

IRS Issues 2018 Work Plan for Tax Exempt Organizations

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The Tax Exempt and Government Entities (TE/GE) division of the IRS recently issued its [FY 2018 Work Plan](#), which builds upon the agency's ongoing mission to refine, realign and improve their education and examination methods. In 2017, the agency implemented data analytics and knowledge management strategies to target organizations with a high likelihood of noncompliance, and the 2018 plan continues this practice. Facing budget cuts and a declining workforce, the agency reiterated its mission, first stated in last year's work plan, of transparency, efficiency and effectiveness.

For nonprofits preparing for 2018 now is the ideal time to review the work plan and develop a plan in the case of an IRS audit.

Fiscal Year 2018 Initiatives

For fiscal year 2018, the IRS has outlined the following compliance strategies:

- Examine entities that state they are supporting organizations and filed the Form 990-N
- Examine organizations that have operated as for-profit entities in the past, but now operate as 501 (c)(3) organizations
- Examine organizations that show signs of providing private benefit or inurement to individuals or private entities through contracts with individuals or other arrangements such as partnership agreements

If any of these attributes apply to your organization, it is crucial to ensure your financial information is organized and correct, to prepare for the possibility of an audit.

Tax Gap Issues in the Spotlight

In 2016 and 2017, the agency identified the tax gap as a key issue area. In 2016, the IRS conducted almost 5,000 examinations, with a large portion of these examinations encompassing tax gap issues, such as employment tax and unrelated business income tax. For 2018, these tax areas remain an area of concern. Organizations should be aware of the following:

- **Unrelated Business Income:** Organizations should review materials as they relate to gaming, non-member income, expense allocations, net operating losses, rental activity, advertising, debt financed property rentals and investment income.
- **Employment Tax Issues:** Including unreported compensation, accountable plans, worker reclassifications, noncompliance with FICA, FUTA and backup withholding requirements. In recent years, the agency has demonstrated their seriousness in pursuing these issues and leveraged the knowledge and expertise of specialists from the Federal State and Local government function. This partnership improved their ability to detect and resolve employment tax issues. As part of the FY 2018 plan, the employment tax specialists will now work as part of the same unit as the exempt organization specialists.

Due to the prevalence of tax gap issues, the agency plans to release an issue snapshot addressing the unrelated business income tax. A knowledge management product on employment tax issues is also planned to be released to help both IRS examiner and organizations get up to speed on these key issues.

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Filing a form incorrectly, or making a reporting error, will not necessarily result in an audit or examination. The agency will continue to use compliance checks to determine whether an organization is keeping proper records and reporting the required information. Compliance checks allow an organization to revise filed information and tax returns, but they are not an examination or audit. With the tax gap being a major issue for many nonprofits, the first step in resolving many tax gap problems will be a compliance check.

Data and Guidance Initiatives

In May 2017, TE/GE brought online a Compliance Planning & Classification unit, streamlining processes and providing a comprehensive approach to identify and monitor compliance risks using data analytics. The agency will continue to implement data gathered from form 990, 990-EZ and 990-PF. Utilizing data analytics for increased efficiency will continue, as in FY 2018, the agency will launch a Compliance Strategy Tool and an Internal Submission Portal. These tools will facilitate crowdsourcing on areas of non-compliance. With a data-driven approach, agents will become faster and more efficient in their auditing process.

The IRS has focused on providing online guidance and knowledge materials with the expectation that this will improve compliance and increase the number of correctly submitted documents. Not only will this guidance aid organizations in the proper process for exemption filing, but it will also act as a training resource for agents, allowing for the quick resolution of issues.

Best Practices for Organizations

With the IRS work plan released, organizations can start preparing for the year ahead. If there are any uncertain tax positions, it is best to sort them out sooner rather than later. Preparation is key and with a trove of knowledge and guidance online, resources such as [mini-courses](#), [issue snapshots](#), [podcasts](#) and [audit tools](#) can help you sort out any questions or issues you may have. Another tip is to undergo a “mock” audit, so instances of non-compliance can be identified before a real IRS audit. Online tools and resources are a great place to help you get started on your organization’s “mock” audit.

After analyzing what to expect for the coming year and identifying any potential issues, organizations should ensure they have properly documented all financial activity. A routine audit means 3 years of documentation will be examined. However, in certain circumstances, documents from years prior may be requested. For example, if an organization is offsetting current income with a loss generated two decades ago, the IRS can request information from the year of the loss. In the event your organization must challenge an IRS outcome,

documentation will be crucial. Without proper documentation, it will be difficult to make a strong case.

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