

## H. The IRS has Revoked the Exempt Status of Thousands of Organizations in Error, Causing Significant Harm to Taxpayers

The National Taxpayer Advocate remains concerned about how the IRS, through the Tax Exempt and Government Entities division (TE/GE), implements provisions of the Pension Protection Act of 2006 (PPA).<sup>1</sup> The PPA mandates automatic revocation of the tax-exempt status of organizations that fail to file required returns or e-Postcards for three consecutive years. However, TE/GE has revoked the exempt status of thousands of organizations in error,<sup>2</sup> and in April of 2013 it notified TAS that recent changes to its software have caused hundreds more such revocations.

One programming change caused IRS computers to calculate the three-year nonfiling period with reference to the date the organization obtained its Employer Identification Number (EIN),<sup>3</sup> rather than the effective date of its exempt status. For example, the IRS would treat an organization that obtained its EIN in 2007 as having had reporting obligations since 2007, even if the organization was not active or operational until it obtained recognition of its exempt status in 2011. Systemic review of filing activity would show three or more consecutive years of nonfiling (2007-2010) and the IRS would notify the organization it was no longer exempt in the very year it was granted exempt status. The IRS cannot identify organizations that have been or will be affected by this programming condition and therefore cannot avoid the erroneous notifications. Instead, it relies on affected organizations to come forward and seek relief. Only then does the IRS restore the organization to exempt status on its databases and issue a letter reflecting this action.

A separate programming change affected reinstated organizations, as IRS databases did not reflect the new status of some organizations as reinstated, with a new three-year automatic revocation period. This caused the IRS to revoke exempt status a second time, shortly after granting reinstatement. The IRS resolved the problem for many of these organizations, but may have overlooked some, which may now seek assistance from TAS.

TAS alerted its employees to the TE/GE programming errors and described how to advocate for affected taxpayers.<sup>4</sup> In FY 2014, TAS will work with TE/GE to resolve the problems the programming changes have caused for taxpayers.

1 The Pension Protection Act of 2006, Pub. L. No. 109-280 § 1223, 120 Stat. 780, 1090 (Aug. 17, 2006).

2 See, e.g., National Taxpayer Advocate 2012 Annual Report to Congress 192 (Status Update: *Overextended IRS Resources and IRS Errors in the Automatic Revocation and Reinstatement Process are Burdening Tax-Exempt Organizations*); National Taxpayer Advocate 2011 Annual Report to Congress 437 (Status Update: *The IRS Makes Reinstatement of an Organization's Exempt Status Following Revocation Unnecessarily Burdensome*).

3 An EIN is a nine-digit number assigned by the IRS to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes. See Form S-4, *Application for Employer Identification Number*.

4 TAS added new questions 16 and 17 to the Question and Answer document linked on its internal employee website, available at <http://tas.web.irs.gov/cat/issuecodes/ici/6980.aspx>.