



IRS Releases Report on NFP Executive Compensation

Significant Non-Compliance Observed

On March 1, 2007 IRS released its report on Exempt Organization Executive Compensation. In 2004 IRS initiated the *Executive Compensation Compliance Initiative* to review Forms 990 and related returns for tax years beginning in 2002. It is the largest study ever undertaken by the Tax-Exempt/Governmental Entities Division of the IRS.

Click [here](#) to review the IRS's full March 2007 report.

- During Part I of the project, the IRS sent compliance check letters to 1,223 taxes exempt organizations.
- Part II comprised follow-on examinations of 782 organizations. Approximately 31% of the letters resulted in the filing of amended Form 990s and resulted in 15% being selected for examination. To date, 25 examinations have resulted in proposed intermediate sanctions excise tax assessments in excess of \$21 million dollars against 40 disqualified persons and organizational managers.
- Part III is still in process and was initiated based on information gathered in Part II and comprises 50 additional single issue exams focusing on loans between tax exempts and their executives and board members. IRS plans to discuss Part III in a subsequent report.

The IRS stated the the report's findings represent a sample of the reporting practices for the exempt organization community but should not be considered a definitive statement of compensation problems. However, the 31% amended return rate necessitates changes to the Form 990 series in order to reduce reporting errors and provide IRS sufficient information to identify compensation issues and improve loan disclosure.

For tax exempt organizations and Board members, the report underscores the importance of:

- Understanding compensation policies and practices.
- Understanding the governance and comparable data requirements of the rebuttable presumption of reasonableness for compensation paid to disqualified persons.
- Understanding and complying with tax reporting obligations.

Tax exempt organizations might also expect:

- Additional IRS education, agent training and guidance in the area of tax reporting and rebuttable presumption procedures.
- Changes to Form 990 including more clear and specific reporting instructions and additional disclosure in the area of executive compensation and related party transactions.
- Continued initiatives and enforcement in this area.

The March 2007 report follows an IRS informal release on Feb 2, 2007 of *Good Governance Practices for 501(c)(3) Organizations*. Click [here](#) to review.

We hope you have found this *NDH Tax Alert* informative. This *NDH Tax Alert* is intended to inform our clients of recent developments in tax law. It is not intended as a substitute for specific tax compliance or planning advice which should be tailored to your particular situation.

If you would like further details regarding the above or would like to discuss how the report may impact your organization, please contact

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