



April 26, 2017

Ms. Margaret Von Lienen
Acting Director
Exempt Organizations
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Re: Tax-Exempt Organizations Group Exemptions and Filing of Information Returns

Dear Ms. Von Lienen:

The American Institute of CPAs (AICPA) is pleased to submit comments to the Internal Revenue Service (IRS) regarding group exemptions related to tax-exempt organizations. Additionally, our comments relate to the filing of information returns by organizations exempt from tax pursuant to a group exemption ruling. If implemented, our recommendations will improve efficiency and reduce the administrative burden on the IRS and taxpayers of maintaining a group exemption.

I. Background

In order to request tax-exempt status from the IRS, a group of organizations has the option to request group exemption for a group of subordinate organizations.¹ Under Revenue Procedure 80-27, the parent organization, known as the “central organization,” is entitled to request group exemption status for all of its affiliates, known as “subordinates.” In order for a central organization to apply for group exemption on behalf of its subordinates, it must meet certain criteria to indicate that the subordinate is subject to the general supervision or control of the central organization.

Additionally, the central organization can elect to file a Form 990, *Return of Organization Exempt from Income Tax*, on a group basis on behalf of some or all of its subordinates. The central organization is also required to file its own separate Form 990.

A. IRS Exempt Organization Business Master File

The IRS Exempt Organization Business Master File (EO BMF) is an extensive database of information pertaining to tax-exempt organizations. The EO BMF provides extractable

¹ Certain tax-exempt organizations, including private foundations and foreign entities, are not eligible for consideration as subordinates within a group exemption.

data sorted by state and region, and includes many data fields. There is a user guide to assist in interpreting the data. The fields and data that are relevant to this letter on group exemptions include:

- NAME: Primary name of organization
- GROUP: Group exemption number
 - Four-digit internal number assigned to the central/parent organization holding group exemption letters
- AFFILIATION: Affiliation code that defines the organizational grouping
 - Code 6: Denotes that the organization is the central organization in a group ruling and is not a church or Internal Revenue Code (IRC or “Code”) section 501(c)(1)² organization
 - Code 8: Denotes that the organization is the central organization in a group ruling and is a church or section 501(c)(1) organization
 - Code 9: Denotes that the organization is a subordinate in a group ruling
- FILING_REQ_CD: Filing requirement code
 - Code 01: Form 990 or 990EZ, *Short Form Return of Organization Exempt From Income Tax*
 - Code 02: Form 990-N, *Electronic Filing System (e-Postcard)*
 - Code 03: Group Form 990
- SORT_NAME: Sort name (secondary name line)
 - Another name under which the organization does business. Used for subordinate organizations of group rulings

B. Updates to IRS Business Master File

Upon receiving group exemption status, a group exemption number (GEN) is assigned by the IRS to the central organization and each of its subordinates. The EO BMF reports the GEN associated with the central organization in the entry for each subordinate. The legal name of each subordinate in the EO BMF “NAME” field is then replaced with the name of the central organization and the name of each subordinate is noted in the “SORT_NAME” field. Further, the IRS updates the EO BMF to indicate whether each subordinate is filing a group Form 990.

Each year, the central organization must update its roster of subordinate entities and provide those updates to the IRS 90 days before the end of the central organization’s accounting period (Rev. Proc. 80-27, Section 6). In order to effectuate this update, the IRS sends the central organization a letter noting the organizations it has listed in the EO BMF as subordinates of the central organization and requests the central organization to make updates to that listing.

² All references herein to “section” or “§” are to the Internal Revenue Code of 1986, as amended, or the Treasury regulations promulgated thereunder.

II. Analysis and Recommendations

A. Create a Form for Subordinate Organization Information

Recommendation

The AICPA recommends that in order to provide clear guidance and formality regarding the information required in the 90-day notice, and to limit the number of errors in the EO BMF, the IRS should create a form (similar to Form 851, *Affiliations Schedule*, used by C corporations filing consolidated tax returns) that will afford a consistent format and process for central organizations to provide the information required in Rev. Proc. 80-27, Section 6.

We suggest that the form provide for the following information on behalf of each subordinate with similar field names and information as the EO BMF noted above:

- Name and Address
- Tax Period
- Employer Identification Number (EIN)
- GEN: Group Exemption Number
- Affiliation Code
- Form 990 Filing Requirement
- Secondary Business Name

Analysis

The process and information required by Rev. Proc. 80-27 to update the group exemption roster is currently completed through correspondence between the taxpayer and the IRS, resulting in inconsistent information and errors in the EO BMF. For example:

- Subordinates are not associated with the central organization GEN in the GROUP field within the EO BMF
- Inaccurate names are noted in the "SORT_NAME" field
- Subordinates are identified as a separate Form 990 filer in the field FILING_REQ_CD of the EO BMF even though the subordinate is filing as part of a group return

B. Create a Form 990 Schedule Q

Recommendation

The AICPA recommends that the IRS update Form 990 to include a separate schedule (*e.g.*, Schedule Q, *Group Exemption Filers*) to list the name and EIN for each subordinate included in a group Form 990 filing.

Analysis

Because the EO BMF does not always correctly indicate whether a subordinate is filing as part of a group Form 990, the subordinate may receive notices for failure to file Form 990. If notices are received for three consecutive years, the subordinate will receive a notice indicating that its tax-exempt status has been revoked (section 6033(j)(1)).

C. Form 990-N for Subordinate Organizations

Recommendation

The AICPA recommends that each subordinate of a central organization's GEN that is required to file a Form 990-N e-Postcard satisfies its filing requirement if the central organization updates its list of subordinates as required by Rev. Proc 80-27, Section 6.

Analysis

Certain GEN holders prefer to have the central organization and each of its subordinates file a Form 990. In many cases, the subordinate organization meets the filing requirements of the Form 990-N. The Form 990-N requires the following information:

- Employer identification number
- Tax year
- Legal name and mailing address
- Any other names the organization uses
- Name and address of a principal officer
- Website address if the organization has one
- Confirmation that the organization's annual gross receipts are \$50,000 or less
- If applicable, a statement that the organization has terminated or is terminating (going out of business)

Filing the information above on Form 990-N for each subordinate is a time-consuming process if there are numerous subordinates. Further, the information provided in Form 990-N is duplicative of the information that is requested by Rev. Proc 80-27, Section 6. In updating the list of subordinates under the GEN, the central organization is acknowledging that each of the subordinates listed meets the requirements of section 501(c)(3).

D. One Form 990 for the Central and Subordinate Organizations

Recommendation

The AICPA recommends that the IRS allow a central organization and its subordinates the option to file one consolidated Form 990. It is also important to retain the option for a central organization and each of its subordinates to file separate Forms 990.

Analysis

It is more efficient and less burdensome for both the IRS and the filing organizations if the IRS provides the option for one consolidated Form 990 filing on behalf of the central organization and its subordinates rather than one Form 990 for the central organization and one Form 990 on behalf of the group.

The comments and recommendations included in this letter were developed by the AICPA Exempt Organizations Taxation Technical Resource Panel and approved by the AICPA Tax Executive Committee.

The AICPA is the world's largest member association representing the accounting profession with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

The group exemption rulings and annual updates are complex. Although the IRS provides guidance on its website,³ many errors and issues continue to arise. We appreciate your consideration of our recommendations and welcome the opportunity to discuss them further. If you have any questions, please feel free to contact me at (408) 924-3508, or annette.nellen@sjsu.edu; Elizabeth E. Krisher, Chair, AICPA Exempt Organizations Taxation Technical Resource Panel, at (412) 535 5503, or bkrisher@md-cpas.com; or Ogochukwu Eke-Okoro, Lead Manager – AICPA Tax Policy & Advocacy, at (202) 434-9231, or ogo.eke-okoro@aicpa-cima.com.

Sincerely,



Annette Nellen, CPA, CGMA, Esq.
Chair, AICPA Tax Executive Committee

³ See [IRS Publication 4573](#) regarding Group Exemptions and IRS guidance on [Group Exemptions and Group Returns](#).