

GAO Highlights

Highlights of [GAO-15-164](#), a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

IRS oversight of charitable organizations helps to ensure they abide by the purposes that justify their tax exemption and protects the sector from potential abuses and loss of confidence by the donor community. In recent years, reductions in IRS's budget have raised concerns about the adequacy of IRS oversight.

GAO was asked to review IRS oversight of charitable organizations. In this report, GAO (1) describes the charitable organization sector, (2) describes IRS oversight activities, (3) determines how IRS assesses its oversight efforts, and (4) determines how IRS collaborates with state charity regulators and U.S. Attorneys to identify and prosecute organizations suspected of engaging in fraudulent (or other criminal) activity.

GAO reviewed and analyzed IRS data, strategic planning and performance documents, and documented improvement efforts. We also interviewed IRS and Department of Justice officials, state charity regulators, and subject matter specialists. GAO compared IRS's practices to federal guidance on performance management.

What GAO Recommends

GAO recommends IRS 1) develop compliance goals and additional performance measures that can be used to assess the impact of enforcement activities on compliance and 2) clearly communicate with state charity regulators how they are allowed to use IRS information related to examinations of charitable organizations. GAO also recommends that Congress consider expanding the mandate for 501(c)(3) organizations to electronically file their tax returns to cover a greater share of filed returns. In written comments, IRS agreed with GAO's recommendations.

View [GAO-15-164](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

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TAX-EXEMPT ORGANIZATIONS

Better Compliance Indicators and Data, and More Collaboration with State Regulators Would Strengthen Oversight of Charitable Organizations

What GAO Found



Source: PhotoDisc, Ingram (photos). | GAO-15-164

Charitable organizations play a major role in our economy and provide critical services and resources to families and individuals in need. Although charitable organizations vary considerably in size and purpose, in 2011 the largest number of organizations was in the human services sector, providing services such as employment and housing assistance. The highest concentration of assets was in the health and education sectors, which include hospitals and universities. In addition to being concentrated in a few sectors, a large proportion of all assets were controlled by a relatively small number of charitable organizations—less than 3 percent hold more than 80 percent of the assets.

Over the past several years, as the Internal Revenue Service (IRS) budget has declined, the number of full-time equivalents (FTEs) within its Exempt Organizations (EO) division has fallen, leading to a steady decrease in the number of charitable organizations examined. In 2011, the examination rate was 0.81 percent; in 2013, it fell to 0.71 percent. This rate is lower than the exam rate for other types of taxpayers, such as individuals (1.0 percent) and corporations (1.4 percent).

EO is grappling with several challenges that complicate oversight efforts. While EO has some compliance information, such as how often exams result in change of tax exempt status, it does not have quantitative measures of compliance for the charitable sector as a whole, for specific segments of the sector (such as universities and hospitals) or for particular aspects of noncompliance (such as personal inurement or political activity). Because EO does not have these measures and does not know the current level of compliance, it cannot set quantitative, results-oriented goals for increasing compliance or assess to what extent its actions are affecting compliance.

Statutory requirements for safeguarding taxpayer data limit both IRS's ability to share data and state regulators' ability to use it. A lack of clarity about how state regulators are allowed to use IRS data to build cases against suspect charitable organizations further impedes regulators' ability to leverage IRS's examination work.

The e-filing rate for tax-exempt organizations is significantly lower than for other taxpayers. This lower rate means there is less digitized data available for data analytics and higher labor costs for IRS. Expanded e-filing may result in more accurate and complete data becoming available in a timelier manner, which in turn, would allow IRS to more easily identify areas of noncompliance.