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Isaac M. O'Bannon • Aug. 13, 2014

According to a new report by the agency that oversees the nation's taxing authority, records at the [Internal Revenue Service](#) (IRS) indicate that while the majority of tax-exempt organizations are in compliance with all of their obligations, those that do not often are significantly delinquent on payroll taxes.

While tax-exempt organizations are, by their nature, not generally required to pay income taxes, they are required to pay other federal taxes such as payroll taxes.

The Treasury Inspector General for Tax Administration determined that more than 64,200 (3.8 percent) of tax-exempt organizations had nearly \$875 million of Federal tax debt as of June 16, 2012. While some organizations owed minor amounts, approximately 1,200 tax-exempt organizations owed more than \$100,000 each. Unpaid taxes were often associated with multiple tax periods. For example, nine organizations each had Federal tax debt spanning 10 or more years that collectively totaled more than \$5.5 million.

“Tax-exempt organizations have a responsibility to remit to the IRS taxes that have been withheld from employees as well as other applicable Federal taxes,” said J. Russell George, Treasury Inspector General for Tax Administration. “Failure to remit these taxes is a very serious matter.”

The overall objectives of TIGTA's review were to determine if, and to what extent, tax-exempt organizations have Federal tax debt and to identify actions the Exempt Organizations function has taken to address known noncompliance.

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based on an organization's failure to pay payroll taxes, and most of the organizations that TIGTA reviewed were still recognized by the IRS as tax-exempt as of May 2013. The Exempt Organizations function had completed several examinations but was generally not aware of the behavior of the organizations because another IRS business unit is responsible for collecting the delinquent tax debt.

TIGTA recommended that the Director, Exempt Organizations: 1) coordinate with Small Business/Self-Employed Division management to receive relevant collection information, 2) periodically complete analyses to identify tax-exempt organizations that potentially abuse their tax-exempt status for examination (if necessary), and 3) work with the Department of the Treasury to evaluate whether a legislative proposal is warranted to strengthen the IRS's ability to enforce payroll tax noncompliance by tax-exempt organizations.

In their response to the report, IRS management disagreed with the first two recommendations and agreed to apprise the Department of the Treasury of TIGTA's third recommendation. TIGTA believes that the IRS should follow through on all of the report's recommendations to ensure these organizations properly remit all payroll taxes.

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