

the validity of the so-called "bootstrap" acquisition of a going business by a charitable organization. A bill which would curtail this type of acquisition by an exempt organization is presently pending in the Congress. It is a joint effort of Mr. Surrey's staff, my staff, and the staff of the Joint Committee on Internal Revenue Taxation, in cooperation with the bar association and the accounting groups who all feel that this kind of activity is beyond the pale of activity for tax-exempt organizations. We are hopeful that it will be acted on promptly and favorably. We are continuing an active litigation policy in that area and have recently tried a case in the Tax Court on a similar issue in which we took the position that a so-called charitable organization which acquired a number of active businesses was not conducting its affairs as the statute contemplated an exempt organization would. That case is now pending decision in the court.

To return for a moment to our audit program, since 1964 we have been sharpening our audit guidelines on exempt organizations. Our aim is to make it easier for an agent to effectively audit an exempt organization with a minimum expenditure of time so that we may gain additional coverage within the limitations of available audit manpower. Four years ago we created a mandatory 2-week training course for new examiners and audit personnel engaged in the examination of exempt organizations. To date almost 500 employees of the Service have completed this course. Through this program, and our related activities and programs, we are developing a corps of revenue agents who are more familiar with exempt organizations and who are contributing to better administration of this particular phase of tax law.

I do not intend to burden this subcommittee with statistics, but I think it puts our problems in perspective to note that in 1964 Mr. Caplin pointed out that between 1939 and 1962 the number of "charitable" tax-exempt organizations increased from 14,500 to 71,850. At the present time the ranks of this class of tax-exempt organization have swelled to approximately 100,000. Our files also show that the number of exempt organizations of all types are increasing at the rate of nearly 20,000 per year. Appropriations for audit manpower, however, have not increased comparably. Whatever added audit coverage we have been able to achieve has come about through more effective use of our manpower—and this despite the complicated statutes which make administration difficult.

Mr. Caplin also pointed out that between 1950 and 1962 the number of returns filed by tax-exempt organizations increased from slightly over 100,000 to over 250,000. In this past year alone we received over 309,000 returns from tax-exempt organizations.

These figures demonstrate that our administrative problems are becoming more difficult with each passing year.

We are expanding the use of our data processing capabilities to help cope with the administrative problems created by the burgeoning number of exempt organizations. To this end we created an exempt organization master file (EOMF) in 1964. We presently have the records of approximately 325,000 organizations on this file. This facility will give us the capacity for determining compliance with the filing requirements of the law and the means for economic and effective processing of returns. To some extent it has proved helpful in selecting organizations for audit examination. This is a developing capability and in time and with experience I am confident that we will be able