

# Trade & Professional Association Bulletin

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June 2002

## IRS ANNOUNCES AMNESTY PROGRAM FOR SECTION 527 ORGANIZATIONS

### Background

In June 2000, President Clinton signed the Section 527 public disclosure law, aimed at requiring political organizations to publicly disclose to the IRS their political activity. Prior to enactment of this law, only political organizations that were subject to Federal Election Commission reporting rules were required to file public documents at the federal level.

A “political organization” is defined to include a party, committee, association, fund, or other organization (whether or not incorporated) organized and operated primarily for the purpose of directly or indirectly accepting contributions or making expenditures, or both, for an exempt function, which is defined as influencing or attempting to influence the selection, nomination, election or appointment of any individual to a federal, state or local public office. These organizations commonly are referred to as Section 527 organizations, in reference to the section of the Internal Revenue Code that defines them.

The statute added three new reporting requirements for Section 527 organizations: (1) notice to the IRS of the organization’s creation; (2) reporting to the IRS of the organization’s contributions and expenditures; and (3) the filing of an annual information return. In addition, the statute expanded the filing requirements for Form 1120-POL to require filing of Form 1120-POL by any Section 527 organization with gross receipts of \$25,000, even if it does not have any taxable income.

Although the new law took effect July 1, 2000, many political organizations have failed to file the appropriate forms with the IRS. As a result, the IRS recently announced an amnesty program for certain of these Section 527 organizations. Designed to promote maximum disclosure by 527 organizations, the voluntary compliance program gives most federal or nonfederal political organizations that have failed to file or have incompletely filed forms required by the IRS **until July 15, 2002** to bring their filings into line with statutory requirements. Failure to meet the filing requirements by July 15, 2002 may result in the assessment of taxes, penalties and interest.

### Filing Requirements for Section 527 Organizations

**Filing Requirements for Section 527 Organizations Other than Federal PACs.** Section 527 organizations (other than federal political action committees (PACs)) with more than \$25,000 in gross receipts in a calendar year must file four separate forms. First, within 24 hours of establishment, the organization needs to file—both electronically and in writing—Form 8871 (*Political Organization Notice of 527 Status*). Until this form is filed, the organization’s income (including contributions) will be subject to taxation. After filing Form 8871, the Section 527 organization must file Form 8872 (*Report of Contributions and*

*Expenditures*) periodically, either on a monthly or semi-annual/quarterly basis with special filing requirements before elections. Form 8872 discloses information about persons receiving \$500 or more annually from the organization, as well as persons contributing \$200 or more annually. A Section 527 organization that does not file a Form 8872 must pay an amount equal to the highest corporate tax rate (35%) for every expenditure and contribution not reported to the IRS. Additionally, Section 527 organizations also are required to file Form 1120-POL (*U.S. Income Tax Return for Certain Political Organizations*) and Form 990 (*Return of Organization Exempt from Income Tax*) or 990-EZ (*Short Form Return of Organization Exempt from Income Tax*) annually.

**Federal PAC Filing Requirements.** Federal PACs are exempt from the filing requirements relating to Form 8871 and Form 8872. Instead, they need only file Form 1120-POL and Form 990 or Form 990-EZ, as required by longstanding Federal Election Commission rules.

### Details of the IRS Tax Amnesty Program

The amnesty program applies to most Section 527 organizations, including political organizations, PACs, and federal, state and local candidate committees.

The amnesty program pertains to the following forms that are filed on or before July 15, 2002 (including applicable extensions for Form 1120-POL, Form 990 or Form 990-EZ):

- Form 8871 - *Political Organization Notice of 527 Status*,
- Form 8872 - *Report of Contributions and Expenditures*,
- Form 1120-POL - *U.S. Income Tax Return for Certain Political Organizations*, or
- Form 990 - *Return of Organization Exempt from Income Tax*, or Form 990-EZ - *Short Form Return of Organization Exempt from Income Tax*.

The following organizations are not required to file Form 8871 or Form 8872:

- Section 527 organizations that already file regularly with the Federal Election Commission;
- Section 527 organizations that reasonably expect their annual gross receipts to be less than \$25,000 in each taxable year; and
- Section 501(c) organizations that have political organization taxable income under Section 527(f)(1) of the Code.

All eligible Section 527 organizations that wish to take part in the voluntary compliance program should alert the IRS by including "Filed in Accordance with Notice 2002-34" on any paper forms and correspondence filed in response to the amnesty program. Electronic forms need not include this information. Those filing an amended or corrected form will qualify for the amnesty program, provided such forms are filed by July 15, 2002 and include all information required by the form rather than only the new or corrected information. Any Section 527 organization that has previously paid taxes, penalties or interest with respect to a form filed prior to July 15, 2002 may write a letter requesting a refund in accordance with Notice 2002-34.

Copies of all forms required to be filed by Section 527 organizations can be found on the IRS website at [www.irs.gov](http://www.irs.gov). The Form 8871 electronic filing site may be accessed from the IRS website at [www.irs.gov/bus\\_info/eo/pol-file.html](http://www.irs.gov/bus_info/eo/pol-file.html).

Should you have any questions regarding how the IRS Amnesty Tax Program may be of particular benefit to your organization, please contact Michael E. Reed at 312/609-7460 or Kathryn L. Stevens at 312/609-7803.

## VEDDER, PRICE, KAUFMAN &amp; KAMMHOLZ

**About Vedder Price**

Vedder, Price, Kaufman & Kammholz is a national, full-service law firm with approximately 200 attorneys in Chicago, New York City and Livingston, New Jersey.

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- Membership issues.

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