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Report: Nonprofit Organizations Have Millions in Unpaid Taxes

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An examination of tax records found that almost 65,000 nonprofit organizations are carrying an estimated \$875 million in federal tax debt, according to a new Treasury Inspector General for Tax Administration (TIGTA) report.

On July 3, **TIGTA** reported that while most were current with their taxes, more than nearly 4 percent, or 64,200 tax-exempt organizations, had accumulated nearly \$875 million in federal tax debt as of June 16, 2012.

While most tax-exempt organizations are not required to pay income taxes, they do have to cover payroll taxes, such as for Social Security and Medicare, in full. The unpaid taxes often span multiple tax periods. For example, nine nonprofits owed \$5.5 million over a 10-year period.

"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," J. Russell George, Treasury Inspector General for Tax Administration, said in a press release. "Failure to remit these taxes is a very serious matter."

Of those delinquent organizations, at least 1,200 tax-exempt organizations had a bill of more than \$100,000 each. However, the tax code does not authorize the Internal Revenue Service to strip a nonprofit of its tax-exempt status for being delinquent, TIGTA noted.

Nearly 7,000 tax-exempt organizations each owed from \$10,000 to \$100,000, and more than 56,000 each owed less than \$10,000.

In many cases, the officers of the nonprofits were engaged in the abusive activities.

According to the report, in a sample of 52 officers of the 25 tax-exempt organizations with the largest debt, 22 officers were involved in abusive activity. In addition, a total of 14 officers did not voluntarily file Form 104029 personal tax returns to report almost \$2.7 million in salaries for the three years that were reviewed.

The IRS can assess a Trust Fund Recovery Assessment against every responsible person under Section 6672 of the tax code, notes Forbes contributor **Robert W. Wood**.

In her response to the report, Donna Hansberry, deputy commissioner of the Tax-Exempt and Government Entities Division, said it "paints an incomplete picture about IRS enforcement efforts on employment tax, particularly in regard to these 25 tax-exempt organizations."

Hansberry said the agency's tax administration and enforcement efforts "are working" and that the IRS has opened collection cases on all 25

organizations.

Two of the TIGTA's recommendations were for the IRS's Director of Exempt Organizations work with Small Business/Self-Employed Division management to receive relevant collection information, and to periodically complete analyses to identify any organizations that might be abusing their tax status for further examination.

In its response, IRS management disagreed with both of those suggestions.

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