

## CLIENT ALERT

### IRS Issues Check Sheet for Tax-Exempt Organizations' Governance Practices

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The Internal Revenue Service recently released a "Governance Check Sheet" to be used in the examination of public charities exempt under section 501(c)(3) of the Internal Revenue Code. Although trade associations are often exempt under Code section 501(c)(6), many have section 501(c)(3) affiliates and a number of professional associations are themselves exempt under section 501(c)(3). Thus the check sheet is of potential interest to trade associations.

In general, the check sheet is designed for use in an audit to determine the extent to which the organization's governance practices conform to IRS guidelines. The Governance Check Sheet lists information that the examining agent will seek from the tax-exempt organization including information on (1) the governing body and its meetings, (2) compensation policy, (3) relation to other organizations, (4) conflicts of interest policies, (5) financial oversight, and (6) document retention policies. By way of example, the check sheet requests information pertaining to whether the organization has a mission statement, and whether the bylaws set forth the composition, duties, qualifications, and voting rights of the directors.

The check sheet will be used by IRS' agents to capture data about governance practices and the related internal controls of tax exempt organizations for the IRS to gain a better understanding of the intersection between the governance practices and tax compliance of tax-exempt organizations.

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