



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

February 27, 2015

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Affected IRM: IRM 7.20.2 and 7.20.5
Expiration Date: May 23, 2015

MEMORANDUM FOR EXEMPT ORGANIZATIONS DETERMINATIONS AND EXEMPT
ORGANIZATIONS DETERMINATIONS QUALITY ASSURANCE

FROM: Stephen A. Martin /s/ *Stephen A. Martin*
Acting Director, Exempt Organizations, Rulings and Agreements

SUBJECT: Reissued Streamlined Processing Guidelines for All Cases

This memorandum reissues Interim Guidance Memorandum TEGE-07-0214-02. To assist in the processing and review of applications, the streamlined process developed using the LSSO concepts is extended to Exempt Organizations Determinations (EOD) and Exempt Organizations Determinations Quality Assurance (EODQA). This memorandum expands on the streamlined process outlined in the Memoranda issued January 26, 2014 by Kenneth Corbin, Acting Director, EO, and December 27, 2013 by Karen Schiller, Acting Director, EO Rulings and Agreements.

Specialists have received training on the streamlined concepts developed during the LSSO process (see attachment). The training included assessing risk and using paragraphs in notices developed by the LSSO team (see attachment). To further assist the implementation of this pilot, effective upon issuance of this memo, the following procedures will be implemented and followed:

1. Specialists will use the paragraphs as described in the attachment and where appropriate for Letter 1312.
2. The inventory will be allocated among agents based on the number selected to work the cases.
3. The agents will work the cases to completion using the LSSO concepts.
4. To assess the quality of the determinations as well as the effectiveness of training, review will be conducted by EODQA staff where feedback will be provided to the agents and managers and reports issued analyzing overall results.

Any questions are to be directed to Jon Waddell, Manager, Rulings and Agreements, Determinations, Area 2.

The contents of the memorandum will be incorporated into IRM 7.20.2 and 7.20.5.

cc: www.irs.gov

Attachments:

Streamlined Application Process Pilot Summary
1312 Letter and Section 501(c)(3) Paragraphs for use in the Letter
Non Section 501(c)(3) Paragraphs for use in the Letter

Proposal to Apply the Concepts from the Streamlined Application Process Pilot to Existing Inventory

Background & Streamlined Application Pilot

Background

In June 2013, the Lean Six Sigma Organization (LSSO), in conjunction with Subject Matter Experts from the TEGE, EO, Determinations, conducted an LSSO Opportunity Assessment to evaluate the effectiveness of the program and to develop opportunities for process improvement.

The assessment concluded that the current process has high inventory, limited resources, inaccurate forms, outdated IRMs, continuously changing procedures, multiple touch points, multiple work streams, and non-standard processes. In addition, inadequate technical tax law training has not equipped the workforce to effectively/efficiently complete the work.

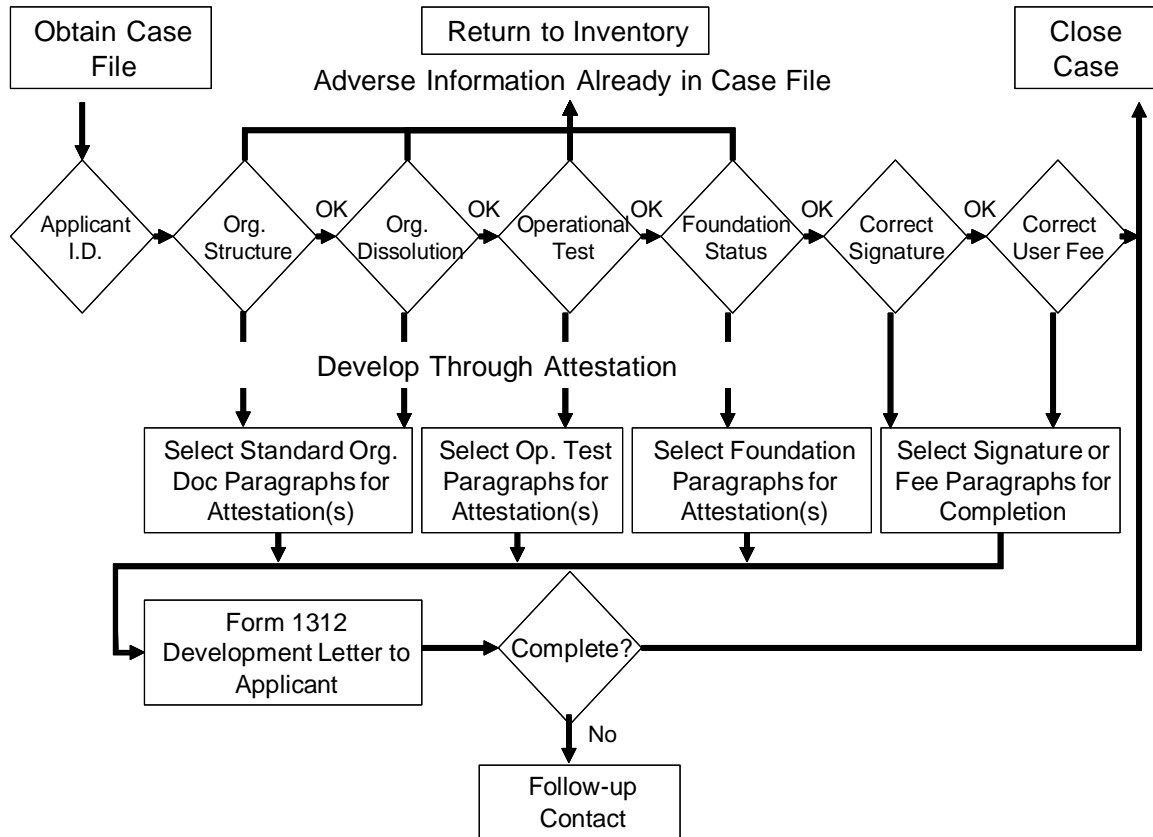
The assessment found that there may be opportunities to streamline the physical flow of work. Additionally, opportunities exist to implement a classification process that efficiently and accurately moves inventory, ensures all resources in the determination process, including the workforce, are developed and deployed appropriately thereby lessening the burden on employees and facilitating consistent and timely determinations.

Streamlined Application Pilot

The initial pilot of the Streamlined Application Process was conducted for three weeks in October and November. The pilot was a beta test, or proof of concept experiment, with Revenue Agents (RA) applying the concepts of a developed draft Form 1023-EZ to existing status 71 and status 51 501(c)(3) general inventory. Form 1023EZ drastically reduces the informational burden for both the taxpayer and the Service through Taxpayer (TP) assurance of meeting the organizational and operational tests through representational attestations. During the pilot, if additional clarification from the TP was needed, standardized paragraphs and language were used to get attestations and to promote consistency of the determination by the RAs. Consequently, the pilot showed that the underlying process was simplified, correspondence with the TP was easier, and case closures were accelerated. At the conclusion of the pilot, feedback from both RAs and TPs was generally positive.

In order to further-measure the effectiveness of the streamlined application process, beginning January 6, 2014, the Lean Six Sigma project team plans to replicate and expand the pilot by applying the lessons learned and concepts from this initial effort to the status 61 inventory. Results of this pilot will be monitored/measured to analyze effectiveness and will be reported to the appropriate management level as required.

Concepts of the Streamlined Application Process



1. In determining what information to require from applicants in a Form 1023EZ, the LSSO team followed the existing Code and Regulations that require an organization to meet the organizational and operational tests. Also included, was the information needed to accurately-update the Master File such as identifying information and foundation status.

The following is a list of items deemed necessary by the team, and used in the initial pilot:

Part I--Identification of Applicant – Name, Address, EIN, FYM
Part II--Organizational Structure – Conformed Organizing Document
Part III--Organizational Structure – 501(c)(3) Purpose and Dissolution
Part IV --Your Specific Activities – Meets 501(c)(3) Operational Test
Part V--Foundation Classification – Correct Foundation Status
Part VI --Correct Signature
Correct User Fee

2. Based on the previous requirements, the team created a draft Form 1023EZ. Since it was determined that some organizations would not be able to use Form 1023EZ due

to the nature of their activities or amount of revenue, an eligibility worksheet was also created.

3. The worksheet was “applied” to the existing 71 and 51 inventories.
4. Standard paragraphs were created for Letter 1312 for missing information. Rather than ask organizations to submit documents and descriptions of items as is typically done while processing cases, the newly-developed paragraphs now request that organizations simply attest that they meet the requirements for exemption under section 501(c)(3) by signing in the appropriate area of the letter. This concept is similar to the requirements on Form 1023EZ where applicants would have simply checked the items to indicate they meet certain requirements.

Note: If an organization would have not met the eligibility criteria to file Form 1023EZ, but the case could be closed on merit or by using the standard paragraphs, then the case was in fact closed. A tracking spreadsheet/tool was developed by the team to capture how many of these cases we closed.

The Streamlined Application Pilot

1. A team of revenue agents was selected to test the concept on the existing inventory. Half of the agents worked status 71 inventory and the other half worked status 51 inventory. Additionally, half of the agents worked paper cases and the other half worked TEDS cases.
2. Agents were instructed not to think about the case status as they have in the past, but rather to look at the case as though it was being reviewed for the first time and apply the Form 1023EZ concepts.
3. Agents reviewed each case to see if they could check off each item on the Form 1023EZ worksheet:
 - If each item could be checked, the case would be closed.
 - If the case could be closed after securing information using the standard paragraphs created, then Letter 1312 was sent with the appropriate paragraphs.
 - If the case could not be closed by securing the additional information/attestations, then the case was returned to inventory.

(Examples of cases returned to inventory were those that had evidence of substantial private benefit or inurement or contained some other evidence of activities contrary to the requirements of IRC 501(c)(3) that could result in a denial of exemption.)

4. Below is an explanation of when each standard paragraph for Letter 1312 was used. (See attachment for the standard paragraphs used)

Organizing Document

The organizing document paragraph was sent if there was not an organizing document in the file or if the document in the file was not a filed/conformed copy.

Organizing Document – Verify Contains Appropriate Provisions

This paragraph verifying (c)(3) language was used with the previous organizing document paragraph if there was not a conformed organizing document in the file. This paragraph was sent so that the organization could verify that its organizing document contained the proper 501(c)(3) provisions.

Organizing Document – Amend

This paragraph was used when it was evident that the organization's organizing document did not have the correct language and an amendment was needed. This paragraph specifically tells the organization that the organizing document submitted with the application does not meet the requirements.

Operational Test

This paragraph was used when the information in the file did not show the organization met the operational test, but there was no clear evidence of an issue that would cause the organization to be denied exemption. In other words, if clarification was needed regarding the activities of the organization, this paragraph was used. Examples of when this paragraph was used include:

- If no activity narrative was submitted with the application.
- If the organization only submitted a brief narrative, such as just stating its mission.
- If the organization listed a charitable purpose such as "housing," but did not provide specific details or schedules.

If there was an indication in the file that the organization did not qualify for exemption then this paragraph was not used and the case was returned to inventory.

Foundation Status Incorrect

This item was used for minor foundation status changes such as 509(a)(1) and 170(b)(1)(A)(vi) to 509(a)(2). However, this might not be appropriate for certain situations where the organization might not agree to the change such as when the organization requests church status and it appears the organization is not a church.

Page 12 Signature

This item was used when a correct signature was needed.

Owe Additional User Fee

This paragraph was used when the correct user fee was needed.

Internal Revenue Service
P.O. Box 12192
Covington, KY 41012-0192

Department of the Treasury

Date: *

*
*
*
*

Employer Identification Number:

XX-XXXXXXX

Person to Contact – Group #:

Specialist Name - XXXX

ID# XXXXXXXX

Contact Telephone Numbers:

XXX-XXX-XXXX Phone

859-669-3783 Fax

Response Due Date:

*

Dear Sir or Madam:

We need more information before we can complete our consideration of your application for exemption. Please provide the information requested on the enclosed Information Request by the response due date shown above. Your response must be signed by an authorized person or an officer whose name is listed on your application. Also, the information you submit should be accompanied by the following declaration:

Under penalties of perjury, I declare that I have examined this information, including accompanying documents, and, to the best of my knowledge and belief, the information contains all the relevant facts relating to the request for the information, and such facts are true, correct, and complete.

If we approve your application for exemption, we will be required by law to make the application and the information that you submit in response to this letter available for public inspection. Please ensure that your response doesn't include unnecessary personal identifying information, such as bank account numbers or Social Security numbers, that could result in identity theft or other adverse consequences if publicly disclosed. If you have any questions about the public inspection of your application or other documents, please call the person whose name and telephone number are shown above.

To facilitate processing of your application, please attach a copy of this letter and the enclosed Application Identification Sheet to your response and all correspondence related to your application. This will enable us to quickly and accurately associate the additional documents with your case file. Also, please note the following important response submission information:

- Please don't fax and mail your response. Faxing and mailing your response will result in unnecessary delays in processing your application. Each piece of correspondence submitted (whether fax or mail) must be processed, assigned, and reviewed by an EO Determinations specialist.
- Please don't fax your response multiple times. Faxing your response multiple times will

Name
EIN

delay the processing of your application for the reasons noted above.

- Please don't call to verify receipt of your response without allowing for adequate processing time. It takes a minimum of three workdays to process your faxed or mailed response from the day it is received.

If we don't hear from you by the response due date shown above, we will assume you no longer want us to consider your application for exemption and will close your case. As a result, the Internal Revenue Service will treat you as a taxable entity. If we receive the information after the response due date, we may ask you to send us a new application.

In addition, if you don't respond to the information request by the due date, we will conclude that you have not taken all reasonable steps to complete your application for exemption. Under Internal Revenue Code section 7428(b)(2), you must show that you have taken all the reasonable steps to obtain your exemption letter under IRS procedures in a timely manner and exhausted your administrative remedies before you can pursue a declaratory judgment. Accordingly, if you fail to timely provide the information we need to enable us to act on your application, you may lose your rights to a declaratory judgment under Code section 7428.

*****DELETE IF NO POWER OF ATTORNEY*****

We have sent a copy of this letter to your representative as indicated in Form 2848, Power of Attorney and Declaration of Representative.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,

Specialist Name
Exempt Organizations Specialist

Enclosure: Information
Request Application
Identification Sheet

Name
EIN

Additional Information Requested:

*. **FYM**

In the space below, please clarify the month your annual accounting period ends. If the correct month is unclear, we will assume a calendar year basis and proceed with December.

*. **Organizing Document**

Please sign and date the statement below to attest that you have an appropriate organizing document (your original application did not contain a conformed copy). Also, indicate your entity type and give the exact date your organizing document was filed (if incorporated) or adopted (if an association or trust).

___ Corporation (Articles of Incorporation with proof of filing with the state)

___ Association (Articles, Constitution, etc. with the exact date of adoption signed by two individuals)

___ Trust (Trust document signed and dated by at least one trustee)

I attest that the organization has an appropriate organizing document that was filed or adopted on _____
(mm/dd/yyyy).

Signature

Date

NOTE: It is not necessary to submit a copy of the actual document with your response. The signature above is sufficient. Submitting a copy of the document or submitting conflicting supplemental information could delay the processing of your application.

*. **Organizing Document – Verify Contains Appropriate Provisions**

Section 1.501(c)(3)-1(b) of the Treasury Regulations describes the requirements an organizing document must meet in order for an organization to be organized for one or more exempt purposes under section 501(c)(3). The organizing document must:

- (a) Limit the purposes of such organization to one or more exempt purposes under IRC 501(c)(3); and
- (b) not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities that in themselves are not in furtherance of one or more exempt purposes; and
- (c) provide that an organization's assets must be dedicated to an exempt purpose within IRC 501(c)(3), either by an express provision in its governing instrument or by operation of law.

See page 7 of the Instructions for Form 1023 for more details and examples of specific language that meets the requirements.

Please sign and date the statement below to attest that your organizing document either meets these requirements or has been amended to meet these requirements.

I attest that our organizing document contains appropriate provisions to comply with the above regulations, or has been amended to comply with the above regulations.

Signature

Date

NOTE: It is not necessary to submit a copy of the actual document with your response. The signature above is sufficient. Submitting a copy of the document or submitting conflicting supplemental information could delay the processing of your application.

Name
EIN

***. Organizing Document – Amend**

Section 1.501(c)(3)-1(b) of the Treasury Regulations describes the requirements an organizing document must meet in order for an organization to be organized for one or more exempt purposes under section 501(c)(3). The organizing document must:

- (a) Limit the purposes of such organization to one or more exempt purposes under IRC 501(c)(3); and
- (b) not expressly empower the organization to engage, otherwise than as an insubstantial part of its activities, in activities that in themselves are not in furtherance of one or more exempt purposes; and
- (c) provide that an organization's assets must be dedicated to an exempt purpose within IRC 501(c)(3), either by an express provision in its governing instrument or by operation of law.

See page 7 of the Instructions for Form 1023 for more details and examples of specific language that meets the requirements.

The organizing document submitted with your application does not meet these requirements. Please amend your organizing document to include the appropriate provisions. Please sign and date the statement below to attest that your organizing document has been amended to meet these requirements.

I attest that our organizing document has been amended to comply with the above regulations.

Signature

Date

NOTE: It is not necessary to submit a copy of the actual document with your response. The signature above is sufficient. Submitting a copy of the document or submitting conflicting supplemental information could delay the processing of your application.

***. Operational Test**

It is not evident from the information you submitted whether or not you meet the operational requirements to be exempt under section 501(c)(3). Therefore, please sign below to attest that you are operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

Signature

Date

***. Foundation Status Incorrect**

It appears you may have selected an incorrect foundation classification. In order for us to determine the best foundation classification for you, please sign and date below to authorize us to select the appropriate foundation classification for you.

Signature

Date

If you disagree, please explain.

Name
EIN

*. **Page 12 Signature**

Your application was not signed by an authorized individual. Please have an authorized individual (an officer, board member, director, etc.) sign the enclosed page of your application.

*. **Owe Additional User Fee**

The user fee you submitted with your application is insufficient. You submitted a user fee of \$_____. The user fee for organizations that expect to receive \$10,000 or less in annual gross receipts is \$400. The user fee for organizations that expect to receive over \$10,000 annually is \$850. Therefore, please remit an additional \$_____.

PLEASE DIRECT ALL CORRESPONDENCE REGARDING YOUR CASE TO:

US Mail:

Internal Revenue Service
Exempt Organizations
P. O. Box 12192
Covington, KY 41012-0192

Street Address for Delivery Service:

Internal Revenue Service
Exempt Organizations
201 Rivercenter Blvd
ATTN: Extracting Stop 312
Covington, KY 41011

Questions for Additional Information Letter (non(c)(3))

EYM

In the space below, please clarify the month your annual accounting period ends. If the correct month is unclear, we will assume a calendar year basis and proceed with December.

APPROPRIATE ORGANIZING DOCUMENT

Please sign and date the statement below to attest that you have an appropriate organizing document (your original application did not contain a conformed copy). Also, indicate your entity type and give the exact date your organizing document was filed (if incorporated) or adopted (if an association or trust).

___ Corporation (Articles of Incorporation with proof of filing with the state)

___ Association (Articles, Constitution, etc. with the exact date of adoption signed by two individuals)

___ Trust (Trust document signed and dated by at least one trustee)

I attest that the organization has an appropriate organizing document that was filed or adopted on _____ (mm/dd/yyyy).

Signature

Date

NOTE: It is not necessary to submit a copy of the actual document with your response. The signature above is sufficient. Submitting a copy of the document or submitting conflicting supplemental information could delay the processing of your application.

OPERATIONAL REQUIREMENTS

Organizations applying for exemption must meet certain operational requirements. These requirements vary depending on the subsection under which exemption is requested. It is not evident from the information you submitted whether or not you meet the operational requirements to be exempt under the subsection you requested. Therefore, please review the requirements for subsection _____ in Publication 557 (found at www.irs.gov) and sign below to attest that you meet the requirements.

Signature

Date

AUTHORIZED SIGNATURE

Your application was not signed by an authorized individual. Please have an authorized individual (an officer, board member, director, etc.) sign the enclosed page of your application.

USER FEE

The user fee you submitted with your application is insufficient. You submitted a user fee of \$_____. The user fee for organizations that expect to receive \$10,000 or less in annual gross receipts is \$400. The user fee for organizations that expect to receive over \$10,000 annually is \$850. Therefore, please remit an additional \$_____.

(c)(19) DEDUCTIBILITY

IRC 170(c)(3) provides an income tax deduction for contributions to a post of "war veterans" if it is organized in the United States or any of its possessions, and no part of its net earnings inures to the benefit of any private shareholder or individual. To qualify for deductibility of contributions, a veterans' organization must also satisfy both a membership requirement and a purpose requirement.

To meet the membership requirement, at least 90% of the members must be war veterans. In addition, substantially all the other members must be either veterans (but not war veterans), or cadets, spouses, widows, or widowers of war veterans, veterans or cadets.

To meet the purpose requirement an organization must be organized and operated for at least one of the following purposes:

- a. Furthering comradeship among persons who are or have been members of the Armed Forces;
- b. Honoring the memory of deceased veterans and members of the Armed Forces and aiding and comforting their survivors;
- c. Encouraging patriotism; and
- d. Aiding hospitalized, disabled and needy war veterans and their dependents.

Do you meet these requirements, and therefore qualify to receive tax deductible contributions?

Yes _____; No _____