



# Tax Exempt & Government Entities

Sunita B. Lough

TE/GE Commissioner

Edward T. Killen

TE/GE Deputy Commissioner

## Message from the Tax Exempt and Government Entities (TE/GE) Commissioners

Greetings,

In fiscal year 2021, TE/GE delivered quality tax administration, improved processes that benefit taxpayers, employees, and our enforcement program, and conducted outreach activities to tax-exempt communities, including traditionally underserved audiences.

Despite the challenges of a second year under COVID-19 restrictions, we continued to focus on strategic goals and objectives – hiring and training new employees, collaborating with external and internal partners, introducing new electronic forms and payment options that improve efficiency and taxpayer convenience and enhancing our use of tools like data analytics and robotics processing automation products that make our enforcement efforts more effective.

Among the highlights:

- Ensured the safety of our employees as we continued to work remotely, encouraging vaccinations, and requiring safety protocols when employees reported to the office.
- Continued our enforcement efforts through collaboration with other IRS divisions to identify cross-division compliance issues, developing cases with badges of civil and criminal fraud, and conducting examinations of abusive tax avoidance transactions.
- Worked with the Lean Six Sigma (LSS) program and completed the launch of the TE/GE examination process bringing consistency across five functions within TE/GE. The examination LSS team implemented most of the recommendations for process improvements. The remaining recommendations will be implemented in early 2022. A new LSS team was established to look for process efficiencies in the compliance check process.
- Enhanced our data collection and analysis capabilities that will provide for better return selection for examination and focused outreach efforts.
- Provided, under our Small Entity Compliance Initiative, tax education through virtual outreach, including presentations at Nationwide Tax Forums, translating materials into multiple languages, and creating new online resources to foster compliance.
- Introduced electronic filing of most of the returns filed by Exempt Organizations and Employee Plans.
- Hired 120 individuals through fiscal year 2021 and conducted 245 interviews to fill 132 additional revenue agent positions. We prepared for a larger hiring campaign in fiscal year 2022.



**Sunita B. Lough**  
TE/GE Commissioner



**Edward T. Killen**  
TE/GE Deputy Commissioner

We invite you to look inside for more detail about the past year's efforts to better serve the tax-exempt community.

Thank you for reading.

**Sunita B. Lough**

**Edward T. Killen**

## TE/GE Snapshot

In May 2021, TE/GE welcomed Sunita B. Lough back as TE/GE Commissioner, and Edward T. Killen returned to his role as Deputy Commissioner.

The entities that fall within TE/GE’s jurisdiction are diverse in form and function, ranging from small business retirement plans to multi-billion-dollar bond issuances. The one thing they share is that they are all exempt from or not subject to federal income tax. Although these organizations are generally exempt from taxation on their income, they contribute substantially to the economy because they control trillions of dollars in assets and may be subject to other federal taxes, such as excise and employment taxes.

To help this diverse set of organizations meet their tax obligations and to enforce the tax laws as part of overall Internal Revenue Service initiatives, TE/GE continues to invest in its workforce. We hired 120 people during fiscal year 2021: 75 revenue agents, 17 tax examiners, 13 analysts and 15 in other positions, bringing our staffing numbers to 1,521, a nearly 5.1% loss when coupled with rate of attrition from the end of the prior year. We also provided new hires with on-the-job training – and all staff with specialized training needed to work compliance issues. Additionally, in October, TE/GE conducted 245 interviews to fill 132 revenue agent positions. TE/GE extended offers to 185 applicants, 21 of whom have accepted at this time. TE/GE expects to fill the remaining 111 positions during the first quarter of fiscal year 2022.

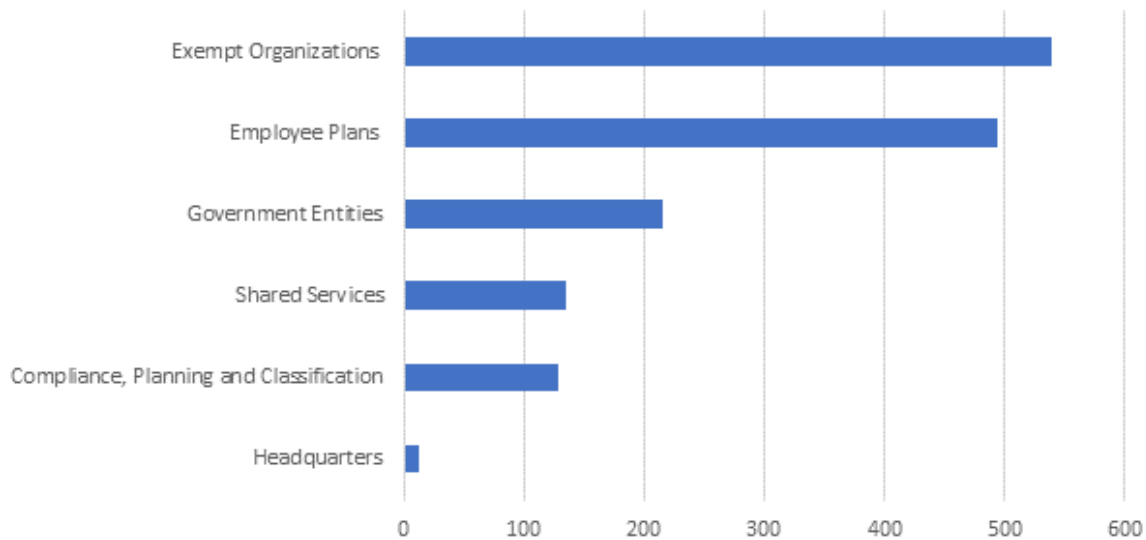
### TE/GE's Organizations

Employ almost  
25% of the  
American  
workforce

Control over \$47  
trillion in assets<sup>1</sup>

Account for about  
20% of nearly \$1.3  
trillion in federal  
tax expenditures<sup>2</sup>

**Figure 1: FY21 TE/GE Staffing**



<sup>1</sup> In 2021 dollars. Represents the latest data available for assets for U.S. retirement plans (2020), F990/990-EZ data estimates (2018), domestic private foundation estimates (2017) and outstanding municipal debt (2nd quarter 2021).

<sup>2</sup> Tax expenditures are defined in the Budget Act as “revenue losses attributable to provisions of the [federal] tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” [Congressional Budget & Impoundment Control Act of 1974, Pub. L. No. 93-344, § 3(3), 88 Stat. 297].



In fiscal year 2021, TE/GE continued to identify compliance work through our compliance strategy process. This process, which requires review and approval from the TE/GE Compliance Governance Board (TE/GE CGB), allows us to address significant compliance and resource challenges through the strategic use of resources, training and tools. This helps us focus on high risk and emerging issues using different treatment streams – from examinations and compliance contacts to educational letters and technical guidance. We develop compliance strategies around areas of noncompliance using information collected through employee experience and input merged with data analytics. Using a web-based portal, TE/GE (and other IRS) employees submit issues to the TE/GE CGB for consideration. Once approved for a compliance treatment, these issues are considered priority work.

Since the inception of the compliance strategy portal in 2017, we received 549 submissions from employees and approved 87 compliance strategies, 55% of which are currently underway as examinations or compliance checks with taxpayers.

To accomplish our mission, we deliver a compliance platform of six programs that together promote tax law compliance by tax exempt and government entities.

- **Compliance Strategies:** Issues approved by the TE/GE CGB to identify, prioritize and allocate resources within the TE/GE filing population.
- **Data-Driven Approaches:** Data and queries based on quantitative criteria, used to identify high risk areas of noncompliance, and focus on issues with the greatest impact.
- **Referrals, Claims and Other Casework:** Referrals of alleged noncompliance from internal and external sources, and claims for refunds, credits or adjustments.
- **Compliance Contacts:** Correspondence contacts, known as compliance checks, addressing potential noncompliance, and educational letters to limit costs and taxpayer burden.
- **Determinations:** Letters issued to exempt organizations on exempt status, private foundation classification and other determinations related to exempt organizations, and qualified retirement plans that meet legal and regulatory requirements.
- **Voluntary Compliance and Other Technical Programs:** The Voluntary Correction Program (VCP) enables a plan sponsor (at any time before examination) to pay a fee and receive IRS approval for correction of plan failures. Other technical programs, including Knowledge Management (KM), work to ensure the quality and consistency of technical positions, provide timely assistance to employees and preserve and share TE/GE’s knowledge base.

## Improving Processes

In fiscal year 2021, TE/GE continued its LSS efforts in two significant areas. The examination LSS team continues to work through the recommendations to improve exam-related processes and should be concluding these efforts in early 2022. A new LSS team was established to look for process efficiencies with the compliance check process. The team is composed of LSS, TE/GE management and tax examiners from the TE/GE Compliance Units who have identified areas within the process for improvement. This team is focused on developing a consistent TE/GE compliance check process, implementing efficiency opportunities and mitigating or eliminating burdensome steps in the process, implementing a process to provide meaningful real-time feedback on results, and developing measures of how well the process changes taxpayer behavior. The team has provided a list of improvement recommendations and will begin carrying out the recommendations in the first quarter of fiscal year 2022.

<sup>3</sup> Compliance strategies may have more than one treatment. For example, one compliance strategy may have an examination and compliance check component. The “Other” category includes educational letters, newsletters, issue snapshots, data-driven queries and revenue protection procedures.

## Collaborative Partnerships

TE/GE collaborated with a diverse group of stakeholders to strengthen its programs in fiscal year 2021. We partnered with the IRS Information Technology (IT) function to drive key components of the IRS modernization plan. We continue to pilot taxpayer digital communications (TDC) for the Tax-Exempt Bonds (TEB) community. TDC provides a secure mailbox capability allowing two-way exchange of messages and documents between the IRS, taxpayers and their representatives in a cloud environment certified for exchange of taxpayer data. This digital solution decreases case processing time while supporting our goal of electronic case files and reduces the need to send paper documents through the mail. TE/GE initiated plans to expand the TEB pilot to all TE/GE functions using the same TDC technology platform. The expanded TE/GE launch is scheduled for implementation in fiscal year 2022.

We continued our collaborative efforts in fiscal year 2021 with the deployment of Enterprise Case Management (ECM) to our end users in Exempt Organization's Correspondence Unit (EOCU) in December 2020. Additional releases were deployed to the ECM end users throughout the fiscal year to add new functionality and to resolve defects. Two robotics processing automation (RPA) products were delivered to the Referrals Unit in April 2020. The first automation, which was fully implemented in fiscal year 2021, processes all TE/GE referrals received by email and puts them in folders on the shared drive to be classified. We processed 5,880 referrals with a median time savings of over 75%. The second automation was further developed and tested in fiscal year 2021 and we plan on implementing it in the first quarter of fiscal year 2022. It will automate establishing most Exempt Organizations (EO) examination cases in our Reporting Compliance Case Management System (RCCMS) and some of the closing processes.

We also spent the year working with stakeholders across the agency to strengthen our programs addressing fraud, promoter investigations and abusive transactions. Our EO agents continue to work with Small Business/Self-Employed (SB/SE), Large Business and International (LB&I) and Criminal Investigation (CI) on syndicated conservation easement cases. We had the opportunity to send agents for specialized training in areas ranging from promoter/abusive transactions to virtual currency, while TE/GE managers joined their SB/SE and CI counterparts for virtual compliance councils across the country, discussing compliance issues. We're collaborating with CI and Research, Applied Analytics and Statistics (RAAS) in developing data approaches to identify potential noncompliance in the exempt organization community.

In fiscal year 2021, TE/GE continued to partner with LB&I and RAAS in the area of high income/high wealth taxpayers and the identification of linkages involving TE/GE organizations. Collaboration in this area will continue throughout fiscal year 2022 with the expectation of participation in joint exams between IRS divisions.

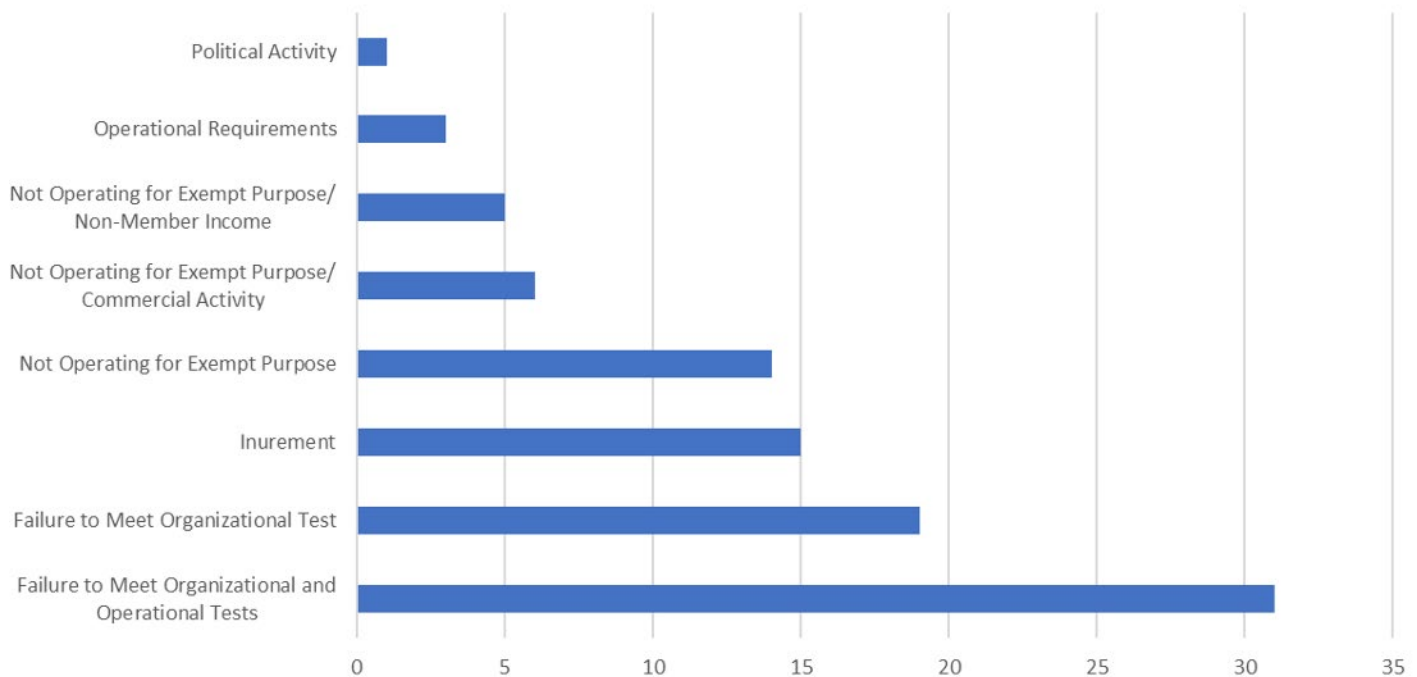
## Exempt Organizations

### Examinations

	Started	Closed	Change %	Pick-up %
Compliance Strategies	566	530	83.0%	32.6%
Data-Driven	948	1,035	87.5%	46.0%
Referrals, Claims and Other Casework	2,167	1,684	78.9%	27.3%
<b>Totals</b>	<b>3,681</b>	<b>3,249</b>	<b>82.3%</b>	<b>34.1%</b>

EO completed examinations of 3,249 filings in fiscal year 2021, including the Form 990 series (990, 990-EZ, 990-PF, 990-N, 990-T) and their associated employment and excise tax returns. Overall, 82% of closed examinations resulted in a tax change (change percentage) and 34% of the examinations were “picked-up” from a related examination (pick-up percentage). We proposed revocations (agreed and unagreed without protest) for 94 tax-exempt entities as a result of these examinations.

**Figure 2: FY21 EO Revocations by Issue**



### Compliance Strategies

EO initiated and continued several compliance strategy examinations to address noncompliance in this sector, including:

- Hospital Organizations with Unrelated Business Income: Focused on unrelated business taxable income reported on Form 990-T, Exempt Organization Business Income Tax Return, where expenses materially exceed gross income.
- Internal Revenue Code (IRC) Section 501(c)(7) Entities: Focused on investment and nonmember income by tax-exempt pleasure, social and recreation clubs.
- IRC Section 4947(a)(1) Non-Exempt Charitable Trusts: Focused on organizations that under-reported income or over-reported charitable contributions.
- Previous For-Profit: Focused on organizations that formerly operated as for-profit entities prior to their conversion to IRC Section 501(c)(3) organizations.
- Private Benefit and Inurement: Focused on organizations that show indicators of potential private benefit or inurement to individuals or private entities by way of private foundation loans to disqualified persons.

The most prominent issues found in closed compliance strategy examinations relate to miscellaneous excise taxes, unrelated business income, filing requirements and operational requirements.

### *Data-Driven Examinations*

Additionally, EO initiated and continued several data-driven compliance examinations, including:

- Tax-exempt organizations selected through compliance query sets based on information reported on Form 990, Return of Organization Exempt from Income Tax, Form 990-EZ, Short Form Return of Organization Exempt from Income Tax, and Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation.
- Tax-exempt organizations identified in collaboration with RAAS to research indicators of private benefit/inurement, involving officer business partnerships, under-reported credit card income, and related employees in for-profit partnerships.

The most prominent issues found in these EO data-driven examinations relate to filing requirements and unrelated business income.

### *Referrals, Claims and Other Casework*

EO also examined entities that filed and received exemption using Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, and referrals from inside and outside the IRS. These referrals include hospital examinations referred from reviews conducted by TE/GE for compliance with IRC Section 501(r) and other noncompliance issues.

EO also pursued promoter investigations and supported examinations in partnership with SB/SE-led investigations. In addition, EO spent nearly 8,000 hours assisting CI with fraud investigations as cooperating agents.

The most prominent issues found in EO's Referrals, Claims and Other Casework include unrelated business income, organizational requirements, abatements, and excise taxes.

### **Determinations**

EO closed 94,466 determination applications in fiscal year 2021, including 81,589 approvals, 76,852 of which were approvals for 501(c)(3) status. Figure 3 shows receipts of applications for tax-exempt status, private foundation classification and other EO-related determinations. The figure reflects receipts by Form 1023-EZ, Form 1023 and other forms including Forms 1024, 1024-A, 1028 and 8940.

TE/GE continues to pursue continuous improvement in the determinations process for exempt organizations. Use of Form 1023-EZ has grown since its introduction in 2014, and TE/GE continues its efforts to collect, monitor and evaluate data to understand the impact and opportunities from this important change to its determination process. In fiscal year 2021, TE/GE updated procedures for processing Form 1023-EZ. As part of ongoing efforts to improve service for the tax-exempt community, TE/GE issued the revised Form 1024-A and its instructions to allow electronic filing, which makes the Form 1024-A application easier to complete while reducing errors.

**Figure 3: EO Determination Receipts**

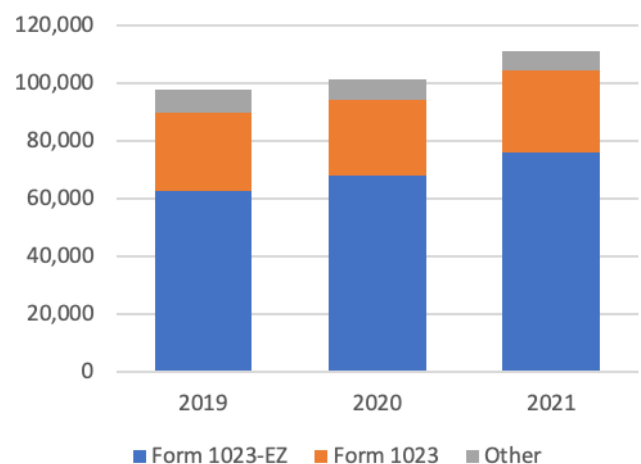
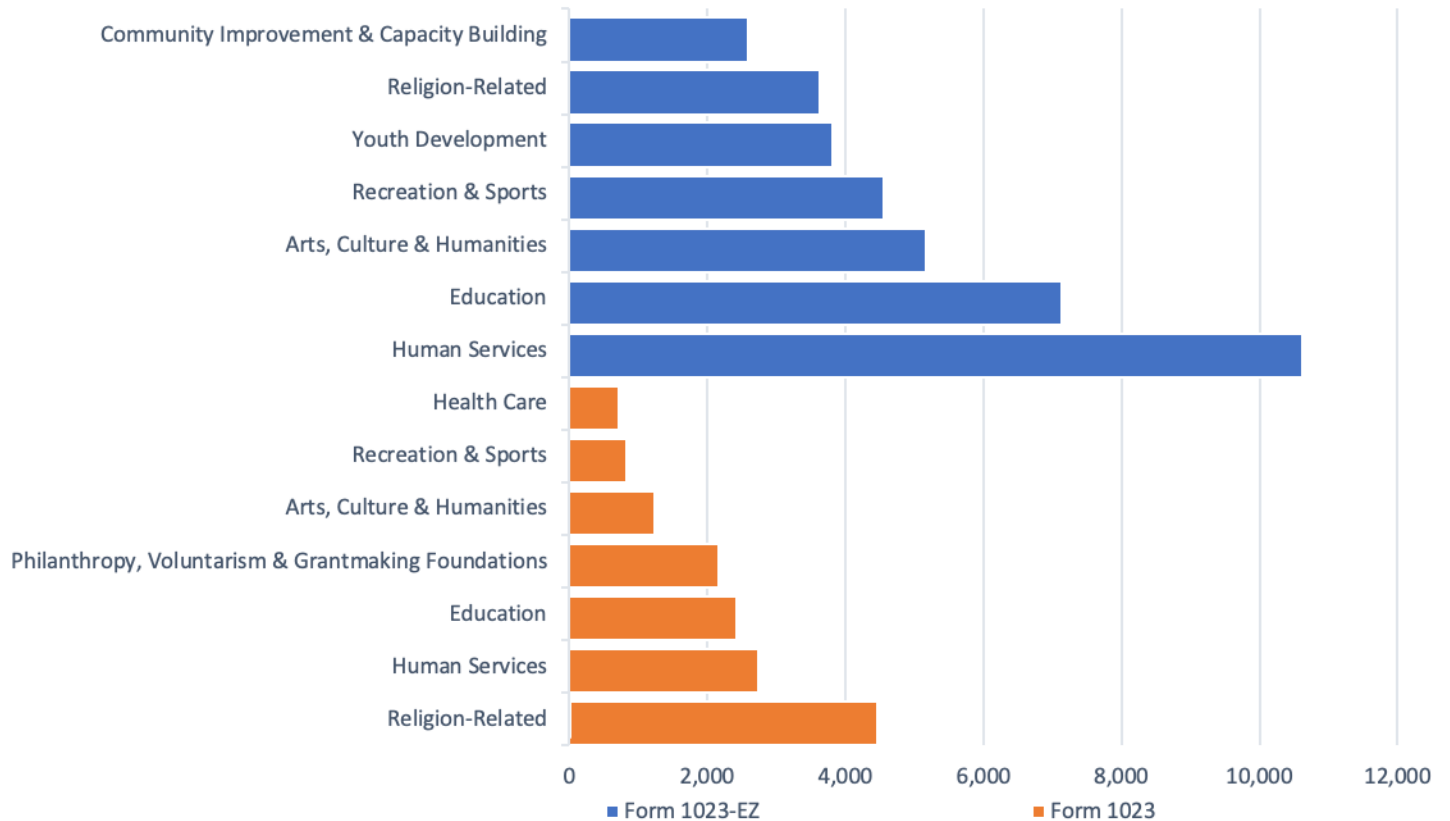


Figure 4 provides the taxonomy (as categorized by the National Taxonomy of Exempt Entities (NTEE) codes) of 501(c)(3) organizations approved in fiscal year 2021 by application type. The visual provides the categories with the highest proportion of organizations. As you can see, Form 1023-EZ approvals in fiscal year 2021 were mostly organizations categorized as human services; education; arts, culture & humanities; and recreation & sports. Those organizations that were approved after filing a Form 1023 were largely organizations categorized as religion-related; human services; education; and philanthropy, voluntarism & grantmaking foundations.

**Figure 4: Taxonomy of 501(c)(3) Organizations Approved in FY 2021**



## Employee Plans

### Examinations

	Started	Closed	Change %	Pick-up %
Compliance Strategies	1,391	1,071	74.7%	56.3%
Data-Driven	2,515	2,002	66.5%	45.6%
Referrals, Claims and Other Casework	961	1,222	89.0%	64.4%
<b>Totals</b>	<b>4,867</b>	<b>4,295</b>	<b>74.9%</b>	<b>53.6%</b>

EP closed 4,295 examinations in fiscal year 2021. We proposed revocations or disqualifications for 16 plans as a result of these examinations for issues including:

- Failure to amend, or timely amend, a plan document.
- Failure to meet the nondiscrimination requirements of IRC Section 401(a)(4).
- Failure to meet the eligibility/participation/coverage requirements of IRC Section 410.
- Failure to meet the limitation on contributions or benefits requirement of IRC Section 415.
- Failure to comply with the participation and coverage requirements in a Simplified Employee Pension (SEP) plan.

### Compliance Strategies

EP initiated and continued examinations on the following compliance strategies:

- One-Participant 401(k) Plans: Reviewed one-participant 401(k) plans to determine if there were operational or qualification failures, income and excise tax adjustments, or plan document violations.
- Participant Loans: Verified whether participant loans of retirement plans that hold a high percentage of participant loans to total assets were being repaid timely if the loan balance didn't change or increased for more than one year.
- Required Minimum Distributions in Large Defined Benefit Plans: Ensured that retirement plan sponsors began benefit distributions by April 1 following the calendar year an employee turned 70½.
- Required Minimum Distributions in Single Participant Plans: Ensured that retirement plan sponsors began distributions by April 1 following the calendar year an employee turned 70½.

The most prominent issues found in closed compliance strategy examinations include participation, eligibility and coverage issues, failing to amend the plan or amending late, excess contributions and failing to meet the IRC 401(k) deferral test.

### Data-Driven Examinations

EP continues to identify indicators of noncompliance with the tax laws for profit-sharing, money purchase, 401(k) and defined benefit plans.

The most prominent issues found in data-driven approaches relate to contributions, earning allocations, participation and coverage, plan document amendment failures and vesting issues.

### Referrals, Claims and Other Casework

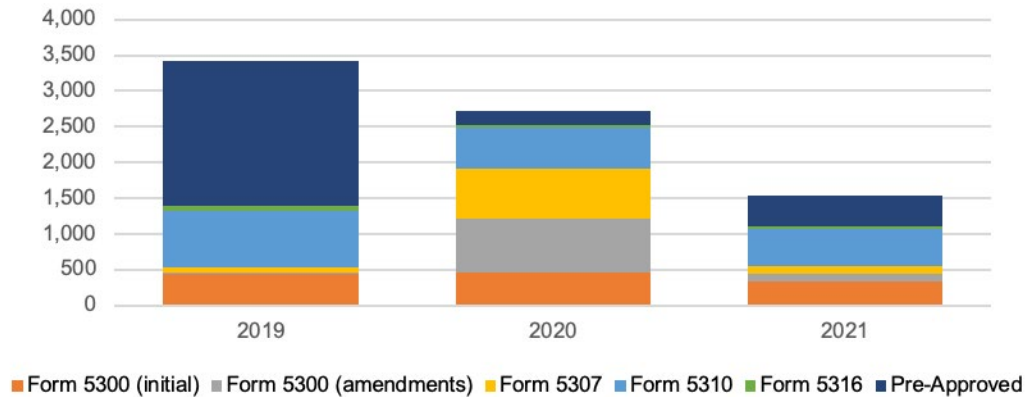
EP also verified that non-bank trustees (NBT) satisfied the NBT regulations. This examination portfolio also included referrals from internal and external sources, claims initiated by taxpayers requesting a refund and fraud related work. In fiscal year 2021, EP also continued to focus on open promoter investigations. As is common with promoter schemes, the plan is used as a conduit in a potentially abusive transaction. In addition, EP is supporting SB/SE-led investigations and is assisting CI with fraud investigations as cooperating agents.

The most prominent issues found in EP's Referrals, Claims and Other Casework include delinquent amendment plan documents, inappropriate treatment of plan assets (timing of distributions, proper valuations, timely deposits, and reversions), 401(k)/(m) noncompliance, and ineligibility to sponsor SIMPLE IRA plans.



## Determinations

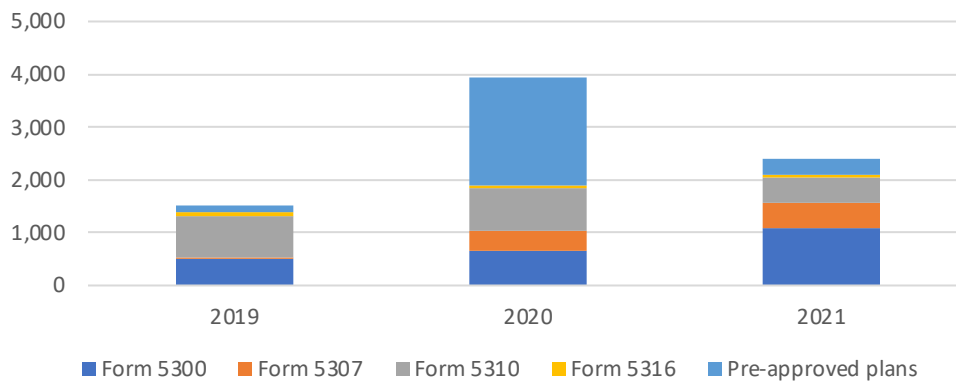
**Figure 5: EP Application Receipts (FY19 - FY21)**



EP closed 2,391 determination applications in fiscal year 2021. The figure above shows the EP determination letter and pre-approved plan applications received over the last three fiscal years. In August 2020, the Form 5300 amendment program, which allowed plan sponsors to submit applications for hybrid plans, closed. We received 755 applications. Most of the cases closed in fiscal year 2021.

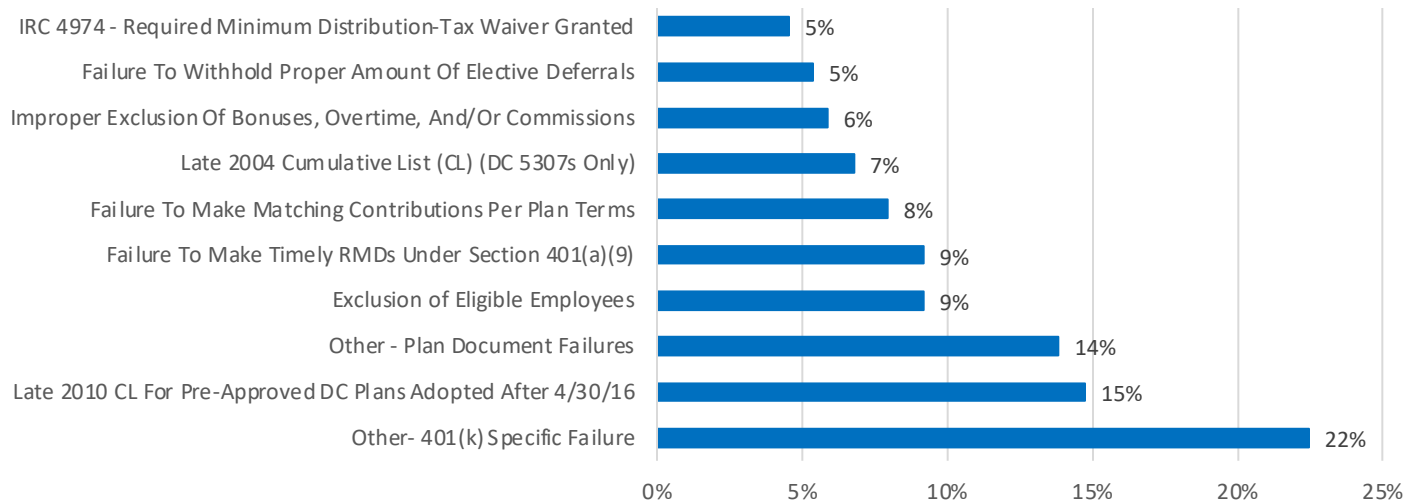
The defined benefit pre-approved plan window closed on July 31, 2021. Total receipts were 553. Training was held in August 2021, and all attendees were assigned at least one lead plan. The review period ends on February 28, 2023. Figure 6 shows the EP determination letter and pre-approved plan applications we closed over the past three fiscal years. As expected, application closures have more than doubled over fiscal year 2019 because of the issuance of the pre-approved plan letters.

**Figure 6: EP Application Closures (FY19 - FY21)**



## Voluntary Correction and Other Technical Programs

**Figure 7: Top 10 Failures Corrected Through EP VCP**



The VCP enables retirement plan sponsors (at any time before examination) to pay a fee and receive IRS approval for correction of plan qualification failures. In fiscal year 2021, EP received 1,711 voluntary correction applications and closed 1,922. Figure 7 lists the top 10 types of failures corrected through the VCP in fiscal year 2021.

Revenue Procedure 2021-30 revised the Employee Plans Compliance Resolution System (EPCRS), which permits sponsors of a retirement plan (including SEP and SIMPLE IRA plans) to correct plan failures. EPCRS offers three correction programs:

- Self-Correction Program (SCP) – Correct certain plan failures without contacting the IRS or paying a user fee.
- Voluntary Correction Program (VCP) – Correct failures not eligible for SCP and get IRS approval that the failures were properly corrected.
- Audit Closing Agreement Program (CAP) - Resolve failures discovered during an IRS audit that can't be corrected using SCP.

Revenue Procedure 2021-30 made the following significant changes to EPCRS:

- Overpayment Correction Options: Allows plan sponsors to fix operational failures when plan participants or beneficiaries receive payments from defined benefit plans that exceed the plan terms, effective July 16, 2021. This reduces the need to seek repayment from participants or beneficiaries who received overpayments, and in some cases, doesn't require the plan sponsor to reimburse the plan for overpayments to participants.
- Expansion of Self-Correction for Significant Operational Failures: Extends the correction period of significant operational failures from two to three years, effective July 16, 2021.
- Expansion of Self-Correction for Retroactive Plan Amendments: Makes it easier to use retroactive plan amendments to correct operational failures by removing the requirement that all participants in the plan benefit by the retroactive amendment, effective July 16, 2021.
- Anonymous VCP submissions: Effective January 1, 2022, Rev. Proc. 2021-30 eliminates anonymous submissions under VCP.
- Anonymous Pre-Submission Conferences: Effective January 1, 2022, the IRS will permit plan sponsors or their representatives to make an anonymous written request for a pre-submission conference to discuss a potential VCP submission at no cost to the plan sponsor. However, the VCP request can no longer be anonymous.
- Extension of Automatic Enrollment Failures: Extends the sunset of the safe harbor correction method to correct missed elective deferrals for eligible employees subject to an automatic contribution feature in Section 401(k) or 403(b) plans.
- Increased Threshold for De Minimis Correction Amounts: Increases the threshold from \$100 to \$250 for certain de minimis amounts for which a plan sponsor is not required to implement correction.

Other technical programs, including Knowledge Management, help to ensure the quality and consistency of technical positions, provide timely assistance to employees, and preserve and expand TE/GE's knowledge base. In addition, EP Technical focused on actuarial letter rulings, technical assistance, and correspondence work for EP taxpayers.

## Government Entities

### Federal, State and Local-Employment Tax (FSL-ET)

	Started	Closed	Change %	Pick-up %
Compliance Strategies	174	191	82.2%	30.9%
Data-Driven	683	603	80.8%	22.4%
Referrals, Claims and Other Casework	195	95	85.4%	81.1%
<b>Totals</b>	<b>1,052</b>	<b>889</b>	<b>81.6%</b>	<b>30.5%</b>

FSL-ET continues to address noncompliance issues with federal, state and local government entities and employment tax issues with some tax-exempt organizations. The area completed almost 900 examinations in fiscal year 2021.

#### *Compliance Strategies*

FSL-ET closed almost 200 compliance strategy cases to address noncompliance including:

- CP2100 Backup Withholding Notice: Determined whether mismatched and/or missing taxpayer identification numbers on Form 1099-MISC, Miscellaneous Income, indicated failure to comply with backup withholding requirements.
- Forms W-2/1099 Matches: Compared wages reported on Form W-2, Wage and Tax Statement, with payments reported on Form 1099-MISC to determine if income was subject to Federal Insurance Contribution Act (FICA) tax and income tax withholding. This could be a result of a worker classification issue or the mischaracterization of payments that should have been treated as wages but were not.

The most prominent issues found in these closed examinations were on unreported compensation, employee classification, backup withholding and taxable fringe benefits.

#### *Data-Driven Examinations*

FSL-ET closed over 600 examinations of government entities – including federal agencies and state and local governments, such as cities, counties and schools – using queries that identify possible employment tax noncompliance. The most prominent issues found in these change examinations relate to taxable fringe benefits, unreported compensation and non-accountable plans (allowances that should be taxable).

#### *Referrals, Claims and Other Casework*

FSL-ET examined almost 100 referrals in fiscal year 2021, 85% of which resulted in tax changes. The most prominent issues found in these examinations relate to failing to file returns, FICA taxes and unreported compensation.

## Indian Tribal Governments (ITG)

	Started	Closed	Change %	Pick-up %
Compliance Strategies	51	47	48.9%	2.1%
Data-Driven	162	12	66.7%	33.3%
Referrals, Claims and Other Casework	71	55	49.1%	40.0%
<b>Totals</b>	<b>284</b>	<b>114</b>	<b>50.9%</b>	<b>23.7%</b>

ITG continued to maintain a service and enforcement presence with tribal entities in fiscal year 2021. ITG closed 114 examinations. ITG continued to help tribes, as requested or needed, based on a government-to-government relationship, comply with the tax law.

### *Compliance Strategies*

ITG continued to focus on employment tax and filing compliance through the compliance strategies examined in fiscal year 2021. These include the CP2100 Backup Withholding and Forms W-2/1099 Matches strategies referenced in the FSL-ET section above. The most prominent issues found in the closed examinations relate to backup withholding, employee classification and unreported compensation.

### *Data-Driven Examinations*

ITG closed 12 data-driven examinations which included tip compliance examinations, non-filer projects and other examinations. The most prominent issues found in these change examinations relate to failing to file returns and federal income tax withholding.

### *Referrals, Claims and Other Casework*

This compliance portfolio also included ongoing work for promoter investigations involving falsified nontaxable income and fraud related casework. ITG also continues to assist CI with fraud investigations as cooperating agents.

The most prominent issues found with the closed examinations were unreported compensation and understatement of income tax.

## Tax Exempt Bonds (TEB)

	Started	Closed	Change %	Pick-up %
Compliance Strategies	89	79	8.9%	0.0%
Data Driven	66	61	18.0%	0.0%
Referrals, Claims and Other Casework	6	146	96.6%	19.9%
<b>Totals</b>	<b>161</b>	<b>289</b>	<b>55.6%</b>	<b>10.1%</b>

TEB closed nearly 300 examinations in fiscal year 2021, which were comprised of compliance strategies and referrals, claims and other casework.

### *Compliance Strategies*

TEB's fiscal year 2021 examination compliance strategies included:

- Public Safety Bonds: Determined whether federal government use and management contracts cause excessive private business use that adversely affects the tax-exempt status of public safety bonds.
- Sinking Fund Over-Funding: Determined whether over-funding caused the bonds to be arbitrage bonds, which negatively impacts their qualification as Tax Credit Bonds.
- Open Market Securities – Fair Market Value: Determined arbitrage violations under IRC Section 148, specifically as to the fair market value requirements for yield restricted defeasance escrows under Treasury Regulation 1.148-5(d)(6).

TEB closed 79 compliance strategy cases. Several of these cases resulted in written advisories to or closing agreements with the bond issuers, addressing issues such as incomplete returns, private business use and qualification issues.

### *Referrals, Claims, and Other Casework*

TEB closed almost 150 examinations in this portfolio mostly from referrals. The most prominent issues found in the cases examined were arbitrage – claims for refund, rebates and yield restriction – and private benefit.

## Government Entities Compliance Unit (GECU) Examinations

	Started	Closed	Change %	Pick-up %
Compliance Strategies	85	234	70.1%	65.8%
Data-Driven	0	0	N/A	N/A
Referrals, Claims and Other Casework	0	0	N/A	N/A
<b>Totals</b>	<b>85</b>	<b>234</b>	<b>70.1%</b>	<b>65.8%</b>

In addition to the 234 examinations the Government Entities Compliance Unit (GECU) completed in fiscal year 2021, the GECU also closed compliance checks and performed other priority work related to Tribal General Welfare Exclusions.

## TE/GE Compliance Contacts

	Started	Closed	Change %
Employee Plans Compliance Unit	905	1,509	72.8%
Exempt Organizations Compliance Unit	548	810	49.6%
GE & TE/GE Compliance Unit	9,358	11,030	67.7%
TE/GE Compliance Unit Educational Letters	71,439	71,439	---
<b>Totals</b>	<b>82,250</b>	<b>84,788</b>	<b>67.2%</b>

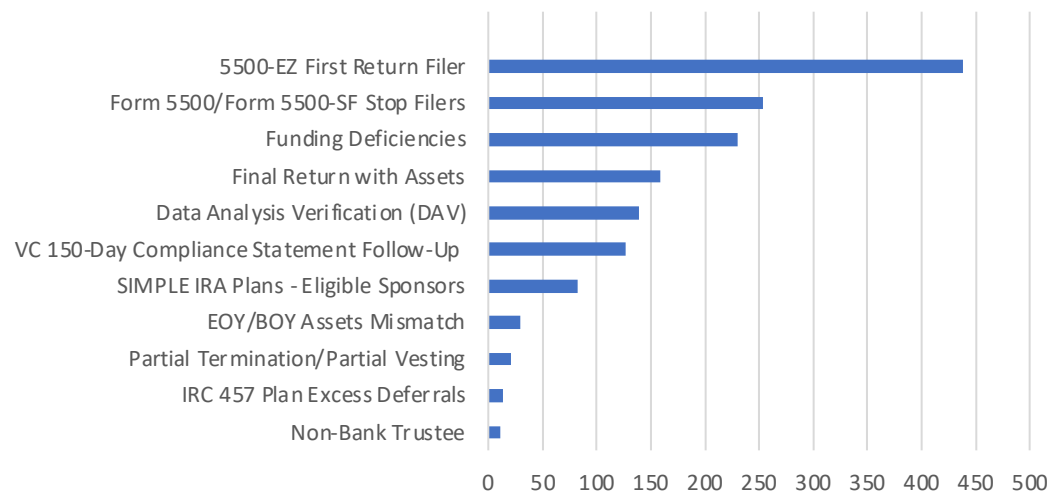
In fiscal year 2021, TE/GE continued educating taxpayers through compliance checks and educational letters to improve return filings and filing accuracy on issues of noncompliance. These contacts allow us to establish a presence in the taxpayer community in a manner that reduces administrative costs and minimizes taxpayer burden.

EP initiated and continued compliance checks to determine whether retirement plans met recordkeeping and information reporting requirements, including:

- Funding deficiencies.
- Missing codes, such as business codes or plan characteristics on filed forms.
- Filers who stopped filing a required Form 5500/Form 5500-SF.
- Returns marked “Final” that have assets remaining in the trust.
- First Form 5500-EZ return filings.

These checks resulted in over 1,500 closures, almost 5% of which were referred to examination for further evaluation.

**Figure 8: EP Compliance Checks – Types of Closures**



TE/GE undertook several compliance checks to address compliance with tax-exempt organizations, Indian tribal governments and federal, state and local governments. These were conducted in the Exempt Organizations Compliance Unit (EOCU), Government Entities and the TE/GE Compliance Unit (TECU). These compliance checks included:

- Discrepancies between Form W-2, Wage and Tax Statement, and either Form 941, Employer's Quarterly Federal Tax Return, or Form 944, Employer's Annual Federal Tax Return, for entities under TE/GE's jurisdiction.
- Noncompliance with IRC Section 501(r)(4) Financial Assistance Policy (FAP) by tax-exempt hospitals.
- Exempt organizations that failed to file:
  - Form 940, Employer's Annual Federal Unemployment Tax Return.
  - Form 1041, U.S. Income Tax Return for Estates and Trusts under IRC Section 4947(a)(1).
  - Form 990-T, Exempt Organization Business Income Tax Return.
  - Form 4720, Return of Certain Excise Taxes under Chapters 41 and 42 of the Internal Revenue Code, to report and pay excise tax under IRC 4960.
- IRC 501(c)(12) organizations that:
  - Received less than 85% of their gross income from members.
  - Did not complete Form 990, Return of Organization Exempt from Income Tax, Part V, Lines 11a and 11b, "gross income from members or shareholders" and "gross income from other sources."
- Tax exempt and government entities that:
  - Have credit balances but failed to file employment tax returns.
  - Reported backup withholding on Form 1099-series returns but did not file Form 945, Annual Return of Withheld Federal Income Tax, to report and pay backup withholding taxes.

TE/GE also continues to review approximately 3,000 tax-exempt hospitals (on a rolling three-year basis) for adherence to IRC Section 501(r). In fiscal year 2021, TE/GE completed 1,019 reviews (not included in Figure 8 above) and referred 71 hospitals for examination for possible noncompliance. The most common issues found related to the hospital's lack of a Community Health Needs Assessment under IRC Section 501(r)(3) and financial assistance policies under IRC Section 501(r)(4).

TE/GE sent over 70,000 educational letters to retirement plan sponsors and organizations to remind them of their responsibilities under the tax law related to:

- Partial plan termination/partial vesting coverage requirements for SEP plans.
- New electronic filing requirements for:
  - Form 990, Return of Organization Exempt from Income Tax,
  - Form 990-EZ, Short Form Return of Organization Exempt from Income Tax, and
  - Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation.



## Outreach

In fiscal year 2021, TE/GE continued its education and outreach efforts. During the year, TE/GE employees attended 73 virtual outreach events, reaching over 47,817 people. Of the 73 events:

- 18 addressed exempt organizations and their representatives
- 24 addressed federal, state and local government partners
- 18 addressed employee plan sponsors, administrators and their representatives
- 9 addressed Indian tribal governments
- 1 addressed tax-exempt bond stakeholders
- 3 were for multiple TE/GE stakeholders

TE/GE participated in the 2021 IRS Nationwide Tax Forum, which was conducted virtually, with over 11,000 tax practitioners and enrolled agents attending the event. TE/GE conducted two seminars. The Employee Plans seminar focused on the SECURE Act and COVID-19-related relief affecting retirement plans and IRA account holders and beneficiaries. Exempt Organizations' session focused on the electronic filing requirements that affect many small exempt organizations when filing for exemptions or filing their Form 990-series returns. TE/GE also maintained a virtual exhibit booth, which provided resources for small exempt organizations and retirement plan sponsors and participants.

In addition to outreach events, TE/GE reached taxpayers through sending 69 electronic news messages to subscribers, including:

- 7 TE/GE-wide messages (to subscribers of all functional newsletters)
- 14 EO Updates
- 15 EP News
- 18 ITG News
- 2 TEB Community Updates
- 13 FSL-ET News

We posted 19 Issue Snapshots to IRS.gov including 7 for EO, 8 for EP and 4 for FSL-ET. The table below lists some of the recent topics covered by these snapshots. TE/GE also posted 20 videos and webinars on the IRS video portal for taxpayers.

Function	Topic
EO	Advertising Unrelated Business Taxable Income and 3rd Party Contractor Issues
	Private Foundations: Amount Involved - Self-Dealing Lending of Money to Disqualified Persons IRC Section 4941(e)(2)
EP	Deemed Distributions – Participant Loans
	Combined Limits under IRC Section 404(a)(7)
FSL-ET	Spousal Travel
	Worker Reclassification – Section 530 Relief

### *Small Entity Compliance Initiative*

As part of the Small Entity Compliance Initiative (SECI), TE/GE created specific outreach activities and resources to inform small entities and underserved communities. We presented 10 live outreach events, averaging 1,690 attendees for each event. All live events were advertised in e-newsletters and with social media campaigns to use varied forms of communication to promote IRS resources to SECI audiences.

This year TE/GE focused on enhancing online tools for small entities and underserved taxpayers, designed to promote voluntary compliance. The following new or redesigned webpages were developed in fiscal year 2021:

- Retirement Plans for Small Employers and Self-Employed
- Retirement Plan Resources for Small Employers and Self-Employed
- Small Employer Retirement Plans During Economic Downturns
- Examinations and Enforcement
- TEB Online Resources Toolkit
- Tax Exempt and Government Entities: Resources for Small Entities and Self-Employed

TE/GE also expanded resources for limited English proficiency taxpayers. Spanish language versions of webinars and videos were posted to the IRS Video Portal. A series of drop-in articles with SECI-related messages were translated into Spanish and posted to the Outreach Connection site. Publication 4118, Lots of Benefits-Retirement Plans Life Cycle, was translated into five languages.

TE/GE thanks its employees for their can-do spirit and professionalism, putting another successful year in the books. They continued noteworthy flexibility during the COVID pandemic, adjusting to work from home or, in certain cases, reporting to office work as needed while under health and safety protocols. We focused again during fiscal year 2021 on improving services to our large and diverse taxpayer community, knowing that meeting customer expectations is an important goal. We used advanced techniques to strengthen our enforcement operations and vigorous outreach to help educate taxpayers and encourage voluntary compliance. We know the tax-exempt community expects a credible, effective TE/GE and we work hard to deliver.