

# GAO Highlights

Highlights of [GAO-19-495](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

## Why GAO Did This Study

IRA owners are able to invest in a wide variety of assets, but they are prohibited from engaging in certain transactions involving IRA assets. IRA owners who engage in prohibited transactions may incur increased income tax liability, additional taxes, and the loss of the tax-advantaged status of their accounts. DOL can grant exemptions from the prohibited transaction rules. IRS enforces tax laws relating to IRAs and can assess additional taxes.

GAO was asked to examine (1) DOL's process for granting exemptions for prohibited IRA transactions and outcomes of that process, and (2) the extent to which DOL and IRS collaborate on oversight of prohibited transaction rules for IRAs. GAO reviewed relevant federal laws and regulations; examined agency guidance, exemption process documentation, and application case files; assessed interagency coordination using internal control standards and prior work on interagency collaboration; and interviewed DOL and IRS officials.

## What GAO Recommends

GAO is recommending that DOL and IRS establish a formal means—such as a memorandum of understanding or other mechanism—to collaborate on oversight of prohibited IRA transaction exemptions. GAO is also recommending that DOL document policies and procedures for managing the exemptions process. DOL and IRS generally agreed with GAO's recommendations.

View [GAO-19-495](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov), or Charles A. Jeszeck at (202) 512-7215 or [jeszeck@gao.gov](mailto:jeszeck@gao.gov).

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# INDIVIDUAL RETIREMENT ACCOUNTS

## Formalizing Labor's and IRS's Collaborative Efforts Could Strengthen Oversight of Prohibited Transactions

### What GAO Found

The Department of Labor (DOL) has a process to grant administrative exemptions for individual retirement account (IRA) transactions that would otherwise be prohibited by law, such as an IRA buying investment property from the IRA owner. DOL evaluates applications using statutory criteria and follows administrative procedures codified in regulations. Applications for proposed transactions that are substantially similar to certain other transactions previously granted exemptions may follow an expedited process.

**Prohibited Transaction Exemption Applications for Individual Retirement Accounts Processed by the Department of Labor (DOL), January 1, 2006 through May 16, 2017**

Application status	Individual	EXPRO <sup>a</sup>
Withdrawn	28	28
Granted	20	28
Denied	11	5
Closed administratively or other	4	n/a
<b>Total</b>	<b>63</b>	<b>61</b>

Source: GAO analysis of DOL data. | [GAO-19-495](#)

<sup>a</sup>EXPRO is the common name for a class exemption that allows DOL to authorize relief from the prohibited transactions rules on an expedited basis, generally a shorter period of time than it takes to review individual applications.

As shown in the figure, GAO found that roughly half (56) of the IRA prohibited transaction exemption applications it reviewed were withdrawn by the applicant before the review process was completed. In reviewing processed applications, GAO found that most of the prohibited transactions for which an exemption was sought involved the sale of IRA assets. With regard to DOL's application review process, GAO found that DOL has not sufficiently documented internal policies and procedures to help ensure effective internal control of its process.

Documenting procedures could increase transparency about how applications are handled, reduce the risk of DOL employees carrying out their duties inconsistently, and provide a means to retain organizational knowledge should key personnel leave unexpectedly.

Although DOL and the Internal Revenue Service (IRS) share some information as part of their oversight responsibility for prohibited IRA transactions, no formal mechanism exists to help guide collaboration between the agencies. Of the 124 IRA applications GAO reviewed, only eight reflected DOL contact with IRS. GAO found that DOL has information about requested exemptions to prohibited IRA transaction rules that could be useful to IRS in carrying out its oversight responsibilities. For example, DOL does not share information on denials—information that could be useful as prohibited transaction examples for IRS examiner training and educational outreach to IRA owners. In prior work on interagency collaboration, GAO has found that formal agreements, such as a memorandum of understanding, can help agencies monitor, evaluate, and update interagency collaboration. Formalizing the sharing of information between DOL and IRS regarding IRA prohibited transaction exemptions could help the agencies better support their current coordination efforts and identify additional opportunities for greater collaboration.