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IRS Probes Nonprofit Political Groups

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By BRODY MULLINS And JACOB GERSHMAN



The Internal Revenue Service is taking initial steps to examine whether Crossroads GPS, a pro-Republican group affiliated with Karl Rove, and similar political entities are violating their tax-exempt status by spending too much on partisan activities.

The review, which could last for years and is unlikely to be concluded before the November election, could ultimately force many of the political groups to disclose the names of their donors for the first time.

At issue is whether political entities set up as 501(c)4 organizations are violating their tax-exempt status by spending too much on partisan politics rather than promoting a benefit to the community, the purpose of the tax exemption.

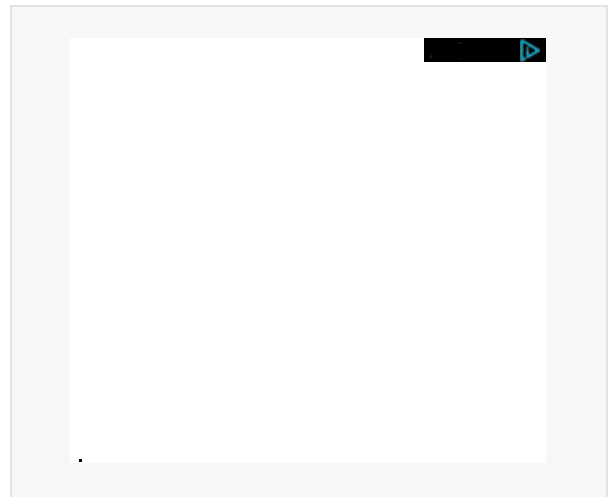
Last year, the IRS said examining the tax status of 501(c)4 political entities would be a priority for 2012. Holly Paz, a senior official in the IRS's tax-exempt division, said Friday that the agency was working on a questionnaire to send to some of the largest of the groups. Sending such a questionnaire is considered to be the first step in an IRS investigation.

The voluntary questionnaires will ask the organizations about their activities and compliance, said Ms. Paz, the IRS's director of tax-exempt rulings and agreements, speaking at a conference of the American Institute of Certified Public Accountants.

Democrats have called for years for the IRS to examine political entities that don't have to disclose who their donors are, and President Barack Obama has made his opposition to such groups an element of his re-election campaign.

Sen. Orrin Hatch of Utah—the top Republican on the Senate Finance Committee, which oversees the IRS—said Wednesday: "Politics should never play a role in the IRS's decision-making process. Unfortunately, this agency has come under increased pressure to do just that. That should not be allowed to happen. It undermines the agency and its mission."

In a separate probe, New York Democratic Attorney General Eric Schneiderman is investigating political spending by the U.S. Chamber of Commerce, a nonprofit, tax-exempt group representing business interests that traditionally supports GOP



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candidates. That probe was reported earlier by the New York Times.

The Chamber said the probe was politically motivated. "In the midst of a highly charged political season, it comes as no surprise that the New York State Attorney General would use his office to rehash a very old story about the Chamber's finances," said Thomas J. Collamore, a spokesman for the Chamber.

Taken together, the two probes represent the first major legal threat to a roster of political groups likely to play an important role helping Republican candidates in this fall's election.

Some of the 501(c)4 entities that the IRS could examine are considered to be super PACs, outside political action committees that are fast supplanting the traditional party fundraising arms and organizational efforts that have driven elections for a generation. Candidates are prohibited by law from coordinating with these groups.

Most of the largest 501(c)4 political groups support Republicans. Crossroads GPS, together with a sister group, plans to spend more than \$200 million aimed at defeating Mr. Obama and other Democrats. One of the entities that the IRS could review, Priorities USA, was founded to help Mr. Obama. In all, dozens of political entities have been created as 501(c)4 organizations.

Democrats have filed multiple legal challenges and have proposed legislation that would require such groups to make donor names public. Before the 2010 election, Senate Finance Committee Chairman Sen. Max Baucus (D., Mont.) asked the IRS to open an investigation into the groups.

Democrats also prompted a brief IRS probe into whether political donations should be subject to gift taxes. That investigation was dropped last year under pressure from Republican lawmakers.

If the IRS determines that groups set up as 501(c)4 entities have violated their tax status, the organizations could be held liable for large tax bills for the millions of dollars they have received tax-free.

"I would say that groups that are operated by political operatives and that seem to have a candidate orientation and seem to focus on a political party could have difficulty," said Marc Owens, a lawyer with Caplin & Drysdale who worked in the IRS's exempt-organizations division for 25 years.

The IRS said there was no specific date for when the questionnaires will go out.

Meanwhile, Mr. Schneiderman, the New York attorney general, is investigating whether the Chamber of Commerce improperly funneled money from tax-exempt 501(c)3 groups to finance political advertisements and a lobbying effort.

The probe centers on allegations that the Chamber used its policy arm in order to allow the Starr Foundation, a charity led by former [American International Group Inc.](#) AIG +1.73% CEO [Hank Greenberg](#), to avoid restrictions on political activity. Starr Foundation officials said they haven't received any inquiries from the attorney general's office and declined to comment further.

Mr. Schneiderman's probe was triggered by a complaint filed by a union-funded watchdog group, U.S. Chamber Watch, which filed a similar complaint to the IRS in 2010. A lawyer for Chamber Watch said the group received "no meaningful response" from the IRS about the complaint.

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A version of this article appeared June 28, 2012, on page A4 in the U.S. edition of The Wall Street Journal, with the headline: IRS Probes Political Group Tied To Rove.

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