

# What if ... your organization is concerned about an IRS investigation?

June 2026

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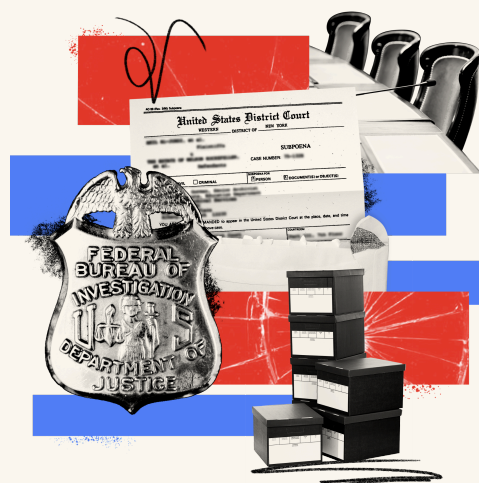
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# What to know about IRS investigations

The Internal Revenue Service (IRS) is a federal bureau within the Treasury Department responsible for — among other duties — collecting federal taxes and identifying and resolving instances of fraud and errors in tax filings. The IRS has authority to conduct investigations into different categories of taxpayers, including individuals, corporations, partnerships, and tax-exempt organizations such as 501(c)(3) entities.<sup>1</sup> The IRS conducts both civil and criminal investigations.

The IRS is governed by the [Internal Revenue Code](#) (IRC) as well as other official tax guidance. It ensures that taxpayers, including organizations, are in compliance with the code by, for example, providing accurate information on their tax returns, including maintaining books and records adequate to show those returns are correct and complete. *See, e.g.,* [26 U.S.C. § 6001](#).

## The IRS is composed of multiple divisions.

The IRS includes several [operating divisions](#) that serve different functions, including but not limited to: Taxpayer Services, Small Business/Self-Employed, Large Business and International, and [Tax-Exempt and Government Entities](#) (TE/GE). TE/GE, among other things, conducts civil audits to monitor tax-exempt organizations' compliance with exempt status requirements. The IRS's [Criminal Investigation](#) division (IRS-CI) investigates potential criminal violations of the Internal Revenue Code as well as other related financial crimes. The IRS-CI employs over 2,000 special agents with investigative authorities. The IRS also operates a [Whistleblower Office](#), which administers a [program](#) designed to receive tips about tax non-compliance and may pay [awards](#) to individuals who provide that information.

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<sup>1</sup> This primer focuses on federal tax investigations involving the IRS. States have their own taxation agencies, which can recommend prosecution for alleged tax crimes and regulate nonprofits soliciting charitable contributions. If you have concerns about state tax and charity oversight investigations, you should consult with legal counsel.

## There are different types of IRS agents.

The [types](#) of IRS employees that may be involved in conducting investigations include but are not limited to:

- **Revenue Agents:** Revenue agents conduct civil investigations (i.e. audits) to verify the accuracy of federal tax liabilities (the amount of taxes owed). They generally reach out via mail first to provide notice of an audit. During an audit, they can perform in-person interviews and field visits at homes or businesses. Interviews and site visits are usually pre-scheduled.
- **Revenue Officers:** Revenue officers (ROs) are field-based agents focused on the [tax collection](#) process. They conduct civil investigations to identify and resolve issues with delinquent (i.e. missing) tax returns and other unpaid taxes. They first attempt to contact taxpayers by mail to schedule a meeting, or by phone. If multiple attempts to contact the taxpayer go [unanswered](#), they may conduct an unannounced field visit.
- **CI Special Agents:** Unlike revenue agents and officers, IRS-CI special agents are law enforcement officers. They conduct criminal investigations into tax and other related financial crimes. During the course of an investigation, special agents can visit or call individuals and organizations unannounced.

## The IRS uses a variety of investigative tools.

IRS agents deploy a variety of tools that may depend on the nature of the investigation (civil vs. criminal). These tools include, but are not limited to:

Tool Type	Description
<b>Information Document Requests (IDRs)</b>	<p>The IRS has authority to “examine any books, papers, records or other data which may be relevant or material” to an inquiry. <a href="#">26 U.S.C. § 7602(a)(1)</a>.</p> <p>During civil and criminal investigations, IRS agents may issue Information Document Requests (IDRs), which are forms that seek records or other information related to items on a tax return. IDRs generally describe the documents or information requested (e.g. financial statements, board minutes, donor records, etc.), the date that information is due to the IRS, and the contact information for the IRS representative requesting the information. See example <a href="#">IDR Form</a>. Failure to respond to IDRs can result in further enforcement actions from IRS examiners, including issuing delinquency notices and serving summonses to compel information. See <a href="#">IRM § 4.46.4-2</a>.</p> <p><b>In the event an organization receives an IDR, they should immediately consult with legal counsel to determine their options for responding and mitigating their own risk.</b></p>

<p><b>Administrative Summons</b></p>	<p>In both civil and criminal cases, the IRS may issue <a href="#">administrative summonses</a>. Administrative summonses are similar to a subpoena, in that both require taxpayers or third parties — such as banks, accountants, or employers — to produce records or provide testimony relevant to an investigation. Failure to respond to a summons can result in further escalation. For example, the government may seek civil enforcement of an IRS summons in federal district court under <a href="#">26 U.S.C. § 7604</a>. A court can compel a taxpayer to provide information or appear at a hearing to provide testimony. If the taxpayer fails to obey a court order, they can be found in contempt and receive further penalties (fines, arrest, etc.). <b>Organizations should consult with legal counsel before responding to any summons.</b> Read more about responding to subpoenas <a href="#">here</a>.</p>
<p><b>Interviews</b></p>	<p>In both civil and criminal investigations, IRS officers have authority to conduct interviews with taxpayers, employees, and other relevant third-party witnesses. Interviews are one of the primary tools used by IRS-CI special agents and are generally highly structured. (See <a href="#">below</a> for more on interviews during criminal investigations.) Interviews are voluntary and can be solicited informally via letter or conversation. But they can also be compelled through a summons or federal court order. Interviews conducted by criminal special agents may also occur pursuant to a <a href="#">grand jury</a> subpoena and require a witness to appear in front of the grand jury to answer questions. <b>Organizations should consult with legal counsel before responding to, or participating in, an interview.</b></p>
<p><b>Field Visits</b></p>	<p>Officers may conduct field visits to observe business operations or verify records. During civil investigations, revenue agents and/or officers will <a href="#">typically</a> schedule site visits with an individual or organization in advance (either over the phone or via letter). As part of a criminal investigation, special agents can show up at a taxpayer’s home or place of business unannounced. <b>Organizations should work with their legal counsel to develop plans for responding to unannounced site visits.</b></p>
<p><b>Search Warrants</b></p>	<p>In criminal investigations, CI special agents may seek and execute search warrants issued by a federal court. Search warrants are official documents, issued by a judge or magistrate, that allow law enforcement agents to search a person, place, or entity for evidence related to criminal activity. Organizations can learn more about best practices for responding to search warrants <a href="#">here</a>.</p>

### Surveillance & Monitoring Techniques

As federal law enforcement officers, CI special agents can also employ various surveillance tactics — including court-authorized electronic monitoring such as wiretaps. They can also employ other investigative techniques commonly used in financial crime investigations, including “trash pulls” (where agents can search through garbage left outside of a home or business [without a warrant](#)), undercover contacts/informants, and forensic analysis of financial records.

## Investigations into tax-exempt organizations.

The IRS conducts civil and criminal investigations into tax-exempt organizations. These investigations generally focus on the organization’s compliance with reporting and operational requirements under the IRC.

**Civil investigations** of tax-exempt organizations often determine whether those organizations continue to meet the [requirements](#) of exempt status. The IRS may focus on several key areas:

- Whether an organization is properly using its exempt assets (e.g., donations, property, etc.) for [exempt purposes](#).
- Whether an organization has used its assets or income to benefit private interests or its own employees, stakeholders, etc.
- Whether an organization is complying with restrictions on political or lobbying activities.
- Whether an organization is accurately filling out its [Form 990](#) (the tax return document that exempt organizations complete file annually).
- Whether an organization is generally maintaining adequate books and records, including by documenting income earned unrelated to its business.

After an investigation, the IRS can propose to revoke an organization’s tax-exempt status if it determines the organization is not meeting the applicable requirements. The primer discusses revocation in more detail [below](#).

The IRS may also initiate **criminal investigations** into tax-exempt organizations if it believes they have, for example, made false statements on tax application forms, submitted falsified documents in support of applications, or submitted false annual returns (i.e. Form 990s). See e.g., 26 U.S.C. §§ [7201](#) and [7206\(1\)](#), [IRM 25.1.9.5.1\(1\)\(a\)](#). The IRS-CI also investigates financial crimes that may overlap with tax violations, including money laundering, bank fraud, wire fraud, etc. The IRS-CI may work with other federal law enforcement agencies and agents in connection with financial crimes investigations.

## Multi-entity structures are also subject to scrutiny.

Organizations often operate multi-entity structures (e.g. 501(c)(3) and 501(c)(4) affiliated organizations). The IRS may investigate particular aspects of a multi-entity organization,

including examining whether shared expenses, transfers, or transactions that occur between 501(c)(3) and 501(c)(4) affiliated organizations comply with tax-exemption rules, and don't improperly benefit private interests. Based on these investigations, the IRS can propose revocation of a multi-entity's tax-exempt status as a 501(c)(3) and/or civil penalties. See e.g., 26 U.S.C. §§ [4955](#), [4912](#), [4958](#), and [6652](#).

Organizations that operate multiple related entities — especially those with shared staff, management, and funds — should practice good governance, including thorough recordkeeping and careful segregation of 501(c)(3) and 501(c)(4) activities.

### **Politicians cannot interfere in IRS investigations.**

There are laws intended to protect IRS investigations from undue political interference. The president, vice president, their staffs, and cabinet members (other than the attorney general) are prohibited from directly or indirectly requesting that the IRS start or stop an investigation of any specific individual or organization. See [26 U.S. Code § 7217\(a\)\(e\)](#); [5 U.S.C § 5312](#). Any IRS employee who receives such a request must report it (see 26 U.S.C § 7217(b)). Violating this prohibition carries penalties of up to 5 years in prison and/or a \$5,000 fine, plus the costs of prosecution. *Id.* § 7217(d).

# Understanding IRS civil investigations

## Civil audits

### How does the IRS choose which organizations to audit?

The IRS generally prioritizes audits based on potential risk to the federal tax base or likelihood of significant noncompliance. The IRS can select tax-exempt organizations for audits through several methods, including:

- **Data analytics:** The IRS routinely conducts quantitative analysis of tax returns – e.g., Form 990s for tax-exempt organizations — to identify patterns of tax noncompliance.
- **Referrals and other reports:** The IRS accepts referrals, claims, whistleblower reports, and other generated leads of noncompliance from both public and internal government sources. See, e.g., [IRS complaint process - Tax-Exempt Organization](#).
- **Compliance strategies:** These are issue-based initiatives approved and resourced by a governance board and carried out in different ways (e.g., examinations, compliance checks, educational letters, newsletters, webinars, podcasts, phone forum, practitioner or industry outreach, regulation-guidance and/or issue snapshots). See [Tax-Exempt & Government Entities: Compliance program and priorities](#).
- **Multi-entity transactions:** The IRS may also flag multi-entity organizations for audits if financial transactions between entities, shared staff, or overlapping governance raise questions about the proper use of funds.

### What does an audit look like?

Once selected for audit (or examination), organizations typically move through several stages.

#### STAGE 1: Providing Notice

An IRS agent makes contact with an exempt organization via letter to provide notice of an audit. Audits will either be [conducted](#) over mail or face-to-face through in-person interviews. The notice letter may include IDRs (written requests for certain records) as well as instructions for next steps.

#### STAGE 2: Reviewing & Collecting Records

The IRS often reviews an organization's filed tax returns, third-party information reports, and related financial records. The IRS may conduct in-person interviews with an organization's

representatives and schedule on-site visits to collect additional information. See this [flowchart](#) depicting a typical in-person audit for tax-exempt organizations.

### STAGE 3: Issuing Findings

At the end of the audit, the IRS generally might:

- Issue a [no-change](#) letter → The IRS has not identified any issues, and the organization keeps its tax-exempt status.
- Issue a no-change letter with advisories → The IRS closes the investigation and the organization keeps its exempt status, but the organization takes corrective actions during the audit to address operational or other compliance issues that did not result in a change to exempt status. See [IRM 4.70.14.2.1.3.1.1\(3\)](#) ("Change due to Correction of Operations"). Note that our understanding is that the IRS currently does not issue formal written advisories, but does still issue letters detailing required corrections.
- Negotiate a [closing agreement](#) between the parties → While uncommon, the IRS and the organization negotiate and sign a written agreement to resolve tax issues identified during the investigation. For example, the organization could agree to make specific changes, pay certain amounts, or correct identified compliance failures, and the IRS could close the matter without revoking exempt status. Once approved, the agreement is final and cannot be reopened — [except](#) in cases of fraud, malfeasance, or misrepresentation of material fact.
- Propose [revocation](#) of exempt status → The IRS concludes the organization no longer qualifies for tax-exempt status and issues a proposed revocation letter. The organization has 30 days to file an administrative appeal challenging the proposed revocation (see [below](#)).
- Other actions → The IRS proposes adverse actions and penalties besides revocation of exempt status, such as proposing to change the organization's foundation status (i.e. from a public charity to a private foundation) or proposing that the organization owes unrelated business income tax.

## Assessment and collection

During an audit, the IRS may determine an exempt organization owes additional taxes. It will assess how much the organization owes and may send a notice of deficiency — a formal notice stating additional taxes are owed. In response, organizations can:

1. **File a petition in the U.S. Tax Court:** An organization can file a challenge in the U.S. Tax Court within 90 days of receiving a notice of deficiency. Filing the petition automatically stops the IRS from collecting the disputed amount while the case is pending before the court. See [26 U.S.C. § 6213](#).

- 2. Pay first, seek a refund:** An organization can pay the tax and then file a claim with the IRS for a refund. See [26 U.S.C. § 7422](#). If the IRS denies the refund, an organization can then initiate a civil lawsuit. Once the IRS issues a final decision, an organization has two years from the date of that issuance to file a lawsuit. *Id.* § [6532\(a\)\(1\)](#).

If the taxes owed remain unpaid — either because the window to challenge closed, the organization failed to respond, or a court upheld the amount — the case then moves into the IRS collection process. During the collection process, Revenue Officers will reach out to, among other things, identify an organization's assets, request financial statements, and obtain the payment owed.

## Revocation of 501(c)(3) tax-exempt status

After an investigation, the IRS can propose to revoke an organization's tax-exempt status if it determines the organization is not meeting the applicable requirements. An organization could fail to meet these requirements if the IRS finds that it is no longer operating with a charitable or educational purpose, it intervened in political campaigns, too many of its activities are unrelated to its business, or it has disproportionately benefited private interests rather than public ones. See [26 C.F.R. § 1.501\(c\)\(3\)-1](#). The IRS can also [automatically](#) revoke tax-exempt status if an organization fails to file a required Form 990 for three consecutive years. **The consequence of a revocation is that the organization will owe taxes as a non-exempt corporation.**

Generally, the effective date of the revocation is the date on which the IRS issues a final determination (see below).<sup>2</sup>

### What can organizations do to challenge 501(c)(3) revocation?

Organizations have several options to challenge the revocation of their tax-exempt status:

- 1. File an administrative appeal:** Once the IRS proposes revocation, an organization has 30 days to file an administrative appeal to the [Independent Office of Appeals](#) (Appeals Office). See [26 U.S.C. § 7803\(e\)](#). The Appeals Office then reviews the proposed revocation and conducts a conference with the organization and/or its representatives. The Appeals Office has authority to settle the case based on the risks and uncertainties of taking the matter to court ("hazards of litigation"). *Id.* § 7803(e)(3). If the Appeals Office sustains the revocation, a final determination letter is issued and the organization is considered taxable.

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<sup>2</sup> There are certain circumstances where the IRS may revoke an organization's tax-exempt status after originally deciding against revocation in a final determination. The IRS would need to find that an organization either omitted or misstated material information during the course of an audit, or there was a material change in an organization's circumstances that would now lead to a proposed revocation. See, e.g., [Rev. Proc. 2025-5 §12.05](#).

2. **Ask a court to declare the revocation invalid:** An organization can file a “declaratory judgement action” in federal court asking a judge to declare the revocation invalid.<sup>3</sup> See [26 USC § 7428](#). An organization can only do this once it has exhausted its administrative remedies (see above) and the IRS has issued a final determination (not just a proposal) revoking tax-exempt status. *Id.* § 7428(b)(2). An organization must file a declaratory judgement action within 90 days of the final determination. *Id.* § 7428(b)(3).

## Revocation as a result of a terrorist designation

The IRS can immediately suspend an organization’s tax-exempt status if it is designated as a foreign terrorist organization (FTO) under the International Emergency Economic Powers Act (IEEPA), the Immigration and Nationality Act, or in an Executive Order “issued under the authority of any Federal law.” See [26 U.S.C. § 501\(p\)](#). Under IEEPA, this suspension also extends to any organization found to “assist in, sponsor, or provide financial, material, or technological support for, or financial or other services” to, or in support of, terrorism, or a group already designated as an FTO. See [EO 13224](#). The suspension is not a final determination to revoke tax-exempt status, but no organization can challenge the suspension through tax proceedings (either administratively or in court). See [26 U.S.C. § 501\(p\)\(5\)](#). If the IRS conducts its own examination of the designated organization and proposes to revoke its tax-exempt status, that organization would likely follow the standard procedures to challenge revocation outlined above.

## How investigations move from civil to criminal proceedings

Certain findings from civil investigations can trigger a criminal investigation by IRS-CI. During the course of an investigation, if a civil agent suspects an organization may have engaged in potential fraud, they are required to suspend certain investigative activities and follow IRS fraud procedures. These procedures can include consultation with the Office of Fraud Enforcement’s Fraud Enforcement Advisor and/or referral to IRS-CI. Indicators of fraud include, but are not limited to, willful misstatements or falsified records, embezzlement or diversion of charitable funds for personal use, and fraudulent transactions between related entities.

Once a criminal referral is made, the IRS-CI independently evaluates the referral and determines whether to accept the referral and initiate a criminal investigation or decline it, after which the civil examination continues as appropriate.

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<sup>3</sup> Organizations cannot file declaratory judgement actions if the revocation was considered “automatic” — meaning that it resulted from an organization’s failure to file required tax returns for three consecutive years. See 26 U.S.C. §§ [7428\(b\)\(4\)](#) & [6033\(j\)\(1\)\(B\)](#).

# Understanding IRS criminal investigations

An IRS criminal investigation can begin in a variety of ways, including as a referral from the IRS civil division or another agency, from a related criminal matter, or from a whistleblower or other tip. Additionally, IRS-CI can initiate a criminal investigation on its own, if it believes an organization has, for example, made false statements on tax application forms, submitted falsified documents in support of an application, or submitted a false annual return. *See e.g.*, 26 U.S.C. §§ [7201](#) and [7206\(1\)](#), [IRM 25.1.9.5.1\(1\)\(a\)](#). The IRS-CI also investigates financial crimes that may overlap with tax violations, including money laundering, bank fraud, wire fraud, etc. The IRS-CI works with other federal law enforcement agencies and agents in connection with financial crimes investigations.

IRS-CI investigations often begin with a review of prior audits, complaints, or tips. IRS-CI special agents will gather documents, trace financial transactions, and identify key personnel with knowledge of organizational operations. IRS-CI special agents conducting criminal investigations use a variety of tools to gather evidence, including administrative summonses, undercover operations, search warrants, review of internal and external databases and sources of information, and the use of sophisticated forensic technology to analyze complex financial data and digital footprints.

## Interviews during criminal investigations

Interviews are one of the primary investigative tools used during criminal investigations. Special agents often *do not* give advance notice when they plan to conduct an in-person interview, and the interview process depends on the particular investigation. Generally, though, interviews are structured and conducted by two special agents,<sup>4</sup> who often will present their credentials and offer business cards. Interviews typically last around 1-2 hours (if not longer), and may take place at the organization's office or its counsel's office, or a designated IRS or Department of Justice (DOJ) facility. Interviews are formal in nature — special agents will ask precise questions, likely informed by prior document review, and may also take notes throughout the interview.

During the interview, special agents may explore several areas of focus. They often begin with questions about the interviewee's background, role, duties, authority, and financial compensation. They will likely ask about the organization's operations and governance, including financial controls, grantmaking or spending processes, and relationships with any related entities (such as any affiliated c(4) organization). Special agents may also ask detailed

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<sup>4</sup> Attorneys for the government — from IRS, DOJ, or other federal agencies involved in the investigation — may also be present to support the agent conducting the interview, question the interviewee, or communicate with the interviewee's counsel.

questions about how decisions in the organization are made, including approvals of financial transactions, allocation of funds, and document handling. Lastly, special agents can probe motive and intent related to the conduct under investigation — including whether concerns were raised, instructions were given, and others were aware of the particular conduct. Throughout, agents observe nonverbal cues — body language, hesitations, and whether responses seem scripted or guided by counsel. Once an interview concludes, agents may follow up if additional information is required.

All statements made during these interviews are treated as evidence, may be quoted in investigative reports, and can form the basis for criminal charges. Making false or misleading statements — even outside of sworn testimony — can result in federal criminal charges under [18 U.S.C. § 1001](#) (which prohibits knowingly making false statements to federal investigators) or federal obstruction of justice statutes (which prohibits deliberately attempting to obstruct or impede an investigation). *See, e.g.,* [26 U.S.C. § 7212\(a\)](#).

## Preparing for interviews

Legal counsel can play an important role during the interview process, **which is why it is important to engage counsel with deep expertise in IRS procedures and tax law before proceeding with an interview**. Counsel can help explain the process and potential risks to the interviewee, identify and gather documents in preparation for an interview, communicate with the IRS on behalf of the interviewee before/after the interview, and monitor developments. During the interview, counsel can advise the interviewee and interact with agents on their behalf. Other steps organizations may take to prepare for interviews as part of a criminal investigation include, but are not limited to:

- Designating, in advance, someone from the organization to handle interviews. (Note: while organizations can provide this guidance, the IRS has broad authority to interview any person who may have information relevant to the investigation.)
- Identifying where they want an interview to take place.
- Educating staff, in consultation with legal counsel, on the general interview process.

## Referrals to DOJ for criminal prosecution

If IRS-CI concludes that criminal charges against an organization may be warranted, the IRS has authority to refer cases to the Department of Justice.<sup>5</sup> After receiving a referral, DOJ prosecutors independently review the evidence presented in the IRS's investigative report and determine whether to seek additional information, pursue criminal charges, or decline to investigate further. Once prosecution is authorized, cases are typically handled by Assistant United States Attorneys in the appropriate jurisdiction, sometimes in coordination with Main Justice attorneys with expertise in criminal tax enforcement. During this stage, prosecutors may use grand jury subpoenas and other criminal processes to obtain testimony and documents from the organization and relevant third parties.

While DOJ retains exclusive authority over criminal charging decisions in federal tax cases, IRS-CI agents will continue to assist throughout grand jury proceedings, indictments, and trial as necessary.

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<sup>5</sup> IRS criminal referrals to DOJ can include both felony and misdemeanor offenses. For felony offenses, DOJ must obtain a grand jury indictment to proceed, unless the defendant waives that requirement. Conversely, for misdemeanor offenses, DOJ may file charges without first going to the grand jury.

# Navigating IRS investigations in the current political climate

Organizations, particularly tax-exempt ones, should be aware of several key developments at the IRS that may heighten the risk of an IRS investigation.

## Investigating links to political violence

The current administration has called for increased collaboration between the IRS and federal law enforcement agencies to investigate and punish individuals and organizations involved in political violence, including terrorism.

On September 25, 2025, President Trump issued National Security Presidential Memorandum-7 (NSPM-7), which directed a coordinated federal strategy to investigate, disrupt, and prosecute networks, entities, and individuals involved in politically motivated violence. [Section 2\(j\)](#) of NSPM-7 directs the IRS Commissioner to ensure that tax-exempt entities are not directly or indirectly financing political violence, and to refer any suspected organizations to DOJ. The directive specifically targets funding mechanisms tied to what the administration defines as ideologies that may “animate” violence or terrorism, including activities and viewpoints characterized as anti-capitalist, anti-Christian, or extreme regarding migration and gender. This is an expansion of the IRS’s traditional financial enforcement role by requiring it to identify and disrupt funding streams tied to certain prohibited activities. Consequently, it appears that the IRS is tasked with tracing not just overt criminal financing, but also everyday operational expenditures like grants, travel reimbursements, and event sponsorships to ensure they do not inadvertently aid disfavored domestic groups.

NSPM-7, and a subsequent DOJ enforcement [memorandum](#), increase coordination between the IRS and FBI’s Joint Terrorism Task Forces (JTTFs). This DOJ memo explicitly instructs federal prosecutors to pursue any potential tax crimes committed by progressive nonprofits and groups associated with self-described “anti-fascist” movements. Recent [reporting](#) has indicated that the IRS-CI plans to assign special agents to the FBI’s [JTTF](#) and, potentially, a new [command center](#) to investigate organizations and individuals for funding domestic terrorism or political violence. This center, titled “NSPM-7 Joint Mission Center” aims to “counter domestic terrorism and organized political violence by integrating intelligence, operational support, and **financial analysis** to proactively identify networks and prosecute domestic terrorist and related criminal actors.” See [FY 2027 FBI Budget Request to Congress](#), p. 13 (emphasis added).

Additionally, crucially, the DOJ memo establishes a mandatory referral policy: any federal agency that encounters or suspects an individual or organization of participating in or funding these activities must immediately refer the matter to the JTTFs. For a non-profit, this could mean that if a routine IRS audit reveals that the organization provided financial assistance (e.g.

nominal mutual aid, bail assistance, travel stipends, etc.) to activists who were later arrested or charged, it would be handed off to the JTTF as a potential domestic terrorism financing case.

These directives formalize the IRS's role in a broader national security enforcement apparatus. Various groups have raised significant concerns that this integrated structure could weaponize routine financial oversight against organizations engaging in lawful dissent, protest support, or civil rights advocacy. Furthermore, organizations facing these inquiries risk parallel exposure under the [Foreign Agents Registration Act](#) (FARA) if their funding networks cross international borders, shifting a civil tax issue into a high-stakes federal criminal prosecution.

## Ramping up anti-fraud initiatives

There have been other developments at the IRS to combat alleged fraud.

Around February 2026, the IRS rolled out a new [online tool](#) (IRG.gov/SubmitATip) that allows people to "report suspected tax, fraud, scams, evasion, or other tax-related illegal activities confidentially using a smartphone, tablet or computer." The IRS has also offered financial [compensation](#) to tipsters: "The office pays monetary awards to eligible individuals whose information is used by the IRS. The award amount generally is 15 to 30% of the proceeds collected and attributable to the whistleblower's information." The new tool, and the related financial incentives, could make it easier to report suspected or alleged illegal activity, creating more avenues for the IRS to initiate investigations based on third-party reports.

In April 2026, The Treasury Department [announced](#) plans to reform the Form 990 (the tax return document that exempt organizations must file every year). One of the goals is to end "the days of hiding fraud, abuse and extremist activity behind complicated nonprofit arrangements." While proposed regulations to make these changes have not yet been published, the announcement signals increased scrutiny into nonprofit activity and may result in more onerous annual reporting requirements for 501(c)(3) organizations.

# Best practices for navigating IRS investigations

Organizations that maintain strong financial protocols, accurate filings, and a clear response plan are better positioned to manage an inquiry without disrupting their lawful, mission-driven work. The following best practices offer a potential starting point for organizations wanting to mitigate their risk of investigation:

## Planning ahead

An important step that organizations can take is to **develop a written response plan in advance, in consultation with legal counsel**, and ensure that relevant staff — including front-desk staff, supervisors, executive leadership, and finance personnel — understand the plan and their individual roles.

A response plan may anticipate the full range of IRS investigative steps, from a routine letter opening an audit to the unannounced arrival of an IRS-CI special agent. Among other things, the plan should consider:

- **Designating a point person.** Identify a specific staff member (typically in-house counsel, the executive director, or another senior leader) as the first point of contact for any IRS communication. All staff should know who that person is and how to reach them.
- **Planning for unannounced contacts.** Staff should know what to do if a special agent or process server arrives without advance notice. Protect Democracy's [search warrant primer](#) and [subpoena primer](#) provide additional guidance.

## Getting a lawyer

Consulting with legal counsel before responding to any IRS contact is critical. This is true whether the contact is a routine IDR, an administrative summons, an interview request, or an unannounced visit by a special agent. Tax law and IRS procedure are highly technical and an organization's earliest responses may shape the trajectory of an investigation — including whether it is resolved at the audit stage or escalated to IRS-CI.

Legal counsel can help organizations in several ways, including by evaluating an organization's options in a privileged and confidential way, determining whether information sought is protected by privilege or otherwise outside the scope of permissible IRS inquiry, negotiating the scope and timing of IDRs and summonses, preparing witnesses for interviews, and, if necessary, pursuing administrative appeals or litigation.

An organization may instruct its employees to make their in-house counsel the first call, for example, with key personnel making a second call to the organization's outside counsel; the key is having a plan that is communicated and adopted. Organizations without in-house counsel should develop — in advance — relationships with outside counsel who know and understand the organization, are experienced in tax law (including federal civil and criminal tax law and tax-exempt compliance), and are willing and able to step in if needed. Organizations should also consider whether to engage other professionals, such as forensic accountants, alongside legal counsel.

## Practicing good financial hygiene

### Conducting routine internal audits and compliance reviews.

Periodic internal audits can help organizations identify and correct problems before the IRS does. Reviews should confirm that current operations continue to match what the organization represented in its tax returns.

### Maintaining detailed books and records.

Recordkeeping duties are not just limited to basic financial bookkeeping. Rather, the statutory authority governing IRS audits is far more expansive. [Section 6001](#) of the IRC requires organizations to keep records sufficient to show not only that their returns are correct and complete, but for exempt organizations, records to prove that the organization continues to be operated exclusively for an exempt purpose. Such records include bank statements, donor records, grant agreements, invoices, board minutes, conflict-of-interest disclosures, and contemporaneous documentation of major decisions. Records should be maintained securely and consistent with the organization's written document-retention policy.

Note that as a general matter, if an organization fails to maintain granular transaction-level details, the IRS can deem its recordkeeping fundamentally inadequate and move to revoke its tax-exempt status under Section 6001.

Once an organization receives notice of an IRS investigation, it should continue to follow its regular document-retention policies (unless told otherwise based on advice from legal counsel, including if specific documents must be retained) and should not delete, alter, or backdate any records. Destruction or alteration of documents during an investigation can result in sanctions, including criminal charges under 18 U.S.C. § 1519 and obstruction-of-justice statutes.

## Staying within lobbying and political-activity limits.

501(c)(3) organizations are generally prohibited from intervening in political campaigns. Organizations should track lobbying expenditures carefully and train staff on the line between permissible advocacy and prohibited campaign intervention. Bolder Advocacy's [Lobbying Flowchart](#) is a useful resource.

## Conducting due diligence on partners, grantees, and vendors.

Regular review of grantees, vendors, fiscally sponsored projects, and international affiliates — including, at a minimum, screening against the Treasury Department's [Specially Designated Nationals \(SDN\)](#) list — reduces the risk that an organization is unknowingly funding a designated terrorist entity or otherwise running afoul of sanctions or counterterrorism rules. Given aforementioned directives expanding IRS coordination with federal law enforcement on political-violence or terrorism financing, consistent vetting can help organizations mitigate their risk.

## Carefully segregating multi-entity structures.

Affiliated 501(c)(3) and 501(c)(4) organizations should maintain written cost-sharing agreements, separate books and records for the activities of each entity, documented allocation of shared staff time, and clear board-level approval of intercompany transactions.

## Knowing Your Rights

All taxpayers are protected by the [Taxpayer Bill of Rights](#), which the IRS is required to honor in every interaction. Among other things, organizations have the right to challenge the IRS's position and be heard; the right to appeal an IRS decision in an independent forum; and the right to retain representation. *See also* IRC § [7803\(a\)\(3\)](#).

Several specific resources are available:

- **Taxpayer Advocate Service (TAS).** TAS is an independent organization within the IRS that helps taxpayers — including exempt organizations — resolve problems they have been unable to resolve through normal channels, particularly where IRS delay or error is causing financial hardship. TAS can be reached at 1-877-777-4778 or [taxpayeradvocate.irs.gov](https://taxpayeradvocate.irs.gov).
- **Treasury Inspector General for Tax Administration (TIGTA).** Organizations that believe they have been the target of misconduct by an IRS employee — for example, an investigation pursued for political reasons in violation of [26 U.S.C. § 7217](#) — can [report](#) that conduct confidentially to TIGTA.

## Further Reading

- Charity and Security Network | [IRS Audit Process Resources](#) (last updated April 2026)
- Bolder Advocacy | [Recordkeeping and Reporting for 501\(c\)\(3\) Public Charities](#) (July 2013); [IRS Lobbying Flowchart](#); [The Practical Implications of Affiliated 501\(c\)\(3\)s and 501\(c\)\(4\)s](#)
- Internal Revenue Service | [Resource Library](#); [Form 990 Resources and Tool](#)



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