

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Internal Revenue Service Oversight of Tax-Exempt Organization Private Aircraft Usage

February 26, 2025

Report Number 2025-1S0-012

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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Why TIGTA Did This Review

According to the IRS, the tax code generally allows a deduction for expenses of maintaining an asset, such as an aircraft, if that asset is used for a business purpose.

However, the use of an aircraft must be allocated between business use and personal use. In addition, the value of any personal use of private aircraft by employees must be included in the employee's gross income.

This review was initiated to determine what oversight is provided to tax-exempt organizations for private aircraft usage to ensure tax compliance and prevent abuse. Tax-exempt organizations may use private aircraft to enhance their ability to fulfill their charitable missions.

Impact on Tax Administration

Oversight is an important control component to prevent and detect potential tax noncompliance with private aircraft usage by tax-exempt entities. If abusive or noncompliant behavior is not corrected, it may erode public trust in the IRS's ability to fairly and consistently enforce the tax laws.

What TIGTA Found

The Large Business and International Division (LB&I) launched the Business Aircraft Campaign in February 2024 after identifying a pattern of noncompliance during examinations. The LB&I aircraft campaign is focused on noncompliance related to business aircraft usage by large corporations, large partnerships, and high-income taxpayers. LB&I management's goal is to report trends and results to the LB&I executive team by the end of September 2025. In addition, LB&I management stated that they are working on evaluating revisions to various tax forms and developing frequently asked questions for educational outreach.



The TE/GE Division is developing the Corporate Jet Personal Usage Compliance Strategy to improve tax-exempt organization aircraft usage oversight.

The Tax Exempt and Government Entities (TE/GE) Division began developing its Corporate Jet Personal Usage Compliance Strategy in April 2024 after the launch of the LB&I Division's Business Aircraft Campaign. Representatives from both divisions met early in the rollout of the LB&I aircraft campaign to offer subject matter assistance for aircraft-related issues. TE/GE management stated that they are still in the planning phase and are analyzing data to identify potential noncompliance for further review. However, TE/GE management also stated that they do not have any expected completion dates and are following their normal strategy development process.

The IRS faces significant challenges attempting to identify the use of aircraft on returns filed by taxpayers, including tax-exempt organizations. The absence of aircraft-specific data on returns makes accurate tracking and measurement of taxpayers', including tax-exempt organizations', aircraft operations difficult. TE/GE management added that some tax-exempt entities, such as churches, do not have to file annual returns under applicable statutes and regulations, further complicating the identification of potential noncompliance. In addition, under Internal Revenue Code § 7611, to begin an inquiry into a church, the IRS must obtain special permissions and comply with certain statutorily required criteria.

Lastly, TE/GE Division computer systems currently have no project codes or examination codes to track examinations related to private aircraft issues. TE/GE management stated that they are not aware of any completed examinations that involved private aircraft use and have no way of systemically identifying whether the Exempt Organizations function has ever assessed any excise taxes or revoked the tax-exempt status of an organization for failing to report personal use of private aircraft.

The IRS agreed with the draft report and declined to provide a response.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

February 26, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Danny Verneuille
Acting Deputy Inspector General for Audit

SUBJECT: Final Report – Internal Revenue Service Oversight of Tax-Exempt
Organization Private Aircraft Usage (Review No.: 20241S0019)

This report presents the results of our review of the Internal Revenue Service's oversight of tax-exempt organization private aircraft usage. We performed this review during the period August through December 2024. We are issuing this report to document the actions taken or planned by the Internal Revenue Service. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Tax Compliance and Enforcement*.

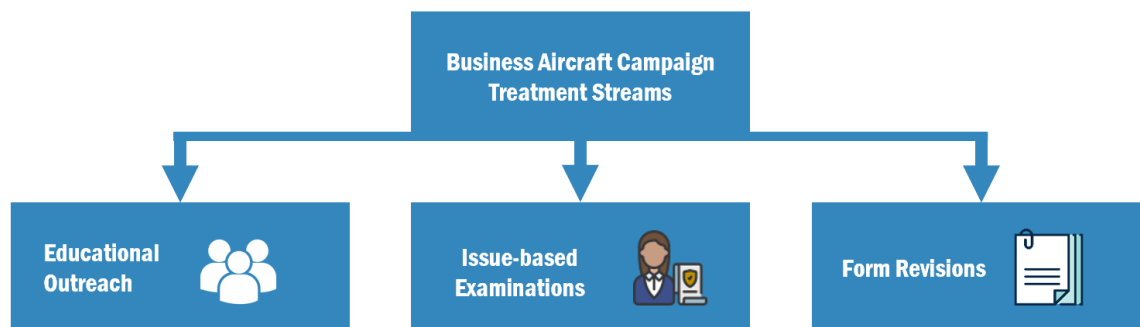
Internal Revenue Service management agreed with the draft report and declined to provide a response. If you have any questions, please contact me or Bryce Kisler, Assistant Inspector General for Audit (Taxpayer Services and Operational Support).

Background

Business aircraft are often used for both business and personal reasons by shareholders, officers, executives, and partners. According to the Internal Revenue Service (IRS), the tax code generally allows a deduction for expenses of maintaining an asset, such as an aircraft, if that asset is used for a business purpose. However, the use of an aircraft must be allocated between business and personal use. If an organization provides personal use of a private aircraft to employees, the value of this benefit must be included in the employee's gross income.¹

Due to a pattern of noncompliance identified during examinations, the Large Business and International (LB&I) Division launched its Business Aircraft Campaign in February 2024. The LB&I aircraft campaign is focused on noncompliance related to business aircraft usage by large corporations, large partnerships, and high-income taxpayers. It includes three key areas of concern: 1) qualified business use; 2) personal use disallowance; and 3) income inclusion.² LB&I management stated that the goal for their campaign is to improve tax compliance and increase awareness of business aircraft regulations and reporting requirements. Figure 1 shows the three treatment streams that comprise the LB&I Division's Business Aircraft Campaign.

Figure 1: LB&I Business Aircraft Campaign Treatment Streams



Source: LB&I management.

According to the IRS, the LB&I Division analyzed tax returns and identified a population of cases with potential noncompliance for its Business Aircraft Campaign. LB&I analysts used keyword searches and codes on the returns to identify potential noncompliance.

The LB&I Compliance Strategy Council approved [REDACTED] are currently active and [REDACTED] are scheduled to begin by April 2025.³ LB&I management is unable to identify any patterns or trends in noncompliance until some examinations are completed. In addition, the LB&I Division plans to use statistics related to examination results and examiner feedback to measure

¹ Treas. Reg. § 1.61-21(a)(4).

² Qualified business use determines the correct depreciation method and can affect the taxpayer's ability to claim accelerated depreciation. Expenses of an aircraft are subject to disallowance for personal use and must be allocated between personal use and business use. Personal use of a business aircraft by an employee (including their guests or relatives) is a taxable fringe benefit and must be included in the income of the employee.





³ The LB&I Compliance Strategy Council serves as the governing body over the identification, selection, assignment, and allocation of resources for all compliance and enforcement activities for LB&I taxpayers. It focuses on the planning, development, and implementation of strategies for LB&I compliance programs.

the effectiveness of the campaign. LB&I management's goal is to report trends and results to the LB&I executive team by the end of September 2025.

LB&I management stated that they are evaluating revisions to tax forms and related instructions that they plan to implement over the next two years. LB&I management also stated that they are in the final stages of developing frequently asked questions for educational outreach, with the goal of publishing them in Calendar Year 2025. Lastly, LB&I management is considering educational outreach to taxpayers that have newly acquired an aircraft.

The Tax Exempt and Government Entities (TE/GE) Division is responsible for providing oversight of numerous types of entities including charities, major universities, churches, tax-exempt hospitals, and Indian tribal governments, and tribal entities and associations. Tax-exempt organizations may use private aircraft to enhance their ability to fulfill their charitable missions. Figure 2 shows examples of mission-related private aircraft use by tax-exempt organizations.

Figure 2: Examples of Activities That Tax-Exempt Organizations Have Identified As Furthering Their Charitable Purposes

Tax-Exempt Organization	Aircraft Use
Medical Charities 	Transport patients to specialized care facilities.
Disaster Relief Organizations 	Swift response to emergency situations.
Educational Institutions 	Fundraising activities.
Environmental Organizations 	Wildlife surveys and habitat monitoring.

Source: Public information identified from various tax-exempt organizations' websites.

Private aircraft enable organizations to respond rapidly to crises, reach remote locations, and maximize the productivity of key personnel. These uses can benefit an organization's exempt purposes, but they also require careful oversight to ensure compliance with reporting requirements and tax regulations.

Objective

The overall objective of this review was to determine what oversight is provided to tax-exempt organizations for private aircraft usage to ensure tax compliance and prevent abuse.

Results of Review

Oversight of Private Aircraft Usage by Tax-Exempt Organizations

Identifying private aircraft use by tax-exempt organizations is challenging

The IRS faces significant challenges when attempting to identify the use of aircraft on returns filed by taxpayers, including tax-exempt organizations. For example, Form 990, *Return of Organization Exempt From Income Tax*, Schedule J, *Compensation Information*, combines aircraft, boat, and train travel expenses into single line items for first-class, charter, and companion travel. TE/GE management also stated that some tax-exempt entities, such as churches, do not have to file Forms 990 under applicable statutes and regulations, further complicating the identification of potential noncompliance. In addition, under Internal Revenue Code § 7611, the IRS may begin a church tax inquiry only when: 1) an appropriate high-level Treasury official (such as the TE/GE Commissioner) reasonably believes, on the basis of facts and circumstances in writing, that the organization may not qualify for tax exemption as a church or is carrying on an unrelated trade or business (or is otherwise engaged in taxable activities); and 2) before beginning the church tax inquiry, the notice requirements of Internal Revenue Code § 7611(a)(3) are met.

Examinations of aircraft use by tax-exempt organizations could involve excess benefit transactions, private benefit issues, or income and employment tax adjustments. Figure 3 defines excess benefit transactions and private benefits.

Figure 3: Excess Benefit Transactions and Private Benefits

Excess Benefit Transactions	Private Benefits
<ul style="list-style-type: none"> ✓ Occurs when a disqualified person of a tax-exempt organization receives benefits that exceed the fair market value of the services they provide. ✓ Are subject to specific IRS penalties including excise taxes on both the disqualified person and the organization. ✓ Must be reported to the IRS and requires correction by returning the excess amount. 	<ul style="list-style-type: none"> ✓ Occurs when a tax-exempt organization's activities substantially benefit private interests rather than the public good. ✓ Can jeopardize an organization's tax-exempt status if more than an incidental private benefit is provided. ✓ Does not require a specific relationship and can involve benefits to any private individual or entity.

Source: IRS Public Charities Audit Technique Guide.⁴

⁴ A disqualified person is a person able to exercise substantial influence over the affairs of the organization at any time during the five-year period before the benefit transaction in question occurred. Family members and entities controlled by the disqualified person are also considered disqualified persons.

The consequences of improperly reporting these transactions can be severe, including an excise tax assessment on the disqualified person and the potential loss of the organization's tax-exempt status. However, the TE/GE Division currently does not track examination results related to private aircraft use by tax-exempt organizations.

In addition, if a tax-exempt organization provides a private aircraft for entertainment purposes to any person, such as employees or directors, the related expenses are not tax deductible unless the travel is directly related to or associated with the mission of the organization's trade or business. The organization must keep detailed records of the private aircraft's use to differentiate between business, personal, and entertainment to comply with these rules.

Although the LB&I Division launched its Business Aircraft Campaign due to a pattern of noncompliance identified during examinations, TE/GE management stated that they are not aware of any completed examinations that involved private aircraft use. Because TE/GE does not track examination results related to private aircraft use by tax-exempt organization, the IRS has no way to systemically identify whether the Exempt Organizations function has ever assessed excise taxes or revoked the tax-exempt status of an organization for failing to report personal use of private aircraft.⁵ TE/GE Division computer systems currently have no project codes or examination codes to track examinations related to private aircraft issues. In addition, TE/GE Compliance Planning and Classification (CP&C) function management stated that the only way to identify referrals involving personal use of private aircraft would be to conduct a manual search of all referrals, which the TE/GE Division receives thousands of every year.⁶

The TE/GE Division is developing the Corporate Jet Personal Usage Compliance Strategy to improve tax-exempt organization aircraft usage oversight

TE/GE CP&C management stated that they began development of the Corporate Jet Personal Usage Compliance Strategy in April 2024 after the launch of the LB&I Division's aircraft campaign. LB&I management stated that representatives from both divisions met early in the rollout of the LB&I aircraft campaign to offer subject matter assistance for aircraft-related issues.

In addition, the LB&I Division's Assistant Deputy Commissioner Compliance Integration Office and the Research, Applied Analytics and Statistics Division provided return data that helped inform TE/GE management's decision-making.

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⁵ The Exempt Organizations function regulates and monitors tax-exempt organizations through examination of their returns and compliance checks, with emphasis on assuring that they continue to meet their statutory requirements for exemption and their other federal tax responsibilities, including employment taxes.

⁶ A referral occurs when a tax-related matter is brought to the IRS's attention from within by one IRS division forwarding a case to another division, or from outside sources such as taxpayers, other government agencies, or members of the public who report potential tax violations or concerns to the IRS.

⁷ These included Form 990, Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation*, and Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*.

[REDACTED]

The TE/GE CP&C function is in the planning phase of the compliance strategy and is analyzing data to identify potential noncompliance for further review. [REDACTED]

[REDACTED]

[REDACTED]⁸ Because the compliance strategy is still under development, there are currently no established measures or metrics. TE/GE CP&C management also explained that they will provide training and guidance to the revenue agents conducting the compliance strategy examinations.

However, TE/GE CP&C management stated that they do not have any expected completion dates for the data analysis, establishment of measures or metrics, formal approval of the strategy, or the assignment of the first examinations. TE/GE CP&C management explained that they are following their normal strategy development process but variables like data availability or existence, complexity of the required analysis, and staff availability prevent them from providing expected completion dates with any confidence.

Conclusion

The IRS provides limited oversight of private aircraft use by tax-exempt organizations. There are no specific return line items to indicate private aircraft use by tax-exempt organizations and currently no project codes or examination codes to track examinations related to private aircraft issues. However, TE/GE management stated that they are developing a compliance strategy, subject to formal approval, dedicated to private aircraft use by tax-exempt organizations to provide more oversight of this area. Oversight is an important control component to prevent and detect potential noncompliance with private aircraft use by tax-exempt entities. If abusive or noncompliant behavior is not corrected, it may erode public trust in the IRS's ability to fairly and consistently enforce the tax laws.

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 finding and conclusion based on the objective of our review.

⁸ The TE/GE Compliance Governance Board serves as the governing body over the identification, selection, assignment, and allocation of resources for all TE/GE compliance and enforcement activities.

Appendix I

Abbreviations

CP&C	Compliance Planning and Classification
IRS	Internal Revenue Service
LB&I	Large Business and International
TE/GE	Tax Exempt and Government Entities



**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 www.tigta.gov/form/suggestions.**

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