



The IRS – Non-Exempt from Scrutiny

By Peter Pfister, CPA



It has been several weeks since the news broke about the Internal Revenue Service (IRS) possibly subjecting the Tea Party and other conservative groups to extra scrutiny by sending their requests for tax-exempt status into “centralization.” There some were delayed for approval for over two years, while others languished in the queue indefinitely. Gallup posted a recent poll showing a decline from July 2009 when 76 percent of respondents rated the job the IRS was doing as “Excellent/Good” or “Only Fair” to May 2013 (post-scandal) when those ratings were selected by only 56 percent of respondents. In this same time period, the rating of “Poor” rose from 20 percent to 42 percent. It would appear that with these actions, the IRS unknowingly launched a cruise missile aimed directly at its own credibility and performance ratings.

A Scandal is Born

It was first reported that in 2010 lower-level IRS employees in the Cincinnati office (where all requests for tax-exempt status are first sent for review) had asked questions about Tea Party groups asking for tax-exempt status, and apparently supervisors in the Washington, D.C. office became more involved in these cases. As many of this new crop of applications had similar characteristics and had Tea Party as part of their name, it is alleged they were pulled

into a separate group for approval that faced a more stringent set of requirements and faced longer delays. The IRS has outlined its practice of training certain employees on groups of cases that have similar characteristics so that the findings on these similar cases would be handled in a consistent manner by employees who eventually become experts in that area. In theory, this could be construed as a parity process – but only one political side seemed to fall into this targeted group. Organizations representing other parties had their applications accepted in a timely manner. Thus, the disparity raised a red flag.

In the coming weeks, the threat of lawsuits began after the IRS admitted to some poor practices. It seems that terms such as “patriot” and “Tea Party” were possibly used as a shortcut to find applicants who were more likely to have questionable qualifications for the tax-exempt status. Using this as a shortcut and delaying the approval of applications was admitted to by the IRS and is included on their Web site where on May 15 they posted a series of questions and answers about exempt organization issues.

The spotlight was shone on the \$50 million spent on employee conferences from 2010

to 2012, including money earmarked for hiring enforcement agents. Having these additional agents, especially with the overall shrinking of the IRS budget and workforce, could have helped reduce the additional delays in the approval process for exempt organizations.

Achieving Tax-Exempt Status

Being approved as a tax-exempt organization by the IRS is the ultimate goal for most groups that remotely fit the qualifications. Who wouldn't like to avoid paying taxes? Section 501(c)(3) of the tax code prohibits *any* political activity on behalf of the applying organization; the issue of qualification seems more nebulous under code 501(c)(4), which permits “a limited amount of political activity.” Further ambiguity in the form of requirements for 501(c)(4) groups includes spending their funds “primarily” on social welfare functions. The requirements of these sections include numerous vague, undefinable stipulations, so it becomes clear why there may be problems with the approval process.

Current Fallout – Tempest in a Tea Pot

It would be nearly impossible to avoid mention of the Congressional hearings, firings of IRS officials, questioning of other
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IRS employees and the federal lawsuits being filed by Tea Party groups alleging purposely long delays in approval or applications still pending. The story has been on news programs, in every paper and on every Internet Service Provider homepage. IRS leaders, not unexpectedly, took the first hit. IRS Commissioner Steven Miller was forced to resign, and IRS Director of Exempt Organizations Lois Lerner was placed on administrative leave after an alleged refusal to resign. The lawsuits include plaintiffs looking to receive tax-exempt status, and in part because the IRS admitted to not using proper criteria in addressing these applications, they are also seeking financial damages.

Because the IRS is a government agency, those in Washington, D.C. have been placed in a suspicious light. Attorney

General Eric Holder has fallen in public opinion, and a special prosecutor may take on this investigation. Naturally, actions that seemingly adversely affected one political party are being attributed to another political party, so bipartisanship is suffering. Each week the list of those in the dog house may grow.

Long-Term Fallout - How Do We Fix the IRS?

Not only will the IRS need to somehow address the broken parts of its process that led to these failings, but it will undoubtedly seek a larger budget to add more employees or add layers to its process - getting public opinion to agree they should have more money will not be easy. Law reforms for political activity by tax-exempt groups will no doubt be discussed, and a clogged docket for Congress will continue

to expand. The IRS and the Federal Election Commission currently have different definitions of "campaign communication," thus making their future likely collaboration on defining what constitutes political activity for outside groups a complex undertaking. Employee training at the IRS will then be needed for any new or revised processes, and if other findings lead to the need for repairs in other areas of the IRS, taxpayers may also need to adhere to new regulations.

We still have a lot to learn before all the repercussions can be known. It is a shame that we accountants who have been taught to trust the system and help our clients trust and understand it now lose some credibility when advising them to do the right thing.

2013 Economic Review and Outlook

By Michael Adago, CPA



On June 4, 2013, Dr. Joseph J. Seneca, Rutgers University Professor, presented an economic review and outlook seminar in partnership with The Curchin Group. Much of Dr. Seneca's presentation focused on the New Jersey economy including employment, housing, and the impact of Super Storm Sandy.

During the recession, New Jersey lost approximately 241,000 private sector jobs. Currently New Jersey ranks eighth in the country for job growth with a recovery of 131,000 private sector jobs. If employment continues to increase at the current rate, Dr. Seneca projects New Jersey will reach prerecession employment levels by August 2015. Specific private sector fields experiencing employment growth include professional services, education, health services, trade, transportation, and utilities.

Dr. Seneca shared his optimism with respect to New Jersey's real estate market. Unsold inventory decreased to approximately 46,000 homes in March 2013 as compared to the highest point of 73,000 homes in May 2011. In addition, the number of monthly home purchase contracts from March 2013 amounted to 8,000 contracts, as compared to the lowest point in January 2011 of 3,500 contracts.

Dr. Seneca and three of his associates published a report, "The Economic and Fiscal Impact of Hurricane Sandy a Microeconomic Analysis," which can be found at <http://bit.ly/V67suf>. The authors have considered both the positive and negative impacts of Super Storm Sandy on New Jersey's economy and predict a modest net positive effect on the economy. The factors contributing to the positive

impact include federal aid, construction activity, consumer purchasing, and entrepreneurial activities.

Dr. Seneca's presentation demonstrated the importance of employment, housing, and the impact of Super Storm Sandy on New Jersey's economy. Current trends indicate growth for the future which provides a sense of reassurance and optimism for the months ahead.

For further information or a copy of Dr. Seneca's presentation please do not hesitate to contact The Curchin Group at 732-747-0500.



Featured Employee: Ivana Kazmierski



Ivana Kazmierski launched her accounting career after earning a B.S. in economics and mathematics from Rutgers University and a Master's degree in accounting from the University of Phoenix. She joined The Curchin Group in August 2012 with over four years of experience in providing accounting services to financial institutions, and currently works as a staff accountant applying her experience to Curchin's credit union practice.

Ivana enjoys the small size of The Curchin Group, which gives her the opportunity to do a little bit of everything. "I like the diversity. Every day is different and it keeps me on my toes and thinking," she says. When Ivana is not hard at work supporting clients, she enjoys shopping, working out, and spending time with her husband and other friends. Ivana is also furthering her accounting career and is currently studying for the CPA exam.

Join The Curchin Group at the Firm's 8th Annual Curchin Open



The Curchin Group's 8th Annual Curchin Open, a nine-hole miniature golf tournament for charity will take place indoors at Curchin's Red Bank office on **Wednesday, November 6, 2013** from **4:00 to 7:00 p.m.** Player fees are \$20 per person, which includes one round of golf, food and beverages. Teams of four can sign up for the \$100 per team Foursome Challenge (which includes four Fantasy golf scratch-off cards).

Two local non-profit organizations will share the proceeds from the 8th Annual Curchin Open:

Family & Children's Service

Family & Children's Service is a Monmouth County nonprofit organization with a mission to help people at vulnerable times in their lives through education, intervention, care and counseling.

Girl Scouts of the Jersey Shore

Girl Scouts of the Jersey Shore was created to serve the region and to give girls more access to volunteer-led programs of the century-old Girl Scouts of the USA. The organization's mission is "to build girls of courage, confidence, and character, who make the world a better place."

For further information about sponsoring the 8th Annual Curchin Open, please contact Peter Pfister at ppfister@curchin.com or at 732.747.0500, or visit the Curchin Web site at www.curchin.com.



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From left to right: Lynn Conover; Dave Ferullo; Peter Pfister; Bob Fouratt; Carolyn Kvalo.

THE CURCHIN GROUP Celebrating over 55 years in Monmouth County, New Jersey, The Curchin Group helps small to mid-sized businesses and individuals reach their financial goals through providing a broad range of Assurance; Tax; Financial Planning; Business Advisory Services; and Litigation & Valuation Services. The firm is dedicated to giving solid financial advice, sustaining long-term relationships with its clients and employees and giving back to the surrounding community. For more information about Curchin, please contact Bob Fouratt at 732.747.0500 or bfouratt@curchin.com. ■

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Firm News

Managing Partner, Robert C. Fouratt, CPA Presented April Webinar for the National Association of Credit Union Supervisory and Auditing Committees' 2013 Webinar Series.

Bob presented the April 25, 2013 webinar for the National Association of Credit Union Supervisory and Auditing Committees' 2013 Webinar Series. His one-hour presentation, titled "The Committees' Role in Effective Oversight of Risk Management," focused on general risks that all credit unions face and how to manage them effectively. Bob also discussed critical areas of responsibility for supervisory and audit committees, as well as the top 20 questions that committees should be asking in regard to risk management. Professionals from more than 30 credit unions across the United States attended this presentation. ■

Curchin Group Director, Roy H. Kvalo, CPA/ABV/CFF, CVA, Presented at Program on Business Valuation Essentials and Divorce.

Roy presented at a program titled, "Business Valuation Essentials and Divorce," in January 2013, to approximately 50 members of the Monmouth Bar Association's Family Law Section. Sponsored by The Curchin Group, the program provided family law attorneys with special considerations and best practices for handling business valuations during divorce proceedings. ■