TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Statistical Trends of the Tax Exempt and Government Entities Division Through Fiscal Year 2025

August 19, 2026

Report Number: 2026-1S0-042

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HIGHLIGHTS: Statistical Trends of the Tax Exempt and Government Entities Division Through Fiscal Year 2025

Final Report issued on August 19, 2026 **Report Number 2026-1S0-042**

Why TIGTA Did This Review

This review compiles nationwide statistical information and complete trend analyses of activities for the major functions of the IRS's Tax Exempt and Government Entities (TE/GE) Division from Fiscal Years (FY) 2021 through 2025.

Impact on Tax Administration

The TE/GE Division has oversight responsibility for a significant portion of the country's economy. Although the distinct organizations and entities of the TE/GE Division are exempt from paying income tax, they contribute substantially to the economy by controlling more than $60 trillion in assets and employ more than 27 percent of the American workforce. In addition, they may be subject to other federal taxes, such as excise and employment taxes. Because these entities represent a substantial segment of the economy, changes affecting TE/GE operations, staffing, or compliance programs may have broad implications for tax administration and taxpayer compliance.

What TIGTA Found

The TE/GE Division consists of seven distinct functions:

- **Compliance Planning and Classification** develops and delivers the TE/GE Work Plan and associated case work to the other TE/GE functions.
- **Employee Plans** oversees employee retirement plans and related trusts.
- **Exempt Organizations** oversees approximately 1.9 million tax-exempt entities with varying requirements for tax-exempt status.
- **Government Entities** is responsible for ensuring that government entities comply with certain federal tax rules.
    - **Federal, State, and Local (Governments)/Employment Tax** oversees federal tax compliance for federal, state and local government entities.
    - **Indian Tribal Governments** maintains government-to-government relationships between the IRS and Indian tribal governments.
    - **Tax Exempt Bonds** works with stakeholders in the tax-exempt bond community to promote voluntary compliance with the law.
- **Shared Services** supports the TE/GE Commissioner by providing strategic and operational support for the functions within the TE/GE Division.

New legislation and executive orders impacted the TE/GE Division's operations from FYs 2021 through 2025. The TE/GE Division received additional funding from the Inflation Reduction Act, resulting in a budget that increased by nearly $114 million (50 percent) from FYs 2021 through 2025. Staffing levels also increased by 39 percent, with most of the staffing increases occurring in FYs 2024 and 2025. However, this does not reflect the reduction of employees who participated in separation programs offered beginning in FY 2025. These employees remained in the system during FY 2025, and the impact of their loss will likely affect future goals.

The TE/GE Division's compliance activities declined in several areas. For example, the Exempt Organizations and Employee Plans functions completed fewer examinations in FY 2025 compared to FY 2021, by 15 and 16 percent, respectively. The number of compliance checks (*i.e.*, non-examination reviews) and compliance related revocations of exempt status also decreased. Most of the decreases in these compliance activities were the result of workforce changes and resource allocation.

This report provides information only, so we made no recommendations. The IRS agreed with the draft report but did not provide a formal response.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

August 19, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Report – Statistical Trends of the Tax Exempt and Government Entities Division Through Fiscal Year 2025 (Review No.: 20251S0001)

This report presents the results of our review of various statistical information and data trends related to the Tax Exempt and Government Entities Division. We performed this review during the period November 2024 through January 2026. We are issuing this report to compile nationwide statistical information and complete trend analyses of activities for the Internal Revenue Service's (IRS) Tax Exempt and Government Entities Division for Fiscal Years 2021 through 2025. This review is part of our Fiscal Year 2026 Program Plan and addresses the major management and performance challenge of *Ensuring Tax Compliance*.

The IRS agreed with the draft report but did not provide a formal response. If you have any questions, please contact me or Kasey J. Koontz, Assistant Inspector General for Audit (Taxpayer Services and Operational Support).

Background

Across America, tax-exempt organizations and government entities support societal goals, foster economic security/development, and enrich American lives. These distinct organizations and entities include retirement plans, charities and other exempt organizations, Indian tribes, federal, state and local governments, and entities that issue tax advantaged bonds. The Tax Exempt and Government Entities Division (TE/GE) serves taxpayers by helping these distinct organizations and entities understand and comply with applicable tax laws and reporting obligations.

To protect the integrity of the exempt sector and fairly enforce the tax laws, the TE/GE Division:

- Issues determination letters to qualifying organizations and retirement plans.
- Educates taxpayers through compliance contacts, outreach, and stakeholder partnerships.[1]
- Offers programs to voluntarily correct mistakes and maintain compliance.
- Examines organizations and entities using data analytics and referrals to focus on high-risk issues.

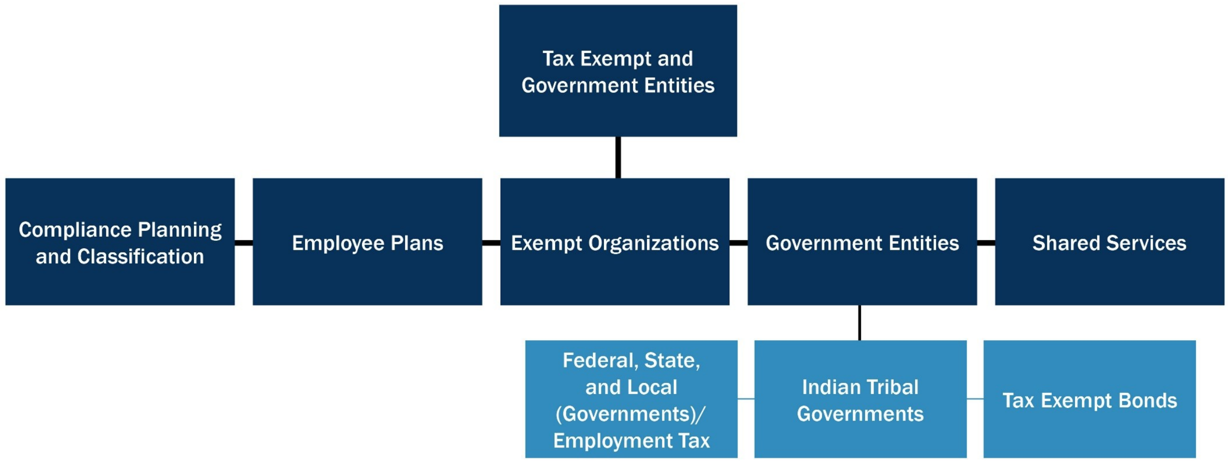
High-Level Overview of the Tax Exempt and Government Entities Sector

At the end of Fiscal Year (FY) 2025, the TE/GE Division had approximately 2,171 employees, representing 2 percent of the IRS workforce. Although the distinct organizations and entities of the TE/GE Division are exempt from paying income tax, they contribute substantially to the economy because they control trillions of dollars in assets and may be subject to other federal taxes, such as excise and employment taxes. In addition, these entities controlled more than $60 trillion in assets as of FY 2025 and employed approximately 27 percent of the American workforce. Further, the TE/GE Division distinct organizations and entities account for about 23 percent of the over $1.9 trillion of federal income tax expenditures. These tax expenditures include provisions that exempt certain income earned by tax-exempt organizations from taxation. Because these entities represent a substantial segment of the economy, changes affecting TE/GE operations, staffing, or compliance programs may have broad implications for tax administration and taxpayer compliance.

The TE/GE Division consists of seven distinct functions. Figure 1 shows the organizational structure of the TE/GE Division.

[1] See Appendix I for a glossary of terms.

Figure 1: TE/GE Division Organization Chart



Source: TE/GE intranet website.

Compliance Planning and Classification (CP&C) function develops and delivers the TE/GE Work Plan and associated case work to the other TE/GE functions. The CP&C function also uses data to develop compliance issues and monitors organizational compliance activities.

Employee Plans (EP) function oversees employee retirement plans and related trusts. This includes the qualification of pension, annuity, profit sharing, stock bonus plans, and simplified employee pensions. EP oversight also includes tax treatment of participants and their beneficiaries, and deductions for employer contributions. More than 1.1 million EP information returns were filed in FY 2025. The Department of Labor reported that pension plans held approximately $12 trillion in assets in Plan Year 2023, reflecting the substantial economic significance of these plans. During the same period, pension plans paid more than $1 trillion in benefits to 155 million participants. These payments provided financial support to retirees, beneficiaries, and terminating employees. Benefit payments were made directly to recipients or to insurance carriers for payment of benefits.

Exempt Organizations (EO) function oversees approximately 1.9 million tax-exempt entities with varying requirements for tax-exempt status. EO oversight includes processing requests for recognition of tax-exempt status and examining returns for compliance with statutory requirements and other federal tax responsibilities (*e.g.*, employment taxes).

Government Entities (GE) office oversees three functions that are responsible for three different and unique TE/GE customer groups. Functions include:

- **Federal, State, and Local (Governments)/Employment Tax (FSL/ET)** function oversees federal tax compliance for federal, state and local government entities. These government entities employed approximately 22.7 million people as of May 2025, which was about 15 percent of the entire American workforce. This sector is the largest block of employees in the nation. As of September 2025, the U.S. Census Bureau reported that there are over 91,000 unique state and local governments in the United States.[2]

[2] U.S. Census Bureau, *2025 Government Organization Tables*, (2025). The Census Bureau conducts the Census of Governments every five years, in years ending with a "2" and "7."

- **Indian Tribal Governments (ITG)** function maintains government-to-government relationships between the IRS and Indian tribal governments. As of August 2025, there were 574 federally recognized Indian tribes and more than 5,034 tribal entities. Tribal businesses operate across diverse industries such as gaming, transportation, financial services, and health care. As of FY 2024, there were 243 tribes operating 532 gaming establishments across 29 states. Gross gaming revenue for tribal casinos was $43.9 billion in FY 2024. By comparison, gross gaming revenue of commercial casinos in Calendar Year (CY) 2024 was $71.9 billion.
- **Tax Exempt Bonds (TEB)** function works with stakeholders in the tax-exempt bond community to promote voluntary compliance with the law. It accomplishes this by operating voluntary correction programs, entering into closing agreements, and examining returns. The IRS receives filings from bond issuers notifying it of a new bond issuance. During FYs 2021 through 2025, the IRS received more than 124,000 initial bond filings totaling more than $4.6 trillion. Total issued tax-exempt bonds decreased by 31 percent from FYs 2021 through 2025, while dollar amounts increased by 21 percent.

Shared Services function supports the TE/GE Commissioner by providing strategic and operational support for the functions within the TE/GE Division. It manages TE/GE-wide programs such as external audits, TE/GE programs of Information Technology systems, communication, personnel, education and budget.

This report provides statistical information for the major functions of the TE/GE Division from FYs 2021 through 2025. Our analyses relied on nationwide data from IRS information systems. Due to time and resource constraints, we did not assess or validate the accuracy and reliability of the data. Our analyses focused on identifying changes and trends in IRS data. In addition, we are conducting a separate review that provides various statistical information regarding enforcement revenue within the IRS's Collection and Examination functions.

Most of the calculations throughout the report are affected by rounding. All initial calculations were performed using the actual values rather than the rounded figures that appear in the report.

Objective

The overall objective of this review was to provide various statistical and data trend information related to the oversight provided by the TE/GE Division.

Results of Review

New Legislation and Executive Orders Significantly Impacted the Tax Exempt and Government Entities Division

New legislation often demands major operational overhauls across the IRS. Three laws significantly affected the TE/GE Division's operations during FYs 2021 through 2025:

- **The Inflation Reduction Act (IRA)** - Enacted in August 2022, the IRA changed a wide range of tax laws and provided supplemental long-term funding to improve IRS services and technology to make tax filing easier for taxpayers.[3] The funding allowed the IRS to update technology capabilities and invest in employees with new tools and skills to effectively enforce the tax laws. In addition, the IRA introduced several credits and incentives promoting clean energy and energy efficiency. Eligible taxpayers, including exempt organizations, and state, local, and Indian tribal governments, may use allowable credits as a payment of tax (referred to as an elective payment). TE/GE taxpayers claim these credits by filing a Form 990-T, *Exempt Organization Business Income Tax Return*.[4]

- **The SECURE 2.0 Act** - Enacted in December 2022, this law contains comprehensive tax provisions that significantly affect employer sponsored retirement accounts and Individual Retirement Accounts.[5] Several of the tax provisions affected the TE/GE Division. For example, one provision increased the credit for small employer pension plan start-up costs. This may increase the number of retirement plans requiring TE/GE oversight.

- **The Working Families Tax Cuts Act** - Enacted in July 2025, this law contains major tax provisions for individual and business taxpayers that went into effect in CY 2025.[6] Many of these provisions affected TE/GE functions. For example, individuals employed by TE/GE organizations may deduct qualified tips and overtime compensation on their income tax returns subject to limitations. We are conducting a review to evaluate the IRS's implementation of select provisions of this law. Additionally, this legislation phases out or modifies several clean energy credits previously established under the IRA. These changes affect those organizations using an elective payment to claim these credits.

  The Working Families Tax Cuts Act also includes reductions in federal spending, such as health care and food assistance programs. With fewer government resources available, many tax-exempt organizations that provide health care and food assistance may experience increased demand for their services.

In addition to legislative changes, beginning in January 2025, the President issued several executive orders that may have an impact on the TE/GE Division and its work in the future. Some of these executive orders include:

- Executive Order 14247, which promotes operational efficiency by mandating the transition to electronic payments for all federal disbursements and receipts.[7] TE/GE taxpayers may now elect to receive refunds via direct deposit, instead of paper checks, for refunds reported on certain forms.[8] We are conducting separate reviews to evaluate this initiative. For example, we are assessing the IRS's efforts to phase out the distribution and receipt of paper checks.

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[3] Pub. L. No. 117-169, 136 Stat. 1818.

[4] Many of these changes were reversed in CY 2025.

[5] Consolidated Appropriations Act of 2023, Pub. L. No. 117-328, 136 Stat. 4459, 5275 (2022).

[6] Pub. L. No. 119-21.

[7] *Modernizing Payments To and From America's Bank Account*, Executive Order 14247, 90 Fed. Reg. 14001 (March 28, 2025).

[8] Form 8050, *Direct Deposit of Tax Exempt or Government Entity Tax Refund* was previously Form 8050, *Direct Deposit of Corporate Tax Refund*.

- Executive Order 14330 directed the Department of Labor to allow Americans access to alternative assets for 401(k) investors.[9] The TE/GE Division will consult with the Office of Chief Counsel and the Department of Treasury to determine how this will affect employee plan administration.

The National Collegiate Athletic Association, a tax-exempt organization, adopted an interim name, image, and likeness policy in June 2021. The policy allows college athletes to monetarily benefit from their name, image, and likeness without jeopardizing their Association eligibility. We are conducting a separate review to evaluate the IRS's guidance and enforcement strategy for this policy.

IRS workforce reductions

In June 2026, we reported that since January 2025, the IRS reduced its workforce to comply with the President's executive orders and Office of Personnel Management guidance.[10] The IRS offered various separation programs. According to the IRS, 31,273 employees either voluntarily separated, took a deferred resignation offer, or used some other incentive to leave from January 2025 through January 2026. These actions reduced the TE/GE's workforce by approximately 32 percent (723 employees).

In addition, the federal government had a lapse in appropriations in October 2025 that shut down most IRS operations for 24 business days. Approximately 1,307 TE/GE employees were furloughed during this shut down. In January 2026, we reported that overall inventory levels in key return processing programs have increased due to efforts to reduce staff and the government shutdown.[11]

Tax Exempt and Government Entities Division budget and staffing levels increased over the last five fiscal years

The TE/GE Division's budget increased by nearly $114 million from FYs 2021 through 2025. Figure 2 shows the changes in TE/GE's budget levels.

[9] *Democratizing Access to Alternative Assets for 401(k) Investors*, Executive Order 14330, 90 Fed. Reg. 38921 (August 12, 2025).

[10] TIGTA, Report No. 2026-IE-R009, *Snapshot Report: Status of the IRS's Workforce as of January 2026* (June 2026).

[11] TIGTA, Report No. 2026400002, *The Internal Revenue Service's Readiness for the 2026 Filing Season* (January 2026).

Figure 2: TE/GE Division's Budget Increased by 50 Percent from FY 2021 through FY 2025

TE/GE Function	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
CP&C	$20.2M	$21.8M	$23.9M	$22.7M	$22.4M
EP	$78.3M	$76.8M	$75.1M	$92.4M	$111.8M
EO	$72.0M	$73.9M	$72.6M	$89.7M	$117.5M
GE[12]	$26.6M	$29.2M	$28.3M	$35.8M	$44.3M
Shared Services	$29.1M	$28.7M	$29.3M	$40.9M	$43.9M
Total	**$226.2M**	**$230.4M**	**$229.2M**	**$281.5M**	**$339.9M**

Source: Integrated Financial System data provided by Shared Services. M = millions.

The IRS initially received approximately $79.4 billion in supplemental funding when the IRA was signed into law in August 2022. As of February 2026, Congress subsequently reduced IRA funding to approximately $26 billion. Rescissions were made to the Enforcement funding activity ($41.8 billion) and the Operations Support funding activity ($11.7 billion).[13] The IRS reported that as of March 2025, the largest IRA expenditure was for employee compensation (*i.e.*, pay and benefits) totaling approximately $6.1 billion. Approximately $2.5 billion (40 percent) of these labor costs were spent in FY 2025. The TE/GE Division received approximately $28 million in IRA funds during FY 2024 and nearly $97 million in IRA funds during FY 2025, which corresponds with budget and staffing level increases in each respective year. Figure 3 shows the changes in the TE/GE Division's staffing levels from FYs 2021 through 2025, which increased by 39 percent.

Figure 3: TE/GE Division Staffing Increased by More Than 600 Employees from FY 2021 through FY 2025

TE/GE Function	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
CP&C	138	144	149	136	128
EP	528	507	465	573	731
EO	550	541	496	646	868
GE[14]	204	206	196	237	306
Shared Services	138	139	130	141	138
Total	**1,558**	**1,537**	**1,436**	**1,733**	**2,171**

Source: Integrated Financial System data provided by Shared Services.

[12] The GE function includes the FSL/ET, ITG, and TEB functions. Budget totals were combined for the figure.

[13] The Fiscal Responsibility Act of 2023 (Pub. L. No. 118-5, 137 Stat.10) rescinded $1.4 billion; the Further Consolidated Appropriations Act, 2024 (Pub. L. No. 118-47, 138 Stat. 460) rescinded $20.2 billion; the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4) rescinded another $20.2 billion, and the Consolidated Appropriations Act, 2026, rescinded another $11.7 billion (Pub. L. No. 119-75).

[14] The GE function includes the FSL/ET, ITG, and TEB functions. Staffing totals were combined for the figure.

The staffing data in Figure 3 does not reflect the 723 employees who took the deferred resignation offer or other incentive to leave because those individuals were still in the system during FY 2025. The reduction in staff may affect the TE/GE functions' ability to meet their future goals. In addition, any future IRS budget cuts may also affect the TE/GE Division's ability to fulfill its mission.

Determination Letters Issued to Qualifying Organizations and Retirement Plans Increased

The TE/GE Division issues determination letters for entities requesting recognition of tax-exempt status and for the qualified status of retirement plans. Certain types of entities seeking tax-exempt status must apply for a determination from the EO function. Other types of entities can claim tax-exempt status without prior IRS approval, such as churches. Entities seeking IRS guidance on their employee plans may also request a determination letter from the EP function. Although voluntary, these requests help employers minimize the risk that the IRS will disqualify the plan if later examined.

Figure 4 shows the number of determination requests received and processed by the EO and EP functions during FYs 2021 through 2025.

Figure 4: EO and EP Determination Letter Requests Received Increased from FY 2021 through FY 2025

	Determination Letters	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
EO Function	Received	110,677	111,614	126,287	137,117	142,150
	Processed	94,287	133,698	119,050	136,700	144,953
EP Function	Received	1,500	2,557	1,602	1,441	2,950
	Processed	2,562	1,712	1,845	1,240	2,354

Source: Modified EP/EO Determination System.

The EO function experienced delays in establishing and processing new cases in FY 2021. The EO Determinations system was unavailable for new receipts from November 2020 through March 2021. After the system issues were resolved, EO Determinations unit employees discovered duplicate and erroneous cases that resulted from manually establishing the cases. Further, the low volume of processed applications in FY 2021 is likely due to delays in establishing new applications instead of processing them.

Tax Exempt and Government Entities Division Enforcement Activities

Completed examinations fluctuated from Fiscal Years 2021 through 2025

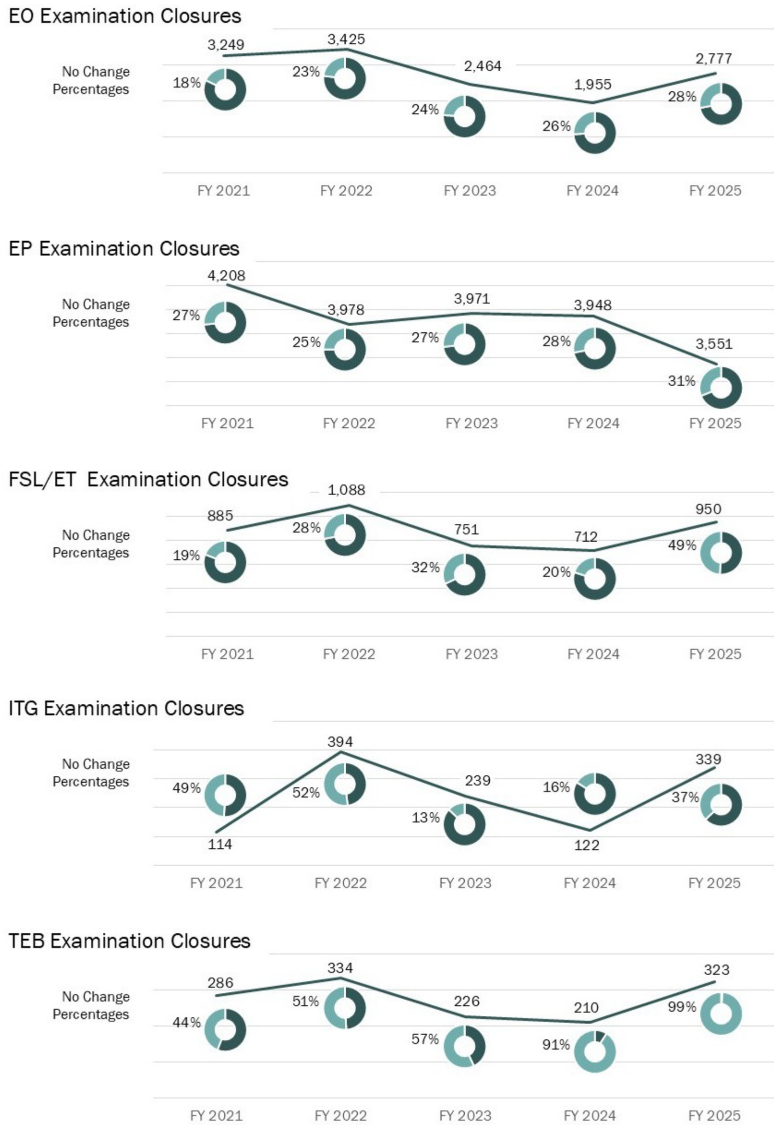
Examination closures varied across TE/GE functions from FYs 2021 through 2025. The TE/GE Division performs examinations to promote voluntary compliance with the statutes governing qualification of employee plans and exemptions of certain types of organizations. It also reviews compliance with federal tax return filing requirements and reporting correct tax liabilities. The TE/GE Division had 40 examination compliance strategies with in-process inventory distributed across its functions as of the fourth quarter of FY 2025. For example, one compliance strategy is reviewing Internal Revenue Code (I.R.C.) § 501(c)(3) tax-exempt hospitals' compliance with the community benefit standard as outlined in the Affordable Care Act.[15] Another strategy seeks to ensure that I.R.C. § 501(c)(3) tax-exempt organizations identified as supporting athletes using their name, image, and likeness for compensation, disclosed these activities in their application for tax-exempt status. TE/GE functions perform examinations based on their specific responsibilities:

- The EO function reviews returns to assess compliance with tax laws and tax-exempt status requirements. Continuing qualification requires the organizations to conduct activities related to tax-exempt purposes.
- The EP function reviews returns to protect the interests of the employee plan participants and beneficiaries.
- The FSL/ET function mainly focuses on reviewing employment tax compliance.
- The ITG function, as part of its federal tax administration responsibilities, conducts examinations of tribal entities by evaluating compliance with filing requirements and federal tax liabilities.
- The TEB function ensures compliance with the provisions of the I.R.C. applicable to tax advantaged bonds.

Figure 5 shows the number of examinations completed by these functions from FYs 2021 through 2025. It also includes the percentage of no change examinations.

[15] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of 26 and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029. To be tax-exempt under I.R.C. § 501(c)(3), an organization must be organized and operated exclusively for exempt purposes set forth in Code. Organizations described in I.R.C. § 501(c)(3) are commonly referred to as charitable organizations.

Figure 5: Closed Examinations Fluctuated from FYs 2021 through 2025



Source: FYs 2021 through 2024 TE/GE Accomplishment Letters, FY 2025 Quarter 4 Business Performance Review, Reporting Compliance Case Management System, and Returns Inventory and Classification System data provided by CP&C.

TE/GE management stated that hiring impacted the changes in examination closures. For example, EO examination closures declined from FYs 2021 through 2024 due to resource constraints, competing priorities, and training demands. However, the EO function increased closures in FY 2025 due to the hiring of new staff. The EO function completed 15 percent fewer examinations in FY 2025 compared to FY 2021. Similarly, the ITG and TEB functions' examination closures increased in FY 2025 because of the functions' significant hiring during FY 2024 and FY 2025.

Additionally, according to TE/GE Division management, the no change rate in the TEB and FSL/ET functions increased from FYs 2021 through 2025 due to workforce expansion. As part of their training, newly hired employees were assigned less complex cases with limited issues. These cases are generally less likely to result in adjustments, which contributed to higher no change outcomes. Although the number of EP function examination closures decreased by nearly 16 percent from FYs 2021 through 2025, the no change rate remained relatively consistent over the same period.

Compliance checks and voluntary compliance program activity declined

Compliance checks are non-examination reviews to determine whether specific items on returns have been reported properly. The TE/GE Division conducts compliance checks to determine whether a TE/GE entity or organization is adhering to federal tax and information return filing, reporting, and payment requirements. Compliance checks are a tool to help educate TE/GE entities, organizations, practitioners, plan sponsors and participants, and encourage voluntary compliance.

The number of completed compliance checks decreased by 65 percent from FYs 2021 through 2025. Figure 6 shows the total number of completed compliance checks from FYs 2021 through 2025.

Figure 6: Closed Compliance Checks Decreased from FY 2021 through FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Compliance Check Closures	13,349	6,120	4,571	5,954	4,622

Source: FYs 2021 through 2024 TE/GE Accomplishment Letters and FY 2025 Quarter 4 Business Performance Review.

TE/GE management attributed fluctuations in the number of compliance checks completed to workload transitions and training priorities. TE/GE management also stated that there were fewer new compliance cases started in FY 2025 to prepare for reallocating resources to assist with higher priority work in other functions. Higher priority work includes, for example, assistance with reviewing exempt organization determination applications and clean energy credit pre-registration submissions. Further, the existing in-process compliance checks inventory will be reassigned to the remaining four employees.

The TE/GE Division also offers a Voluntary Compliance Resolution Program (VCRP) where employers can voluntarily correct operational defects and plan document defects in retirement plans. This process helps employers avoid potential plan disqualification. Employers may request IRS approval to confirm that the corrections are acceptable. Figure 7 shows program receipts and closures from FYs 2021 through 2025.

Figure 7: VCRP Receipts Decreased by 1,016 from FY 2021 through FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
VCRP Receipts	1,707	1,486	1,190	902	691
VCRP Closures	1,891	1,054	1,142	789	1,080

Source: Reporting Compliance Case Management System data provided by CP&C.

From FYs 2021 through 2025, receipts and closures of VCRP filings decreased by nearly 60 and 43 percent, respectively. According to EP management, receipts declined primarily due to expanded self-correction options. These options were introduced through the Employee Plans Compliance Resolution System and the SECURE 2.0 Act. The Act allows plan sponsors to correct many retirement errors on their own without filing with the IRS or paying a fee. As a result, fewer employers used the VCRP, which led to lower receipts. For the decreasing number of closures, EP management cited the temporary reassignment of some VCRP employees to examinations and new hire training.

Automatic revocations of exempt status increased while compliance related revocations decreased

Tax-exempt organizations must meet filing and operational requirements to remain eligible for tax-exempt status. Organizations that fail to comply will be subject to revocation of their exempt status. Automatic revocation of tax-exempt status occurs when an exempt organization fails to file required annual returns or notices for three consecutive years.[16] Revocations can also occur because of an examination. An I.R.C. § 501(c)(3) charity that loses its tax-exempt status is no longer eligible to receive tax-deductible contributions.

The automatic revocations increased by approximately 59 percent from FY 2021 through FY 2025. The Office of Chief Counsel stated that some of the increase in automatic revocations may be due to the impact of the pandemic on exempt organization operations and return filing. As previously mentioned, EO examinations decreased from FY 2021 through FY 2025. As a result, there was a corresponding decrease in compliance related revocations during this same period. Figure 8 shows the revocation trends for FYs 2021 through 2025.

Figure 8: Automatic Exemption Revocations Increased by About 21,000 from FY 2021 through FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Automatic Revocations	35,868	57,922	59,378	66,267	56,932
Examination Revocations	94	53	141	87	44

Source: IRS Automatic Revocation List, FYs 2021 through 2024 TE/GE Accomplishment Letters, Reporting Compliance Case Management System, and Returns Inventory and Classification System data provided by CP&C.

Tax-exempt hospital reviews are required every three years

Enacted in March 2010, the Patient Protection and Affordable Care Act requires the IRS to review the community benefit activities of I.R.C. § 501(c)(3) tax-exempt hospitals at least once every three years. The reviews are used to determine whether a hospital qualifies for I.R.C. § 501(c)(3) tax-exempt status. As a result of this mandate, the TE/GE Division created a group in its CP&C function to conduct compliance reviews, referred to as Community Benefit Activity

[16] Form 990, *Return of Organization Exempt From Income Tax*; Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*; Form 990-PF, *Return of Private Foundation*; and Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ*.

Reviews (CBAR). CP&C revenue agents complete CBAR surveys, which consist of 17 questions related to how hospitals comply with the community benefit standard. The agents determine each hospital's compliance, without contacting the hospitals, and instead use information reported on Form 990, Schedule H, as well as information from public sources. These sources include Medicare data and state and hospital websites. Based on the results of the CBAR survey, the revenue agent may refer a hospital for an examination if they cannot verify its compliance with the community benefit requirements. Figure 9 shows the number and results of hospital reviews completed during FYs 2021 through 2025.

Figure 9: Closed CBAR Surveys and Examinations Decreased from FYs 2021 through FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Closed CBAR Surveys	1,115	1,219	877	887	916
Referred for Examination	73	64	0	[redacted]	[redacted]
Closed Examinations	22	56	16	7	[redacted]
No Change Percentage	41%	48%	81%	86%	[redacted]

Source: Reporting Compliance Case Management System data provided by CP&C.

The requirement to review hospitals every three years allows for the inventory to be managed more efficiently. Hospitals have also become more familiar with the community benefit requirements and compliance continues to improve. Additionally, the number of examination referrals resulting from CBAR surveys began to decline in FY 2023 when the survey was reduced from 207 to 17 questions.

In May 2025, we reported that the vague definition of community benefit makes it difficult for both hospitals and the IRS to determine if hospitals are providing sufficient community benefits to justify their tax exemption. In addition, we identified 142 I.R.C. § 501(c)(3) tax-exempt hospitals that should have been included in the CBAR population, but the IRS did not identify or review them. The IRS agreed to revise the way it identifies hospitals for a CBAR to include all applicable entities. We also recommended the TE/GE Division share our report with the Department of the Treasury Office of Tax Policy to consider legislative changes to clarify the community benefit standard.[17] The IRS implemented these corrective actions by enhancing the methodology for identifying I.R.C. § 501(c)(3) tax-exempt hospitals subject to a CBAR and by sharing our report with the Department of the Treasury Office of Tax Policy.

Impact of legislative provisions on compliance efforts

Although tax-exempt organizations generally do not file annual income tax returns, most are required to file annual information returns or notices.[18] Tax-exempt organizations filed approximately 1.5 million information returns in FY 2025.

[17] TIGTA, Report No. 2025-100-019, *Vague and Outdated Guidance Creates Challenges for Tax-Exempt Hospital Oversight* (May 2025).

[18] Certain organizations with less than $50,000 in annual gross receipts file a Form 990-N, rather than a more detailed information return.

Forms 990-T filings increased. Some tax-exempt organizations also file other types of returns. For example, organizations that have income from activities unrelated to their tax-exempt purpose must file Form 990-T and pay taxes on this income. The number of Forms 990-T filed during FYs 2021 through 2025 increased from approximately 171,000 to over 182,000.[19] Figure 10 shows the taxes assessed associated with these filings.

Figure 10: Taxes Assessed Increased by More Than $156 Million from FY 2021 through FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Taxes Assessed	$823.8M	$1.5B	$1.3B	$1.4B	$979.9M

Source: Return Integrity Compliance Services data provided by CP&C. B = billions. M = millions.

CP&C management stated that while TE/GE assesses some unrelated business income taxes during examinations, most Forms 990-T are filed by tax-exempt organizations without TE/GE involvement and any change in the numbers are dependent upon taxpayer activity and filing patterns.

Legislative changes affected Form 990-T filing requirements. The IRA created provisions that allowed tax-exempt organizations to claim certain clean energy credits by filing a Form 990-T. Tax-exempt organizations could treat these credits as tax payments and receive refunds of resulting overpayments. The Working Families Tax Cuts Act subsequently phased out several of these clean energy credits outlined in the IRA. These changes will affect those organizations claiming these credits on Forms 990-T.

Emerging compliance strategy for tip reporting

The Working Families Tax Cuts Act created a new federal income tax deduction for qualified tips of up to $25,000 per year. This new legislation will affect tribal entities and ITG management stated that they plan to continue communication efforts and outreach with Tribal Nations related to the legislation. In addition, the CP&C function developed a compliance strategy in FY 2026 to identify tip underreporting among TE/GE taxpayers, including tribal entities.

Reviews of tip agreements increased. The ITG function, in conjunction with the IRS's Small Business/Self-Employed Division's National Tip Reporting Compliance Program, administers voluntary Gaming Industry Tip Compliance Agreements as part of its tribal oversight responsibilities. These agreements promote compliance with the provisions of the I.R.C. relating to tip income by gaming industry employers and employees. As of February 2026, the ITG function oversees 212 tip agreements. These agreements establish minimum tip rates for specified occupational categories, set participation thresholds, and reduce compliance burdens for the employers and the IRS.

A tip rate review examines how the rates were determined and evaluates the related internal and accounting controls. Further, tip compliance involves annual monitoring of the employer's compliance with the tip agreement. Finally, tribes may also submit addendums to their tip

[19] Total filing numbers and assessment amounts include filed returns with refund requests and returns with assessments paid.

agreements. Tip agreements also offer participating employers and employees protection from certain tip-related examinations. Figure 11 includes statistics related to this voluntary program.

Figure 11: ITG Tip Agreement Reviews Increased by 12 from FY 2021 through FY 2025

Type of Agreement	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Solicitations[20]	3	9	0	0	4
Tip Rate Review	19	5	33	85	31
Addendum/Amendment	6	8	9	3	5
Tip Compliance	0	0	0	0	0
Total	**28**	**22**	**42**	**88**	**40**

Source: Reporting Compliance Case Management System data provided by CP&C.

The number of tip rate reviews increased by 63 percent from FYs 2021 through 2025. According to GE management, tip agreements were paused during the pandemic and were not resumed until FY 2024, which caused the increase in tip rate reviews that year.

Conclusion

The TE/GE Division has oversight responsibility for a significant portion of the nation's economy. New legislation and executive orders impacted the TE/GE Division's operations and required adjustments to compliance strategies from FYs 2021 through 2025. For example, the SECURE 2.0 Act, enacted in December 2022, may increase the number of retirement plans requiring TE/GE oversight. The TE/GE Division also received additional funding when the IRA was signed into law in August 2022. Its budget increased by nearly $114 million (50 percent). Similarly, staffing levels increased by 39 percent during the same period, with most of the staffing level increase occurring in FY 2024 and FY 2025. However, due to resource constraints, competing priorities, and training demands, compliance activities declined in several areas. For example, the EO function completed 15 percent fewer examinations in FY 2025 compared to FY 2021. In comparison, the EP function completed 16 percent fewer examinations during the same period.

Performance of This Review

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and follows procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the objective of our review.

[20] IRS employees may solicit tribes to enter a tip agreement, with the strict condition of not using or implying the threat of an audit as coercion.

Appendix I

Glossary of Terms

Term	Definition
401(k) Plan	A 401(k) is a plan that contains a cash or deferred arrangement that allows employees to make elective deferrals.
Community Benefit Standard	The community benefit standard is a test the IRS uses to determine whether a hospital is organized and operated for the charitable purpose of promoting health.
Compliance Contact	Correspondence contacts, known as compliance checks, addressing potential noncompliance, and educational letters to limit costs and taxpayer burden.
Deferred Resignation Offer	A separation program that allowed eligible employees to resign while continuing to receive full pay and benefits through September 30, 2025.
Determination Letter	A determination letter is a letter issued to a taxpayer by Employee Plans Rulings and Agreements that a retirement plan meets the requirements to be tax-qualified under I.R.C. § 401(a) or meets the requirements of I.R.C. § 403(b). Determination letters are also issued to organizations if its application and supporting documents establish that it meets the particular requirements of the section under which it is claiming exemption.
Excise Tax	Excise taxes are taxes imposed on certain goods, services, and activities.
Employment Tax	Employers must deposit and report federal employment taxes. Some of these taxes are paid by both the employer and the employee, while others are paid by the employer. Examples include federal income tax, Social Security tax, Medicare tax and federal unemployment tax.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on October 1 and ends on September 30.
Gaming Industry Tip Compliance Agreement	A gaming industry employer and the Internal Revenue Service work together to reach an agreement that establishes minimum tip rates for tipped employees in specified occupational categories, prescribes a threshold level of participation by the employer's employees, and reduces compliance burdens for the employer and enforcement burdens for the IRS.
Information Return	Information returns are filed to provide financial, operational, or compliance information to the IRS or other federal agencies.
National Tip Reporting Compliance Program	Program to establish effective policies and procedures for tip income filling, payment, and reporting compliance. This is accomplished through enforcement and compliance programs such as tip examinations and tip rate reviews.

Term	Definition
No Change Examination	A "no change" is where all examined issues are accepted as reported. The no change rate is the percentage of no change cases out of the total examination closures.
Plan Sponsor	The employer or other entity that maintains a retirement plan.
Small Business/Self-Employed Division	The IRS organization that services self-employed taxpayers and small businesses by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable tax laws.

Appendix II

Abbreviations

CBAR	Community Benefit Activity Review
CP&C	Compliance Planning and Classification
EO	Exempt Organizations
EP	Employee Plans
FSL/ET	Federal, State, and Local (Governments)/Employment Tax
FY	Fiscal Year
GE	Government Entities
I.R.C.	Internal Revenue Code
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
ITG	Indian Tribal Governments
TEB	Tax Exempt Bonds
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration
VCRP	Voluntary Compliance Resolution Program

To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.

To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at
TIGTACommunications@tigta.treas.gov.

Information you provide is confidential, and you may remain anonymous.