



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

DEPUTY COMMISSIONER

July 25, 2011

The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your letter of June 3, 2011, to Commissioner Shulman regarding the application of gift tax to contributions to section 501(c)(4) organizations, the following additional information is provided. This response supplements the responses provided on July 1, 2011 and July 7, 2011.

With respect to your request for the identification of issues involved in examinations of section 501(c)(4) organizations (question 5 of your non-6103 request), the enclosed charts contain a list of Principal Issue Codes (PIC codes) for closed section 501(c)(4) Form 990/990-EZ examinations for fiscal years 2006 through 2010. The Internal Revenue Manual provisions governing the use of PIC codes are located at section 4.75.16.9¹. There are 96 PIC codes for agents to use as part of the process of closing a case. PIC codes are designed to provide historical data to create a model to distinguish compliant from non-compliant returns. In no-change cases, agents are instructed to select the PIC code that captures the issues on which the agent spent time during the examination. In a change case, the agent is instructed to select the PIC code that captures the issue or issues resulting in the change. Agents may choose up to four PIC codes, and if more than one PIC code is chosen, the agent is to list them in order of priority, beginning with the most important. In both the no-change and change cases, the determination of which PIC codes are applicable to a particular case is a judgment made by the agent.

The first chart is a list of the primary PIC code chosen in the 776 examinations of section 501(c)(4) organizations closed for fiscal years 2006 thru 2010. The second chart is a list of all the PIC codes chosen (whether the first, second, third, or fourth code) in those examinations. Please note that not every examination will have four PIC codes indicated (all 776 examinations indicated a first code, 423 included a second code, 234 included a third code and 91 included a fourth code).

¹ The Internal Revenue Manual is available at <http://www.irs.gov/irm/index.html>.

My staff is available to meet with your staff to answer any questions or provide further information regarding your request. Should you have additional questions, please contact me, or have your staff contact Floyd Williams, Director, Office of Legislative Affairs, at (202) 622-3720.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. T. Miller".

Steven T. Miller
Deputy Commissioner for
Services and Enforcement

Enclosures (2)

PIC	PIC Description	# Occurrences as PIC 1*
34	Other	103
21	Operational Test	99
39	Delinquent 990/990-EZ Returns	78
65	Claim for Refund	48
42	Delinquent 990-PF Returns	44
5	Delinquent Filing of Return (Other)	33
56	Gaming - Bingo	22
25	Political Activities	21
79	ET - 1099 Issues	20
90	Change in Subsection	20
18	Non-Exempt Activities	19
33	UBI	18
12	Inadequate Records	15
78	ET - Worker Classification Issues	15
24	Non Operating for Exempt Purpose	14
14	Inurement	14
54	Revocation	14
83	ET - Other Issues	13
19	Package Audit Procedures	13
1	Advertising Income	12
2	Business with Non-Members	11
6	Discontinued Operations	11
22	Organizational Test	10
13	Incomplete Returns	10
17	Legislative Activities	9
40	Delinquent 990-T Returns	7
3	Deductibility of Contributions/Dues	7
20	Operating in a Commercial Manner	6
95	Filing Requirement Issues	5
45	Excise Tax - Gaming	5
80	ET - Backup Withholding	4
27	Private vs Public Interests	4
58	Gaming - Other	4
75	Unpostable	4
4	Donor Advised Funds	4
38	UBI - Other	*
68	Penalty for Failure to File Return	*
35	UBI - Expense Allocation Issues	*
57	Gaming - Pull Tabs	*
89	Accounting Method Errors	*
67	EBT Under IRC 4958	*
32	Tax on Investment Income	*
30	Self Dealing	*
48	Excise Tax - 4958	*
26	Private Foundation Status	*
31	Taxable Expenditures	*
94	Private Benefit	*
11	Grassroots Lobbying	*
55	Gaming - Casino	*
59	Investment Income Issues	*
70	Penalty for Failure to Make Annual Return Available	*
85	Revocation - Inurement	*
92	Discrepancy Adjustments	*
43	Delinquent 1120-POL	*
82	ET - Fringe Benefit Issues	*
8	Governing Body & Management	*
10	Failure to Distribute	*
28	Public Information Not Reported 501(c)(3)	*
49	Excise Tax - Other	*
53	Chapter 42 -Under Tolerance	*
64	120 Percent of Economic Life Maturity	*
		776

*PIC 1 was input for all closures

* 3 or fewer

PIC	PIC Description	Total Occurrences
21	Operational Test	149
34	Other	148
39	Delinquent 990/990-EZ Returns	103
22	Organizational Test	90
56	Gaming - Bingo	82
57	Gaming - Pull Tabs	60
42	Delinquent 990-PF Returns	56
33	UBI	50
65	Claim for Refund	49
5	Delinquent Filing of Return (Other)	48
40	Delinquent 990-T Returns	41
79	ET - 1099 Issues	41
24	Non Operating for Exempt Purpose	32
12	Inadequate Records	31
18	Non-Exempt Activities	31
90	Change in Subsection	31
83	ET - Other Issues	29
95	Filing Requirement Issues	29
19	Package Audit Procedures	28
25	Political Activities	28
13	Incomplete Returns	24
14	Inurement	23
78	ET - Worker Classification Issues	22
1	Advertising Income	19
38	UBI - Other	19
2	Business with Non-Members	18
17	Legislative Activities	17
45	Excise Tax - Gaming	16
68	Penalty for Failure to File Return	16
20	Operating in a Commercial Manner	15
54	Revocation	15
3	Deductibility of Contributions/Dues	13
6	Discontinued Operations	12
80	ET - Backup Withholding	12
27	Private vs Public Interests	11
94	Private Benefit	11
35	UBI - Expense Allocation Issues	9
58	Gaming - Other	9
23	Particular Services for Members	7
75	Unpostable	7
89	Accounting Method Errors	7
4	Donor Advised Funds	6
67	EBT Under IRC 4958	6
11	Grassroots Lobbying	5
32	Tax on Investment Income	5
30	Self Dealing	*
48	Excise Tax - 4958	*
55	Gaming - Casino	*
59	Investment Income Issues	*
70	Penalty for Failure to Make Annual Return Available	*
85	Revocation - Inurement	*
92	Discrepancy Adjustments	*
26	Private Foundation Status	*
31	Taxable Expenditures	*
36	UBI - NOL Adjustment	*
43	Delinquent 1120-POL	*
82	ET - Fringe Benefit Issues	*
88	Adjustment to a Related Return	*
8	Governing Body & Management	*
10	Failure to Distribute	*
28	Public Information Not Reported 501(c)(3)	*
37	UBI - Income from Controlled Corp	*
41	Delinquent 940/941 Returns	*
49	Excise Tax - Other	*
53	Chapter 42 -Under Tolerance	*
60	Failure to Properly Report Fundraising	*
64	120 Percent of Economic Life Maturity	*
69	Penalty for Failure to Fully Complete Return	*
91	Rev. Proc. 75-50	*

* 3 or fewer