disclosure responsibilities under P.L. 106-230.

IRS has performed limited oversight of Section 527 organizations' compliance with the law's filing and reporting requirements and as a result, has provided little assurance that the data it disclosed on the Section 527 Web site are timely, complete and correct. IRS has made limited efforts to determine whether Section 527 organizations filed required forms or that the data reported on the forms are complete and correct. P.L. 106-230 created penalties for failing to meet filing requirements but IRS has not imposed any penalties because it has not performed the oversight to uncover noncompliance, even when IRS's data on filed forms indicate that thousands of Section 527 organizations might not be filing forms as required since 2000. With this knowledge, IRS announced in May 2002 that it would not impose penalties through July 15, 2002, in the belief that this penalty waiver would lead noncompliant organizations to file the required forms. IRS officials said that oversight has been limited because of competing demands for resources, a focus on educating Section 527 organizations and on publicly disclosing the data, and the workload burden on IRS from having little electronic data on

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Section 527 organizations. IRS has recognized the need to improve its oversight and started a study in 2002 to gauge the extent that compliance issues might exist for Section 527 organizations.

IRS has not developed a strategic plan to carry out its responsibilities for ensuring that the requirements of the law are met. That is, IRS has not defined the level of disclosure and oversight it intends to achieve for Section 527 organizations. Nor has IRS established a strategy, including the resources needed, to accomplish such disclosure and oversight levels, or established a set of measures to assess its progress. Developing such a plan would be consistent with the principles for strategic planning as articulated in the Government Performance and Results Act (GPRA)<sup>5</sup> and IRS's strategic planning process.

We are making recommendations to IRS to develop results-oriented plans, including timeframes and resources needed to improve its disclosure Web site, to oversee compliance by Section 527 organizations in fulfilling their filing requirements, and to increase the amount of electronically available data on Section 527 organizations.

We obtained written IRS comments on a draft of this report. (See app. VIII). IRS agreed with our recommendation to develop results-oriented plans to oversee whether Section 527 organizations fulfill their filing requirements but took no position on our recommendations to develop such plans to improve the disclosure Web site and the availability of electronic data. IRS officials told us that they need more time to develop positions on implementing these two recommendations. While IRS generally agreed with the need for a better Web site and more electronic data, IRS said that such actions face competing resource priorities. IRS also provided other comments that expanded on our discussion about the speed in which IRS created Section 527 filing and disclosure systems, the barriers to having more electronic Section 527 data, and IRS's efforts to improve the filing compliance of Section 527 organizations as well as IRS's oversight. Because these comments expanded on material in the report, we made no changes to our report based on these comments. The Agency Comments and Our Evaluation section of this report discusses IRS's written comments. We also received oral comments from IRS officials and FEC officials on technical aspects of the report, which we used to make changes where appropriate.

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<sup>5</sup>P.L. 103-62 (1993).

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## Background

In July 2000, P.L. 106-230 was enacted.<sup>6</sup> It created a reporting and public disclosure process for Section 527 organizations that operate outside FEC jurisdiction<sup>7</sup> and that engage in political activities at the local, state, or federal level.<sup>8</sup> Under P.L. 106-230, Section 527 organizations are to notify IRS of their formation and file periodic reports with IRS.<sup>9</sup> At IRS, the Exempt Organizations section of the Tax-Exempt and Government Entities (TE/GE) division is responsible for public disclosure of data on Section 527 organizations and oversight of them.

IRS developed two forms to collect required data from Section 527 organizations. IRS released Form 8871 within 12 days of the law's passage and Form 8872 within 17 days. An entity forming as a Section 527 organization must notify IRS within 24 hours by filing electronically<sup>10</sup> and in writing, using Form 8871 (Political Organization Notice of Section 527 Status). Section 527 organizations also must file either electronically or in writing with IRS periodic reports of contributions and expenditures—using Form 8872 (Political Organization Report of Contributions and Expenditures). In an election year, these reports are required (1) monthly or quarterly, as selected by the filing organization; (2) not later than 12 days before an election if filing on a quarterly basis;<sup>11</sup> and (3) not later than

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<sup>6</sup>The constitutionality of P.L. 106-230 is being challenged in *National Federation of Republican Assemblies, et.al. v. United States of America*, Civil Action No. 00-0759-RV-C (S.D. Ala. Filed Aug. 21, 2000).

<sup>7</sup>Section 527 organizations that seek to directly influence elections for federal office report their activities to the FEC, which is to oversee the use of hard money raised and spent for these activities.

<sup>8</sup>Other types of tax-exempt organizations may also conduct political activities, provided that the political activities are secondary to their tax-exempt activities (see app. I).

<sup>9</sup>P.L. 106-230 created some exceptions to these requirements for filing with IRS such as for Section 527 organizations already reporting to FEC and those anticipating that their annual gross receipts would always be less than \$25,000.

<sup>10</sup>Creating electronic forms is a departure from IRS's policy of not competing with private software developers. The short time frames and lack of interest from the private sector necessitated such action to meet the law's requirements.

<sup>11</sup>Under Section 527(j)(6), an "election" is for a federal office; a political party convention or caucus to nominate a candidate for federal office; or a primary election to select delegates to a national nominating convention or to express a preference for nomination to the office of President. "Election" does not include a purely state or local election.



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30 days after a general election. Appendix II contains copies of these IRS forms.<sup>12</sup>

Form 8871 on the notification of Section 527 status is to include the

- name, address, business address (if a different address), and e-mail address;
- purpose of the organization;
- names and addresses of officers, highly compensated employees, contact person, custodian of records, and members of Board of Directors; and
- name and address of, and relationship to, any related organizations.

The Form 8872 on the Section 527 contributions and expenditures is to include the

- name and address of a contributor and amount of each contribution and, if the contributor is an individual, the occupation and name of the employer<sup>13</sup> and
- name and address of a recipient of an expenditure and amount of the expenditure and, if the recipient is an individual, the occupation and name of the employer.<sup>14</sup>

IRS is required—with no specified timeframe—to publicly disclose in its offices all data reported on Forms 8871. The law mandates that IRS disclose on the Internet within 5 business days of receipt of the Form 8871 a list of organizations filing the form and data on the name, mailing address, and electronic mailing address of each organization as well as the custodian of records and contact person. For Form 8872 data, the law did not require any disclosure over the Internet, providing the Secretary of the Treasury with discretion on when and how to publicly disclose such data.

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<sup>12</sup>Section 527 organizations also might be required to file Form 990 (Return of Organization Exempt From Income Tax) and Form 1120-POL (U.S. Income Tax Return for Certain Political Organizations). Appendix II discusses the filing requirements for these forms and has copies of the forms to show the types of data to be reported. Also, we recently reported our concerns about Form 990 expense data reported by charities. See *Tax-Exempt Organizations: Improvements Possible in Public, IRS, and State Oversight of Charities*, GAO-02-526, Apr. 30, 2002 ([www.gao.gov](http://www.gao.gov)).

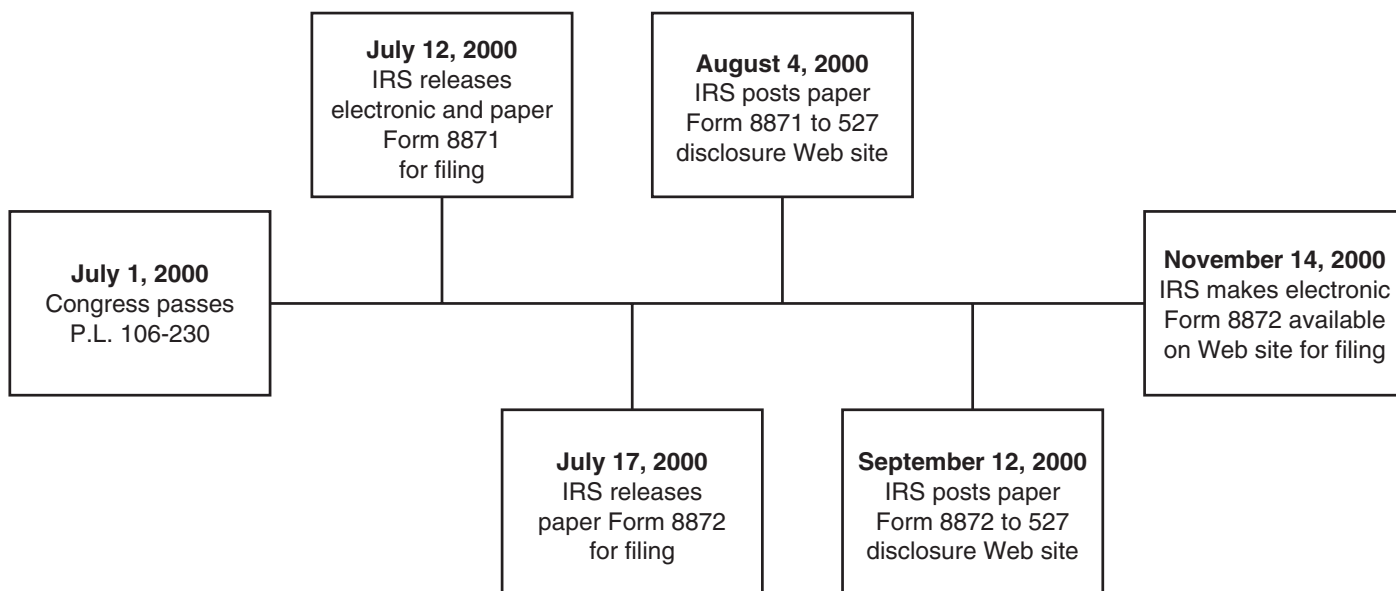
<sup>13</sup>Disclosure is required if the aggregated contributions from a person in the calendar year is \$200 or more.

<sup>14</sup>Disclosure is required if the aggregated expenditures to a person in the calendar year is \$500 or more.

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Given such requirements, IRS created a Web site<sup>15</sup> within about 10 weeks of the law's passage to publicly disclose data on Forms 8871 and 8872. Figure 1 shows the timeframe for developing the Web site.

**Figure 1: Time Line of the Development of the Section 527 Disclosure Web site**



Source: GAO analysis of IRS data.

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## Objectives, Scope, and Methodology

Our objectives were to determine the extent to which IRS (1) discloses to the public in an accessible manner the data that Section 527 organizations file with IRS; (2) oversees Section 527 organizations' compliance with the specified filing requirements; and (3) develops a strategic plan for carrying out its new responsibilities. In addition, you asked us to provide statistical data on IRS's oversight of other tax-exempt organizations.

For all three objectives, we reviewed P.L. 106-230 and relevant rulings on Section 527 organizations. We also reviewed P.L. 107-155, a related law on campaign finance reform that was passed during our work, and talked with FEC and IRS officials to determine its potential impacts on IRS disclosure and oversight.

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<sup>15</sup><http://www.irs.gov/polorgs>.

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Specifically, for our objective on disclosure, we interviewed IRS officials and reviewed documentation to understand how IRS implemented its disclosure responsibilities immediately after passage of P.L. 106-230, how implementation of these responsibilities changed over time, and what plans IRS had. We also sought to understand how IRS officials interpreted their disclosure responsibilities under the law and implemented their discretionary authorities provided in the law. We interviewed IRS officials on the timeliness of IRS's public disclosure of the Section 527 forms; we did not verify their statements. To understand similarities and differences in the IRS's and FEC's implementation of their disclosure responsibilities, we interviewed responsible FEC officials and reviewed FEC documentation.

To determine whether IRS discloses Section 527 data in a manner accessible to the public, we tested IRS's Section 527 disclosure Web site for accessibility<sup>16</sup> and user-friendliness. We developed the test instrument by reviewing the literature on Web site accessibility and consulting with GAO experts. We tested whether the disclosure Web site had (1) a structure and navigation system that was consistent, intuitive, and transparent; (2) information content that clearly described the site's scope, content, services, and mission; (3) functionality that allowed links within the site to work well and the site to respond quickly; and (4) interactivity in which search and retrieval mechanisms on the site worked well for users. Our test used 12 GAO analysts who were not familiar with the Section 527 Web site. While the analysts do not represent all public users, they can serve as a proxy. Appendix IV contains a copy of our test instructions and results. We also interviewed 18 public users involved in campaign finance reform issues about the extent to which the Section 527 Web site met their needs. We identified these individuals and groups using an Internet search and referrals from other public interest groups, congressional staff, and individuals who are knowledgeable about campaign finance. Since we did not know the universe of public users, we could not select a random sample. As a result, the views of those we interviewed do not represent all users. Appendix V lists the groups we interviewed.

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<sup>16</sup>Accessibility refers to how easy or difficult the Web site is to use and the usefulness of the format of data on the Web site. Ease of use, or user-friendliness, includes how easily a user can navigate, interact with and understand data on the Web site. The usefulness of the format relates to the extent to which data on the Web site can be electronically searched and downloaded for independent analysis.

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For our second objective on IRS oversight of Section 527 organizations, we interviewed responsible IRS officials and reviewed documentation on IRS's processes, plans, and initiatives. This included interviewing officials at the Ogden Service Center, which receives, processes, and reviews Forms 8871 and 8872,<sup>17</sup> and obtaining documentation on the procedures to be followed. We analyzed information we obtained on the number of forms that IRS received from Section 527 organizations and IRS's actions to ensure that the forms were timely, complete, and correct. We did not verify the information provided by IRS. Finally, as with our work on disclosure, we interviewed responsible FEC officials and reviewed FEC documentation to understand similarities and differences in the IRS's and FEC's implementation of their oversight responsibilities.

For our third objective on strategic planning, we also reviewed IRS's Strategic Planning, Budgeting and Performance Management Process, and general planning principles, such as those in GPRA, to determine how such a planning process and principles could guide IRS's planning on implementation of its responsibilities for P.L. 106-230. We also talked with IRS officials about any plans related to Section 527 forms or organizations.

For the statistical data on IRS's oversight of other tax-exempt organizations, we analyzed IRS data on the number of applications, audits, and revocations of tax-exempt status (see app. III). We relied on the publicly available data on the IRS Web site as well as data provided by IRS on its audits. We conducted our review from June 2001 to May 2002, in accordance with generally accepted government auditing standards.

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## IRS Disclosed Data Filed by Section 527 Organizations, but the Data Are Not Readily Accessible to Support Public Users

According to IRS officials, IRS has disclosed on its Section 527 Web site all data reported on Forms 8871 and 8872. However, this Web site falls short of disclosing data to the public in an accessible manner because the site is difficult to use and lacks electronically searchable and downloadable data. According to users we interviewed, these limitations hinder their efforts to understand how money flows among political organizations. IRS has begun to address some shortcomings of its disclosure Web site. However, the changes do not make the site easy to use or increase the amount of electronically searchable data. Furthermore, IRS has no plans to seek public users' views on how to improve disclosure. Enhancing the Section

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<sup>17</sup>Ogden Service Center also receives and processes all Forms 990 and Forms 1120-POL.

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527 disclosure Web site is not a top IRS priority in part because officials believe that IRS has fulfilled its public disclosure role as mandated by law.

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### IRS Has Publicly Disclosed Data Filed by Section 527 Organizations

IRS officials said that IRS discloses on the Internet through its Section 527 Web site all of the data reported on Forms 8871 and 8872 by Section 527 organizations. Although IRS is required to disclose all such data to the public, it is not required to disclose any of the Form 8872 data on the Internet and is only required to disclose on the Internet a portion of the data on the Form 8871. IRS officials said that IRS chose to disclose both forms in their entirety on the Internet to facilitate public access and minimize the burden that would be created by redacting certain data from the forms before posting to the Internet.

IRS officials discussed how quickly IRS posts the forms to the Section 527 Web site. The law requires the Form 8871 data to be posted to the Internet and otherwise made available to the public within 5 business days of receipt. The law specifies no timeframe for disclosing the Form 8872 data. IRS officials said that IRS generally posts electronically filed Forms 8871 and 8872 within 48 hours of receipt and paper Forms 8871 within 5 business days. IRS officials said that they post paper Forms 8872 to the site within, on average, 3 to 4 business days of receipt.

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### Accessibility of Data on the Web site Is Hindered Because Site Is Difficult to Use and Lacks Electronically Searchable Data

Accessibility of the data disclosed on the Section 527 disclosure Web site is impaired. The site is neither easy to use nor provides data on Section 527 organizations in a format that can be readily searched. The disclosure Web site is difficult to navigate, interact with, and understand. In addition, much of the Section 527 data on the site is neither searchable nor downloadable. Representatives of public interest groups said these shortcomings in IRS's disclosure Web site seriously hinder their ability to access and use IRS data to form a complete picture of campaign financing activities.

### Section 527 Disclosure Web site is Difficult to Use

Our tests generally indicate that it is difficult to find the Section 527 disclosure Web site within IRS's overall Web site,<sup>18</sup> and to search and understand data in the site. For example, of 12 GAO analysts who tested the site, 10 found it somewhat or very difficult to find the data they sought,

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<sup>18</sup>IRS's Digital Daily Web site is a portal or entry to other Web sites, including the Section 527 Web site.

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and 11 found it somewhat or very difficult to understand the content.<sup>19</sup> Our results generally echoed the shortcomings described by public interest groups although they also note that it is still early in IRS's implementation of the law. These difficulties hinder the public's capacity to effectively use the data disclosed on the Section 527 disclosure Web site.

IRS officials acknowledged that users had difficulty finding the Section 527 disclosure Web site in part, because the IRS home page initially had no link to the disclosure Web site, and it often took users at least seven links to locate the site. Most GAO analysts in our tests could not find the site without assistance. Noting the absence of a link on its home page, IRS officials distributed a one-page guide during public education talks that showed the web address for the Section 527 disclosure welcome page.

IRS provides two options for searching the disclosed data, but both have shortcomings. The first option, called basic search, enables users to query names of filing organizations but does not indicate the number of records found, which prevents users from estimating the time it will take to view all records. In addition, its keyword search feature can only query the first part of an organization's name and does not query data contained on each form. The second option, called advanced search, can query data by simultaneously searching up to six fields, but only for electronically filed forms. According to IRS officials, only 5 percent of the universe of Forms 8872 has been filed electronically as of March 2002. Yet, the Web site does not inform users that the advanced search cannot query 95 percent of Forms 8872 filed, which may lead users to misinterpret search results.

The Section 527 disclosure Web site also falls short in helping users interact with and understand the data disclosed. For example, IRS posts forms filed by organizations that are exempt from filing under P.L. 106-230, such as those who file reports with FEC, without indicating that such forms are unnecessary. In addition, users have had problems understanding technical terminology used in the site. For example, GAO analysts in our tests had difficulty deciphering whether "contributions" refers to donation to or from a Section 527 organization. Some public interest groups we interviewed expressed frustration over interactions

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<sup>19</sup>In addition, 10 of the 12 GAO staff rated the site as poor overall. However, many of the staff rated parts of the Web site more positively. When asked to perform four tasks, most of the staff found two of those tasks at least somewhat easy to do. Also, the staff tended to have a more positive view of how the site functioned in terms of speed and links. The results of our test are in appendix IV.

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with the customer service tools, pointing to telephone calls and e-mailed questions that have gone unanswered; at least one group was told by an IRS operator that the unit was unable to answer its questions on Section 527 organizations.

Furthermore, IRS's Web site does not post information to distinguish between forms, such as those initially filed versus those filed after being amended. In contrast, FEC officials said that they post written contacts with the organizations, such as when a form is amended. Nor does IRS indicate when it has contacted Section 527 organizations, such as when it asks for clarifications on filed data, as does FEC.<sup>20</sup> Some public users told us that Forms 8871 and 8872 appear on the Section 527 disclosure Web site months after they were due without explanation. As a result, they cannot tell whether IRS was late in posting forms, these forms were filed late, or IRS re-posted the forms after making corrections. For example, of 50 new postings identified by one public interest group during 1 day in January 2002, only 10 forms were being posted for the first time, and 40 forms appeared to be re-posted after corrections.

## IRS Lacks Electronically Searchable Data

Although not required by law, many of the forms filed by Section 527 organizations are not available to the public in an electronically searchable and downloadable format. As of March 2002, only about 700 of the 14,500 Forms 8872 received, or 5 percent, were filed electronically. Only the Web-based electronic forms are electronically searchable and downloadable, while filed paper forms appear in a non-searchable, photograph-like format.<sup>21</sup> Unlike FEC, IRS can receive only its Web-based forms and not electronic forms generated by software packages used by the large Section 527 organizations to file with states and FEC. As a result, these organizations cannot electronically file Forms 8872 without reentering data from their system into IRS's Web-based system.

The usefulness of IRS's Section 527 Web site is limited by this lack of electronically searchable data. Public interest groups told us that real disclosure requires the data to be in an electronically searchable format,

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<sup>20</sup>According to IRS officials, IRS may publicly disclose IRS correspondence on Forms 8871 and 8872 filings, if the correspondence has no "tax return information". Section 6103 of the Internal Revenue Code prohibits the disclosure of tax return information to the public.

<sup>21</sup>Unlike the electronic forms, paper forms are scanned into a portable document format (PDF), creating a photograph-like image. In short, PDF files cannot function as an electronic database.

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rather than a photograph-like format, to be useful and timely for their analyses of campaign financing and the relationships among organizations. They cannot readily integrate photograph-like images into their databases to identify the big donors in an election, the connections between organizations, or the flow of funds. These groups said that without prompt access to electronically searchable and downloadable data, they are unable to effectively follow the flow of funds in campaigns for public office and on specific legislative issues.

Given the scarcity of electronically filed Forms 8872, users are left to manually review one paper form at a time. To create an electronic database, IRS or the public user would have to manually transcribe the data from paper forms, which many public interest groups have described as time-consuming and costly. At least one public interest group gave up trying to manually transcribe data from paper Forms 8872 due to the time and resources required.

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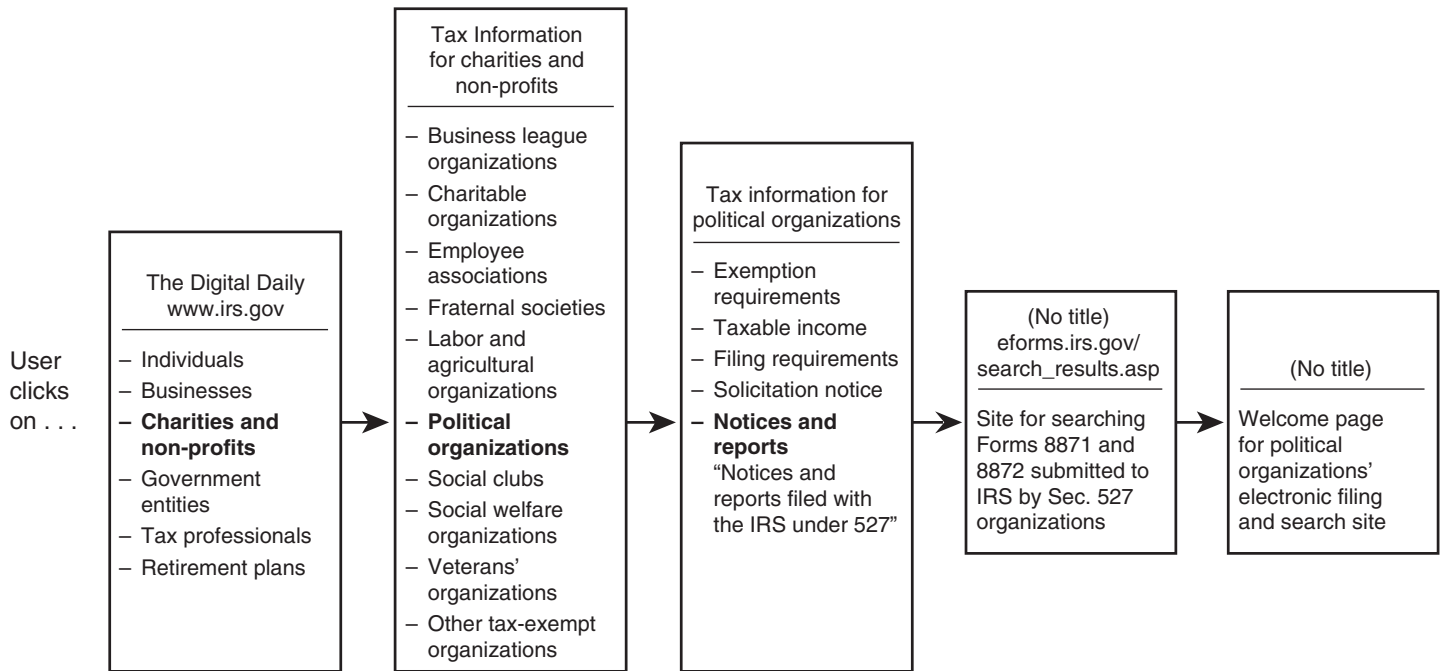
### IRS's Improvements to Disclosure Web site Do Not Address Key Limitations

IRS officials believe IRS has fulfilled its disclosure responsibility under the law. Even so, IRS has begun to address some known shortcomings on its disclosure Web site. However, such efforts do not address key limitations in the site's accessibility—how easy the site is to use and the amount of electronically searchable data in the site.

IRS has made some enhancements to improve electronic filing, expand the search capacity, and better integrate the paper and electronic forms on the site. For example, in January 2002, IRS established a new link on the IRS home page that more directly leads users to data on Section 527 political organizations. However, neither this new link nor Web pages in subsequent links clearly direct users to the Section 527 disclosure Web site. The welcome page and the search page for the Web site lack clear titles indicating the user's location. Furthermore, the new links bypass the welcome page, thus depriving users of the orientation to the search site. Figure 2 shows the link system from the IRS home page to the Section 527 disclosure Web site.



**Figure 2: Links to Section 527 Disclosure Web site and Welcome Page from Home Page**



Source: GAO analysis.

Nor do the improvements increase the amount of electronically searchable data. For example, IRS is exploring ways to add data to the Web site, such as data from the annual Forms 990 on the income and expenditures of tax-exempt organizations. According to IRS officials, IRS is considering posting portable document format (PDF) images (which can not be electronically searched) of the Forms 990 filed by Section 527 organizations to the Section 527 Web site to provide the public a more complete picture. IRS has a separate effort to allow optional electronic filing of Forms 990 by 2004, which could increase the amount of electronically searchable data reported by Section 527 organizations.

While IRS officials have expressed an interest in making the site easier to use and in increasing the electronically searchable data, they do not see these as top priorities. For example, officials working on the Section 527 disclosure Web site have requested funds to make the site's search features more user-friendly, including an expanded keyword search to

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allow for “wildcard operators”<sup>22</sup> and queries whereby a user could type in any word to find all filers whose names contain that word. However, such a request must compete for resources with other IRS priorities and IRS has not funded the request.

Despite IRS’s emphasis on measuring its success in meeting the expectations of customers, IRS has not identified the actual and potential users of the disclosure Web site. Nor does IRS plan to survey whether users can effectively access the disclosed data on Section 527 organizations or believe that the Web site can be enhanced to better meet their needs. Such outreach efforts would be consistent with the first goal in IRS’s current Strategic Plan that emphasizes meeting the expectations of its customers.<sup>23</sup>

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## IRS Provides Limited Oversight to Ensure that Section 527 Organizations Meet Filing Requirements

IRS’s oversight of Section 527 organizations’ compliance with the law’s filing and reporting requirements has been very limited and has included checks on whether some of the reported data is correct and little proactive effort to determine whether all filings are timely and all organizations that should file have done so. Accordingly, IRS has provided little assurance to the public that data disclosed on the Section 527 Web site are timely, complete, and correct. In part, due to these limited oversight efforts, IRS has not imposed any penalties that P.L. 106-230 created for failing to meet the filing and reporting requirements. IRS officials say that the lack of available resources and other higher priorities, have affected the oversight they have given to Section 527 organizations. IRS has recognized the need to improve its oversight and started a study in 2002 to gauge the extent that compliance issues might exist for Section 527 organizations.

Congress created a penalty structure, which IRS is to administer, for failures by Section 527 organizations to adhere to P.L. 106-230’s requirements. These penalties for not filing complete and correct Forms 8871 and 8872 on time, and for not making the data available to the public are:

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<sup>22</sup>A wildcard operator, such as an asterisk, allows the user to find related word matches. For example, a search for *corp\** would return all items with the word “corporation” and other words starting with “corp.”

<sup>23</sup>The first goal of the IRS strategic plan is to provide “Top-Quality service to each taxpayer in every interaction” by determining whether customers believe IRS is meeting their expectations.

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- **For failure to file Form 8871:** If a Section 527 organization does not notify IRS of its formation, including specified identifying information, it will not be treated as exempt and the highest corporate tax rate, currently 35 percent, is to be applied to all exempt function income less any expenses generating the income.
  - **For failure to file Form 8872:** Upon failure to make the required disclosures at the time and in the prescribed manner, to include any of the required information, or to show the correct information, the highest corporate tax rate is to be applied to the amount of the contributions and expenditures that were not so disclosed.
  - **For failure to allow inspection or furnish a copy of the Form 8871 or 8872 to the public:** A penalty of \$20 may be assessed for each day that an organization fails to allow public inspection or provide a copy of the Form 8871 or Form 8872 upon request. For the Form 8872, the maximum penalty is \$10,000, but the law does not specify a maximum penalty for Form 8871.

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### IRS Does Not Fully Check Section 527 Forms When Received to Ensure Data Quality

IRS does not fully check whether all required data are included on the Forms 8871 and 8872 it receives and that the data are correct. Also, IRS performs limited checks on the timeliness of filings and does not perform checks to determine whether all Section 527 organizations that should file have done so.

When Forms 8871 are filed, IRS employees are to review each form for completeness and correctness. Table 1 shows the specific items that are to be checked. IRS procedures call for employees to check three items against IRS records to determine whether the Form 8871 data are correct: valid name and employer identification number, whether an amended form has been filed, and the organization's tax-exempt status. For remaining items that are to be checked, employees simply check whether the data has been provided.

**Table 1: Items IRS Checks on Forms 8871, Electronic and Paper**

<b>Item</b>	<b>Electronic form</b>	<b>Paper form</b>
Valid name and employer identification number (EIN)	X	X
Mailing address, business address, and e-mail address	X	
Name of custodian of records and contact person	X	
Form signed		X
Correspondence received with filed form (requires IRS response)		X
Amended form filed		X
Organization's tax-exempt status recorded		X
Name of, address of, and relationship to related entities		
List of all officers, directors, and highly compensated employees		

Source: IRS documents and officials.

Table 2 shows the specific items that are to be checked for Forms 8872. For this form, employees are to check two items against IRS records: valid name and employer identification number and the organization's tax-exempt status. Other items that are checked are only reviewed to determine if something has been provided on the form.

**Table 2: Items IRS Checks on Forms 8872, Electronic and Paper**

<b>Item</b>	<b>Electronic form</b>	<b>Paper form</b>
Reason for filing (e.g., initial, amended, or final report)		X
Valid name and EIN	X	X
Date organization formed	X	X
Type of report (e.g., monthly, quarterly, semiannual, or annual)	X	X
Form signed	X	X
Organization recorded at IRS as exempt		X
Correspondence received with filed form requires IRS response		X
Date received is shown		X
Itemized contributions <sup>a</sup>		
Itemized expenditures <sup>b</sup>		

<sup>a</sup>Includes each contributor's name, mailing address, and ZIP code; employer's name and contributor's occupation; aggregate contributions year-to-date; and amount of contributions.

<sup>b</sup>Includes each recipient's name, mailing address, and ZIP code; name of recipient's employer; recipient's occupation; and amount of each expenditure.

Source: IRS documents and officials.

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As tables 1 and 2 show, IRS procedures do not require checks for the completeness of all data. For Form 8871, employees are not required to check whether data on related organizations and the names of officers, directors, and highly compensated employees have been provided. These data can help public users see relationships between Section 527 organizations and others. For Form 8872, no check is required of the names of employers for contributors and recipients, or contribution and expenditure amounts. Such data can help users find contributions made by donors to Section 527 organizations and the related use of funds.

Based on its checks, IRS will correct certain data, such as an EIN, on the forms or in its computers without contacting a filing organization according to IRS officials. For other discrepancies, such as forms that are clearly incomplete or lack a signature, IRS will correspond with a Section 527 organization. IRS posts Forms 8871 and 8872 as received on its disclosure site while discrepancies are resolved and then re-posts corrected forms.

In addition, IRS's procedures do not include checks to determine whether it receives both electronic and paper versions of the Forms 8871 as P.L. 106-230 requires. Data on forms filed between July 2000, when the law became effective, and March 2002 suggest that many organizations are not meeting this requirement. As of March 2002, IRS had received 11,586 electronic and 13,752 paper Forms 8871. An IRS official said IRS is aware of this discrepancy of nearly 2,000 more paper forms than electronic forms.

Although the P.L. 106-230 penalties cover timeliness of filings, IRS does not check the timeliness of Forms 8871 and only checks timeliness for one aspect of Forms 8872. For Forms 8871, IRS officials said that they did not check whether Section 527 organizations filed within the required 24 hours. For Forms 8872, IRS monitored the filing timeframes that govern the required pre- and post-election periods for federal general elections, but not other timeframes.

Finally, IRS does not perform checks to determine whether Section 527 organizations have filed all required Forms 8871 and 8872. Our analysis of IRS data indicates that some Section 527 organizations may not be meeting the filing requirements. Between July 2000 and March 2002, IRS data show that 12,756 organizations had filed Forms 8871 on paper (which all are required to do) but only 3,817 organizations had filed Forms 8872 (233 electronically and 3,584 on paper). Thus, almost 9,000 more Section 527 organizations have notified IRS of their formation than have reported any

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contributions or expenditures. Some of this discrepancy may not be a problem because, for instance, some organizations do not have to file a Form 8871 or a Form 8872 in certain circumstances. However, as of May 2002, IRS had not determined which organizations unnecessarily filed Forms 8871, filed Forms 8871 but were not required to file Forms 8872, or did not file required Forms 8872.<sup>24</sup> IRS also has no process to check whether organizations have not filed required Forms 8871.

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### IRS Does Not Use Tools to Ensure the Quality of Section 527 Data After Forms Are Filed

IRS did not have a program to regularly audit (i.e., ask for documented support on data reported) or match Form 8871 and 8872 data with other data reported by Section 527 or other organizations to help ensure timely, complete, and correct data. Nor has IRS imposed penalties for filing problems with Forms 8871 and 8872.

### IRS Audits Have Not Focused on Section 527 Forms

IRS did not have criteria for selecting forms filed by Section 527 organizations for audit to check whether the filed forms were complete and correct. Nor did IRS track how often its audits of tax-exempt organizations for non-Section 527 issues nevertheless may have addressed Forms 8871 and 8872 issues. As a result, IRS could not identify any audits that began because of IRS concerns about the Forms 8871 and 8872.

Between July 2000 and March 2002, IRS only audited these forms in two situations—as part of an investigation of an allegation submitted to IRS or an audit of other tax-exempt organizations during which a Section 527 issue arose. For example, in fiscal year 2001 and the first week of fiscal year 2002, IRS received five allegations of noncompliance by Section 527 organizations. IRS audited two allegations involving one Section 527 organization; the audit had not been completed as of March 2002. IRS did not audit one allegation because preliminary investigation showed that it was unfounded and it has not acted on the remaining two.

### IRS Did Not Match Existing Data for Section 527 Filing and Reporting Compliance

IRS has no program to match data on Forms 8871 and 8872 with data that IRS already receives from Section 527 and other tax-exempt organizations. Such matches could be used to help identify organizations that did not file required Forms 8871 and 8872 or to verify the completeness and correctness of data on filed Forms 8871 or 8872.

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<sup>24</sup>Section 527 organizations that are (1) not required to file Forms 8871 include those with gross receipts under \$25,000 or that have to report to FEC as political committees and (2) required to file Forms 8871 but are exempt from filing Forms 8872 include state or local committees of a political party or committee of a state or local candidate.

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Data matching programs may be able to help IRS identify certain organizations that are tax-exempt under Section 501(c) of the Internal Revenue Code and that should file Forms 8871 because they spend significant amounts on political activities. These organizations are to annually file Forms 990 to list their activities, income, and expenses—including those for political activities. By first analyzing Forms 990 to identify any organizations reporting significant expenditures for political activity, and then matching to a database of Forms 8871, IRS could determine whether these organizations had created a Section 527 organization for their political activities and filed Forms 8871. If not, IRS would be able to follow up to determine whether a Section 527 organization should have been created and a Form 8871 should have been filed. Similarly, Forms 990 are to include data reported by charitable organizations about relationships with other tax-exempt organizations, including Section 527 organizations. If IRS found a charitable organization that reported a relationship with a Section 527 organization, a match could identify whether such a Section 527 organization filed Forms 8871 and 8872, and reported the relationship.

However, IRS would face challenges in developing a full-scaled matching program that uses the Form 990 data. Matching organizations' or individuals' names is prone to error given possible variations in spelling and in the use of abbreviations for the same name. Thus, matching would be facilitated if IRS had unique identifying numbers associated with specific names. Right now, IRS receives such unique numbers from tax-exempt organizations that file Forms 990, 8871, and 8872. IRS does not necessarily have such numbers for other third parties that might have a relationship with a Section 527 organization, such as their contributors and recipients of their funds. Appendix VII describes possible matches with existing data and options for overcoming challenges, such as ensuring valid matches if organizations or individuals have similar names.

## IRS Has Not Penalized Section 527 Organizations

Without programs to identify potential nonfilers of the Forms 8871 and 8872 and to identify incomplete or incorrect data on forms that are filed, IRS has little ability to identify potentially noncompliant organizations, audit them, and impose any relevant penalties. As a result, IRS has not imposed any penalties authorized by P.L. 106-230. According to IRS officials, these penalties could not be imposed automatically. They said that some staff involvement, such as through an audit, would be needed to justify any penalties.

Even so, IRS has learned that some organizations might not be filing the Forms 8871 and 8872 as required and thus could be subject to the

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penalties. IRS recently announced that it would not assess taxes, interest, and penalties against Section 527 organizations that file or correct earlier filings, if the filings are made by July 15, 2002. On May 2, 2002, IRS issued a notice<sup>25</sup> implementing this program for filings that were due after July 1, 2000. As a result, missing forms can be filed and already filed forms could be amended without IRS taking adverse action against Section 527 organizations.

IRS officials believe that this program is likely to achieve the congressional goal of maximum disclosure to the public and that the deadline will ensure public disclosure before 2002 general elections. Data were not available as this report was being prepared to verify that the desired disclosures were being achieved. Because IRS has no systematic means for identifying organizations that do not file required Section 527 forms, it is not clear how IRS can judge whether the program succeeds.

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### Various Factors Contribute to Limited Oversight of Section 527 Organizations

IRS officials cited several factors for the current limited oversight of Section 527 organizations. One factor cited is that IRS has only had responsibility for disclosing data from Forms 8871 and 8872 since July 2000. IRS officials said they first focused on educating Section 527 organizations about their responsibilities under P.L. 106-230 and on publicly disclosing the data. An IRS official said she attended meetings—such as FEC events—to speak about the law’s requirements, and is planning to continue outreach by publicizing the law’s requirements, and required forms to file. Also, IRS is preparing a publication to distribute on Section 527 organizations as part of its educational outreach.

In addition, IRS officials said that their resources to address Section 527 organizations’ compliance have to compete with many other tax-exempt priorities. Section 527 organizations account for about 1 percent of all exempt organizations.<sup>26</sup> In 2001, IRS staffing for the exempt function totaled 811. These staff are to educate and guide, process forms, oversee activities, and enforce the law for over 1 million exempt organizations of all types, such as charities, in addition to Section 527 organizations.

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<sup>25</sup>Notice 2002-34, 2002-21 I.R.B., accompanied by a News Release (IR2002-57) and Fact Sheet (FS2002-11).

<sup>26</sup>By 2000, IRS master file listed 1.35 million tax-exempt organizations under Section 501(c). About 12,700 Section 527 organizations notified IRS of their existence since passage of P.L. 106-230, as of March 2002.



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Finally, IRS officials said that checking for compliance with the filing requirements on paper Forms 8872 would be burdensome, in part, due to the lack of electronic data. IRS officials said that IRS transcribes about 20 percent of the Forms 990 data into electronic format. Unlike for Forms 990, filers can choose to file their Forms 8872 electronically and have done so for about 10 percent of the data on the Forms 8872 filed. To obtain more electronic data, IRS would have to transcribe more data from these forms or organizations would have to be required to file electronically.

As for transcription, IRS officials said that transcribing the data into an electronic format would be challenging and conflicts with IRS's goal to increase voluntary electronic filing. IRS transcribes data from other forms, such as the Form 1040 filed by individual taxpayers, into an electronic format, but such data are predominantly numeric. Most of the Forms 8872 data is text, such as names and addresses. Transcribing these types of data generally results in a higher error rate and requires more costly verification than numeric data. Although not measured, the cost of transcribing textual data into an electronic format would be high, according to IRS officials.

As for electronic filing, IRS is developing optional electronic filing of Forms 990 for all tax-exempt organizations, including Section 527 organizations, which is slated to be available by January 2004. However, IRS cannot accept electronic Forms 8872 generated by commercial software. IRS officials said that completing Forms 8872 on the Web site burdens Section 527 organizations that use such software to manage contribution and expenditure data. To use the Web site, the organizations must manually re-enter the data; organizations that do not use such software would not face an increased burden because they would manually enter their Forms 8872 data regardless. IRS officials also said that some Section 527 organizations are reluctant to file electronically because IRS does not provide proof of filing through a date-time stamp or e-mail, as FEC does. Although IRS favors the capability to accept electronic Forms 8872 generated by the software, it has not identified its resource needs. Even with this capability, IRS may see a low electronic filing rate. FEC allowed organizations to electronically file, even with the software packages, but the majority did not file electronically until Congress mandated it.

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## IRS Is Starting a Study to Improve Oversight of Section 527 Organizations

To improve oversight, IRS recently convened a task group to study the consistency and correctness of data reported on Forms 8871 and 8872 by Section 527 organizations. The task force will study known areas of noncompliance by auditing random samples of filed forms, such as Forms 8871 and 8872. The study will focus on whether the filed forms complied with the requirements and whether contributors and contributions are properly reported on Forms 8872. According to an IRS official, the study might look at those not filing the required forms with IRS, but not until IRS develops a reliable means to identify nonfilers. The study is expected to begin in summer 2002 and take 6 months or longer to finish. IRS expects the results of the study to provide insights on the amount and types of oversight needed.

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## IRS Planning for New Responsibilities Not Adhering to Accepted Principles

IRS has not developed a strategic plan to carry out its Section 527 responsibilities. The principles for strategic planning are articulated in GPRA and IRS's strategic planning process, which call for planning that (1) defines the results to be achieved over several years, (2) outlines the strategy and necessary resources to achieve the intended results, and (3) establishes measures that will be used to assess progress in achieving intended results. Although GPRA and IRS's strategic planning process address planning at levels higher than specific programs, such as Section 527 responsibilities, their principles are useful for managing at the program level. IRS has a plan for tax-exempt activities overall and has initiatives planned to address specific Section 527 issues, but IRS has not defined what type and amount of disclosure and oversight it intends to provide, how it would achieve such disclosure and oversight levels, and how it would measure progress. The importance of following accepted planning principles is heightened by the recent passage of campaign finance reform legislation.

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## IRS Plans Do Not Define Future Results To Be Achieved

Planning principles in GPRA and incorporated into IRS's Strategic Planning, Budgeting, and Performance Management process call for agencies to define the results they are attempting to achieve, generally over several years. This approach is intended to ensure that agencies have thought through how their activities and initiatives contribute to a meaningful result that was intended. Furthermore, GPRA and IRS's strategic planning process call for managers to develop a strategy for achieving the results they have defined for their programs and to assess the types and amounts of resources they will need to carry out the strategy. Finally, GPRA's and IRS's processes call for managers to develop measures they will use to assess progress in achieving results. Although

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GPRA applies at a department or agency level and IRS's strategic planning process applies at the operating unit level, such as a division within IRS, the planning principles can be applied at a specific program level, such as planning for how IRS will execute its responsibilities related to Section 527 organizations.

Although planning is an ongoing management responsibility, the assumption of new duties, like those IRS has for Section 527 organizations, should trigger such planning. IRS's *Management Controls Accountability Program: MCAP Handbook for Managers* (Feb. 23, 2001) notes that assumption of a new responsibility, organization, or program should cause a manager to review the management controls to administer the program. The handbook defines a significant control deficiency to include situations that "may deprive the public of needed services." If a review identifies significant deficiencies, the guidance calls for a corrective action plan. A corrective action plan is to include all actions, listed chronologically and including those completed, needed to correct a deficiency. The plan is to be updated to reflect revised or actual completion dates.

Neither IRS's plan for tax-exempt activities nor the specific initiatives IRS is planning to improve its disclosure and oversight activities define what level of disclosure and oversight it hopes to achieve, how it will achieve those levels of performance, and how progress will be measured for Section 527 organizations. For example, this IRS plan focuses on activities, such as audits, for all types of tax-exempt organizations. The plan specifies, for instance, the number of employees to be assigned to each activity, the number of actions (e.g., audits) to be done, how long such actions take, the quality of work to be achieved and the satisfaction of tax-exempt organizations and of IRS employees.

Although the plan provides an understanding of what IRS intends to do with its staff and other resources, the plan provides little basis for understanding longer-range results IRS intends to achieve for Section 527 organizations. It does not, for instance, indicate whether, how, and when IRS plans to provide electronically searchable Section 527 data. The plan also does not provide goals for improving the compliance levels of Section 527 organizations. In short, the plan does not provide a vision for the level of service to provide to the public relative to Section 527 organizations or a clear strategy that identifies the results desired, the steps and resources to be used in achieving results, or measures to gauge success in meeting its Section 527 responsibilities.

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IRS officials said that the exempt organization function operates with resource constraints that require difficult choices due to competing priorities. Following planning principles like those in GPRA and IRS's own processes can enable IRS to provide decision makers within IRS, the executive branch, and Congress with a more informed basis for prioritizing and allocating resources for Section 527 responsibilities based on a clearer understanding of expected accomplishments if identified resources are provided.

In the absence of an overall plan for the levels of disclosure and oversight of Section 527 organizations, IRS has begun to develop initiatives that could improve some aspects of the services it provides or that could develop data to use as a baseline in determining additional efforts it should undertake to, for instance, improve Section 527 organizations' compliance. Although these initiatives may individually be useful, in the absence of an overall definition of what IRS intends to accomplish, it is difficult to determine how the initiatives move IRS forward or how they align with IRS's goals.

For example, IRS has begun an initiative to disclose Forms 990 data from Section 527 organizations on its 527 disclosure Web site but the data will not be disclosed in an electronically searchable format, which public users said they need. IRS officials said that they would like to increase searchable and downloadable data on the Section 527 disclosure Web site. However, IRS has not developed a plan or estimated the resources needed to do so. When asked the cost of one option—keypunching data from paper Forms 8872—officials said that they did not estimate the costs because the option was not consistent with IRS's desire to increase voluntary electronic filing by Section 527 organizations. These officials could not tell us when and how IRS would begin efforts or what resources IRS would need to increase voluntary electronic filing of Forms 8872.

In addition, it is not clear how this initiative aligns with one of IRS's agencywide strategic goals—to provide “top-quality service to each taxpayer in every interaction.” IRS's goal states that “the ultimate measure of success in [this] first strategic goal is whether or not our customers believe we are meeting their expectations.” IRS cannot know how its public users would judge its initiative to disclose Form 990 information on its Web site because IRS has not identified public users and their needs and has no plans to do so.

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## Recent Actions Could Heighten Need for Results-Oriented Planning

The need for IRS to develop a strategic plan to address its Section 527 responsibilities could be heightened by recent actions. For example, it is not clear how IRS's initiative to suspend penalties for Section 527 organizations that have not filed correct, complete, or timely forms will be coupled with other efforts to ensure that acceptable compliance levels are achieved and maintained. Even after the notice announcing the penalty suspension was publicly released in May 2002, IRS officials could not provide written plans for this initiative, including how it would deal with a possible increased workload of filed forms, would educate organizations about their filing requirements, or would monitor and enforce filing compliance after July 15, 2002, so that suspensions of penalties will not again be needed.

Similarly, the Bipartisan Campaign Reform Act of 2002 (P.L. 107-155) could affect disclosure and oversight responsibilities for Section 527 organizations, heightening the need for IRS planning to meet its responsibilities.<sup>27</sup> The law could change how these organizations report to FEC or IRS, and how these agencies disclose reported data and oversee Section 527 organizations. With such changes, IRS would have a greater need to ensure that its oversight allows quick identification of nonfilers, late filers, and those no longer needing to file. Appendix VI describes areas of the law that could affect IRS.

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## Conclusions

Effective public disclosure of data on the activities of Section 527 organizations can enable the public to make more informed choices when voting. These organizations, however, may exist for brief periods preceding elections, or concentrate their activities during such brief periods. Congress created reporting and disclosure requirements for Section 527 organizations that can provide the public with timely data before elections.

IRS developed a Web site to disclose reported data. However, the Web site has shortcomings that inhibit the public's ability to access and understand the disclosed data in a timely manner. Among these shortcomings, the lack of electronically searchable and downloadable data challenges the public in quickly accessing data about Section 527 organizations. Although IRS's

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<sup>27</sup>This act affects the financing of political campaigns and includes provisions on the disclosure and oversight of campaign activities associated with "soft money" and indirect issue advocacy.

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goal is to provide top-quality service to each taxpayer in every interaction, IRS has not identified public users of the Section 527 disclosure site and their needs.

Enhanced Web site features would be of limited value unless Section 527 organizations file timely, complete, and correct forms as required. Discrepancies between the number of Section 527 organizations that have reported their formation to IRS and reported subsequent activities suggest that many Section 527 organizations are not filing timely, as required. Furthermore, IRS's oversight provides little assurance that Section 527 organizations comply with the law. IRS was sufficiently concerned about possible noncompliance that it announced in May 2002 a waiver of penalties to encourage noncompliant Section 527 organizations to comply before July 15, 2002.

Although IRS officials acknowledge that the Section 527 Web site and its oversight practices could be improved, they have not defined the levels of disclosure and oversight to be obtained over time, developed a strategy to achieve those results, and identified the resources to execute it. Such results-oriented planning would adhere to principles articulated in statutory guidance and IRS's Strategic Planning, Budgeting, and Performance Management Process. Such a plan would also provide decision makers within the executive branch and Congress a more informed basis to determine the priority to give to IRS's Section 527 responsibilities as well as related amounts and types of resources. IRS officials face many challenges in attaining higher levels of disclosure and oversight that may limit what can be achieved over a given time. These issues should be taken into consideration in developing a results-oriented plan for IRS's Section 527 responsibilities.

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## Recommendations for Executive Action

To improve public disclosure of data filed by Section 527 organizations and IRS's oversight of their compliance with P.L. 106-230, we recommend that the Commissioner of Internal Revenue develop results-oriented plans, including timeframes and resources needed, for

- improving the usability of the disclosure Web site after consulting with the full range of users of the data;
- overseeing whether Section 527 organizations fulfill their filing requirements; and
- increasing the availability of electronic data on Section 527 organizations to improve the public accessibility of disclosed data as well as to support IRS's oversight efforts.

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## Agency Comments and Our Evaluation

We obtained written comments from the IRS Commissioner on a draft of this report. (See app. VIII). IRS agreed with our recommendation on developing results-oriented plans to oversee whether Section 527 organizations fulfill their filing requirements. IRS said that it will increase such oversight now that it has developed the filing system, educated the organizations, and provided a last chance to comply with the requirements.

IRS's written comments took no position on our recommendations to develop results-oriented plans to improve the disclosure Web site and to increase the availability of electronic data. IRS officials told us that they need more time to develop specific positions on the degree and method for implementing these recommendations. Even so, IRS generally agreed that improving the usability of its disclosure Web site and increasing the availability of electronic data would be useful to the public and helpful to IRS enforcement. However, IRS said that such actions face competing resource priorities in its budget allocation process. IRS's agreement that improvement in these areas is needed is encouraging. We continue to believe that results-oriented plans to do so are the appropriate foundation to ensure that IRS has a well-thought out strategy and a supportable basis for determining how many and what type of resources will be needed. Such plans would provide decision makers a basis to make informed judgments about the priority to give to IRS's Section 527 responsibilities and what level of budgetary support to allocate to them.

IRS also provided comments to expand on points that we raised in our report. Because these comments emphasized or expanded on material in the report, we made no changes to our report based on these comments. In general, these comments expanded on our discussion about the speed in which IRS met the challenges of creating systems for filing and disclosing data about Section 527 organizations, the barriers to obtaining Section 527 data in an electronic format, and efforts to improve the filing compliance of Section 527 organizations as well as IRS's oversight. For example, although our report describes what the law required and what IRS did in creating the Section 527 forms and Web site, IRS said that our report understated the steps necessary to implement the law and the difficult challenges IRS faced. IRS elaborated on its initial effort to implement the law and noted that disclosures on the Web site go beyond what the law required, which our report acknowledges by describing that IRS posts more information to the Web site than the law requires.

In addition, IRS said that our report should make clear that unlike the statutory penalties for late filing of the Form 1120-POL and Form 990, no

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late filing penalties exist for the Form 8871 or 8872. For example, IRS said that if an organization files a late or incomplete Form 8871, it does not incur a penalty but rather must recalculate its taxable income or have IRS do so. A similar provision applies for organizations that do not file Forms 8872 in the time and manner required. IRS did not dispute that it has not recalculated any Section 527 organizations' taxes under the provisions of P.L. 106-230 that authorize it do so. Although we agree that the "penalty" for late or incomplete filing does not have the same characteristics as the penalties for late filing of Forms 1120-POL or 990, we believe we are correct in indicating that having to pay tax on what had previously been tax-exempt income is a penalty for noncompliance with the requirement to file timely, complete and correct Forms 8871 and 8872. P.L. 106-230 refers to the requirement that taxes be paid on previously tax-exempt income for failure to properly file Forms 8872 as a penalty, although it does not label the provision on failure to properly file Forms 8871 as a penalty. We describe the penalty structure in the report and made no changes based on IRS's comments.

We also received oral comments from IRS officials on technical aspects of the report. Similarly, FEC officials provided some technical comments. In both cases, we made changes on the basis of these comments where appropriate.

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As we agreed with your office, unless you publicly announce the contents of this report earlier, we will make no further distribution of this report until 30 days from the report date. At that time, we will send copies of this report to the Ranking Minority Member, House Committee on Ways and Means, Commissioner of Internal Revenue, Secretary of the Treasury, Chairman, Federal Election Commission, Director, Office of Management and Budget, and other interested parties. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you have questions, please call me on (202) 512-9110. Key contributors to this report are listed in appendix IX.

Sincerely yours,



Michael Brostek  
Director, Tax Issues



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# Appendix I: Political Activity and Section 527 Organizations

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Section 527 of the tax code has allowed the formation of tax-exempt political organizations.<sup>1</sup> Such organizations that collect contributions and make expenditures to directly influence elections of candidates are to register and file reports with the Federal Election Commission (FEC) once they meet the Federal Election Campaign Act's (FECA) definition of "political committee." Political committees established by corporations and unions must register when they form while other political organizations must register when their contributions or expenditures exceed \$1,000 in a calendar year. Once registered, the political organizations are to report their receipts and disbursements to FEC, which discloses the data to the public and oversees the organizations.

In private letter rulings since 1996,<sup>2</sup> the Internal Revenue Service (IRS) has clarified the political activities allowable under Section 527. The letter rulings interpreted the law as allowing tax-exempt organizations to collect contributions and make expenditures to indirectly influence the election of candidates through issue advocacy. Such organizations have sponsored advertisements that support or oppose a candidate's position on an issue without expressly advocating the election or defeat of that candidate. Tax-exempt organizations engaging only in these types of issue ads are generally not subject to FECA, and until July 2000, not required to report their activities to a federal agency or publicly disclose data under federal law.

Public disclosure of data about Section 527 organizations involved in issue advocacy allows voters to see the contributions to and expenditures of these organizations. P.L. 106-230 created a federal source of public data at IRS on Section 527 organizations at local, state, and federal levels.<sup>3</sup> Even so, identifying all individuals or groups that seek to influence an issue can be difficult because of complex relationships. Section 527 organizations can make contributions to each other and between federal and state levels, creating a web of relationships among the organizations.

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<sup>1</sup>Under Section 527, a political organization is defined as an organization operated primarily for the purpose of accepting contributions or making expenditures, to influence the selections, nominations, elections, or appointments for federal, state, or local public offices, offices in a political organization, or Presidential or Vice-Presidential electors.

<sup>2</sup>PLR 9652026 (Oct. 1, 1996), PLR 9725036 (Mar. 24, 1997) and PLR 199925051 (Mar. 29, 1999) clarified the law.

<sup>3</sup>Section 527 organizations that report to IRS must still fulfill any reporting obligations to the states.

Other types of tax-exempt organizations may conduct political activities if the political activities are secondary to their tax-exempt activities. Table 3 shows four types of tax-exempt organizations that may engage in political activities and the allowable activities.

**Table 3: Allowable Political Activities of Section 501(c)(3-6) Tax-Exempt Organizations**

Type of tax-exemption	Type of organization	Allowable political activities
501(c)(3)	Charity	Educational advocacy <sup>a</sup> and limited legislative advocacy <sup>b</sup>
501(c)(4)	Social welfare	Educational and legislative advocacy and limited electioneering <sup>c</sup>
501(c)(5)	Labor, agricultural, or horticultural	Same
501(c)(6)	Business league	Same

<sup>a</sup>Educational advocacy is aimed at educating the public about an issue.

<sup>b</sup>Legislative advocacy is aimed at influencing the public to support or oppose specific legislation.

<sup>c</sup>Electioneering is aimed at influencing a political campaign such as influencing voters to vote for or against a particular candidate.

Source: IRS officials and GAO analysis.

With the exception of charities, tax-exempt organizations can choose among three ways to manage the funds for political activities: (1) keep such activities within the organizational budget if that activity is secondary to its exempt purpose, (2) create a separate bank account called a separate segregated fund (SSF) within its organization, or (3) establish a distinct but related Section 527 organization. Charities may not create a related Section 527 organization.

In a 1996 letter ruling, IRS said that it considered a SSF to be a tax-exempt Section 527 organization. According to IRS officials, Section 527(f) encouraged Section 501(c)(4-6) organizations to create SSFs or Section 527 organizations instead of keeping their political activities within the organization and paying tax on the money flowing through for political activities. IRS officials said that P.L. 106-230 created an incentive to push the political activities back within the Section 501(c)(4-6) organizations to avoid the disclosure requirements of P.L. 106-230.

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# Appendix II: IRS Forms Mentioned in Report

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According to IRS, political organizations that have tax-exempt status under Section 527 of the Internal Revenue Code must file some or all of the four forms listed in Table 4. The requirements for filing these forms apply to political organizations that are exempt from federal income tax provisions, and receive or expect to receive \$25,000 or more in gross receipts in any taxable year.

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**Table 4: Filing Requirements for Section 527 Organizations**

<b>If a Section 527 organization is</b>	<b>That organization is to file</b>
Federal candidate committee, political party committee, or PAC required to report to FEC	Form 1120-POL and Form 990 or Form 990-EZ
State or local candidate committee or state or local committee of a political party	Form 8871, Form 1120-POL, and Form 990 or Form 990-EZ
Any other political organization, including state or local PACs and federal political organizations that are not required to report to FEC	Form 8871, Form 8872, Form 1120-POL, and Form 990 or Form 990-EZ

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Note: A political organization that does not seek tax-exempt status or a tax-exempt political organization that does not have gross receipts of at least \$25,000 but receives more than \$100 in taxable income in any taxable year is still to file a Form 1120-POL.

Source: IRS Fact Sheet 2002-11, May 2002.

The following pages show the forms used by Section 527 organizations.

Form <b>8871</b> (July 2000) Department of the Treasury Internal Revenue Service	<b>Political Organization          Notice of Section 527 Status</b>	OMB No. 1545-1693
<b>Part I General Information</b>		
<b>1</b> Name of organization		<b>Employer identification number</b>
<b>2</b> Mailing address (P.O. Box or number, street, and room or suite number)		
City or town, state, and ZIP code		
<b>3</b> E-mail address of organization		
<b>4a</b> Name of custodian of records	<b>4b</b> Custodian's address	
<b>5a</b> Name of contact person	<b>5b</b> Contact person's address	
<b>6</b> Business address of organization (if different from mailing address shown above). Number, street, and room or suite number		
City or town, state, and ZIP code		
<b>Part II Purpose</b>		
<b>7</b> Describe the purpose of the organization		
.....		
.....		
.....		
.....		
.....		
<b>Part III List of All Related Entities (see instructions)</b>		
<b>8a</b> Name of related entity	<b>8b</b> Relationship	<b>8c</b> Address
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
For Paperwork Reduction Act Notice, see page 4.		
Cat. No. 30405V		Form <b>8871</b> (7-2000)

Form 8871 (7-2000) Page **2**

**Part IV** List of All Officers, Directors, and Highly Compensated Employees (see instructions)

9a Name	9b Title	9c Address

Under penalties of perjury, I declare that the organization named in Part I is to be treated as an organization described in section 527 of the Internal Revenue Code, and that I have examined this notice, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Sign Here

Signature of authorized official

Date

♻️

Form **8871** (7-2000)

**Appendix II: IRS Forms Mentioned in Report**

Form <b>8872</b> (July 2000) Department of the Treasury Internal Revenue Service	<b>Political Organization                  Report of Contributions and Expenditures</b> ▶ See separate instructions.	OMB No. 1545-1696
<b>A</b> For the period beginning _____, 20____ and ending _____, 20____		
<b>B</b> Check applicable boxes: <input type="checkbox"/> Initial report <input type="checkbox"/> Change of address <input type="checkbox"/> Amended report <input type="checkbox"/> Final report		
<b>1</b> Name of organization _____		<b>Employer identification number</b> _____
<b>2</b> Mailing address (P.O. Box or number, street, and room or suite number) _____ City or town, state, and ZIP code _____		
<b>3</b> E-mail address of organization _____		<b>4</b> Date organization was formed _____
<b>5a</b> Name of custodian of records _____	<b>5b</b> Custodian's address _____	
<b>6a</b> Name of contact person _____	<b>6b</b> Contact person's address _____	
<b>7</b> Business address of organization (if different from mailing address shown above). Number, street, and room or suite number _____ City or town, state, and ZIP code _____		
<b>8</b> Type of report (check only one box)		
<b>a</b> <input type="checkbox"/> First quarterly report (due by April 15)		<b>f</b> <input type="checkbox"/> Monthly report for the month of: _____ (due by the 20th day following the month shown above, except the December report, which is due by January 31)
<b>b</b> <input type="checkbox"/> Second quarterly report (due by July 15)		<b>g</b> <input type="checkbox"/> Pre-election report (due by the 12th or 15th day before the election) (1) Type of election: _____ (2) Date of election: _____ (3) For the state of: _____
<b>c</b> <input type="checkbox"/> Third quarterly report (due by October 15)		<b>h</b> <input type="checkbox"/> Post-general election report (due by the 30th day after general election) (1) Date of election: _____ (2) For the state of: _____
<b>d</b> <input type="checkbox"/> Year-end report (due by January 31)		
<b>e</b> <input type="checkbox"/> Mid-year report (Non-election year only-due by July 31)		
<b>9</b> Total amount of reported contributions (total from all attached Schedules A). . . . .		<b>9</b> _____
<b>10</b> Total amount of reported expenditures (total from all attached Schedules B). . . . .		<b>10</b> _____
<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.	
	_____ Signature of authorized official	_____ Date
For Paperwork Reduction Act Notice, see separate instructions.		
		Cat. No. 30406G      Form <b>8872</b> (7-2000)

**Appendix II: IRS Forms Mentioned in Report**

Form 8872 (7-2000)

<b>Schedule A</b> Itemized Contributions		Schedule A page _____ of _____
Name of organization		Employer identification number
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
Contributor's name, mailing address and ZIP code	Name of contributor's employer	Amount of contributions reported for this period
	Contributor's occupation	
	Aggregate contributions year-to-date . . . ▶ \$	
<b>Subtotal</b> of contributions reported on this page only. Enter here and also include this amount in the total on line 9 of Form 8872 . . . . . ▶		\$

Form 8872 (7-2000)

**Appendix II: IRS Forms Mentioned in Report**

Form 8872 (7-2000)

<b>Schedule B</b> Itemized Expenditures		Schedule B page _____ of _____
Name of organization		Employer identification number
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
Recipient's name, mailing address and ZIP code	Name of recipient's employer	Amount of each expenditure reported for this period
	Recipient's occupation	
	<b>\$</b>	
<b>Subtotal</b> of expenditures reported on this page only. Enter here and also include this amount in the total on line 10 of Form 8872 . . . . .		<b>\$</b>

⊕

Form 8872 (7-2000)



Appendix II: IRS Forms Mentioned in Report

Form <b>1120-POL</b> Department of the Treasury Internal Revenue Service	<b>U.S. Income Tax Return                  for Certain Political Organizations</b>	<b>Open to                  Public                  Inspection</b>	OMB No. 1545-0129 <b>2001</b>
For calendar year 2001 or other tax year beginning 2001, and ending 20			
Check the box if this is a section 501(c) organization or a separate segregated fund described in section 527(f)(3) <input type="checkbox"/>			
Please print or type	Name of organization		Employer identification number
	Number, street, and room or suite no. (If a P.O. box, see page 5 of instructions.)		Candidates for U.S. Congress Only If this is a principal campaign committee, and it is the ONLY political committee, check here, <input type="checkbox"/> If this is a principal campaign committee, but is NOT the only political committee, check here and attach a copy of designation (See instructions on page 2.) <input type="checkbox"/>
	City or town, state, and ZIP code		
Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return			
Income	1 Dividends (attach schedule)		1
	2 Interest		2
	3 Gross rents		3
	4 Gross royalties		4
	5 Capital gain net income (attach Schedule D (Form 1120))		5
	6 Net gain or (loss) from Form 4797, Part II, line 18 (attach Form 4797)		6
	7 Other income and nonexempt function expenditures (see instructions)		7
	8 <b>Total income.</b> Add lines 1 through 7.		8
Deductions	9 Salaries and wages		9
	10 Repairs and maintenance		10
	11 Rents		11
	12 Taxes and licenses		12
	13 Interest		13
	14 Depreciation (attach Form 4562)		14
	15 Other deductions (attach schedule)		15
	16 <b>Total deductions.</b> Add lines 9 through 15		16
	17 Taxable income before specific deduction of \$100 (see instructions.) Section 501(c) organizations show:		
	a Amount of net investment income		17c
	b Aggregate amount expended for an exempt function (attach schedule)		17b
	18 Specific deduction of \$100 (not allowed for newsletter funds defined under section 527(g))		18
Tax	19 <b>Taxable income.</b> Subtract line 18 from line 17c (If line 19 is zero or less, see instructions.)		19
	20 <b>Income tax</b> (see instructions)		20
	21 <b>Tax credits</b> (Attach the applicable credit forms.) (see instructions)		21
	22 Total tax. Subtract line 21 from line 20		22
	23 Payments: a Tax deposited with Form 7004	23a	
	b Credit for tax paid on undistributed capital gains (attach Form 2439)	23b	
	c Credit for Federal tax on fuels (attach Form 4136)	23c	
	d Total. Add lines 23a through 23c	23d	
	24 <b>Tax due.</b> Subtract line 23d from line 22. See instructions on page 4 for depository method of payment		24
	25 <b>Overpayment.</b> Subtract line 22 from line 23d		25
Additional Information	1 At any time during the 2001 calendar year, did the organization have an interest in or a signature or other authority over a financial account (such as a bank account, securities account, or other financial account) in a foreign country? (See instructions.) <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," enter the name of the foreign country <input type="text"/>		
	2 During the tax year, did the organization receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," the organization may have to file Form 3520.		
	3 Enter the amount of tax-exempt interest received or accrued during the tax year <input type="text"/> \$ <input type="text"/>		
	4 Date organization formed <input type="text"/>		
	5a The books are in care of <input type="text"/>	b Enter name of candidate <input type="text"/>	
	c The books are located at <input type="text"/>	d Telephone No. <input type="text"/>	
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Signature of officer <input type="text"/>	Date <input type="text"/>	Title <input type="text"/>
Paid Preparer's Use Only	Preparer's signature <input type="text"/>	Date <input type="text"/>	Preparer's SSN or PTIN <input type="text"/>
	Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/>	Check if self-employed <input type="checkbox"/>	EIN <input type="text"/>
			Phone no. ( <input type="text"/> ) <input type="text"/>
For Paperwork Reduction Act Notice, see instructions on page 6.			
		Cat. No. 11523K	Form <b>1120-POL</b> (2001)

Appendix II: IRS Forms Mentioned in Report

Form **990**

Department of the Treasury  
Internal Revenue Service

**Return of Organization Exempt From Income Tax**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

**2001**

**Open to Public Inspection**

**A For the 2001 calendar year, or tax year beginning** \_\_\_\_\_, 2001, and ending \_\_\_\_\_, 20

<p><b>B</b> Check if applicable:</p> <p><input type="checkbox"/> Address change</p> <p><input type="checkbox"/> Name change</p> <p><input type="checkbox"/> Initial return</p> <p><input type="checkbox"/> Final return</p> <p><input type="checkbox"/> Amended return</p> <p><input type="checkbox"/> Application pending</p>	<p><b>C</b> Name of organization</p> <p>Number and street (or P.O. box if mail is not delivered to street address) Room/suite</p> <p>City or town, state or country, and ZIP + 4</p>	<p><b>D</b> Employer identification number</p> <p>.....</p> <p><b>E</b> Telephone number</p> <p>( ) ( ) ( )</p> <p><b>F</b> Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual</p> <p><input type="checkbox"/> Other (specify) ▶</p>
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**G** Web site: ▶

**J** Organization type (check only one) ▶  501(c) ( ) ◀ (insert no.)  4947(a)(1) or  527

**K** Check here ▶  if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. **Some states require a complete return.**

**L** Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶

**H and I are not applicable to section 527 organizations.**

**H(a)** Is this a group return for affiliates?  Yes  No

**H(b)** If "Yes," enter number of affiliates ▶ .....

**H(c)** Are all affiliates included?  Yes  No (If "No," attach a list. See instructions.)

**H(d)** Is this a separate return filed by an organization covered by a group ruling?  Yes  No

**I** Enter 4-digit GEN ▶

**M** Check ▶  if the organization is **not** required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

**Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances** (See Specific Instructions on page 16.)

	<p><b>1</b> Contributions, gifts, grants, and similar amounts received:</p> <p><b>a</b> Direct public support . . . . . <b>1a</b></p> <p><b>b</b> Indirect public support . . . . . <b>1b</b></p> <p><b>c</b> Government contributions (grants) . . . . . <b>1c</b></p> <p><b>d</b> Total (add lines 1a through 1c) (cash \$ _____ noncash \$ _____) <b>1d</b></p> <p><b>2</b> Program service revenue including government fees and contracts (from Part VII, line 93) <b>2</b></p> <p><b>3</b> Membership dues and assessments . . . . . <b>3</b></p> <p><b>4</b> Interest on savings and temporary cash investments . . . . . <b>4</b></p> <p><b>5</b> Dividends and interest from securities . . . . . <b>5</b></p> <p><b>6a</b> Gross rents . . . . . <b>6a</b></p> <p><b>b</b> Less: rental expenses . . . . . <b>6b</b></p> <p><b>c</b> Net rental income or (loss) (subtract line 6b from line 6a) . . . . . <b>6c</b></p> <p><b>7</b> Other investment income (describe ▶) <b>7</b></p> <p><b>8a</b> Gross amount from sales of assets other than inventory (A) Securities (B) Other</p> <p><b>b</b> Less: cost or other basis and sales expenses. <b>8a</b></p> <p><b>c</b> Gain or (loss) (attach schedule) . . . . . <b>8b</b></p> <p><b>d</b> Net gain or (loss) (combine line 8c, columns (A) and (B)) . . . . . <b>8c</b></p> <p><b>8d</b></p> <p><b>9</b> Special events and activities (attach schedule)</p> <p><b>a</b> Gross revenue (not including \$ _____ of contributions reported on line 1a) . . . . . <b>9a</b></p> <p><b>b</b> Less: direct expenses other than fundraising expenses . . . . . <b>9b</b></p> <p><b>c</b> Net income or (loss) from special events (subtract line 9b from line 9a) . . . . . <b>9c</b></p> <p><b>10a</b> Gross sales of inventory, less returns and allowances . . . . . <b>10a</b></p> <p><b>b</b> Less: cost of goods sold . . . . . <b>10b</b></p> <p><b>c</b> Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a) . . . . . <b>10c</b></p> <p><b>11</b> Other revenue (from Part VII, line 103) . . . . . <b>11</b></p> <p><b>12</b> Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11) . . . . . <b>12</b></p>		
Revenue			
Expenses	<p><b>13</b> Program services (from line 44, column (B)) . . . . . <b>13</b></p> <p><b>14</b> Management and general (from line 44, column (C)) . . . . . <b>14</b></p> <p><b>15</b> Fundraising (from line 44, column (D)) . . . . . <b>15</b></p> <p><b>16</b> Payments to affiliates (attach schedule) . . . . . <b>16</b></p> <p><b>17</b> Total expenses (add lines 16 and 44, column (A)) . . . . . <b>17</b></p>		
Net Assets	<p><b>18</b> Excess or (deficit) for the year (subtract line 17 from line 12) . . . . . <b>18</b></p> <p><b>19</b> Net assets or fund balances at beginning of year (from line 73, column (A)) . . . . . <b>19</b></p> <p><b>20</b> Other changes in net assets or fund balances (attach explanation) . . . . . <b>20</b></p> <p><b>21</b> Net assets or fund balances at end of year (combine lines 18, 19, and 20) . . . . . <b>21</b></p>		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11282Y

Form **990** (2001)

**Appendix II: IRS Forms Mentioned in Report**

Form 990 (2001)

Page **2**

**Part II Statement of Functional Expenses**

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See Specific Instructions on page 21.)

<i>Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.</i>	(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) . . . . . (cash \$ _____ noncash \$ _____)	22			
23 Specific assistance to individuals (attach schedule)	23			
24 Benefits paid to or for members (attach schedule).	24			
25 Compensation of officers, directors, etc. . . . .	25			
26 Other salaries and wages . . . . .	26			
27 Pension plan contributions . . . . .	27			
28 Other employee benefits . . . . .	28			
29 Payroll taxes . . . . .	29			
30 Professional fundraising fees . . . . .	30			
31 Accounting fees . . . . .	31			
32 Legal fees . . . . .	32			
33 Supplies . . . . .	33			
34 Telephone . . . . .	34			
35 Postage and shipping . . . . .	35			
36 Occupancy . . . . .	36			
37 Equipment rental and maintenance . . . . .	37			
38 Printing and publications . . . . .	38			
39 Travel . . . . .	39			
40 Conferences, conventions, and meetings . . . . .	40			
41 Interest . . . . .	41			
42 Depreciation, depletion, etc. (attach schedule)	42			
43 Other expenses not covered above (itemize): a . . . . .	43a			
b . . . . .	43b			
c . . . . .	43c			
d . . . . .	43d			
e . . . . .	43e			
44 Total functional expenses (add lines 22 through 43). Organizations completing columns (B)-(D), carry these totals to lines 13-15 . . . . .	44			

**Joint Costs.** Check  if you are following SOP 98-2.  
 Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services?  Yes  No  
 If "Yes," enter (i) the aggregate amount of these joint costs \$ \_\_\_\_\_; (ii) the amount allocated to Program services \$ \_\_\_\_\_; (iii) the amount allocated to Management and general \$ \_\_\_\_\_; and (iv) the amount allocated to Fundraising \$ \_\_\_\_\_

**Part III Statement of Program Service Accomplishments** (See Specific Instructions on page 24.)

What is the organization's primary exempt purpose? \_\_\_\_\_  
 All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

**Program Service Expenses**  
 (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)

a	_____	
	(Grants and allocations \$ _____)	
b	_____	
	(Grants and allocations \$ _____)	
c	_____	
	(Grants and allocations \$ _____)	
d	_____	
	(Grants and allocations \$ _____)	
e	Other program services (attach schedule) (Grants and allocations \$ _____)	
f	<b>Total of Program Service Expenses</b> (should equal line 44, column (B), Program services) . . . . .	

Form **990** (2001)

**Appendix II: IRS Forms Mentioned in Report**

Form 990 (2001)

Page **3**

**Part IV Balance Sheets** (See Specific Instructions on page 24.)

		(A) Beginning of year	(B) End of year
<b>Note:</b> Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.			
<b>Assets</b>	<b>45</b> Cash—non-interest-bearing . . . . .		<b>45</b>
	<b>46</b> Savings and temporary cash investments . . . . .		<b>46</b>
	<b>47a</b> Accounts receivable . . . . . <b>47a</b>		
	<b>b</b> Less: allowance for doubtful accounts . . . . . <b>47b</b>		<b>47c</b>
	<b>48a</b> Pledges receivable . . . . . <b>48a</b>		
	<b>b</b> Less: allowance for doubtful accounts . . . . . <b>48b</b>		<b>48c</b>
	<b>49</b> Grants receivable . . . . .		<b>49</b>
	<b>50</b> Receivables from officers, directors, trustees, and key employees (attach schedule) . . . . .		<b>50</b>
	<b>51a</b> Other notes and loans receivable (attach schedule) . . . . . <b>51a</b>		
	<b>b</b> Less: allowance for doubtful accounts . . . . . <b>51b</b>		<b>51c</b>
	<b>52</b> Inventories for sale or use . . . . .		<b>52</b>
	<b>53</b> Prepaid expenses and deferred charges . . . . .		<b>53</b>
	<b>54</b> Investments—securities (attach schedule) . . . . . <input type="checkbox"/> Cost <input type="checkbox"/> FMV		<b>54</b>
	<b>55a</b> Investments—land, buildings, and equipment: basis . . . . . <b>55a</b>		
	<b>b</b> Less: accumulated depreciation (attach schedule) . . . . . <b>55b</b>		<b>55c</b>
	<b>56</b> Investments—other (attach schedule) . . . . .		<b>56</b>
	<b>57a</b> Land, buildings, and equipment: basis . . . . . <b>57a</b>		
	<b>b</b> Less: accumulated depreciation (attach schedule) . . . . . <b>57b</b>		<b>57c</b>
	<b>58</b> Other assets (describe <input type="checkbox"/> )		<b>58</b>
	<b>59</b> <b>Total assets</b> (add lines 45 through 58) (must equal line 74) . . . . .		<b>59</b>
<b>Liabilities</b>	<b>60</b> Accounts payable and accrued expenses . . . . .		<b>60</b>
	<b>61</b> Grants payable . . . . .		<b>61</b>
	<b>62</b> Deferred revenue . . . . .		<b>62</b>
	<b>63</b> Loans from officers, directors, trustees, and key employees (attach schedule) . . . . .		<b>63</b>
	<b>64a</b> Tax-exempt bond liabilities (attach schedule) . . . . .		<b>64a</b>
	<b>b</b> Mortgages and other notes payable (attach schedule) . . . . .		<b>64b</b>
<b>65</b> Other liabilities (describe <input type="checkbox"/> )		<b>65</b>	
<b>66</b> <b>Total liabilities</b> (add lines 60 through 65) . . . . .		<b>66</b>	
<b>Net Assets or Fund Balances</b>	<b>Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74.</b>		
	<b>67</b> Unrestricted . . . . .		<b>67</b>
	<b>68</b> Temporarily restricted . . . . .		<b>68</b>
	<b>69</b> Permanently restricted . . . . .		<b>69</b>
	<b>Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74.</b>		
	<b>70</b> Capital stock, trust principal, or current funds . . . . .		<b>70</b>
	<b>71</b> Paid-in or capital surplus, or land, building, and equipment fund . . . . .		<b>71</b>
	<b>72</b> Retained earnings, endowment, accumulated income, or other funds . . . . .		<b>72</b>
<b>73</b> <b>Total net assets or fund balances</b> (add lines 67 through 69 OR lines 70 through 72; column (A) <b>must</b> equal line 19; column (B) <b>must</b> equal line 21) . . . . .		<b>73</b>	
<b>74</b> <b>Total liabilities and net assets / fund balances</b> (add lines 66 and 73)		<b>74</b>	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.



**Appendix II: IRS Forms Mentioned in Report**

Form 990 (2001)		Page <b>5</b>	
<b>Part VI Other Information</b> (See Specific Instructions on page 27.)		Yes	No
<b>76</b>	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity . . . . .	76	
<b>77</b>	Were any changes made in the organizing or governing documents but not reported to the IRS? . . . . . If "Yes," attach a conformed copy of the changes.	77	
<b>78a</b>	Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return? . . . . .	78a	
<b>78b</b>	If "Yes," has it filed a tax return on <b>Form 990-T</b> for this year? . . . . .	78b	
<b>79</b>	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement . . . . .	79	
<b>80a</b>	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization? . . . . .	80a	
<b>b</b>	If "Yes," enter the name of the organization ▶ _____ _____ and check whether it is <input type="checkbox"/> exempt OR <input type="checkbox"/> nonexempt.		
<b>81a</b>	Enter direct or indirect political expenditures. See line 81 instructions . . . . . <b>81a</b>	81a	
<b>b</b>	Did the organization file <b>Form 1120-POL</b> for this year? . . . . .	81b	
<b>82a</b>	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? . . . . .	82a	
<b>b</b>	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) . . . . . <b>82b</b>	82b	
<b>83a</b>	Did the organization comply with the public inspection requirements for returns and exemption applications? . . . . .	83a	
<b>b</b>	Did the organization comply with the disclosure requirements relating to quid pro quo contributions? . . . . .	83b	
<b>84a</b>	Did the organization solicit any contributions or gifts that were not tax deductible? . . . . .	84a	
<b>b</b>	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? . . . . .	84b	
<b>85</b>	<b>501(c)(4), (5), or (6) organizations.</b> <b>a</b> Were substantially all dues nondeductible by members? . . . . .	85a	
<b>b</b>	Did the organization make only in-house lobbying expenditures of \$2,000 or less? . . . . .	85b	
	If "Yes" was answered to either 85a or 85b, <b>do not</b> complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.		
<b>c</b>	Dues, assessments, and similar amounts from members . . . . . <b>85c</b>	85c	
<b>d</b>	Section 162(e) lobbying and political expenditures . . . . . <b>85d</b>	85d	
<b>e</b>	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices . . . . . <b>85e</b>	85e	
<b>f</b>	Taxable amount of lobbying and political expenditures (line 85d less 85e) . . . . . <b>85f</b>	85f	
<b>g</b>	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f? . . . . .	85g	
<b>h</b>	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year? . . . . .	85h	
<b>86</b>	<b>501(c)(7) orgs.</b> Enter: <b>a</b> Initiation fees and capital contributions included on line 12 . . . . . <b>86a</b>	86a	
<b>b</b>	Gross receipts, included on line 12, for public use of club facilities. . . . . <b>86b</b>	86b	
<b>87</b>	<b>501(c)(12) orgs.</b> Enter: <b>a</b> Gross income from members or shareholders. . . . . <b>87a</b>	87a	
<b>b</b>	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) . . . . . <b>87b</b>	87b	
<b>88</b>	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX . . . . .	88	
<b>89a</b>	<b>501(c)(3) organizations.</b> Enter: Amount of tax imposed on the organization during the year under: section 4911 ▶ _____; section 4912 ▶ _____; section 4955 ▶ _____		
<b>b</b>	<b>501(c)(3) and 501(c)(4) orgs.</b> Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction. . . . .	89b	
<b>c</b>	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958. . . . . ▶ _____		
<b>d</b>	Enter: Amount of tax on line 89c, above, reimbursed by the organization. . . . . ▶ _____		
<b>90a</b>	List the states with which a copy of this return is filed ▶ _____		
<b>b</b>	Number of employees employed in the pay period that includes March 12, 2001 (See instructions.) <b>90b</b>	90b	
<b>91</b>	The books are in care of ▶ _____ Telephone no. ▶ (_____) _____ Located at ▶ _____ ZIP + 4 ▶ _____		
<b>92</b>	<b>Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041</b> —Check here <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the tax year . . . . . ▶ <b>92</b>	92	

**Appendix II: IRS Forms Mentioned in Report**

Form 990 (2001)

Page **6**

**Part VII Analysis of Income-Producing Activities** (See Specific Instructions on page 32.)

**Note:** Enter gross amounts unless otherwise indicated.

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
<b>93</b> Program service revenue:					
<b>a</b> _____					
<b>b</b> _____					
<b>c</b> _____					
<b>d</b> _____					
<b>e</b> _____					
<b>f</b> Medicare/Medicaid payments . . . . .					
<b>g</b> Fees and contracts from government agencies					
<b>94</b> Membership dues and assessments . . . . .					
<b>95</b> Interest on savings and temporary cash investments					
<b>96</b> Dividends and interest from securities . . . . .					
<b>97</b> Net rental income or (loss) from real estate:					
<b>a</b> debt-financed property . . . . .					
<b>b</b> not debt-financed property . . . . .					
<b>98</b> Net rental income or (loss) from personal property					
<b>99</b> Other investment income . . . . .					
<b>100</b> Gain or (loss) from sales of assets other than inventory					
<b>101</b> Net income or (loss) from special events . . . . .					
<b>102</b> Gross profit or (loss) from sales of inventory . . . . .					
<b>103</b> Other revenue: <b>a</b> _____					
<b>b</b> _____					
<b>c</b> _____					
<b>d</b> _____					
<b>e</b> _____					
<b>104</b> Subtotal (add columns (B), (D), and (E)) . . . . .					
<b>105</b> Total (add line 104, columns (B), (D), and (E)). . . . .					

**Note:** Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

**Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes** (See Specific Instructions on page 32.)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).
▼	

**Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities** (See Specific Instructions on page 33.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

**Part X Information Regarding Transfers Associated with Personal Benefit Contracts** (See Specific Instructions on page 33.)

- (a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?  Yes  No
- (b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?  Yes  No
- Note:** If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

<b>Please Sign Here</b>	Signature of officer _____	Date _____
	Type or print name and title _____	
<b>Paid Preparer's Use Only</b>	Preparer's signature _____	Date _____
	Firm's name (or yours if self-employed), address, and ZIP + 4 _____	Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN (See Gen. Inst. W) _____
	EIN _____	Phone no. ( ) _____



Form **990** (2001)

# Appendix III: Data About Section 501(c)(3-6) Organizations

**Table 5: Number of Section 501(c) Tax-Exempt Organizations, Fiscal Years 1995-2001**

Type of tax-exempt entity <sup>a</sup>	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
501(c)3	626,226	654,186	692,524	733,790	773,934	819,008	865,096
501(c)4	139,451	139,512	141,776	139,533	138,927	137,037	136,882
501(c)5	66,662	64,955	64,902	64,804	63,716	63,456	62,944
501(c)6	75,695	77,274	78,406	79,864	81,493	82,246	82,706
All other 501(c) <sup>b</sup>	256,755	252,583	252,686	253,751	354,577	252,656	251,930

<sup>a</sup>Because IRS has not identified how many Section 501(c) organizations have ceased activity, the number of organizations that are currently active is likely to be overstated. The Treasury Inspector General for Tax Administration has recommended that IRS take steps to improve such data.

<sup>b</sup>“Other” refers to Section 501(c)(1-27) except 3, 4, 5, and 6.

Source: IRS Annual Data Books, 1995-2002.

**Table 6: Disposition of Applications for Section 501(c)(3-6) Tax Exemption Status, Fiscal Years 1995-2001**

Disposition by fiscal year	Type of Section 501(c) organization					Total
	501(c)(3)	501(c)(4)	501(c)(5)	501(c)(6)	All other 501(c) organizations <sup>a</sup>	
<b>FY1995</b>						
Approved	42,324	1,717	341	2,003	2,175	<b>48,560</b>
% Approved <sup>b</sup>	75.0%	75.2%	78.9%	80.4%	70.0%	<b>75.0%</b>
Denied	377	27	4	35	27	<b>470</b>
Approved/Deny Ratio <sup>c</sup>	112.3	63.6	85.3	57.2	80.6	<b>103.3</b>
Other <sup>d</sup>	13,707	538	87	454	907	<b>15,693</b>
<b>Total</b>	<b>56,408</b>	<b>2,282</b>	<b>432</b>	<b>2,492</b>	<b>3,109</b>	<b>64,723</b>
<b>FY1996</b>						
Approved	40,978	1,648	313	1,909	1,913	<b>46,761</b>
% Approved <sup>b</sup>	71.2%	72.2%	78.4%	80.1%	65.9%	<b>71.4%</b>
Denied	342	32	0	25	20	<b>419</b>
Approved/Deny Ratio <sup>c</sup>	119.8	51.5	313.0	76.4	95.7	<b>111.6</b>
Other <sup>d</sup>	16,217	602	86	450	968	<b>18,323</b>
<b>Total</b>	<b>57,537</b>	<b>2,282</b>	<b>399</b>	<b>2,384</b>	<b>2,901</b>	<b>65,503</b>
<b>FY1997</b>						
Approved	47,015	1,535	336	1,803	2,068	<b>52,757</b>
% Approved <sup>b</sup>	72.3%	67.3%	76.9%	78.1%	64.1%	<b>72.0%</b>
Denied	226	21	3	23	26	<b>299</b>
Approved/Deny Ratio <sup>c</sup>	208.0	73.1	112.0	78.4	79.5	<b>176.4</b>
Other <sup>d</sup>	17,761	726	98	483	1,133	<b>20,201</b>
<b>Total</b>	<b>65,002</b>	<b>2,282</b>	<b>437</b>	<b>2,309</b>	<b>3,227</b>	<b>73,257</b>
<b>FY1998</b>						
Approved	51,329	1,696	265	1,694	1,977	<b>56,961</b>
% Approved <sup>b</sup>	74.6%	70.3%	74.2%	80.0%	65.0%	<b>74.2%</b>
Denied	382	15	2	14	13	<b>426</b>



**Appendix III: Data About Section 501(c)(3-6)  
Organizations**

Disposition by fiscal year	Type of Section 501(c) organization					Total
	501(c)(3)	501(c)(4)	501(c)(5)	501(c)(6)	All other 501(c) organizations <sup>a</sup>	
Approved/Deny Ratio <sup>c</sup>	134.4	113.1	132.5	121.0	152.1	<b>133.7</b>
Other <sup>d</sup>	17,085	700	90	409	1,052	<b>19,336</b>
<b>Total</b>	<b>68,796</b>	<b>2,411</b>	<b>357</b>	<b>2,117</b>	<b>3,042</b>	<b>76,723</b>
<b>FY1999</b>						
Approved	52,773	1,500	333	1,635	1,897	<b>58,138</b>
% Approved <sup>b</sup>	81.1%	73.4%	81.2%	84.8%	69.7%	<b>80.6%</b>
Denied	447	4	0	10	9	<b>470</b>
Approved/Deny Ratio <sup>c</sup>	118.1	375.0	333.0	163.5	210.8	<b>123.7</b>
Other <sup>d</sup>	11,838	539	77	284	815	<b>13,553</b>
<b>Total</b>	<b>65,058</b>	<b>2,043</b>	<b>410</b>	<b>1,929</b>	<b>2,721</b>	<b>72,161</b>
<b>FY2000</b>						
Approved	61,005	1,681	468	1,718	2,362	<b>67,234</b>
% Approved <sup>b</sup>	81.8%	72.7%	84.5%	84.5%	73.3%	<b>81.3%</b>
Denied	456	9	0	8	9	<b>482</b>
Approved/Deny Ratio <sup>c</sup>	133.8	186.8	468.0	214.8	262.4	<b>139.5</b>
Other <sup>d</sup>	13,073	622	86	307	850	<b>14,938</b>
<b>Total</b>	<b>74,534</b>	<b>2,312</b>	<b>554</b>	<b>2,033</b>	<b>3,221</b>	<b>82,654</b>
<b>FY2001</b>						
Approved	59,909	1,471	295	1,473	2,225	<b>65,373</b>
% Approved <sup>b</sup>	80.6%	72.1%	81.7%	82.1%	73.5%	<b>80.1%</b>
Denied	629	2	2	8	5	<b>646</b>
Approved/Deny Ratio <sup>c</sup>	95.2	735.5	147.5	184.1	445.0	<b>101.2</b>
Other <sup>d</sup>	13,823	566	64	314	171	<b>14,938</b>
<b>Total</b>	<b>74,361</b>	<b>2,039</b>	<b>361</b>	<b>1,795</b>	<b>3,026</b>	<b>81,582</b>

Note: Section 508 of the Internal Revenue Code requires most Section 501(c)(3) organizations to apply for recognition of tax-exempt status. There is no comparable provision in the Internal Revenue Code that requires Section 501(c)(4-6) organizations to apply for this recognition.

<sup>a</sup>Applications for Section 501(c)(1-27) except 3, 4, 5, and 6. Sections 501(c)(26) and (27) included for FY 1998 and FY 1999.

<sup>b</sup>Percent of approvals assumes no carry-over of applications from previous year(s) and includes Other.

<sup>c</sup>Approved/Deny Ratio = For every 1 denial, there were X approvals.

<sup>d</sup>Application withdrawn and failure to furnish required information, refusals to rule, information forwarded to other than national office, correction, disposal, and others.

**Appendix III: Data About Section 501(c)(3-6)  
Organizations**

**Table 7: Types of Returns of Tax-Exempt Organizations Audited, Fiscal Years 1995-2001**

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
Total number of returns for tax-exempt organizations filed in previous calendar year <sup>a</sup>	523,191	563,710	577,926	644,496	641,383	836,550	872,210
Audit Rate (overall) <sup>b</sup>	2.0%	2.0%	1.9%	1.6%	1.3%	0.8%	0.6%
Tax-exempt organizations and related taxable returns audited	10,497	11,020	10,700	10,353	8,611	7,435	5,342
<b>Tax-exempt returns audited</b>							
Forms 990 and 990-EZ <sup>c</sup>	3,852	4,067	4,168	4,145	4,170	3,630	2,494
Forms 990PF, 5227, and 1041A	318	312	503	350	209	148	132
Form 990-C <sup>d</sup>	51	114	78	88	34	18	9
Form 1120-POL <sup>e</sup>	62	56	30	107	75	52	7
Forms 8038, 8038G, 8038GC, 8038T, and 8028 <sup>f</sup>	na	68	100	126	92	186	295
<b>Total</b>	<b>4,283</b>	<b>4,617</b>	<b>4,879</b>	<b>4,816</b>	<b>4,580</b>	<b>4,034</b>	<b>2,937</b>
<b>Related taxable returns audited</b>							
Forms 940, 941, 942, and 943 <sup>g</sup>	3,670	4,157	3,534	2,845	2,048	1,409	1,170
Form 990-T <sup>h</sup>	2,139	1,747	1,702	1,717	1,198	1,217	825
Form 4720 <sup>i</sup>	143	98	51	50	87	121	41
Forms 1040 and 1120 adjusted <sup>j</sup>	262	401	534	925	698	172	219
<b>Total</b>	<b>6,214</b>	<b>6,403</b>	<b>5,821</b>	<b>5,537</b>	<b>4,031</b>	<b>2,919</b>	<b>2,255</b>

Notes: (1) Excludes Employee Plans. (2) Detail may not add due to rounding. (3) na=not available.

<sup>a</sup>For 1995, returns filed include Forms 990, 990-EZ, 990PF, 990-C, 5227, 1041-A, 1065.

<sup>b</sup>In general, audits are associated with returns filed in the previous calendar year; however, this relationship is only approximate.

<sup>c</sup>Tax-exempt organization returns (Forms 990 and the 990-EZ "short" form), other than private foundations or farmers' cooperatives.

<sup>d</sup>Form 990-C is filed by farmers' cooperatives.

<sup>e</sup>Form 1120-POL is filed by certain political organizations.

<sup>f</sup>Tax-exempt private activity bond issues (Form 8038), government-purpose tax-exempt bond issues (Form 8038G), small tax-exempt governmental bond issues (Form 8038GC), arbitrage rebates (Form 8038T), and carryover election of unused private-activity bond volume cap (Form 8328), respectively.

<sup>g</sup>Employer's unemployment tax (Form 940); employer returns for income and social security tax withheld and advance earned income credit payments, for other than household or agricultural employees (Form 941); household employee tax (Form 942); and agricultural employees tax (Form 943), respectively.

<sup>h</sup>Form 990-T is the tax-exempt organization business income tax return.

<sup>i</sup>Form 4720 reports the excise tax on certain charities.

<sup>j</sup>Tax on related individual (Form 1040 series) or corporation (Form 1120 series) income tax returns, adjusted as a result of audits of tax-exempt organization return.

Source: IRS Annual Data Books, 1995-2002.

**Appendix III: Data About Section 501(c)(3-6)  
Organizations**

**Table 8: Recommended and Average Additional Tax from Audits of Tax-Exempt Organizations, Fiscal Years 1995-2001**

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
<b>Number of returns audited<sup>a</sup></b>							
Coordinated Examination Program (CEP) <sup>b</sup>	655	722	846	725	450	574	511
Non-CEP	9,842	10,298	9,854	9,628	8,161	6,861	4,831
<b>Total</b>	<b>10,497</b>	<b>11,020</b>	<b>10,700</b>	<b>10,353</b>	<b>8,611</b>	<b>7,435</b>	<b>5,342</b>
<b>Recommended additional tax after audit (dollars)</b>							
CEP	40,038,000	42,236,000	30,225,000	30,701,000	73,923,000	26,210,000	28,354,000
Non-CEP	86,521,000	88,242,000	59,252,000	51,543,000	23,702,000	312,321,000	10,109,000
<b>Total</b>	<b>126,559,000</b>	<b>130,478,000</b>	<b>89,477,000</b>	<b>82,244,000</b>	<b>97,625,000</b>	<b>338,531,000</b>	<b>38,463,000</b>
<b>Average recommended additional tax per return (dollars)</b>							
CEP	61,127	58,499	35,727	42,346	164,273	45,662	55,487
Non-CEP	8,791	8,569	6,013	5,353	2,904	45,521	2,093
<b>Weighted Average</b>	<b>12,057</b>	<b>11,840</b>	<b>8,362</b>	<b>7,944</b>	<b>11,337</b>	<b>45,532</b>	<b>7,200</b>

Notes: (1) Detail may not add to totals because of rounding. (2) Includes Audits of Related Taxable Returns and excludes Employee Plans.

<sup>a</sup>In general, audits are associated with returns filed in the previous calendar year; however, this relationship is only approximate.

<sup>b</sup>CEP (Coordinated Examination Program) covers "a taxpayer, and its effectively controlled organizations, that warrants application of 'team examination' procedures."

Source: IRS Data Books 1995-2002, and GAO analysis.

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**Appendix III: Data About Section 501(c)(3-6)  
Organizations**

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**Table 9: Revocations of Section 501(c)(3-6) Tax-Exempt Status, Fiscal Years  
1995-2001**

<b>Year</b>	<b>Section 501(c)(3)</b>	<b>Section 501(c)(4)</b>	<b>Section 501(c)(5)</b>	<b>Section 501(c)(6)</b>	<b>Total</b>
1995	18	6	0	3	<b>27</b>
1996	16	11	0	5	<b>32</b>
1997	12	9	1	6	<b>28</b>
1998	24	7	2	3	<b>36</b>
1999	8	9	1	3	<b>21</b>
2000	27	1	2	1	<b>31</b>
2001	9	2	1	1	<b>13</b>
<b>Total</b>	<b>114</b>	<b>45</b>	<b>7</b>	<b>22</b>	<b>188</b>

Source: IRS's Audit Information Management System (AIMS) database, fiscal years 1995-2001.

# Appendix IV: IRS Section 527 Disclosure Web Site Accessibility Evaluation

## The Purpose of the Website Assessment

The purpose of this assessment is to examine the usability or user-friendliness of the IRS website on section 527 political organizations, and your satisfaction as a site user. The assessment has three parts:

1. Exploration of the website on your own
2. Performing 4 tasks
3. Evaluating the site

### Background:

The Internal Revenue Service serves both individual taxpayers and private businesses. One group of businesses with which the IRS works is tax-exempt political organizations (commonly known as PACs). In June 2000, Congress required that IRS publicly disclose all forms submitted to IRS by these political organizations. Our engagement is looking into how effective a job IRS has been doing in disclosing the information on these forms to the public. The vehicle IRS has employed to publicly disclose these filings is their website – [www.irs.gov](http://www.irs.gov).

### Part I: Exploration of the website

In Part I of the assessment, you will work at your computer and explore the IRS website on your own for between 5 and 10 minutes. *Please begin at the IRS home page, and end at the page(s) that allows you to search the forms filed by section 527 political organizations (also known as PACs).* During your exploration of the website, the Observer will record his observations based in part on your comments while you surf the site. Please discuss your experiences with the Observer openly and candidly, as this will help us to better understand the strengths and weaknesses of the IRS website.

### Part II: Performing 4 Tasks

In Part II of the assessment, you will complete 4 brief tasks that a typical user on the site might be performing in his or her own use of the website. Please feel free to discuss your experiences with the Observer, as this will help us to better understand the strengths and weaknesses of the IRS website. The observer will record your comments as well as his own observations. If you cannot complete a task, take notes on the obstacles you are facing, and then move on to the next task. Remember, we are not evaluating you. Rather, we are looking for the strengths and weaknesses of the IRS website based on your experiences.

### Part III: Evaluating the Website

In Part III of the assessment, you will complete a one-page evaluation of your experiences using the website. This evaluation should reflect your experiences in navigating the website, your impressions of its design, and how easy/difficult it was for you to complete the assigned tasks. Please feel free to write on the back of the page if your comments do not fit in the space provided.

**Part I. Exploration of the IRS website**

Tabulation Key – Number of participants checking off each answer is indicated by brackets, i.e. [4]. When participant did not answer question, their blank response is indicated in the same way. See SF DOC 54421 for paper surveys.

Before you begin, please answer the following question about yourself. Your answers will help us to better interpret the results of this website assessment.

1. Which of the following best describes your level of expertise in using personal computers and websites?  
*(Please check one box in each row.)*

	Little or no Expertise	Some Expertise	Moderate Expertise	Substantial Expertise
a. Personal computers, in general	[0]	[0]	[6]	[6]
Websites, in general	[0]	[2]	[7]	[3]
c. IRS website	[9]	[2]	[1]	[0]
d. Federal Election Commission (FEC) website	[12]	[0]	[0]	[0]

\*\*\*\*\*

During Part I, you will spend between 5-10 minutes exploring the IRS website. You can look at any part of the website, using any links available. By the end of the 10 minutes, you must end up at the page(s) of the site that allows you to run queries/searches on the forms filed by section 527 political organizations (also known as PACs).

Please feel free to discuss your impressions with the Observer throughout your work.

2. How easy or difficult was it for you to search the website? *(Check one answer.)*

- 1  Very easy
- 2  Somewhat easy [1]
- 3  Somewhat difficult [7]
- 4  Very difficult [4]

3. Comments.

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**Part II. Performing 4 Tasks**

In this part, you will perform 4 tasks. These tasks reflect the types of tasks a typical user of this website would want to perform. If you have not already done so, please familiarize yourself with the political organizations website (i.e. what types of information can you find on this site? What types of searches exist? You may want to choose an organization or two and familiarize yourself with the types of information you can find on the site). Note: Political Organizations file 2 types of forms that are available on the IRS website, the 8871 (Notification of Status) and 8872 (Listing of campaign contributions and expenditures).

Please go through each task and note your experiences. Feel free to comment to the Observer throughout the course of your work. The Observer will be taking notes, but will not be available to answer questions. Please answer the questions for each task and indicate how easy or difficult it was for you to find the information requested. In the provided space, you may also write any comments (i.e. strengths and weaknesses of the site) you have about each task.

**TASK 1:**

4. How much money did "Zack PAC" donate in 2000? \$ \_\_\_\_\_

5. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [4]
- 2  Somewhat easy [5]
- 3  Somewhat difficult [2]
- 4  Very difficult [1]

6. How much did "Zack PAC" donate in the most recent reporting period?

\$ \_\_\_\_\_

7. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [5]
- 2  Somewhat easy [5]
- 3  Somewhat difficult [1]
- 4  Very difficult [1]

8. Comments.

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**TASK 2:**

9. How much money in contributions did "New York Life – New York State PAC" receive in 2000?

\$ \_\_\_\_\_

10. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [0]
- 2  Somewhat easy [4]
- 3  Somewhat difficult [5]
- 4  Very difficult [3]

11. How much money in contributions did "New York Life – New York State PAC" receive in the third quarter of 2000?

\$ \_\_\_\_\_

12. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [5]
- 2  Somewhat easy [4]
- 3  Somewhat difficult [0]
- 4  Very difficult [2]
- answer left blank [1]

13. Comments.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**TASK 3:**

14. What organization in the state of New York received the most money in 2000?

\_\_\_\_\_

15. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [0]
- 2  Somewhat easy [0]
- 3  Somewhat difficult [4]
- 4  Very difficult [8]

16. What organization in the state of New York spent the most money in 2000?

\_\_\_\_\_



17. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [0]
- 2  Somewhat easy [2]
- 3  Somewhat difficult [3]
- 4  Very difficult [6]
- answer left blank [1]

18. Comments

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**TASK 4:**

19. What entity(ies) is the Iowa Committee of Automotive Retail *related to or affiliated with?*

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20. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [4]
- 2  Somewhat easy [4]
- 3  Somewhat difficult [2]
- 4  Very difficult [2]

21. What entity(ies) is AIA *related to or affiliated with?*

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22. How easy or difficult was it to find this information? *(Check one answer.)*

- 1  Very easy [4]
- 2  Somewhat easy [2]
- 3  Somewhat difficult [0]
- 4  Very difficult [4]
- answer left blank [2]

24. Comments.

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29. Please use the space below to provide any suggestions for making the site easier to use?

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**Thank you very much for your participation!**

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# Appendix V: Groups Interviewed for this Report

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To obtain the perspectives of public users, we spoke with representatives involved in campaign finance reform issues about their experiences, including public interest groups and those who represent them, with IRS's Section 527 disclosure web site and the extent to which it met their needs. We also discussed these public users' work on issues related to campaign finance reform, Section 527 organizations, and the IRS. We did not identify and survey all public users; thus, the opinions of the public interest groups we interviewed may not reflect the views of all users of the Section 527 disclosure web site. We spoke with several individuals active in this area and from those organizations listed below.

Americans for Tax Reform  
Campaign Finance Institute & Campaign Finance Institute's Task Force on Disclosure  
Campaign for America/ PoliticalMoneyLine.org  
Caplin & Drysdale, Chartered  
Center for Governmental Studies  
Center for Public Integrity  
Center for Responsive Politics  
Citizens Against Government Waste  
Common Cause  
Followthemoney.org / National Institute on Money and State Politics  
GuideStar  
National Taxpayers Union  
Project on Government Oversight  
Public Campaign  
Public Citizen  
The Reform Institute  
University of Miami Law School  
Urban Institute

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# Appendix VI: Selected Provisions of P.L. 107-155, the Bipartisan Campaign Reform Act of 2002

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Provisions in the Bipartisan Campaign Reform Act of 2002, P.L. 107-155, can affect whether Section 527 organizations report to IRS or FEC, and how these agencies disclose the reported data and oversee Section 527 organizations. IRS and FEC are reviewing the law to determine how to implement it, but as of March 2002, officials at those agencies could not say what changes will be required. The impact of the law will be influenced by the regulations that FEC develops, and according to FEC counsel, will only be known over several years. Our review of P.L. 107-155 indicates that several provisions might affect IRS's disclosure and oversight responsibilities, as discussed below.

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## Public Disclosure of Data on the Internet

The legislation requires FEC to maintain a central site on the Internet for all publicly available election-related reports and information. The provision draws a distinction between the "election-related reports" that FEC is to disclose under FECA and "election-related information" that IRS is to disclose under P.L. 106-230. FEC officials said their preliminary reading indicates that this provision requires FEC to coordinate disclosure efforts with any federal agency disclosing election-related information, including IRS. The extent of this coordination has yet to be determined. Coordination could be as limited as providing links on each other's web sites that direct users to both sites, or as comprehensive as a fully integrated web site of FEC and IRS disclosed data for all Section 527-related election reports and information.

A central Internet disclosure site presents challenges because FEC and IRS do not have compatible Web sites. For example, Section 527 organizations that report to FEC on contributions received over \$50,000 and expenditures made, generally are required to electronically file while those that report to IRS are not and usually file paper forms. As a result, data on FEC's web site are largely electronically searchable whereas data on IRS's web site are largely not electronically searchable.

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## Determining Responsibility for Disclosure and Oversight

Under P.L. 107-155, determining the level of IRS and FEC disclosure or oversight of a Section 527 organization depends on the activities of the organization. These include the timing, operations, and parties involved in the activities. According to FEC officials, this raises the possibility that Section 527 organizations will report some activities to IRS and others to FEC, even during the same time in an election cycle. The overlapping agency responsibilities for Section 527 organizations raises questions about the degree and type of coordination that will be needed for future Section 527 disclosure and oversight efforts by IRS and FEC.

For example, Section 501(c)(5) unions will be prohibited from spending their treasury funds for newly defined electioneering communications. FEC will need to oversee union activities to enforce this prohibition while IRS will continue to have responsibility for overseeing whether Section 501(c)(5) unions engage in political activities that exceed those permissible for tax-exempt organizations. Similarly, if a Section 527 organization runs a “promote or attack” advertisement as defined by P.L. 107-155, disclosure and oversight responsibility depends on whether the organization coordinated with a candidate’s committee. Thus, both agencies will need to know whether the advertisements run by Section 527 organizations include such advertisements.

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# Appendix VII: Opportunities for Data Matching to Improve Oversight

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IRS does not use existing data, such as from the Form 990, that it receives from Section 527 and other tax-exempt organizations to identify Section 527 organizations that might not be filing required Forms 8871 and 8872, or Section 501(c)(4-6) organizations that should have established a separate segregated fund for their political activities and filed Forms 8871 and 8872. Some options exist for starting to match these data to identify noncompliance such as unfiled Forms 8871 and 8872.

IRS could use the Form 990 data to calculate the ratio of a Section 501(c) organization's political activity expenditures to its total expenses.<sup>1</sup> This would give IRS information on the amount of reported political activity. High amounts of political activity might merit follow up to determine whether the organization should have notified IRS of its activities under Section 527.

IRS could use the Form 990 data to check the completeness and correctness of reporting on relationship between Section 527 and charitable organizations. These relationships are to be reported on the Form 990 and Form 8871. These matches could identify Section 527 organizations that may have filed incomplete or incorrect data. In addition, such matches could help to identify Section 527 organizations that did not file the required Forms 8871 or 8872.

A barrier to matching data across forms is the uncertainty that would exist about whether IRS is matching the right names for people and organizations listed on the forms. The Form 8871 and Form 990 require organizations to list the names of related organizations. If a tax-exempt organization were to list a Section 527 organization as the "Clean Water Initiative" but that organization identifies itself by a different name such as the "Clean Water PAC," IRS could not match the names electronically to determine whether these organizations are in fact the same. Also, similar problems arise with common names of individuals such as "John Smith" in assuring that IRS is matching or, public users are analyzing, the same person versus someone else with the same name. Without the capability to match names with the right organizations or people across forms, IRS could not determine whether organizations have met the legal requirement to file complete and correct data.

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<sup>1</sup>For the tax year 2001 Form 990, this would be line 81a divided by line 17.

One option that would allow IRS to match individual and organization's names would require IRS to collect social security numbers and employer identification numbers (EINs) for each individual or organization listed on the forms filed by Section 527 and 501(c)(3-6) organizations. This option is not without complications. According to IRS officials, IRS cannot protect sensitive privacy information since IRS discloses Forms 8871 and 8872 in their entirety. In addition, current law would compel filing organizations to disclose such sensitive data whenever requested to provide copies of forms filed with IRS. Furthermore, IRS officials said that unless the data on the Forms 8871 and 8872 is filed electronically, IRS would face an administrative burden to redact these data in time to meet its disclosure requirements.

Another option that would allow IRS to match individual and organization's names entails establishing a system similar to one used by FEC. FEC standardizes names of political committees and candidates who file with them by manually assigning unique identification numbers. In addition, if a political committee or candidate appears as a contributor or recipient on the filings of another entity, FEC standardizes the names. For example, when a PAC reports a contribution from "Smith for Congress," the FEC generates a list from its database of all organizations identified as "Smith for Congress." By manually comparing the submission with the names and addresses of all "Smith for Congress" organizations, FEC can determine whether that contributor is already in its database with a unique identification number.

# Appendix VIII: Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

July 15, 2002

Mr. Michael Brostek  
Director, Tax Issues  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Brostek:

I am responding to your draft report entitled *Political Organizations: Data Disclosure and IRS's Oversight of Organizations Should Be Improved*. I agree that improving the usability of our disclosure web site and increasing the availability of electronic data on section 527 organizations would be useful to the public and helpful to our enforcement capabilities. However, any substantial improvements to our web site and electronic data availability will face competing resource priorities in our budget allocation process. I also agree with your recommendation that we increase our oversight of whether section 527 organizations are fulfilling their filing requirements. As discussed below, it is our intention to focus on enforcement now that we have developed the filing system, educated the customer community, and provided a last chance to comply with these new rules.

#### Public Disclosure

Your report criticizes the way we have disclosed information. Public Law 106-230 requires political organizations to file with the IRS. I believe we have met, and even exceeded, the statutory requirements for the disclosure of information from Forms 8871 and 8872. However, I agree the material disclosed on our website is not easy to research. Our budgetary constraints and the short time frame imposed by law have limited what we could accomplish. The report understates the steps necessary to implement the law and the difficult challenges that we faced. Consequently, I feel it necessary to restate some of that history.

Before the enactment of Public Law 106-230 on July 1, 2000, political organizations qualified as tax-exempt organizations, but many had no requirement to file with the IRS. The new law expanded the annual tax reporting requirements for political organizations, included political organizations in the annual information-reporting regime applicable to other exempt organizations, and required the creation and filing of two new forms for political organizations.

The statute had an aggressive effective date and required filings within the same month it was passed. In addition, one of the new forms required electronic and written filings.



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At the time of passage, the forms did not exist, and we had no capability to receive and process either the paper or electronic forms. In response to these requirements, the IRS developed Form 8871, including the electronic filing capability, and Form 8872 by July 17, 2000, and gave political organizations two weeks to complete the forms before the filing due date of July 31, 2000. We diverted considerable resources from other enforcement efforts. Meeting the statutory deadlines was quite an accomplishment.

In terms of disclosure, the law required us to provide certain information from the Form 8871 on the Internet. The law also made the forms public, but did not require us to provide them on the Internet. However, because of the importance of these filings and the need for timely review by the public, the IRS posted actual copies of all filings in real time to speed public access. We agree that the website is not fully user friendly, but the report ignores that we went farther than the statutory mandate in building the website.

Within the 45 days mandated by the new law, the IRS not only made available on the Internet the minimal listing of information from filed Forms 8871 required by the law, but also the images of the filed Forms 8871. Thus, people who wanted to see what political organizations had filed did not need to make a request and wait for their response. Within the next month, we also made available on the Internet images of the filed Forms 8872.

We continue to improve the system. In the fall of 2000, we made an electronic filing option available for Form 8872. In the spring of 2001, we improved the electronic filing for Form 8871. Unfortunately, our efforts at electronic filing are stalled, as the software development industry has to date not shown an interest in developing software for up-loadable electronic filing of Form 8872. Thus, we are faced with mostly paper filings and the best we can do within currently available resources is image this material. As a result, the website information is not digitized and not as researchable as public research groups desire.

We remain committed to continual improvement of the filing and disclosure system, consistent with available resources and our need to oversee tax compliance for all exempt organizations.

#### **Oversight**

The report indicates that the IRS provides limited oversight to ensure the fact and correctness of filed returns by section 527 organizations. In the report, the GAO notes that we have imposed no penalties and questions our strategic planning in our oversight of this area. Our focus to date has been less on enforcement and more on building the required systems and educating our customer base. We are, however,

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working on a more focused enforcement program, which will begin after the voluntary compliance program discussed in the report.

The report states the IRS has not yet assessed penalties for failure to comply with the new reporting and disclosure requirements. However, the report should make clear that unlike the statutory penalties for late filing of the Form 1120-POL and Form 990 under the legislation, no late filing penalties exist for the Form 8871 or Form 8872. If a political organization files a late or incomplete Form 8871, it does not incur a penalty. Rather, it must recalculate its taxable income as reported on Form 1120-POL. Similarly, if a political organization does not disclose a contribution or expenditure as required on Form 8872, we require it to report the undisclosed amount on Form 1120-POL. Thus, it is impossible for existing IRS automated assessment of penalty mechanisms to work in this area. A late or incomplete filing of Form 8871 or Form 8872 requires either the political organization to self-assess and report on the Form 1120-POL or the IRS to examine the form and determine the amounts the organization must report on the Form 1120-POL. In fact, we know that some political organizations did self-assess and report taxable income on Form 1120-POL.

Earlier, the focus of our strategic planning was on developing the forms and systems necessary for political organizations to comply with the new reporting requirements. Concurrently with the development of systems, we worked to educate organizations on their new reporting obligations by doing the following:

- Developing guidance
- Engaging in outreach efforts
- Publishing numerous press releases
- Issuing a proposed revenue ruling in August 2000 (finalized as Rev. Rul. 2000-49, 2000-44 I.R.B. 430 (October 30, 2000)), addressing more than fifty questions arising from the new reporting and disclosure requirements
- Working with the Federal Election Commission on several articles appearing in the FEC Record
- Providing information to the state election authorities

Our senior leadership is developing our compliance strategy with a working group of specialists established as part of our Implementing Guidelines for 2002 (the Implementing Guidelines are our workplan explaining what we were to work on in that year). As part of our compliance strategy, and as outlined in your report, we determined that before we can focus any enforcement efforts relating to this new set of requirements, we will allow organizations a last chance to file. Therefore, the IRS announced a voluntary compliance program to promote disclosure for political organizations in Notice 2002-34, 2002-21 I.R.B. 990 (May 28, 2002). According to this program, the IRS will not assert any tax, penalty or interest that arises solely because a

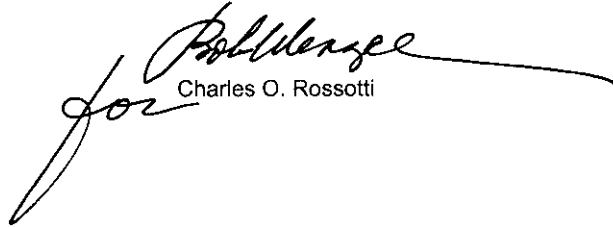
4

political organization fails to file a form, or filed an incorrect form, if the political organization files the required forms by a certain date. This program applies to all forms required by Public Law 106-230. As part of this program, the IRS contacted several thousand section 527 organizations that may not be in full compliance with the new rules to allow them to provide us information that they have complied or to enter the voluntary compliance program. After the voluntary compliance program ends, we will assess the success of the program and implement steps to develop an overall compliance strategy in this area. The Implementing Guidelines for 2003 will contain a number of projects focused on this area, including a sampling of filings to assess the correctness of the information on the forms. In addition, as part of our market segment studies of section 501(c)(5) unions and section 501(c)(6) trade associations, we will determine whether these organizations have affiliated section 527 organizations and, if so, whether those organizations have complied with the new reporting and disclosure requirements.

We are taking a studied and appropriate approach to implement and enforce new requirements on organizations that previously had no interaction with us. I believe we have acted responsibly to provide the customer every available opportunity to comply with this new law. Once we have given the organizations this opportunity, we will focus more on enforcing the new rules on non-compliant customers.

I hope this information is helpful. If you have additional questions, please contact me at (202) 622-9511 or Steven T. Miller at (202) 283-2300.

Sincerely,



Charles O. Rossotti

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# Appendix IX: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Tom Short, (202) 512-9074  
Kerry Gail Dunn, (415) 904-2234

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## Staff Acknowledgments

In addition to those named above, Rodd Hobbs, Shirley Jones, Anne Laffoon, Kristeen McLain, Dan Mesler, Cheryl Peterson, and Tama Weinberg made key contributions to this report.

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