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July 29, 2013

The Honorable J. Russell George
Inspector General for Tax Administration
Treasury Inspector General for Tax Administration
City Center Building
1401 H Street, NW, Suite 469
Washington, D.C. 20005

Dear Mr. George:

Since the release of your audit on the scrutiny given by the IRS to tea party groups applying for tax-exempt status,¹ it has come to the attention of the Committee that in addition to inappropriate treatment given to some applicants for tax exempt status, existing organizations already recognized as tax-exempt by the IRS, appear to have faced questionable treatment by the IRS. A letter sent to you by the Free Congress Foundation on June 20, 2013, raises concerns about the prospect of "deliberate targeting of existing conservative public policy organizations."² The letter is cosigned by 78 organizations and individuals.³

An example of the IRS's potential inappropriate treatment of these groups concerns the Arlington, Virginia-based Leadership Institute, which has existed since 1979. The Leadership Institute was audited in 2011 and 2012 for its activities in 2008.⁴ Information provided to the Committee suggests that the Leadership Institute was asked invasive questions, including requests for information about its interns and where they worked after their internships. The audit resulted in the Leadership Institute turning over 23,430 pages of documents and cost the organization approximately \$50,000.⁵ Furthermore, in at least one instance, a Tea Party group applying for tax-exempt status under section 501(c)(4) received an information request letter from the IRS asking about its affiliation with Leadership Institute.⁶

¹ Treasury Inspector General for Tax Administration, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review*, Reference Number 2013-10-053, May 14, 2013.

² Letter from Mr. James S. Gilmore III, President and CEO, Free Congress Foundation, to Mr. J. Russell George, Inspector General for Tax Administration, Treasury Inspector General for Tax Administration, June 20, 2013.

³ *Id.*

⁴ E-mail from Mr. Joseph Metzger, Vice President of Finance, Leadership Institute, to Committee Staff, House Committee on Oversight and Government Reform, July 11, 2013.

⁵ E-mail from Mr. Joseph Metzger, Vice President of Finance, Leadership Institute, to Committee Staff, House Committee on Oversight and Government Reform, July 1, 2013.

⁶ *Id.*

According to the Leadership Institute, during the course of its discussions with the IRS about the audit, the IRS agent, Virginia Puddister, initially conveyed that her “supervisor and the IRS counsel, at the conclusion of their inspection of the thousands of documents we had produced, indicated they wished to continue the audit with another round of questions and document requests. Two months later, in July 2012, Ms. Puddister called to say that everything she had seen in the records we produced was consistent with our 501(c)(3) tax status and she would recommend a ‘no change’ letter, which we received two weeks later.”⁷ The change in the IRS’s treatment of the Leadership Institute coincided with the timeframe in which TIGTA concluded that the Exempt Organizations division at IRS changed its process for evaluating Tea Party applications for tax-exempt status.⁸

During this same time frame, other conservative organizations, including the Clare Boothe Luce Policy Institute, were audited by the IRS.⁹ Michelle Easton, the founder and president of the Clare Boothe Luce Policy Institute, called the treatment it received by the IRS “harassment.”¹⁰ The organization was subjected to seven requests for materials and information, including a request for a “List of contributors and Amounts [*sic*].”¹¹ Ms. Eaton stated that the requests “took the greater part of 2011 and cost tens of thousands of dollars.”¹²

The Committee’s ongoing investigation of the IRS’s inappropriate treatment of certain applicants for tax-exempt status has corroborated our concerns about these IRS audits. The totality of your “targeting” investigation along with evidence obtained by the Committee points to the fact that the IRS may have selected certain conservative organizations for additional scrutiny after the IRS already approved their tax-exempt status. The Exempt Organizations Examinations Unit includes a team known as the Review of Operations Unit (ROO), which receives referrals when the IRS “has concerns about the past, present, or future activities of the organization but does not have sufficient case to deny [tax] exemption.”¹³ One IRS employee explained her understanding of the ROO function to the Committee. She testified:

[T]he ROO specialists will take a look at [a case] and they might, if they agree to accept the referral, they would put like a follow-up time like we’re going to follow up this case in a year or 2 years or 5 years, and what they do is that they review the public information that’s available, that they would go out, the ROO specialist . . . would go out and see what is on the Internet, what the organization stated in its application for tax exemption, and look at the returns . . . and [assess]

⁷ E-mail from Mr. Joseph Metzger, Vice President of Finance, Leadership Institute, to Committee Staff, House Committee on Oversight and Government Reform, July 10, 2013.

⁸ See note 1, *supra*.

⁹ Matthew Boyle, “IRS Audited Conservative Women’s Group,” *Breitbart*, May 19, 2013. Available at <<http://www.breitbart.com/Big-Government/2013/05/19/IRS-audited-conservative-women-s-group-too>>.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ Internal Revenue Manual 7.20.1.5.

do they still appear to be carrying themselves out . . . under the code section in which they applied.¹⁴

According to evidence obtained by the Committee, the IRS considered referring Tea Party applications to the ROO unit as part of processing pending exemption applications filed by Tea Party groups. A memorandum prepared for a meeting with Lois Lerner in the summer of 2011 lists as a potential "next step" to "[r]efer the organizations that were granted exemption to the ROO for follow-up."¹⁵ A contemporaneous e-mail about the meeting with Ms. Lerner notes that "[o]ne of the recommended actions is going to be to send ROO referrals for those cases that cause us concern resulting from organizations making changes after being questioned during our case development."¹⁶

Testimony obtained from 18 interviews with IRS employees indicates that at least some Tea Party groups were referred to the ROO unit for future scrutiny. One employee testified:

Q: And was ROO done for the Tea Party cases?

A: At some point in time, you know, like when we started closing some of the cases, we started closing cases I believe it was May of 2012, and certain cases could have been referred to the ROO.

Q: And which cases would be referred to the ROO?

A: All of the advocacy, all, the whole group of advocacy cases. In May of 2012, there was a team put together of some revenue agents in Cincinnati, some of the tax law specialists in the Washington office, and they and a couple of quality reviewers, there was a team put together and there was some training that was held in May of 2012. And at that point in time, direction was given from the Washington office of, some one had bucketed these cases. All the cases that were identified in this group, which is all political type cases that were in the group, they had a person from the Washington office and a person in the Cincinnati office were looking at these cases and putting them in one of four buckets. . . . So when those cases were being closed, it would be up to the specialists working the case if they thought a ROO referral was necessary. And it's the whole group of cases.¹⁷

According to another IRS employee, this scrutiny is not founded on any current activity by the organization but merely the potential for future impermissible activities. In an interview she testified:

Q: A concern for an organization's future activities is taken into consideration when you are approving or denying an application for exempt status?

¹⁴ Transcribed Interview of Cindy Thomas, Internal Revenue Serv., in Wash., D.C., at tr. 181 (June 28, 2013).

¹⁵ Internal Revenue Serv., Increase in (c)(3)/(c)(4) Advocacy Org. Applications.

¹⁶ E-mail from Cindy Thomas to Steven Bowling and John Shafer (July 5, 2011, 5:10 p.m.).

¹⁷ Transcribed Interview of Cindy Thomas, Internal Revenue Serv., in Wash., D.C., at tr. 181-82 (June 28, 2013).

A: Probably in the back of, like, specifically, like my mind, I might be looking at an application, it looks good, but something I see in the application might be a problem later

Q: So when you're reviewing an application, are you looking at their present activities or also their future activities?

A: If they've laid out their future activities, they spell that out in the application, yeah, then we might ask further questions about future activities.

Q: And you evaluate the application based on those activities as well, the future activities?

A: Yes, because it's in the application, I believe, past, present, and planned activities.

Q: So when you refer something to the ROO, is that more prospective? So, I mean, it hasn't happened, it could happen?

A: Yes, yes.¹⁸

While it could be appropriate for the IRS to take a second look at an organization after the agency grants the organization tax-exempt status in some circumstances, we are troubled by evidence that IRS may have conducted unnecessary audits and systematic post hoc reviews of entire groups of applications as well as certain groups that have long-possessed tax-exempt status. We therefore request that you conduct an investigation to determine whether groups that possess tax-exempt status were targeted for audits or examinations based on their political beliefs or ideology.

The Committee on Oversight and Government Reform is the principal oversight committee of the House of Representatives and may at "any time" investigate "any matter" as set forth in House Rule X.

¹⁸ Transcribed Interview of Hilary Goehausen, Internal Revenue Serv., in Wash., D.C., at tr. 32-34 (July 2, 2013).

The Honorable J. Russell George

July 29, 2013

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Please contact Christopher Hixon with the Committee staff at (202) 225-5074 if you have any questions about this request. Thank you for your attention to this matter.

Sincerely,



Darrell Issa
Chairman



Jim Jordan
Chairman
Subcommittee on Economic Growth,
Job Creation and Regulatory Affairs

cc: The Honorable Elijah E. Cummings, Ranking Minority Member

The Honorable Matthew A. Cartwright, Ranking Minority Member, Subcommittee on
Economic Growth, Job Creation and Regulatory Affairs