

Exempts Need More Personal Contact With the IRS, Says Taxpayer Advocate Report

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The IRS Tax Exempt/Government Entities Division (TE/GE) is relying heavily on the Internet to provide education and outreach to tax-exempt organizations at the expense of personal contact, according to the National Taxpayer Advocate 2008 Annual Report to Congress.

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The IRS Tax Exempt/Government Entities Division (TE/GE) is relying heavily on the Internet to provide education and outreach to tax-exempt organizations at the expense of personal contact, according to the National Taxpayer Advocate 2008 Annual Report to Congress.

The report, released on January 7 by the Taxpayer Advocate Service, noted that between October 2007 and May 2008 the Exempt Organizations Division, which falls under TE/GE, conducted workshops on the redesigned Form 990, "Return of Organization Exempt From Income Tax," and on other topics, and that the workshops included face-to-face interactive forums. But most of the division's education and outreach efforts are conducted through the Internet rather than in person, and officials are more likely to make speeches in response to invitations they receive rather than initiate their own speaking engagements, according to the report.

The report added that EO officials received fewer speaking requests last year, resulting in a 35 percent drop in the number of customers reached compared with the first quarter of fiscal 2006. (For the executive summary and report, see *Doc 2009-241* [\[PDF\]](#). For a related IRS news release, see *Doc 2009-240* [\[PDF\]](#).)

"Electronic taxpayer service should not supplant face-to-face outreach unless EO has data that supports organizations preference for these services," the report said.

In response, the IRS said the EO Division has balanced its Internet outreach with personal appearances by EO Division officials. There are about 1,600 articles on EO topics in the Charities and Nonprofits portion of the IRS Web site, and there has been an 81 percent rise in the use of the Charities and Nonprofits section since fiscal 2005, the IRS said.

The IRS also said EO Division officials received almost 50 percent more speaking invitations during fiscal 2008, mostly because of interest in the new Form 990 and the Form 990-N, "Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required to File Form 990 or 990-EZ." The IRS responded to the requests by conducting 19 workshops on the new Form 990, and it discussed the changes to the return at 17 Small and Midsize organization workshops across the country, it said. Nearly 42,000 people attended the events, which is more than showed up in fiscal 2006 and fiscal 2007, according to the IRS.

In a section of the report addressing the efforts of the Taxpayer Advocate Service versus the IRS's enforcement efforts, the Taxpayer Advocate Service criticized the IRS for not doing more to educate taxpayers about the causes of their compliance problems, and it cited as an example the agency's treatment of charities that fail to include specific forms with their information returns. The IRS abates the penalties when the charity submits the form, but does little to educate the filer on how to comply with the requirement in the future.

The IRS disputed that finding, pointing out that before assessing penalties for filing an incomplete return, the agency sends a charity two letters requesting the required information. A toll-free telephone number is provided in case a charity has questions, and there is information in publications, in the instructions to the return, and on the IRS Web site on penalties for not filing complete returns, the IRS said.

Ideas for Legislation

The report offered several legislative proposals, including one to simplify and streamline higher education tax incentives. It said Congress should consolidate the HOPE scholarship and lifetime learning credits and clarify whether families can use more than one incentive in the same tax year. It also recommended that standards governing student eligibility for the tax breaks be made consistent and that a uniform definition of "qualifying higher education expenses" and "eligible education institution" be established.

There also should be consistent income-level thresholds, phaseout calculations, and inflationary adjustments regarding the education incentives, according to the report, which further recommended that Congress eventually make the incentives permanent.

Steven M. Bloom of the American Council on Education praised the report for addressing education incentives, adding that the need for simplification has been apparent for some time. He said the council has supported recent efforts in Congress to consolidate and reform some education incentives.

"We look forward to working with the new Congress and the Obama Administration on efforts to make higher education tax incentives more effective in enhancing access for students to higher education," Bloom said.

Retirement Plans


Another simplification proposal will interest EOs and other types of entities that offer retirement plans. It asks lawmakers to consider consolidating some plans and perhaps establish one type of plan for individuals, another for small businesses, and one for large businesses; plans limited to governmental entities would be eliminated.

The report said there should be uniform rules governing hardship withdrawals, plan loans, and portability.

William F. Sweetnam of the Groom Law Group said proposals to simplify the number and types of retirement plans are not new, noting that the Bush administration proposed three types of plans: lifetime savings accounts, retirement savings accounts, and employer retirement savings accounts. He said there has not been much of an effort on Capitol Hill to advance any changes, and he noted that there are influential people and institutions, some of which reflect established constituencies such as teachers, that are happy with the current system.

"Whether a strong constituency emerges to try to advance a major simplification in the number and types of retirement plans is unclear at this time, although we could conceivably see a push for payroll deduction IRAs by the new administration," Sweetnam said.

Another recommendation involves the mileage deduction for charitable activities. The report noted that the standard mileage deduction for vehicle expenses related to a charitable activity is 14 cents a mile and that the IRS is not empowered to change the rate when conditions, such as higher gas prices, warrant it. The report urged Congress to change the code to allow the IRS to determine the mileage rate.

The mileage proposal is likely to be popular with charities. In November, Diana Aviv, president and CEO of Independent Sector, an umbrella group of nonprofits, said the 14-cent rate had made it difficult for charities to recruit volunteer drivers during periods of fluctuating gas prices. (For Aviv's comments, see *Doc 2008-24972* [[PDF](#)] or *2008 TNT 229-34* )