



COMMISSIONER

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

August 29, 2013

The Honorable Tom A. Coburn, M.D.
United States Senate
Washington, DC 20510

Dear Senator Coburn:

I apologize for the delay in responding to your letter dated April 16, 2013, requesting information about the tax-exempt sector. You wrote about the ESPN investigation into 115 charitable organizations founded by prominent athletes. We appreciate your interest and support for our efforts in administering the exempt organizations' tax law.

Our Statistics of Income (SOI) division creates and publishes reports of some of the IRS data you requested. The SOI publishes a wide range of tables, articles and data that describe and measure elements of the U.S. tax system and are available to the public at <http://www.irs.gov/taxstats/index.html>. Unless otherwise indicated, SOI data is current through Fiscal Year (FY) 2012 and is generally based on valid statistical samples.

You also asked eight questions on how we oversee charitable organizations and other nonprofits. I am providing answers to your questions below.

1) How many tax-exempt charitable organizations currently exist? How many existed 10 years ago?

I have enclosed Exhibit A, Table 25: Tax-Exempt Organizations and Nonexempt Charitable Trusts, FY 2011 and 2012 from the 2012 IRS Data Book. The 2012 IRS Data Book provides the most current data on the number of existing tax-exempt organizations. It shows that in FY 2012, there were 1,081,891 organizations exempt under section 501(c)(3). We note that churches are not required to apply to the IRS for tax-exempt status, and, thus, this figure does not include tax-exempt churches that have not applied for recognition of tax-exempt status.

For data on the number of tax-exempt organizations existing 10 years ago, see the enclosed Exhibit B, which shows SOI's Table 22: Tax-Exempt Organizations and Other Entities Listed on the Exempt Organizations Business Master File, by Type of Organization and Internal Revenue Code Section, FY 2000-2003. The table indicates that in FY 2002, there were 909,574 organizations exempt under section 501(c)(3). Once again, this number does not include tax-exempt churches that have not applied to the IRS for recognition of tax-exempt status.

2) How many tax-exempt charitable organizations are currently delinquent on filing at least one or more tax forms?

In general, tax-exempt organizations are required to file annually a Form 990 series return or notice. We send notices to all tax-exempt organizations that fail to timely file, but we do not keep separate statistics for notices sent to the organizations within the different subsections of section 501(c). For tax year 2010, we sent 70,780 late filing notices to tax-exempt organizations. For tax year 2011, we sent 66,153 late filing notices to tax-exempt organizations. All late filing notices remind the filer that failure to file for three consecutive years will result in the automatic revocation of the organization's tax-exempt status.

3) In each of the five past years, beginning in 2008, how many charitable organizations have had their tax-exempt status revoked by the IRS?

For FY 2008-2012, our systems show that we have revoked a total of 646 section 501(c)(3) organizations. Please note that these figures for revocation resulted from queries to our automated systems, which have some limitations. These figures are only approximations. For precise numbers, we must perform a manual review of individual case files.

FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 ¹	Total
155	152	148	129	62	646

This figure does not include organizations that failed to file an annual return or notice for three consecutive years and thus had their tax-exempt status revoked by operation of law under the provisions of the Pension Protection Act of 2006. As of June 10, 2013, 503,658 organizations had their tax exemptions automatically revoked for failing to file an annual return or notice for three consecutive years. The first of these automatic revocations took place in 2010.

4) What actions have the IRS taken since the "Outside the Lines" report was released in late March to examine the allegations?

5) Has the IRS received allegations of problems at any charitable organizations founded by prominent athletes? If so, please explain what actions were taken by the IRS.

In response to questions four and five above, section 6103 of the Internal Revenue Code (the Code) prohibits the disclosure of information about specific taxpayers,

¹ Please keep in mind revocations are based on case closures.

including whether they are under investigation or examination, unless some provision of the Code authorizes the disclosure.² Thus, we are legally prohibited from disclosing information related to examination activity. However, I can discuss in general terms how we handle allegations of non-compliance with the tax laws.

We maintain an ongoing examination program to ensure exempt organizations continue to meet the requirements for tax-exempt status. Whenever we receive information about an organization that raises questions about its continued exempt status or compliance with the tax laws, we forward the information to our Dallas office to determine if it warrants an examination or other action. Employees in that office review each allegation to determine whether it falls under Exempt Organization (EO) Examinations' jurisdiction.

6) What challenges does the IRS face overseeing tax-exempt charitable organizations?

One challenge is the need for greater clarity in the relevant law to allow for consistent enforcement. For example, the Treasury Inspector General for Tax Administration's (TIGTA) report on determinations for 501(c)4 organizations, dated May 14, 2013, and my report, *Charting a Path Forward at the IRS: Initial Assessment and Plan of Action* (dated June 24, 2013) noted the need for clarity in determining if an organization's primary activity is the promotion of social welfare, versus political activity.

In this case, the Department of the Treasury and the IRS have included the issue in the 2013-2014 Priority Guidance Plan (PGP). The PGP is a list published each year by the Department of the Treasury and the IRS that identifies and prioritizes the tax issues that should be addressed through regulations and other published administrative guidance. While this particular case potentially could be addressed in regulatory guidance, other areas could require legislative changes to clarify Congressional intent.

Another significant challenge is the impact of continued budget cuts to IRS taxpayer programs and services. In our EO function, which is responsible for overseeing the compliance of approximately 1.6 million tax-exempt organizations with diverse goals and purposes, there has been a 7.9 percent reduction in full-time permanent staffing since the hiring freeze began in December 2010. For IRS overall, full-time permanent staffing has decreased by 10.7 percent over the same period. As a result, we currently have approximately 830 EO employees, or in other words, there are almost 2,000 tax-exempt organizations for every single EO employee. Because the IRS cannot review every existing organization in every tax year with our limited resources, we foster compliance throughout the life cycle of any tax-exempt organization, beginning with

² Section 6103(f) of the Code sets forth the means by which congressional committees may obtain access to returns and return information (that is not otherwise made publicly available under sections 6104 and 6110). We are available to discuss these rules in more detail with your staff.

outreach efforts involving educational information on IRS.gov and taxpayer workshops to the application process to when we recognize an organization as exempt to its annual Form 990-series information return filings.

7) How many criminal investigations of tax-exempt charitable organizations has the IRS conducted since 2010?

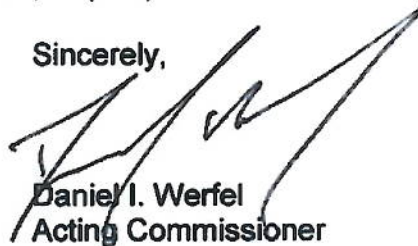
Our Criminal Investigation (CI) division does not specifically track the requested data. CI is involved in criminal investigations of the misuse of charitable organizations and recommends, when appropriate, the prosecution of individuals associated with an organization and sometimes the organization itself. The individual facts and circumstances in each case determine the most readily provable criminal charge(s). CI continues to work with the Department of Justice (DOJ) and other law enforcement agencies in pursuing these types of crimes.

8) Has the IRS had problems with the U.S. Attorneys' offices in prosecuting tax-exempt charitable organizations?

We are not aware of any problems.

If you have any questions, please contact me or a member of your staff may contact Catherine Barré, Director, Legislative Affairs, at (202) 622-3720.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel I. Werfel', is written over a white background.

Daniel I. Werfel
Acting Commissioner

Enclosures (2)

Exhibits A & B

Table 25. Tax-Exempt Organizations and Nonexempt Charitable Trusts, Fiscal Years 2011 and 2012

Type of organization, Internal Revenue Code section	2011	2012
Tax-exempt organizations and nonexempt charitable trusts, total	1,629,149	1,616,063
Section 501(c) by subsection, total	1,494,882	1,484,818
(1) Corporations organized under an act of Congress	216	449
(2) Title-holding corporations	5,176	4,933
(3) Religious, charitable, and similar organizations [1]	1,080,130	1,081,891
(4) Social welfare organizations	97,382	93,142
(5) Labor and agriculture organizations	51,586	50,046
(6) Business leagues	70,330	69,198
(7) Social and recreation clubs	57,793	56,880
(8) Fraternal beneficiary societies	53,245	50,763
(9) Voluntary employees' beneficiary associations	7,810	7,240
(10) Domestic fraternal beneficiary societies	16,678	16,432
(12) Benevolent life insurance associations	5,666	5,575
(13) Cemetery companies	9,842	9,636
(14) State-chartered credit unions	3,080	2,797
(15) Mutual insurance companies	1,104	999
(17) Supplemental unemployment benefit trusts	158	130
(19) War veterans' organizations	33,654	33,737
(25) Holding companies for pensions and other entities	922	865
Other 501(c) subsections [2]	110	105
Section 501(d) Religious and apostolic associations	222	224
Section 501(e) Cooperative hospital service organizations	12	11
Section 501(f) Cooperative service organizations of operating educational organizations	1	1
Section 501(k) Child care organizations	2	1
Section 501(n) Charitable risk pools	1	1
Nonexempt charitable trusts	134,029	130,997

[1] Includes private foundations. Not all organizations described in section 501(c)(3) must apply for tax-exempt status, including churches, interchurch organizations of local units of a church, integrated auxiliaries of a church, conventions or associations of churches, and organizations (other than private foundations as described in section 509(a)) that have gross receipts in each taxable year normally not more than \$5,000. In addition, organizations may be recognized as tax-exempt under section 501(c)(3) without filing an application if they are included in a group exemption letter given to an affiliated parent organization.

[2] Includes teachers' retirement funds (section 501(c)(11)); corporations to finance crop operations (section 501(c)(16)); employee-funded pension trusts (section 501(c)(18)); black lung trusts (section 501(c)(21)); multiemployer pension plans (section 501(c)(22)); veterans' associations founded prior to 1880 (section 501(c)(23)); trusts described in section 4049 of the Employee Retirement Income Security Act of 1974 (ERISA) (section 501(c)(24)); State-sponsored high-risk health insurance organizations (section 501(c)(26)); State-sponsored workers' compensation reinsurance organizations (section 501(c)(27)); and the National Railroad Retirement Investment Trust (section 501(c)(28)). Tax-exempt status for legal services organizations (section 501(c)(20)) was revoked effective June 20, 1992.

NOTE: Information from tax-exempt organization returns is available to the public. Therefore, data in this table are not subject to IRS disclosure regulations.

SOURCE: Tax Exempt and Government Entities, Exempt Organizations

Exhibits A & B

Table 22 -- Tax-Exempt Organizations and Other Entities Listed on the Exempt Organization Business Master File, by Type of Organization and Internal Revenue Code Section, Fiscal Years 2000-2003

Type of organization, Internal Revenue Code section	2001	2002
	(2)	(3)
Tax-exempt organizations and other entities, total	1,567,580	1,580,767 [r]
Section 501(c) by subsection	1,399,558	1,444,905
(1) Corporations organized under act of Congress	48	88
(2) Title-holding corporations	6,984	6,998
(3) Religious, charitable, and similar organizations [1,2]	865,096	909,574
(4) Social welfare organizations	136,882	137,526
(5) Labor and agriculture organizations	62,944	62,246
(6) Business leagues	82,706	83,712
(7) Social and recreation clubs	67,289	68,175
(8) Fraternal beneficiary societies	81,112	80,193
(9) Voluntary employees' beneficiary associations	13,292	13,173
(10) Domestic fraternal beneficiary societies	23,531	23,096
(11) Teachers' retirement funds	15	15
(12) Benevolent life insurance associations	6,500	6,553
(13) Cemetery companies	10,289	10,424
(14) State-chartered credit unions	4,409	4,471
(15) Mutual insurance companies	1,423	1,608
(16) Corporations to finance crop operations	23	24
(17) Supplemental unemployment benefit trusts	490	477
(18) Employee-funded pension trusts	1	1
(19) War veterans' organizations	35,263	35,227
(21) Black Lung trusts	28	28
(22) Multiemployer pension plans	--	--
(23) Veteran's associations founded prior to 1880	2	2
(24) Trusts described in Section 4049 of Employee Retirement Income Security Act of 1974 (ERISA)	1	1
(25) Holding companies for pensions and other entities	1,236	1,274
(26) State-sponsored high-risk health insurance organizations	9	9
(27) State-sponsored workers' compensation reinsurance organizations	5	10
Section 501(d) Religious and apostolic associations	129	131
Section 501(e) Cooperative hospital service organizations	40	40
Section 501(f) Cooperative service organizations of operating educational organizations	1	1
Section 501(k) Child care organizations	--	--
Section 501(n) Charitable risk pools	--	-- [r]

Exhibits A & B

Section 521 Farmers' cooperatives [3]	1,333	--
Section 529 Qualified State-sponsored tuition programs	--	--
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Taxable farmers' cooperatives [3]	3,096	--
Nonexempt charitable trusts [4]	163,423	135,690

[r] - Revised

[1] Not all Internal Revenue Code Section 501(c)(3) organizations are included because certain organizations, such as churches, integrated auxiliaries, subordinate units, and conventions or associations of churches, need not apply for recognition of tax-exemption, unless they specifically request a ruling.

[2] Includes private foundations.

[3] Effective beginning Fiscal Year 2002, IRS Exempt Organizations transferred program responsibility for these entities to the Large and Mid-Size Business Operating Division.

[4] These organizations are taxable entities for which the IRS Exempt Organizations function has program responsibility.

SOURCE: IRS Data Book, FY 2003, Publication 55b. Also, Tax Exempt and Government Entities, Exempt Organizations SE T:EO