

Exempt Organizations

Key Issues

The Affordable Care Act (ACA). In the second quarter, EO continued to implement ACA by:

- Assisting the Government Entities Compliance Unit with examinations of certain claims for the 45R credit and developing training materials on the 45R credit for EO Exam;
- Coordinating with Counsel and Treasury to draft guidance on §9007;
- Conducting statutorily required community benefit activity reviews of exempt hospitals; we are on target to complete first round of the three year community benefit activity reviews by the end of FY 2013;
- Continuing to process applications for recognition of tax exempt status under 501(c)(29) ;
- Reporting the release of the 9010 regulations in the EO Update ; and,
- Preparing updates to the *New Requirements for 501(c)(3) Hospitals* and *ACA Provisions* pages on the IRS webpage, as well as articles for the EO Update and TE/GE Weekly News, in anticipation of the release of Community Health Needs Assessment regulations

Revocation of Non-Filing Exempt Organizations. Since June 2011, 498,141 organizations have lost their exempt status through the autorevocation process. We continue to process applications from organizations seeking reinstatement of their tax -exempt status. This quarter, we received a total of 7,001 reinstatement applications and closed 3,812 cases.

The deadline for small organizations to file an application for retroactive reinstatement under the Notice 2011 -43, transitional relief program, was December 31, 2012; however, Notice 2012-71 gave small organizations affected by Hurricane Sandy until February 1, 2013, to file.

Medical Resident FICA. TE/GE continues to collaborate with Wage and Investment (W&I) on the processing and payment of Medical Resident FICA claims. All employee claims have been completed and transferred to W&I for payment. W&I has processed and paid 1,398 of the 1,404 employee adjustments, totaling \$30.4 million in principal and interest. All employer claims have been completed and transferred to W&I for payment, including 432 employer entities, consisting of 7,734 claims representing \$2.1 billion in principal. W&I has processed and paid \$2.0 billion in principal and \$1.6 billion in interest to date. One hundred thirty -eight million in principal plus applicable interest remain outstanding.

International. In the second quarter, EO focused on international compliance in the tax -exempt sector by:

- Proceeding with the International Activities of Charities – Foreign Financial Accounts examination project. Through this project, 29 delinquent FBARs have been secured this quarter, bringing the total number of delinquent FBARs secured during the life of the project to 109; and,
- Continuing to work on six exchange of information requests from Mexico and France.

Fraud/Promoter Investigations. In the second quarter of FY 2013, EO referred four cases to Criminal Investigation and two were accepted. EO is pursuing civil fraud on two additional cases that were not eligible for criminal fraud. In addition, EO placed 15 cases into fraud development.

Dual Track. We are currently developing updated training, which will be held in third quarter for additional agents, as we continue to process referrals and data analytics cases. Through the second quarter, 21 referrals and 54 data analytics cases have been assigned to the field for examination.

Work Opportunity Tax Credit (WOTC). As part of an IRS-wide initiative led by TE/GE and SB/SE, the deadline to apply for the WOTC was extended until December 31, 2013. During the second quarter, EO promoted the extension in the March 21 edition of the EO Update and assisted with the update of information on the WOTC web pages on the IRS webpage.

EO Customer Education & Outreach	Performance History		March FY Comparison			FY2013		
	FY2011	FY2012	FY2012	FY2013	% Chg	Plan	% Pro Rata	Projection
Education & Outreach Staff Years	16.1	15.1	7.3	7.2	-1%	14.7	98%	14.7
Customers Reached	41,252	30,688	7,718	4,331	-44%	30,000	29%	15,900
Virtual	NA	NA	NA	1,396	NA	NA	NA	3,000
Face-to-Face	NA	NA	NA	2,710	NA	NA	NA	12,300
Exhibiting	NA	NA	NA	225	NA	NA	NA	600
Cumulative Newsletter Subscribers	183,284	189,578	188,745	191,738	2%	225,000	85%	225,000

[1] Beginning in FY13, we are showing the break-out of customers reached. Prior years have no data.

CE&O. Due to the five furlough days for IRS employees, increased restrictions on non -case related travel, as well as a new IRS-wide approval process for video production, EO has lowered its projection for customers reached during FY 2013 by almost half.

CE&O is focused on improving EO's pages on the IRS website to increase functionality and searchability based on customer feedback from our three-year EO Service and Assistance (EOSA) study, as well as comments from the EO Advisory Committee (ACT). During the second quarter, we created a bright red "News" feature at the top right of our EO homepage to call attention to important EO developments, overhauled the EO Examinations webpages, and reworked the left -hand navigation feature of EO's homepage to make it more user-friendly. EO had 3,472,386 unique page views (number of visitors to pages) of Charities content on the IRS website in the second quarter.

In addition, during the second quarter CE&O:

- Released EO's *FY 2012 Annual Report and FY 2013 Work Plan*;
- Delivered 36 outreach events, including two workshops for small and medium-sized charities in FL in partnership with institutions of higher education covering such topics as an overview of Form 990, unrelated business income, employment tax and activities that can jeopardize exempt status;
- Had 20,622 unique visitors use EO's educational website StayExempt, totaling 26,437 visits and 222,330 page views;
- Produced five *EO Updates* that were disseminated to almost 192,000 newsletter subscribers; and,
- Promoted the use of virtual educational products, a CE&O FY 2013 priority. Over 1,500 customers viewed EO virtual products available on the IRS Video Portal.

EO Rulings & Agreements	Performance History		March FY Comparison			FY2013		
	FY2011	FY2012	FY2012	FY2013	% Chg	Plan	% Pro Rata	Projection
Direct R&A Staff Years	168.9	161.6	80.1	78.9	-1%	151.8	104%	148.8
Direct R&A Time Ratio	68%	67%	67%	66%	-1%	66%	100%	66%
Direct Determinations Staff Years	111.3	104.3	51.2	51.6	1%	97.4	106%	95.6
Determination Cases Closed	61,005	60,795	28,570	28,502	0%	52,572	108%	51,519
Technical Screening Rate	60%	70%	70%	67%	-4%	70%	96%	71%
Determination Case Receipts	66,038	79,362	40,215	42,185	5%	66,490	127%	55,671
Open Inventory	20,603	39,170	32,248	52,852	-64%	53,088	100%	54,098
Average Age of Inventory	113	161	129	182	-41%	158	115%	199
% Inventory > 270 Days	NA	NA	NA	23%	NA	NA	NA	
Determination Timeliness	104	135	111	174	-57%	140	80%	191
Determination Hours per Case	3.2	2.8	3.0	2.9	3%	3.1	107%	2.7
Screening Hours per Case	1.3	1.5	1.5	1.5	0%	1.5	100%	1.5
Full Development Hours per Case	6.0	6.0	6.6	5.8	12%	6.8	117%	6.8
% Determination Customers Satisfied	74%	65%	72%	NA	NA	74%	NA	74%
% Dissatisfied	7%	11%	7%	NA	NA	8%	NA	8%
Determination Quality [1]	88%	87%	89%	85%	NA	86%	99%	87%
Direct Technical Activities Staff Years	18.0	22.6	11.2	11.1	-1%	18.3	121%	14.7
Technical Activities Closed	417	394	204	167	-18%	368	91%	256
Open Inventory	655	637	646	776	-20%	658	118%	770
Other Technical Staff Years	18.5	14.2	7.2	6.0	-17%	17.0	71%	17.0
Correspondence Cases Closed	46,931	30,534	16,644	13,654	-18%	33,200	82%	33,500
Correspondence Timeliness	39	43	42	65	-55%	42	65%	42

[1] This is a new measure beginning in FY 2013 to provide a better gauge of our inventory.

[2] In the first quarter FY 2013, we began using a new calculation methodology for quality that consists of applying weight to cases at the end of the quality assurance process as opposed to each individual case being weighted, scored, and then totaled. Priors years are not comparable.

Determinations. During the first half of this year, EO's focus on full development cases resulted in the closure of 1,000 more full development cases (a 12% increase) compared to the same period last year. Average hours per full development case decreased from 6.6 hours last year to 5.8 hours this year as a result of increased managerial oversight.

However, this focus on full development cases and the receipt of more cases than the same period last year has negatively impacted the size of our open inventory (52,852 compared to 32,248 this time last year), the average age of inventory (currently 182 days, exceeding the plan of 158 days), and timeliness (an average of 174 days, 34 days beyond plan). In order to allow Determinations to

devote more resources to screening cases while focusing on the full development cases, it has transferred several hundred unassigned full development cases to EO Technical.

Technical. We shifted resources to assist Determinations in processing priority work items and to teach the EO R&A business writing course. We will continue to focus on closing PLRs, applications, and TAMs that are more than two years old as of October 1, 2012, with our remaining resources. The revision of the 14 IRM chapters owned by EO R&A continues and the revised chapters are expected to be in review by the end of the third quarter.

Guidance. During the first half of the year, 152 pieces of congressional correspondence were closed, an 18% increase from last year at this time.

Correspondence. EO closed 13,654 pieces of correspondence (82% of plan), a reduction of almost 3,000 pieces from the same period last year, leaving a balance of 14,313 pieces of open correspondence. The reduction in closures is due to Correspondence Unit employees assisting determination groups with closing cases, completing Integrated Data Retrieval System (IDRS) research for automatic revocation cases, and correcting numerous automatic revocation cases erroneously revoked. Quality for the first half of the year remains high at 92.7%.

EO Examination	Performance History		March FY Comparison			FY2013		
	FY2011	FY2012	FY2012	FY2013	% Chg	Plan	% Pro Rata	Projection
EO Enforcement Contacts	14,893	14,020	6,880	8,158	19%	15,395	106%	15,060
Direct Examination Staff Years	243.0	233.1	116.2	104.9	-10%	230.2	91%	230.2
Direct Time Ratio	62%	63%	64%	60%	-6%	63%	95%	63%
Examination Returns Closed	11,699	10,743	5,401	5,361	-1%	10,420	103%	10,185
990 Series	4,223	4,210	1,853	1,689	-9%	4,779	71%	4,671
Employment Tax	6,419	5,893	3,248	3,347	3%	4,970	135%	4,858
Other	1,057	640	300	325	8%	671	97%	656
TEP	384	415	245	163	-33%	315	103%	315
Examination Timeliness	210	204	212	216	2%	225	104%	225
Examination Hours per Return	33.0	33.0	34.3	33.5	-2%	39.9	119%	39.9
990 Series	69.6	59.7	70.6	67.7	-4%	67.8	100%	67.8
Employment Tax	11.2	15.5	15.0	18.0	20%	14.4	80%	14.4
Other	19.4	18.3	20.0	17.6	-12%	21.0	119%	21.0
% Examination Customers Satisfied	68%	69%	69%	NA	NA	70%	NA	70%
% Dissatisfied	10%	10%	10%	NA	NA	9%	NA	9%
Examination Quality	76%	77%	77%	76%	-1%	78%	97%	78%
Direct EOCA Staff Years	41.7	48.0	24.0	21.6	-10%	46	94%	46
EOCA Returns Closed (inc. above)	2,345	1,861	739	725	-2%	1,890	77%	1,845
Compliance Contacts / Case Building	3,194	3,277	1,479	2,797	89%	4,975	112%	4,875
ROO Compliance Reviews	3,680	4,224	2,330	1,498	-36%	3,677	81%	3,322
Non-Hospital Reviews	3,120	2,818	1,663	882	-47%	2,260	78%	2,210
Hospital Reviews	560	1,406	667	616	NA	1,417	87%	1,112

Business Results. EO closed 5,361 returns as of the end of the second quarter, 103% pro rata plan. The NRP project is currently at 177% of pro rata plan and is a significant contributor to this achievement. We continue to see improvements in efficiencies as the result of NRP training sessions.

EOCA examination closures are at 77% pro rata plan. There were fewer EOCA examination closures than planned because EOCA resources primarily worked Medical FICA claims in the first half of the year and due to flooding in the Ogden post of duty in January. We still expect to meet the fiscal year examination goal since the groups returned to their POD in March and the resources have been reallocated to examinations.

While we expect to complete the first three-year cycle of hospital reviews, we have revised the closure projection downwards to take into account those reviews completed which we have now identified as non-hospital organizations (76). These 76 closures are thus counted as non-hospital reviews. There are approximately 500 additional hospital reviews left to complete the cycle. Moving forward into the next three year cycle, our baseline will be adjusted from 1417 to 1112.

Overall ROO reviews are at 81% of pro rata plan. Unexpected attrition in the first half of the year negatively impacted our closures.

Compliance contact/case building closures are at 112% pro rata. During the first half of the year, several high profile projects were delayed requiring staff to focus on case building rather than compliance checks. Case building assignments generally require less time than compliance contacts. The Group Rulings Questionnaire project, after its delay from a planned FY 2012 start, is a major contributor for our overachievement this year. Also, the population size of another large case building project, 501(c)(4)(5), and (6) Self Declarers, has increased over 200%. The questionnaires for this project were sent out at the end of this quarter.

National Research Program (NRP). We have closed 99% of the 2008 returns, 90% of the 2009 returns, and 57% of the 2010 returns. The change rate continues to improve for all NRP closures – from 34% at this time last year to 40% this year.

Virtual Training. EO continues to deliver timely virtual training. In the second quarter, EO conducted *Audit Hour* presentations on the Administrative Record and Gaming. Our second quarter CPE was also held via Centra with such topics as WebETS Codes, Fraud & Penalty Awareness, three-digit Principal Issue Code, Reading IDRS Command Codes and Accurint Training.

Timeliness. We are currently exceeding the fiscal year plan for cycle time at 216 days. We expect cycle time to increase as we focus on closing overage inventory in the second half of the year.

Examination Hours per Return. Due to a higher percentage of employment tax closures, our overall hours per return is lower than planned. NRP (63% of Employment Tax closures) is the lead driver for this factor. The hours per return figure for ET closures is higher than plan due to the hours per return for NRP ET closures exceeding plan. The additional time and energy placed on these NRP returns is consistent with our increased change rates for these returns.

Customer Satisfaction. We analyzed the customer satisfaction data for FY 2012 and provided reports and analysis to each area. These reports identify which customer characteristics most influence satisfaction ratings and areas where improvements will have the greatest impact.

Quality. Year-to-date quality stands at 76% based on completion of approximately one third of the planned reviews. Areas showing improvement include the proper resolution of material income, keeping the taxpayer or power of attorney regularly apprised of the status of the exam, following procedures where statute is an issue, and appropriately considering fraud. In the second half of the year, we will continue to focus on these issues through Audit Hour presentations and our CPE.