

Congressional Hearing Planned Regarding IRS Final Report on Colleges and Universities Compliance Project

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IRS Colleges and Universities Compliance Project

The Internal Revenue Service ("IRS") recently completed a four-year investigation into compliance by nonprofit colleges and universities in the following tax areas:

- Unrelated business taxable income ("UBTI");
- Executive compensation; and
- Employment tax issues.

The final report on the Colleges and Universities Compliance Project, released by the IRS on April 25, 2013 details extensive failure by the audited colleges and universities to comply with federal tax laws.

Specifically, the IRS found significant noncompliance and underreporting of UBTI by over 90% of the audited schools, resulting in income adjustments of about \$90 million, and loss disallowances of over \$170 million. The primary increases to UBTI were disallowed expenses not connected to unrelated business activities, errors in computation or substantiation of losses, and misclassification of unrelated activities as exempt. In its review of executive compensation and employment tax issues, the IRS found schools setting compensation in the upper bounds of what is permissible, and all of its employment tax examinations resulted in adjustments.

The IRS launched the investigation in 2008 by distributing a detailed questionnaire to 400 colleges and universities requesting compliance reporting on business activities, such as alumni travel programs and facilities rentals not directly related to higher education, as well as compensation paid to administrators and faculty. Based on the results of the questionnaire, the IRS selected and audited 34 schools identified as at risk for noncompliance. The results of these audits are detailed in the final report.

Congressional Hearing Planned for May 8, 2013

The Subcommittee on Oversight of the Committee on Ways and Means will hold a hearing on May 8, 2013 regarding the results of the IRS final report on the Colleges and Universities Compliance Project. The Subcommittee will review the findings of the audit with an eye toward reform.

Next Steps

While the Congressional Hearings will likely influence the next actions for the IRS, we expect the IRS to focus on colleges and universities to ensure their compliance with federal tax laws.

This means IRS audits of colleges and universities focused on UBTI and executive compensation.

The full report is available at http://www.irs.gov/pub/irs-tege/CUCP_FinalRpt_050213.pdf.



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