

Memorandum on National IRS/CPA Conference in Washington DC on October 29, 2008.

The format of the meeting was a series of one hour presentations by various commissioners and deputy commissioners of different IRS departments. There were questions and answers at the end of each presentation. There were about 100 CPAs from around the country in the audience.

**Farris Fink – Deputy Commissioner Small Business/Self-Employed Division.**

- 80% of all IRS compliance and 80% of the tax gap in this division (basically businesses with less than \$10M in assets)
- 62% of individual tax returns in this area are prepared by tax preparers – 81% of business returns
- Current administration at IRS see important connection with tax preparer for tax administration (Tripod)

Key topics for SB/SE in the next twelve months:

1. Sample of 13,000 tax returns for audits to determine filters. National research program (NRP) – will be 5,000 S Corporation returns to determine significant compliance challenges for S Corps
2. Outreach to preparers – currently 500,000 signed up for email service
3. Enforcement matters – administrate fairly and timely
4. Paying a lot of attention to flow through entities
5. Focusing on high income individuals – incomes over \$200,000 – more auditing and following up on non filing
6. Looking for flagrant abusive transactions – try to identify before all the way through the system. Some are on the internet – recently some ROTH schemes. Trend is back to more simple tax schemes
7. More attention to international transactions and entities – offshore compliance – credit cards – private banking
8. 65% of the agents have less than 4 years experience – huge learning curve – taxpayers are helping train the new agents – 50% of the people in collections have less than 4 years experience
9. Huge tax gap issue with employment tax – over 1.6million businesses owe \$58 billion in tax. One year lag in assessment and one year lag in liens – average is 10 quarters delinquent
10. Tipping arrangements
11. Economy – passes to a small business collection issue quickly – many new taxpayers will be exposed to payment issues
12. Expand return preparer program to identify those that stretch the boundaries

Q&A – Form 2848 issues – check the box on the return only being used to process the return – would need a law change to expend

Trying to speed audit process

**Frank Ng –Commissioner Large and Mid-size Business Division**

- Changing workforce and changing taxpayer demographics

- New workforce at IRS (experience)
- \$10M in assets – 235,000 tax payers – 4,900 public companies

Four biggest challenges:

1. Globalization
  2. Business environment and tax compliance (NOLS, Capital loss, etc)
  3. Aggressive tax planning with listed transactions
  4. Transparency issues with FAS 109 and FIN 48
- Looking for more technology and non-traditional methods
  - M-3 examinations – agents spending too much time on these transactions – mainly timing differences than permanent differences
  - Make decisions more consistent nationally

Issue focus examination – looking for:

1. High strategic importance
  2. Significant compliance issue (large number of taxpayers)
  3. Important in an industry
- Electronic filing – the information contained is “huge”
  - Compliance assurance program – 92 companies currently have IRS employees on site for audit of transactions as they happen – audits are being closed within 6 months of filing – average time for closing an audit this department is 21 months
  - Transfer pricing
  - Large company audits are up 91% since 2003
  - Rules of engagement from IRM – don’t be reluctant to get manager involved in audit sooner - no repercussions

### **Brady Bennett - Deputy Commissioner Wage & Investment Division (all W-2s and 1099s)**

- Biggest challenge this year was processing stimulus payments – huge challenge over 20 million more returns filed this year.
- 2007 AMT patch – late legislation caused filing issues
- 2009 challenges
  - Another stimulus package? IRS will give suggestions the next time
  - First time home buyer credit – credit in 2009 and repayment over 15 years will create new compliance challenge
  - Mortgage debt relief
- 300 million visits to irs.gov – one of the 5 largest websites in the world – most visits of any site in filing season – has taken away a large number of phone calls – 39 million visits to where’s my refund – all used to be phone calls
- E filing up to 58% of returns in 2007 – 80% of returns done on a computer – in 2009 some of the large software providers will be waiving fees for e filing
- Processing at IRS – 25% of e filed returns processed in 1 day
- 92 million calls in 2008 – 37 million more than 2007 due to the stimulus

- Internal processing issues due to stimulus volume – slow down in handling correspondence and other matters
- Internal time is 12 days to process correspondence after worked on
- Alternative approach to under reporters – CP 2057 – soft notice asking if information had been missed rather than CP 2000 that assesses the tax
- New identity theft hotline
- ACS staff pulled to work on stimulus
- Concern will be stock basis reporting that is required in the future – AICPA asking to be at the table when the process is designed

### **Sarah Hall Ingram – Chief Appeals**

Number of appeals going up slightly – 112,000 transferred in and 106,000 closed – inventory higher (around 60,000 cases nationally)

50% of all appeal cases are collection cases

Due to inexperienced auditors – trying not to finish audits at the appeals level – sending cases back to be finished after issues are identified

### **David Williams – Director – Office of Electronic Tax Administration and Refundable Credits**

- E File study – staying around 60% (original target was 80% by now)
- Issues with 7216 information disclosure (9,000 comments on proposal – most ever)
- More information is captured on e filed returns – cannot be used in examination since not captured from paper filed returns
- Security and technology adaptation big issues
- Would like to move to more interactive correspondence with IRS (email)
- Modernized e filing – technology now much improved – better data faster
- IRS strategy – continue to rely on professional as the first line in compliance
- E Service – “huge opportunity for improvement”
- England drives e filing by allowing later due dates for electronically filed returns
- On line fill able forms will be available this year
- Bar coded paper forms (2D code)
- 40 million taxpayers could have prefiled tax returns with their information now
- Working on push down information for W-2 and 1099
- Taxpayer consent and e identification large obstacles 2 or 3 part identifications (who, what, are)
- Problem – cannot remove all the risk

### **John Caggiano – Campus Examination Policy**

### **John Lindsley, Discretionary Exam & Innocent Spouse**

- Correspondence exams – much more efficient for the IRS than field – now 10 “campuses” 5 for W&I (W-2, A, D) and 5 for SB/SE (C,E,F,2106)
- Approx 1.3 million exams in 2007 – 77% of all audits – had been less than 50% in 2000
- 40% of correspondence audits are EIC
- Limited scope – documentation only
- Selection driver – all 3<sup>rd</sup> party information – some referrals from Criminal investigation
- Biggest problems:
  - Timely response – cut out a step in selected return for audit – first letter is in essence a 30 day letter - if response is not received by IRS in 30 days – going to 90 day letter (internal processing time can create problems here)
  - Internally were speeding 90 day letter processing to 32 days – field is 45 days including 15 Day grace period – many times the information had been received by IRS – Just not processed – takes 5 days for the IRS to “control” Mail
- Can talk to group manager about audit – same as field audit
- There is a work leader for each group – may be better than a manager
- Looking at sending acknowledgement of faxed information received
- Cases are not assigned to an agent until the information is received by the IRS

**Michael Chesman – Director, Office of Professional Responsibilities**

- Follow the IRM
- 6694 matters
- New system to address enrolled agents/actuaries/TPAs
- Foreign Bank account form

**Nina Olson – National Taxpayer Advocate**

- Increase in cases slower than prior years
- Until July – very slow year – then cases increased dramatically – IRS processing had been focusing on stimulus processing
- 200 new advocates hired – don’t queue cases – work on immediately
- Amended returns are 4 months behind in processing
- Field audit has much higher agreed to rate than the correspondence audits
- Don't give up on offer in compromise
- Partial pay installment agreements

This is an informative day and a good opportunity share ideas with IRS national employees.