

Part III – Administrative, Procedural, and Miscellaneous

IRS Announces Voluntary Compliance Program to Promote Disclosure by Political Organizations

Notice 2002-34, 2002-21 I.R.B. (May 28, 2002)

The Internal Revenue Service (IRS) announces a voluntary compliance program to promote disclosure by political organizations described in § 527 of the Internal Revenue Code (political organizations) that file certain forms by **July 15, 2002**.

BACKGROUND

On July 1, 2000, Pub. L. 106-230 was enacted, imposing new reporting and disclosure requirements on political organizations in connection with their tax-exempt status. The IRS is aware that there is a great deal of confusion concerning the new filing requirements. Because of this confusion, many political organizations have either failed to file or need to correct previously filed forms. The IRS believes that implementing this voluntary compliance program for these political organizations is most likely to achieve the congressional goal of maximum disclosure and is in the best interest of sound tax administration.

FILING REQUIREMENTS

The law generally requires a tax-exempt political organization to file:

- an initial notice of status on Form 8871,
- periodic reports of contributions and expenditures on Form 8872,
- annual information returns on Form 990 or Form 990-EZ, and
- annual income tax returns on Form 1120-POL.

See Rev. Rul. 2000-49, 2000-2 C.B. 430, and the attachment below for more information on the basic filing requirements. Forms may be downloaded from the IRS Web site at www.irs.gov. The IRS Web site also describes filing requirements at www.irs.gov/polorgs. To obtain assistance from the IRS, please call **877-829-5500** (a toll free call).

VOLUNTARY COMPLIANCE PROGRAM

The IRS will not assert any tax, penalty or interest that arises solely because a political organization failed to file a form or filed an incorrect form, **if** the form is filed or corrected by **July 15, 2002**. This voluntary compliance program applies with respect to the following forms:

- Any Form 8871, *Political Organization Notice of 527 Status*, due on or before July 15, 2002,
- Any Form 8872, *Report of Contributions and Expenditures*, due on or before July 15, 2002,
- Any Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*, due on or before July 15, 2002, including any applicable extensions,
- Any Form 990, *Return of Organization Exempt from Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt from Income Tax*, due on or before July 15, 2002, including any applicable extensions.

If a political organization does not completely report its contributions and expenditures on all applicable Forms 8872 filed by July 15, 2002, it remains liable for the amount due under § 527(j)(1) on the unreported amounts. For any form described above that is filed or corrected **after** July 15, 2002, any applicable taxes, penalties and

interest will be due from the original due date. In addition, this voluntary compliance program does not apply to any Form 1120-POL required to be filed under rules in effect before July 1, 2000, so a political organization remains liable for the tax on its investment income due under § 527(b).

FILING INFORMATION

Any paper forms and correspondence filed in accordance with this notice should contain the following information at the top of the form and on the envelope.

This is filed in accordance with Notice 2002- 34.

Electronic versions of Forms 8871 and 8872 are not required to include this information.

DRAFTING INFORMATION

The principal author of this notice is Judith E. Kindell of the Exempt Organizations Rulings and Agreements Division. For further information regarding this notice, please call TE/GE Customer Service at 877-829-5500 (a toll free call).

ATTACHMENT – POLITICAL ORGANIZATION FILING REQUIREMENTS

Tax-exempt political organizations, as defined in § 527 of the Internal Revenue Code (political organizations), must file some or all of four forms as a condition of tax-exempt status. This attachment discusses the filing requirements for political organizations without regard to the voluntary compliance program announced in this notice.

Political organizations include parties, committees, associations, funds or other entities organized and operated “primarily for the purpose of directly or indirectly accepting contributions or making expenditures.” Political organizations accept contributions and make expenditures for the purpose of influencing the “selection, nomination, election, or appointment of any individual to Federal, State, or local public office or office in a political organization, or the election of Presidential electors.”

Political organizations include political party committees, Federal, State and local candidate committees and other political committees such as political action committees (PACs).

Who Has to File

The filing requirements in the chart below apply to those political organizations that:

- wish to be exempt from federal income tax provisions, and
- receive or expect to receive \$25,000 or more in gross receipts in any taxable year

<i>If You Are A</i>	<i>You File</i>
Federal candidate committee, political party committee, or PAC required to report to the Federal Election Commission (FEC)	➤ Form 1120-POL; and ➤ Form 990 or Form 990-EZ
State or local candidate committee or state or local committee of a political party	➤ Form 8871; ➤ Form 1120-POL; and ➤ Form 990 or Form 990-EZ
Any other political organization, including state or local PACs and federal political organizations that are not required to report to the FEC	➤ Form 8871; ➤ Form 8872; ➤ Form 1120-POL; and ➤ Form 990 or Form 990-EZ

NOTE: You still file a Form 1120-POL if you are:

- A political organization that does not seek tax-exemption, or

- A tax-exempt political organization that does not have gross receipts of at least \$25,000, but does receive in excess of \$100 in taxable income in any taxable year.

Form Filing Requirements

1. Form 8871 – Notice of 527 Status

To be tax-exempt, a political organization that expects to receive \$25,000 or more in gross receipts in any taxable year must file Form 8871 with the IRS, unless it is required to report as a political committee to the FEC. Form 8871, *Political Organization Notice of 527 Status*, must be filed both electronically and in writing, within 24 hours of the political organization's establishment. Until the political organization files the form, its income (including contributions) is subject to taxation and is reported on Form 1120-POL.

2. Form 8872 - Report of Contributions and Expenditures

Political organizations file Form 8872, *Political Organization Report of Contributions and Expenditures*, to disclose information concerning:

- persons receiving expenditures that aggregate \$500 or more per person, per calendar year; and
- persons making contributions that aggregate \$200 or more per person, per calendar year.

A political organization that does not disclose this information must pay an amount equal to the highest corporate tax rate (35 percent) multiplied by the amount of contributions and expenditures not disclosed and report this on the Form 1120-POL. If

a political organization does not file Form 8871 and is subject to tax on its income, it is not required to file Form 8872.

For filing dates, see Q&A-28 through Q&A-33 of Rev. Rul. 2000-49.

3. Form 1120-POL – U.S. Income Tax Return for Certain Political Organizations

Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*, is due by the 15th day of the 3rd month after the end of the organization's taxable year. Political organizations may request a six-month extension of the filing deadline by filing Form 7004, *Application for Automatic Extension of Time to File Corporate Income Tax Return*. This extension must be filed by the due date of Form 1120-POL. There is a penalty for failure to file Form 1120-POL.

4. Form 990 or 990-EZ – Return of Organization Exempt from Income Tax

Exempt political organizations with gross receipts of less than \$100,000 and assets of less than \$250,000 at the end of the year may file a Form 990-EZ, *Short Form Return of Organization Exempt from Income Tax*. All other exempt political organizations should file a Form 990, *Return of Organization Exempt from Income Tax*.

Forms 990 or 990-EZ are due on the 15th day of the 5th month after the end of the organization's taxable year. There is a penalty for failure to file this return.

Organizations may request a three-month extension, without showing cause, by filing Form 8868, *Application for Extension of Time to File an Exempt Organization Return*, by the due date. A second three-month extension, with cause, may also be requested through Form 8868.

Form	When filed	Exceptions to filing requirement
8871	Within 24 hours of establishment	<ul style="list-style-type: none"> ➤ Political committee required to report to the FEC; ➤ Organization that reasonably expects annual gross receipts to always be less than \$25,000
8872	At organization's option, quarterly/semiannually or monthly, on same basis for entire calendar year (see form instructions for detailed information)	<ul style="list-style-type: none"> ➤ Political committees required to report to the FEC; ➤ State and local committees of political parties; ➤ Campaign committees of state and local candidates; ➤ Organizations that reasonably expect gross receipts to always be less than \$25,000
1120-POL	Due the 15th day of the 3rd month after the close of the taxable year	<ul style="list-style-type: none"> ➤ Political organizations whose annual gross receipts are less than \$25,000, and who have taxable income less than \$100
990 or 990-EZ	Due the 15th day of the 5th month after the close of the taxable year	<ul style="list-style-type: none"> ➤ Political organizations whose annual gross receipts are less than \$25,000