

December 2018

Private Foundations Bulletin

2019 Focus of the IRS Tax-Exempt Division

Heading into a new fiscal year, the Internal Revenue Service (IRS) Tax Exempt & Government Entities (TE/GE) Business Operating Division recently announced that they will continue to execute compliance strategies, build better processes, and provide useful information and guidance on the Tax Cuts and Jobs Act (TCJA). In this newsletter, we recap some of the focus areas that the TE/GE communicated in their *Fiscal Year 2019 Program Letter* which we think will be of interest to our readers.

Identifying Entities for Examination

The TE/GE plans to continue to develop their selection strategy to ensure that examination programs are focused on the highest priority compliance areas to protect the tax system. They have partnered with Research, Applied Analytics, and Statistics (RAAS) to design and test data driven approaches to identify noncompliance by using return data as well as historical information. Managers and analysts are also using new visualization tools that are becoming industry standard tools.

Targeted Compliance Areas

A few strategic compliance areas which are current priorities for TE/GE are:

- **Private benefit and inurement:** organizations show indicators of potential private benefit or inurement to individuals or private entities, including private foundation loans to disqualified persons;
- **Forms W-2/1099 matches:** comparing payments reported on Form 1099, Miscellaneous Income with wages reported on Form W-2, Wage and Tax Statement, and subject to employment taxes;
- **Worker classification:** incorrectly treating employees as independent contractors.

Aside from data driven approaches to select areas of examination, the IRS receives referrals alleging non-compliance from both internal and external sources.

Requests for refunds or credits of overpayments of amounts already assessed and paid — including tax, penalties, and interest or an adjustment of tax paid or credit not previously reported or allowed — are other areas of focus for TE/GE agents.

Staff Support

For the first time this decade, TE/GE is hiring a significant number of new employees and cross-training them to allow flexibility in directing resources to shifting needs.

In 2018, there was an increase in determination applications, and they expect this to continue. The IRS plans to hire 40 new agents to assist in this process as well as develop strategies to reduce the case processing time.

TCJA

The Tax Cuts and Jobs Act (TCJA) will remain a priority for TE/GE in 2019. As a result of the TCJA, various tax forms have been or are in the process of being revised. Employees have been in training as well as assisting organizations with compliance questions/issues and guidance.

Going Forward

We will keep you informed of any changes implemented by the tax-exempt division as we become aware of them.

Contact Us

We welcome the opportunity to speak with you about any questions you may have regarding this newsletter or any other subject related to accounting, audit, tax or advisory matters relative to private foundations. Please contact us:

Thomas F. Blaney, CPA, CFE
Partner, Co-Director of Foundation Services
tblaney@pkfod.com

Christopher D. Petermann, CPA
Partner, Co-Director of Foundation Services
cpetermann@pkfod.com

www.pkfod.com

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms."

PKF O'Connor Davies provides specialized services to not-for-profit organizations. Our dedicated industry practice serves over 3,000 not-for-profit organizations, including 250 private foundations (i.e., family, corporate, community and independent foundations) as well as grant making organizations. We are committed to the not-for-profit industry and continue to invest in our professionals by providing training, state-of-the-art technology and audit and tax guidance to meet the evolving needs of the not-for-profit community.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.