

IRS to Conduct Compliance Check of Colleges and Universities

Last week, the IRS Exempt Organizations Division released its implementing guidelines for the 2008 fiscal year (the year ending September 30, 2008). In the [guidelines](#), the IRS announced a compliance initiative for colleges and universities. Specifically, during 2008, it will send a “compliance check questionnaire” to a cross-section of approximately 500 small, medium and large colleges and universities. The questionnaire will cover the following topics:

- Reporting of income and expenses on the Form 990 information return;
- Calculation and reporting of losses on the Form 990-T unrelated business income tax return;
- Allocation of income and expenses in calculating unrelated business taxable income (UBTI);
- Investment and use of endowments; and
- Determination of executive compensation.

Based on the results of the questionnaires, certain colleges and universities will be selected for focused examinations.

Although the compliance check questionnaire has not yet been released, IRS officials have stated that it will be similar to a questionnaire sent to tax-exempt hospitals in 2006. That questionnaire consisted of approximately 80 questions over nine pages, and hospitals were initially given approximately one month to respond (although extensions of time were permitted).

In preparation for the possible receipt of an IRS compliance check questionnaire, and as an appropriate “best practice” in any event, we recommend that our college and university clients take the following steps:

1. Confirm that you have supporting documentation for income and expense reporting on your organization’s Forms 990.
2. If your organization files a Form 990-T and reported losses in any of your three most recent tax years, confirm that you have supporting documentation for those losses.
3. Ensure that you will have ready access to information about your organization’s current and past investment activities.
4. Confirm that you have records related to compensation paid to officers, directors, trustees and key employees, including minutes of meetings where compensation decisions were made and any comparability data (such as compensation surveys or consultants’ reports) used in making compensation decisions.

Contact Information

If you have any questions about this or related issues, please contact your usual Ropes & Gray attorney or:

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