

IRS Hot Topics

A Washington National Tax Services (WNTS)
Publication

March 28, 2012

IRS begins revamping corporate taxpayer audit process

On March 26, the IRS announced that it intends to reduce the amount of resources devoted to large corporate audits (i.e., corporate taxpayers with assets of \$1 billion or more), and to redeploy those savings to examinations of flow-throughs, financial products and businesses with either international operations or assets of \$250 million or less. This would result in a substantial shift in IRS behavior - in 2010 the IRS audited 96 percent of returns filed by corporations with assets of \$20 billion or more, and just 12 percent of businesses with assets of \$250 million or less.

The IRS hopes to accomplish this change by "tweaking the IDR process, increasing the use of summonses, and prohibiting Appeals from considering new facts or arguments." Specifically, IRS Deputy Commissioner Steve Miller explained that the IRS plans to encourage Revenue Agents to enter into a "robust exam planning process where agents and taxpayers discuss issues and the plan to audit those

issues, including an agreed-upon IDR response time frame." If the time-frame is not met - and the IRS notes that many large corporate taxpayers are significantly delinquent in responding to IDRs - "taxpayers should expect a summons." In addition, LB&I is requesting that Appeals send cases back to Exam when taxpayers bring significant new facts or information to light for the first time in the Appeals conference.

PwC observations

The IRS is to be commended for undertaking this initiative. The current large case examination strategy, which has been in place for many years, is not based on an assessment of risk posed by the taxpayer or its return. Rather, it is predominately based on the size of the taxpayer. Shifting resources to address identified areas of risk seems eminently sensible.



A change of this magnitude, however, will take many years to complete and likely face resistance from LB&I Revenue Agents whose pay grades historically have been contingent upon their continuing to audit large corporate taxpayers. That said, such a shift would expose many mid-sized companies to a much higher risk of an IRS audit than they currently face, and they should begin to plan accordingly (e.g., preparing audit ready files, conducting mock audits, performing close scrutiny of UTP schedules, etc.).

In addition, the seeming willingness of the IRS to more quickly resort to summonses where IDR time-frames have not been met causes concern, and places greater importance on using the Quality Examination Process to properly plan the scope and duration

of the examination at the beginning of the audit process. It bears noting that the IRS seems to believe that taxpayers should be able to deliver all files and documents supporting items on the return in a prompt fashion.

Finally, LB&I's request that Appeals not entertain new arguments, facts or information also bears watching. Thought should be given to properly documenting the raising of all relevant arguments and facts in Exam, to ensure that Appeals has the authority to review all pertinent matters.

For more information, please contact:

<i>Pam Olson</i>	<i>(202) 414-1401</i>	<i>pam.olson@us.pwc.com</i>
<i>Kevin Brown</i>	<i>(202) 346-5051</i>	<i>kevin.brown@us.pwc.com</i>
<i>Linda Stiff</i>	<i>(202) 312-7587</i>	<i>linda.stiff@us.pwc.com</i>

This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

SOLICITATION

© 2012 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.