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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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September 24, 2009

The Honorable Douglas H. Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Shulman:

I am encouraged that the Internal Revenue Service (IRS) has severed all ties with Association of Community Organizations for Reform Now (ACORN). Aside from the pervasive issues pertaining to several allegations of voter fraud, the recently released investigative videos are very troubling. These videos reveal ACORN employees and/or volunteers offering tax advice specifically to further clearly illegal activities such as prostitution and human trafficking.

As you may be aware, I had written to then Commissioner Everson about ACORN's tax-exempt status and received a response on December 19, 2006, from Steven T. Miller, in his role as then Commissioner of the Internal Revenue Service (IRS) Tax Exempt and Government Entities Division. In light of Commissioner Miller's response and ACORN's non-response, my staff undertook a review of all information publicly available regarding the ACORN family of organizations. I am enclosing their memo, including attachments, for your review.

I would appreciate your thoughts on the proposals for reform and am interested in any suggestions for reform that you might have. Please also provide responses to the following.

1. *The Washington Post* reported yesterday that Bertha Lewis, identified as ACORN Executive Director, "notified the Internal Revenue Service on Monday that ACORN would shut down its free tax help clinics for low-income residents until an external review of ACORN's work is completed". Please provide the number of returns prepared at ACORN tax clinics for the last five years. Does the IRS intend to review these returns for accuracy? Please confirm that IRS will terminate its relationship with all organizations in the ACORN family, particularly those reviewed by my staff. Does the IRS intend to renew its relationship with ACORN after ACORN completes its internal review?

2. Presumably, individuals seeking assistance at such free clinics are to be those least likely to afford fines and penalties for incorrect returns. Will standards for volunteer tax preparers, such as those affiliated with ACORN, be part of your review of standards for return preparers? Will you pursue sanctions against ACORN like those imposed on Jackson Hewitt franchisee Farrukh Sohail?
3. Please describe the IRS's review process for tax-exempt organizations that participate in illegal activities. How many organizations' tax-exempt status has been revoked by the IRS for furthering criminal activities?
4. It is disturbing that many of the organizations in the ACORN "family" may not actually meet the definition of related for 990 reporting purposes, even though ACORN deems them to be part of the "family". Please describe the IRS's process for auditing organizations like this where the movement of money appears to be a shell game. Do IRS audit procedures require auditors to follow the money trail to or from a charitable organization to determine whether that money is being used for impermissible activities, including electioneering and promoting illegal acts?
5. For all years for which data is available, please provide data on the number of times IRS assessed failure to file and incomplete return penalties for Form 990, the average amount of the assessments, the amounts actually collected and the amounts abated. Please indicate whether IRS would assess incomplete return penalties for failure to properly sections of the Form 990, like ACORN did with the Statement of Program Service Accomplishments. Given the revisions to the Form 990 IRS recently implemented, when will IRS be revising its policies and procedures for assessing incomplete return penalties?
6. For all years for which data is available, please provide statistics on the number of times IRS assessed section 4911 and 4955 taxes, the average amount of the assessment, the amounts actually collected and the amounts abated.
7. For each year the Political Activities Compliance Initiative was in effect, provide the number of full-time equivalents (FTEs) dedicated to the Initiative, the number of organizations reviewed, the proportion of reviews initiated by IRS (as opposed to references from third parties), the amount of taxes assessed, collected, and abated resulting from this Initiative, and how many of those reviews included reviews of indirect political expenditures by charities through grants or payments for services as may be the case with ACORN charities.
8. Given what looks like a shell game perpetrated by the ACORN tax-exempt entities appears to be no different than that conducted by the charities involved in the Jack Abramoff scandal, how have IRS rules, regulations, reporting requirements and enforcement actions changed in response to the Abramoff abuses?

Please provide a response by October 9, 2009. Thank you for your time and assistance. Please contact my staff with any questions or concerns.

Sincerely,

A handwritten signature in black ink that reads "Chuck Grassley". The signature is written in a cursive style with a large initial "C" and a long, sweeping tail on the "y".

Charles E. Grassley
Ranking Member

Enclosures