



## A Message from Our TE/GE Commissioners

Greetings,

Fiscal year 2020 was a story of rising to the challenges of the COVID-19 pandemic and its disruptions to our workforce while continuing to deliver uninterrupted service and protect the integrity of a strong, fair tax system. We thank our flexible and dedicated TE/GE employees who, despite some jarring adjustments at work and at home, helped to make this year a success.

Despite unprecedented challenges, TE/GE continued to successfully execute our compliance programs and conduct examinations, process determination letter and correction program applications, and communicate through our compliance contacts, educational letters and outreach. We also continued our hiring and employee training programs. Now that we have the final numbers for fiscal year 2020, we're pleased to share our accomplishments. Among the highlights:

- We responded to the COVID-19 pandemic by shifting almost our entire workforce to work from remote locations, mostly home, for over nine months of the year.
  - Because of health concerns, we suspended new examinations starting in March and resumed new cases in July under virtual conditions.
  - Additionally, we expanded use of digital signatures and electronic transmission of documents between exam agents and taxpayers.
- Our TE/GE compliance units supported IRS efforts by playing a key role in processing Form 7200, Advance Payment of Employer Credits, due to COVID-19, performing quality reviews and handling error notice letters on Form 7200, and we supported IRS Legislative Affairs in answering public and Congressional inquiries about COVID-related Economic Impact Payments.
- We introduced a new electronic examinations process, part of a multi-year Lean Six Sigma project, to provide seamless internal information sharing and improved case management.
- We continued to collaborate with the Small Business/Self-Employed Lead Development Center, Large Business & International and other divisions to strengthen our shared fraud, promoter, Abusive Tax Avoidance Transactions and global high wealth programs.
- Exempt Organizations transitioned Form 1023, Application for Recognition of Exemption, and Form 990, Return of Organization Exempt from Income Tax, to mandatory electronic forms to reduce errors and make the process more efficient for taxpayers.
- In response to stakeholder and partner feedback, Employee Plans allowed individually designed hybrid plan sponsors to submit determination letter applications for their amended plans during a 12-month period (and gave additional time to perfect submissions) to better serve taxpayers.
- TE/GE conducted a hiring initiative that added 188 new hires to our ranks, including 149 revenue agents.
- With the suspension of in-person conferences, TE/GE pivoted to virtual outreach during COVID. Our virtual presentations at the Nationwide Tax Forums drew record numbers of attendees.



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



**Philip J. Lindenmuth**  
Acting TE/GE  
Deputy Commissioner

We appreciate your support of our efforts during fiscal year 2020 to provide the best possible tax administration by continually improving our systems, programs and the taxpayer experience.

Thank you for reading.

## TE/GE SNAPSHOT

In September 2020, Tax Exempt and Government Entities (TE/GE) welcomed Edward T. Killen and Philip J. Lindenmuth as the new Acting TE/GE Commissioner and Acting Deputy Commissioner, respectively.

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 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 (IRS) initiatives, TE/GE continues to invest in its workforce. We hired 188 people during fiscal year 2020: 149 revenue agents, 4 tax compliance officers, 5 tax examiners and 30 other positions, bringing our staffing numbers to 1,602, a nearly 3.5% gain 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.

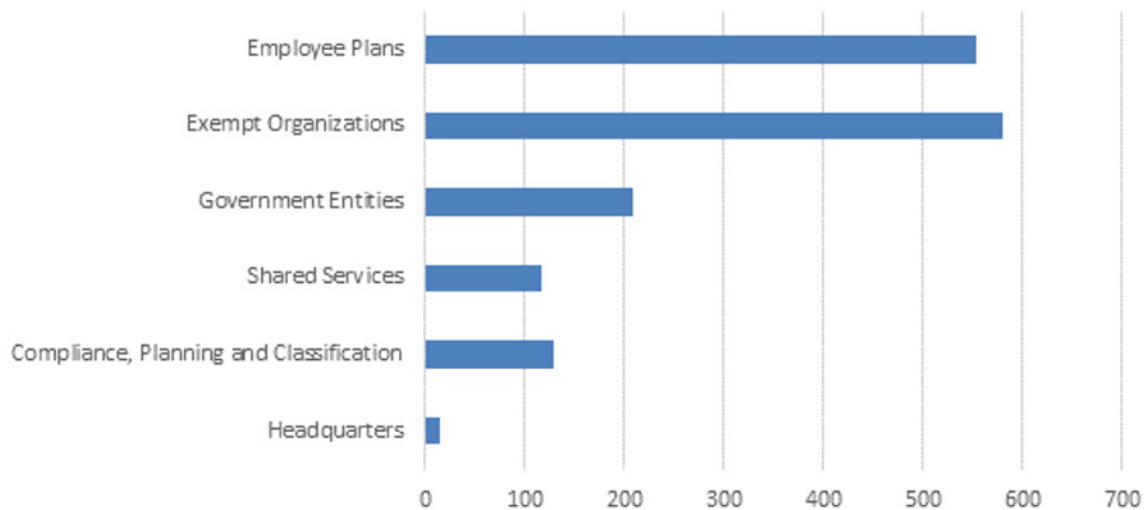
### TE/GE’s Organizations

Employ almost  
25% of the  
American  
workforce

Control over \$31  
trillion in assets<sup>1</sup>

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

Figure 1: FY20 TE/GE Staffing



<sup>1</sup> In 2010 dollars. Represents the latest data available for assets for U.S. retirement plans (2018), 501(c)(3) organizations (2016), private foundations (2016) and outstanding municipal debt (2018).

<sup>2</sup> Tax expenditures are defined in the law 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.”



In fiscal year 2020, 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 the division to address significant compliance and resource challenges through the strategic use of resources, training and tools. This helps TE/GE focus on high risk and emerging issues using different treatment streams – from examinations and compliance contacts to educational letters and technical guidance. Compliance strategies are developed around areas of noncompliance using information collected through employee experience and input. 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 nearly 450 submissions from employees and approved 69 compliance strategies, 68% of which have been started 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 Compliance Governance Board 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, 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 2020, TE/GE made great strides in leveraging the Lean Six Sigma program office in our continued efforts to conduct a process improvement exercise around our examination process. The team, comprised of TE/GE management and examination agents, identified areas of improvement. The recommendations ranged from improved examination procedures to information technology (IT) system changes. After completing a successful pilot, TE/GE implemented the TE/GE Exam Process/Handbook and deployed related system improvements in late September 2020. In the third and fourth quarters, TE/GE modified certain exam-related forms to consolidate them and eliminate duplication and implemented process improvements that allowed for fully electronic case closures. Additionally in the fourth quarter, TE/GE implemented three process improvements to the program: improved the consistency of certain codes used in case controls across TE/GE, modified the process related to Department of Labor and Pension Benefit Guaranty Corporation referrals, and, with system changes, automated statute control procedures, which allowed for the elimination of paper processes associated with the use of Forms 895 and 895-EP.

<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 2020. We partnered with IT to drive key components of the IRS modernization plan. We continue to pilot taxpayer digital communications (TDC) for the Tax-Exempt Bonds (TEB) sector. TDC provides a secure mailbox capability allowing two-way exchange of messages and attached 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 early 2021. We continued our collaborative efforts in fiscal year 2020 to articulate key business requirements in critical agency initiatives such as Enterprise Case Management (ECM), where Release 1 of ECM, which involves our Exempt Organizations (EO) Customer Support unit, was deployed in December 2020. And we delivered two Robotics Processing Automation (RPA) products to our Referrals Unit in April 2020. RPA's ability to make manual processes more automated and consistently allowed us to successfully process over 1,400 referrals with a median time savings of over 50%.

We also spent the year working with stakeholders across the agency to strengthen our abilities in the areas of fraud, promoter investigations and abusive transactions. Our Exempt Organizations (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 easements cases. We had the opportunity to send agents for specialized training in areas ranging from promoter/abusive transactions to cyber currency, while TE/GE managers joined their SB/SE and CI counterparts for virtual compliance councils across the country, discussing compliance issues.

In fiscal year 2020, TE/GE established collaborative partnerships with LB&I and Research, Applied Analytics and Statistics (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 2021.

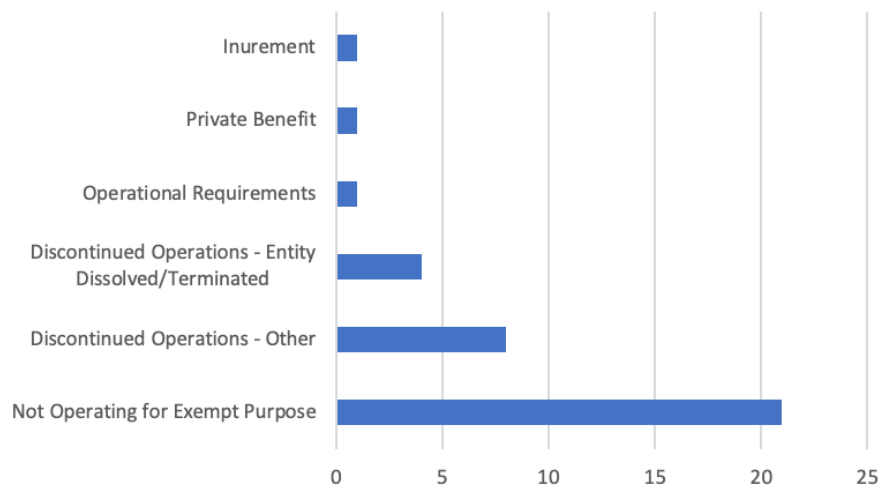
## Exempt Organizations

### Examinations

	Started	Closed	Change %	Pick-up %
Compliance Strategies	646	374	83.2%	40.6%
Data-Driven	1,174	1,508	90.0%	53.1%
Referrals, Claims and Other Casework	1,539	1,358	87.1%	23.3%
<b>Totals</b>	<b>3,359</b>	<b>3,240</b>	<b>88.0%</b>	<b>39.1%</b>

Exempt Organizations completed examinations of 3,240 returns in fiscal year 2020, including the Form 990 series (990, 990-EZ, 990-PF, 990-N, 990-T) and their associated employment and excise tax returns. Overall, 88% of closed examinations resulted in a tax change (change percentage) and 39% of the examinations were “picked-up” from a related examination (pick-up percentage). We proposed revocations (agreed and unagreed without protest) for 36 tax-exempt entities as a result of these examinations. A breakout of these proposed revocations by issue is provided in the figure below.

**Figure 2: FY20 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, unreported compensation 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 using RAAS to research noncompliance indicators of private benefit/inurement, officer business partnerships, under-reported credit card income, and related employees and for-profit partnerships.

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

## 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.

The most prominent issues in these cases include filing requirements, unrelated business income, organizational requirements, abatements and excise taxes.

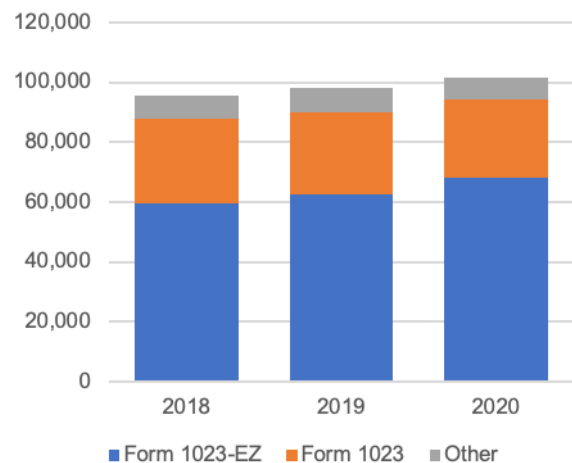
In EO, we also pursued promoter investigations and supported numerous client examinations in partnership with SB/SE-led investigations. In addition, EO is assisting CI with their fraud investigations as cooperating agents.

## Determinations

EO closed 95,864 determination applications in fiscal year 2020, including 85,509 approvals, 79,730 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.

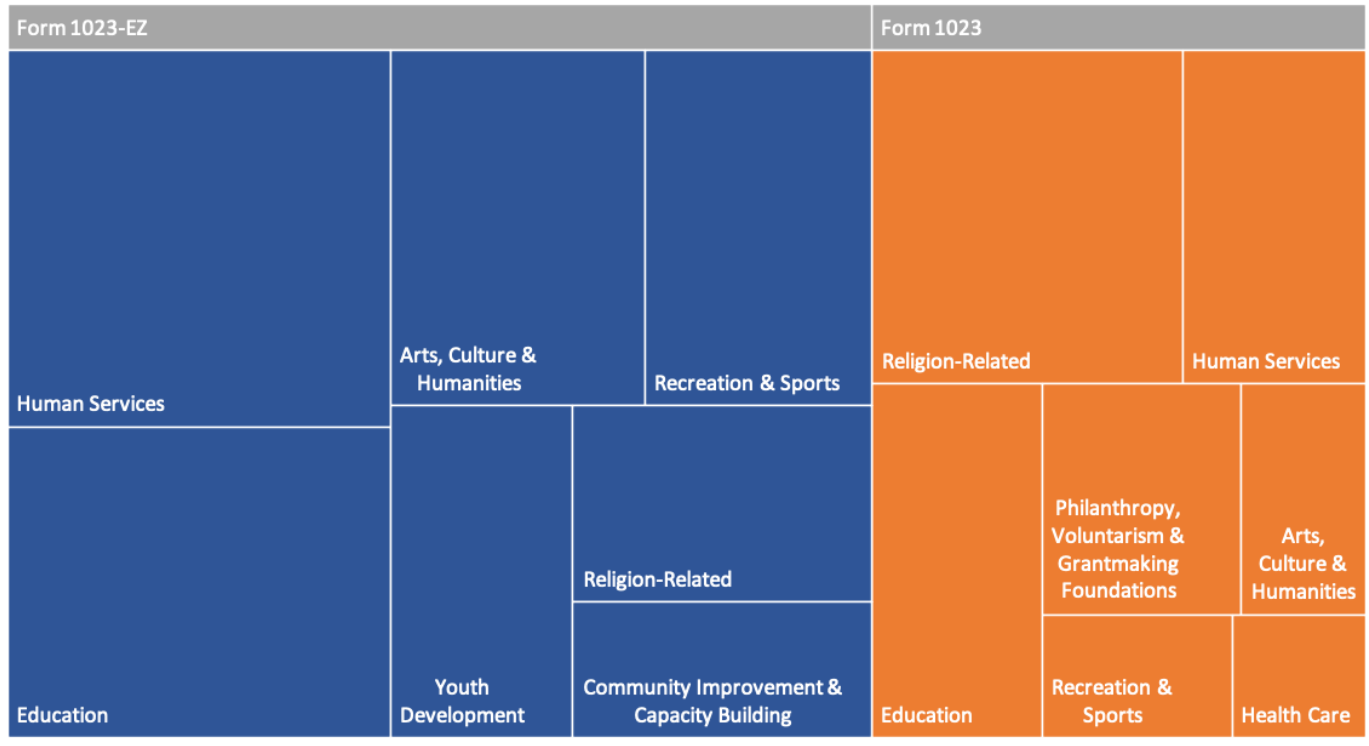
With the growing use of the Form 1023-EZ since its introduction in 2014, TE/GE continues its efforts to understand the impact and opportunities from this important change to its determination program. EO continues to study recommendations from MITRE, the IRS's federally funded research development center, for possible implementation. In fiscal year 2020, EO implemented a process to enhance the quality of internal referrals assigned to revenue agents. Through the new quality review category, EO will be able to assess the effectiveness of referral case development which will lead to continuous improvement.

Figure 3: EO Determination Receipts



The figure below provides the taxonomy (as categorized by the National Taxonomy of Exempt Entities (NTEE) codes) of 501(c)(3) organizations approved in fiscal year 2020 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 2020 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 FY20**



## Employee Plans

### Examinations

	Started	Closed	Change %	Pickup %
Compliance Strategies	1,251	1,190	68.8%	46.0%
Data-Driven	2,149	1,796	73.2%	51.3%
Referrals, Claims and Other Casework	1,231	2,553	85.5%	67.2%
<b>Totals</b>	<b>4,631</b>	<b>5,539</b>	<b>77.9%</b>	<b>57.5%</b>

Employee Plans closed 5,539 examinations in fiscal year 2020. We proposed revocations or disqualifications for nine plans as a result of these examinations for issues including:

- Failure to amend, or timely amend, a plan document
- Failure to comply with the participation and coverage requirements in a Simplified Employee Pension (SEP) plan
- Failure to comply with the 25-participant rule in a Salary Reduction Simplified Employee Pension (SARSEP) plan
- Failure of a SARSEP to meet the 50% participation rule
- Excess contributions to an IRC 457 plan

### Compliance Strategies

EP initiated and continued examinations on the following compliance strategies:

- Employee Stock Ownership Plans (ESOP): Determined whether the employee stock had been properly valued, the annual allocation of employee stock met the nondiscrimination requirements and any employer loans followed the conditions and terms of the plan document.
- IRC Section 403(b)/457 plans: Examined 403(b) plans for universal availability, excessive contributions and proper use of catch-up contributions under IRC Section 414(v); and examined 457(b) plans for excessive contributions and proper use of the special three-year catch-up contribution rule.
- SARSEP plans: Determined whether the deferral test was met, as well as the participation rules and the IRC Section 416 top-heavy contribution requirements.
- SEP IRA plans: Determined if the plan properly included all employees who met the plan's eligibility requirements, including those employees working for related employers. Related employers may include a controlled group of corporations that includes their business; trades or businesses under common control with their business; and affiliated service groups that may include their business.
- Third party loans: Determined if plan loans were prohibited transactions under IRC Section 4975, if the loans were properly valued for funding purposes and paid timely in accordance with the plan document or the loan terms

The most prominent issues found in closed compliance strategy examinations include allocation errors due to an incorrect definition of compensation, participation and coverage issues, allocations of earnings and contributions (not related to compensation), and discrimination in contributions or benefits.

### Data-Driven Examinations

EP continues to collaborate with RAAS to identify indicators of noncompliance for various plan types – such as profit-sharing, money purchase, 401(k) and defined benefit plans – with the applicable tax laws.

The most prominent issues found in data-driven approaches include allocation errors due to an incorrect definition of compensation, participation and coverage issues, failing to amend plan documents or amending late, and inadequate or no fidelity bond.



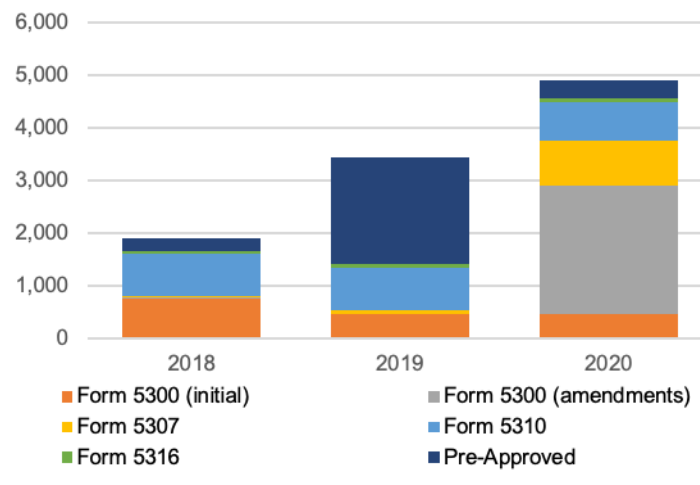
## Referrals, Claims and Other Casework

In EP, we also verified that non-bank trustees (NBT) satisfied the NBT regulations, and pursued promoter investigations. 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 2020, EP also continued to focus on open promoter investigations. As is common with promoter schemes, the TE/GE entity – in this case, 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 their fraud investigations as cooperating agents.

The most prominent issues found in EP's Referrals, Claims and Other Casework include allocation errors due to an incorrect definition of compensation, failing to amend plan documents or amending late, and inadequate or no fidelity bond.

## Determinations

Figure 5: EP Application Receipts (FY18 - FY20)



EP closed 3,928 determination applications in fiscal year 2020. The figure above illustrates the receipt of EP determination letter applications and pre-approved plan applications over the last three fiscal years. Fiscal years 2018 and 2019 were the first two years where only initial and terminating plans were accepted. In fiscal year 2020, the IRS opened the Form 5300 amendment program, which allowed sponsors to submit applications for hybrid plans. The deadline for these submissions was August 31, 2020, and we received more than 740 applications. Additionally, with the closing of the two-year filing period in April 2020 of the Form 5307 defined benefit program, EP Determinations received 693 applications.

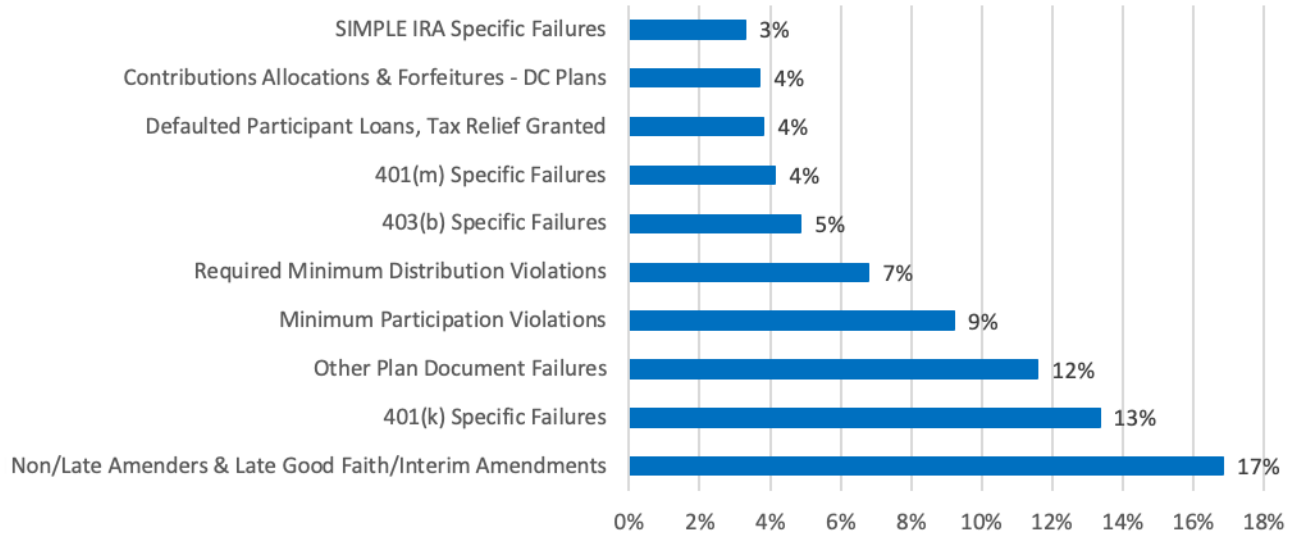
Pre-approved plan closures increased in fiscal year 2020 as the third amendment cycle for defined contribution plans closed and IRS issued more than 2,000 letters in June 2020. The table below shows the number of closures for EP determination letters and pre-approved plan applications over the past three fiscal years. As expected, application closures have more than doubled over fiscal year 2019 as a result of the issuance of the pre-approved plan letters.

Closures by Application Type	2018	2019	2020
Form 5300, Application for Determination of Employee Benefit Plan (initials / amendments)	4,305	497	651
Form 5307, Application for Determination for Adopters of Modified Volume Submitter Plans (adopters)	62	19	382
Form 5310, Application for Determination Upon Termination (plan terminations)	900	797	800
Form 5316, Application for Group or Pooled Trust Ruling (group or pooled trust rulings)	66	69	59
Pre-approved plans (lead plans, minor modifications and word-for-word adopters)	935	132	2,036
<b>Totals</b>	<b>6,268</b>	<b>1,514</b>	<b>3,928</b>

## Voluntary Correction and Other Technical Programs

The Voluntary Correction Program (VCP) enables retirement plan sponsors (at any time before examination) to pay a fee and receive IRS approval for correction of plan qualification failures. EP received 1,674 voluntary correction applications and closed 3,281. The figure below provides the top 10 types of failures corrected through the VCP in fiscal year 2020.

**Figure 6: Top 10 Failures Corrected Through EP VCP**



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	168	238	76.1%	29.0%
Data-Driven	667	669	81.2%	23.5%
Referrals, Claims and Other Casework	37	46	89.1%	30.4%
<b>Totals</b>	<b>872</b>	<b>953</b>	<b>80.3%</b>	<b>25.2%</b>

The FSL-ET area continues to address noncompliance issues with federal, state and local government entities and employment tax issues with some tax-exempt organizations. The area completed over 950 examinations in fiscal year 2020.

#### *Compliance Strategies*

FSL-ET closed more than 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 nearly 700 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 more than 40 referrals in fiscal year 2020, 89% of which resulted in tax changes. The most prominent issues found in these examinations relate to employee classification, taxable fringe benefits, FICA taxes and unreported compensation.

## Indian Tribal Governments (ITG)

	Started	Closed	Change %	Pick-up %
Compliance Strategies	45	18	61.1%	50.0%
Data-Driven	24	50	80.0%	70.0%
Referrals, Claims and Other Casework	116	117	82.9%	12.0%
<b>Totals</b>	<b>185</b>	<b>185</b>	<b>80.0%</b>	<b>31.4%</b>

ITG continued to maintain a service and enforcement presence with Tribal entities in fiscal year 2020. ITG closed 185 examinations and continued to help tribes, as requested or needed based on a government-to-government relationship, to help them 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 2020. These strategies include the CP2100 Backup Withholding strategy and Forms W-2/1099 Matches strategy referenced in the FSL-ET section above. The most prominent issues found in these closed examinations relate to employee classification and federal income tax withholding.

### *Data-Driven Examinations*

ITG closed 50 data-driven examinations which include tip compliance examinations, non-filer projects and other examinations. The most prominent issues found in these change examinations relate to filing requirements, FICA tax issues, backup withholding, employee classification and federal income tax withholding.

### *Referrals, Claims and Other Casework*

ITG also ensured tip reporting compliance of ITG entities and their tipped employees by:

- Securing tip agreements,
- Refreshing expiring tip agreements,
- Revoking tip agreements on noncompliant agreement holders,
- Conducting tip examinations for entities with low tip reporting and no tip agreements, and
- Converting casinos using the Tip Rate Determination Agreement to the industry-specific Gaming Industry Tip Compliance Agreement (GITCA) when appropriate. GITCA provides a voluntary compliance agreement designed specifically for the gaming industry to promote tax compliance among tipped employees and establish tip rates for all participating employees.

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

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

## Tax Exempt Bonds (TEB)

	Started	Closed	Change %	Pick-up %
Compliance Strategies	139	170	8.8%	0.0%
Data-Driven	29	0	N/A	N/A
Referrals, Claims and Other Casework	63	114	94.7%	52.6%
<b>Totals</b>	<b>231</b>	<b>284</b>	<b>43.3%</b>	<b>21.1%</b>

TEB closed nearly 300 examinations in fiscal year 2020, which were comprised of compliance strategies and referrals, claims and other casework.

### Compliance Strategies

TEB's fiscal year 2020 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.
- Variable rate bonds: Determined whether the issuances complied with the rebate and yield restriction rules under IRC Section 148, the bond and investment yields were properly computed and rebate or yield reduction liability (if any) was correctly determined.
- 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 170 compliance strategy cases. The most prominent examined compliance strategies resulted in a written advisory to the bond issuer, including issues such as private business use and issuance costs.

### Referrals, Claims, and Other Casework

TEB closed over 100 examinations in this portfolio; largely referrals and a project examining private activity bonds issued by 501(c)(3) organizations. The most prominent issues found in the cases examined were arbitrage – claims for refund, rebates and yield restriction – and private benefit.

This compliance portfolio also includes ongoing work for fraud related casework. TEB continues to assist CI with their fraud investigations as cooperating agents

## Government Entities Compliance Unit (GECU) Examinations

	Started	Closed	Change %	Pick-up %
Compliance Strategies	861	1,048	64.8%	59.4%
Data-Driven	0	0	N/A	N/A
Referrals, Claims and Other Casework	0	2	100.0%	0.0%
<b>Totals</b>	<b>861</b>	<b>1,050</b>	<b>64.9%</b>	<b>59.2%</b>

In addition to the compliance contacts the GECU completed in fiscal year 2020, the GECU also closed 1,050 examinations. The most prominent issues found in these closed examinations were backup withholding and taxable fringe benefits.

## TE/GE Compliance Contacts

	Started	Closed	Change %
Employee Plans Compliance Unit	2,008	1,607	67.8%
Exempt Organizations Compliance Unit	1,420	1,467	77.7%
GECU & TE/GE Compliance Unit	13,020	10,440	78.3%
<b>Totals</b>	<b>16,448</b>	<b>13,514</b>	<b>76.9%</b>

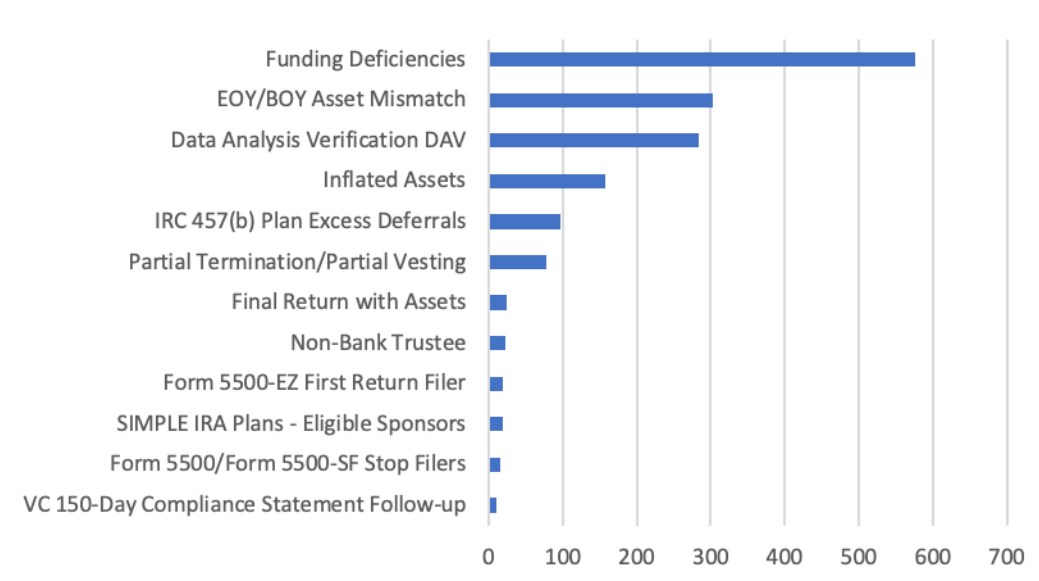
In fiscal year 2020, TE/GE continued educating taxpayers through compliance checks and educational letters to improve return filings and filing accuracy on issues of noncompliance. These contacts allow TE/GE to establish a presence in the taxpayer community in a manner that reduces administrative costs and minimizes taxpayer burden.

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

- Funding deficiencies,
- Missing codes, such as business codes or plan characteristics on filed forms,
- IRC 457(b) plan excess deferrals,
- Large increases in plan assets during the plan year, and
- Discrepancies between the beginning-of-year (BOY) asset amount on the Forms 5500-SF and 5500-EZ and the end-of-year (EOY) asset amount from the prior plan year filing.

These checks resulted in over 1,600 closures, 5% of which were referred to examination for further evaluation.

**Figure 7: 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), the Government Entities Compliance Unit (GECU) 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.
- 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.
  - Failed to file Form 1099-MISC, Miscellaneous Income.

In total, these checks conducted by the EOCU, GECU and TECU resulted in nearly 12,000 closures, 5% of which were referred to examination for further evaluation.

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 2020, TE/GE completed 1,078 reviews (not included in the table above) and referred 66 hospitals for examination, 65 for possible Affordable Care Act 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 17,000 educational letters to retirement plan sponsors and organizations to remind them of their responsibilities under the tax law related to:

- The proper federal tax treatment of certain fringe benefits to exempt organizations, Indian tribes and federal, state and local governments,
- Coverage requirements for SEP plans, and
- New electronic filing requirements for:
  - Form 8872, Political Organization Report of Contributions and Expenditures,
  - Form 8873, Extraterritorial Income Exclusion,
  - Form 990, 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 2020, TE/GE continued its education and outreach efforts. During the year, TE/GE employees attended 60 outreach events (35 in person and 25 virtual), reaching over 28,800 people. Of the 60 events:

- 14 addressed exempt organizations and their representatives;
- 12 addressed federal, state and local government partners;
- 16 addressed employee plan sponsors, administrators and their representatives;
- 11 addressed Indian tribal governments;
- 4 addressed tax-exempt bond stakeholders; and
- 3 additional events were for multiple stakeholders.

TE/GE participated in the 2020 IRS Nationwide Tax Forums, which were conducted virtually, with over 10,000 tax practitioners and enrolled agents registered for the event. TE/GE conducted two seminars, one of which focused on the Coronavirus Aid, Relief and Economic Security (CARES) Act for the EP community and was the second highest attended session. TE/GE also maintained a virtual exhibit booth for visitors, which provided resources for small exempt organizations and Indian tribal governments.

In addition to outreach events, TE/GE reached taxpayers through electronic newsletters and sent out 46 electronic news messages to subscribers, including:

- 4 TE/GE-wide messages (to subscribers of all functional newsletters),
- 11 EO Updates,
- 8 EP News issues,
- 10 ITG News issues,
- 5 TEB Community Updates, and
- 8 FSL-ET News issues.

We posted 16 [Issue Snapshots](#) to IRS.gov including five for EO, seven for EP, one for ITG, one for TEB and two for FSL-ET. The table below provides some of the recent topics covered by these snapshots. TE/GE also posted four videos on the [IRS video portal](#) for taxpayers.

Function	Topic
EO	<a href="#">IRC Section 4945(g) Individual Grants</a>
	<a href="#">IRC Section 501(c)(4) Homeowners' Associations</a>
EP	<a href="#">457(b) Plan of Tax-Exempt Entity - Tax Consequences of Noncompliance</a>
	<a href="#">Design-based Safe Harbor Plan Compensation</a>
FSL-ET	<a href="#">Qualified Tuition Reduction</a>
	<a href="#">Third Party Payer Arrangements – Professional Employer Organizations</a>
ITG	<a href="#">Impact of the Tribal Social Security Fairness Act on Worker Status for Tribal Council Members</a>
TEB	<a href="#">Rehabilitation Requirement under IRC Section 147(d) for Financing Acquisitions of Existing Property</a>

TE/GE is proud of our accomplishments despite the many challenges we faced in fiscal year 2020. We quickly adapted to the circumstances created by the pandemic and continued to successfully execute our compliance programs and protect the integrity of the tax system. We fairly administered the tax laws when processing applications from organizations and retirement plans in our EO and EP determinations programs. We continued to empower taxpayers by transitioning to electronic forms and encouraged them to voluntarily comply with their obligations through our correction programs and proactive communications and outreach. Our past achievements continue to form the basis of our success as we pursue the goals and priorities that we announced in the [TE/GE fiscal year 2021 Program Letter](#).