



Deloitte Tax Presents:

IRS Disputes: How Tax Controversies are Resolved

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Audit • Tax • Consulting • Financial Advisory •

Agenda

- Understanding the IRS Organization
 - IRS History
 - Organizational Structure
 - Enforcement Branches
- Understanding the IRS Examination Process
 - Tax Compliance Policies & the “Tax Gap”
 - Selection of Tax Returns for Audit
 - Types of Examinations
 - Use of Taxpayer Representatives
 - Critical Steps in the Exam Process
 - Best Practices for Working with the IRS
 - Available Procedures to Accelerate Dispute Resolution
- Additional Resources

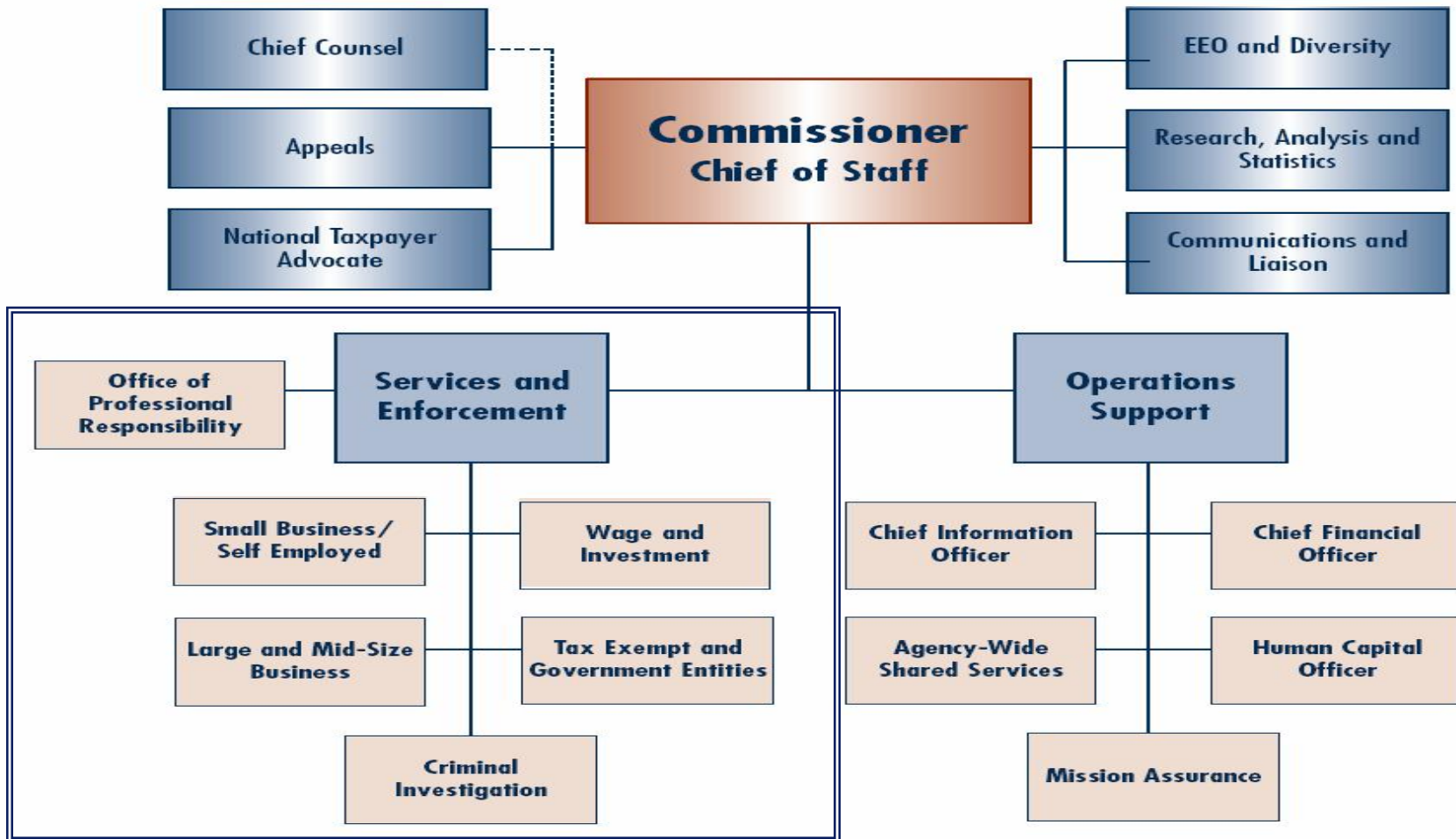
Poll Question

The current Internal Revenue Service (IRS) organization was established in:

- 1862 to fund the Civil War
- 1913 upon ratification of the 16th Amendment
- 1918 to fund World War I
- 1954 with the adoption of a new Internal Revenue Code
- All of above

IRS Organization

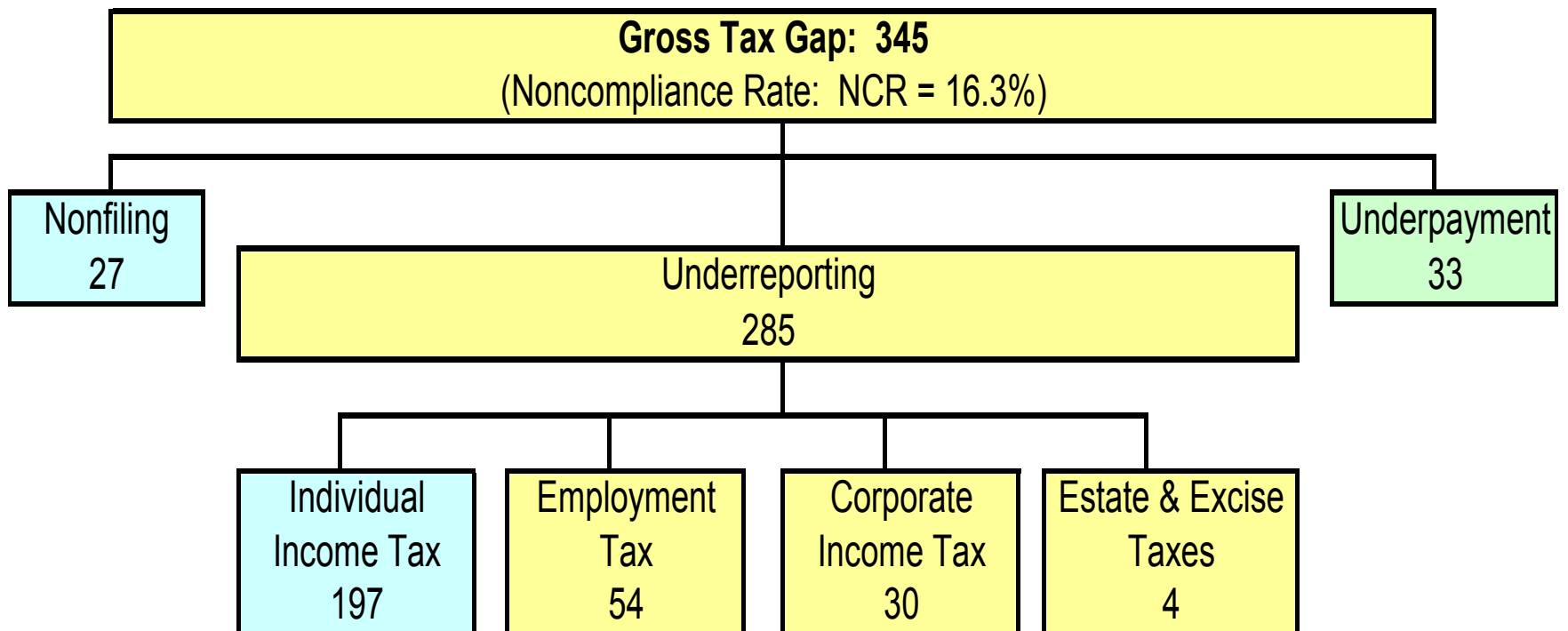
Internal Revenue Service Department of the Treasury



Tax Gap Figures

TAX YEAR 2001 FEDERAL TAX GAP

(in Billions of Dollars)



Poll Question

Tax returns are selected for examination by:

- A computer program that measures probability of error
- Random selection
- Matching of information documents
- Automatic classification
- All of the above

IRS Examinations – Types

- There are three ways in which an IRS examination may be conducted:
 - Correspondence
 - Notify the taxpayer their return has been selected for exam
 - Generally includes a description of records that are needed
 - Example: Receipts to support charitable deduction
 - Office examination
 - The IRS agent asks the taxpayer to come into the office for an interview, and bring specific documents and records to verify their claims
 - Taxpayers can make an audio recording of the examination interview provided they notify the IRS agent 10 days in advance
 - Field examination
 - Taxpayer's home or place of business
 - For businesses an examination is normally conducted at the taxpayer's place of business
- IRS makes final determination of when, where, and how the examination will take place

IRS Examinations – Representing Taxpayers

- Taxpayer may act on own behalf or may be represented
 - Qualified representatives generally – attorney, CPA, enrolled agent, or the person who prepared the return and signed it as the preparer
- A representative generally must have written authorization from the taxpayer
 - Form 2848, Power of Attorney and Declaration of Representative
 - Representative is entitled to receive or inspect confidential information without having to file a separate tax information authorization
 - Form 8821, Tax Information Authorization
 - Is only a disclosure authorization and cannot be used to appoint a representative

IRS Examinations - Procedures

- Notice of examination
- Opening conference
 - Determine scope and extent of audit
 - Establish taxpayer and IRS contact points
 - Establish timetables
- Information and Document Requests (IDR) (Form 4564)
 - Issue in draft form to prevent request for irrelevant information
 - Limit one issue per IDR to help prevent confusion
 - Track due dates, assignments, and response dates
- Notices of Proposed Adjustment (Form 5701)
 - Proposed adjustment by item and usually includes an explanation of the item
 - Taxpayer can prepare a response if they disagree with the proposed adjustment

IRS Examinations – Procedures

- Revenue Agent's Report (Form 4549)
 - Report explaining the agent's proposed adjustments
- 30 Day Letter
 - A letter notifying the taxpayer of their right to appeal the proposed changes within 30 days
 - Usually includes a copy of the revenue agent's report and it may also include an agreement or waiver form
 - If the taxpayer does not agree with the proposed changes the taxpayer must file a protest in order to receive consideration from Appeals
- 90 Day Letter
 - If the taxpayer does not respond to the 30-day letter, or if an agreement is not reach with an Appeals Officer, IRS will send a 90 day letter
 - The taxpayer has 90 days form the date of the notice to file a petition with the Tax Court

Poll Question

Which of the following is not a best practice for dealing with IRS examinations:

- Consider all available IRS dispute resolution procedures
- Prepare a quality tax return and related documentation to minimize disputes
- Act professionally and develop a good working relationship with the IRS
- Provide lots of useless paper and an uncomfortable working space
- Work to resolve the examination as early as possible

Accelerated Examination Procedures

- Limited Issue Focus Exams (LIFE)
 - Focus on a small set of high-risk items
- Early referral to appeals
 - When early referral may be appropriate:
 - The issue is not expected to be resolved at exam
 - The issue has been fully developed in exam
- Fast track settlement
 - Collaborative process resolves issues using Appeals' tools
 - Applies to LMSB taxpayers
 - 120-day fast track process (actual = 70 days)

Additional Resources

- **IRS Insights**, Deloitte Tax LLP Tax Controversy Services (bimonthly newsletter)
<http://www.deloitte.com/us/tax/taxcontroversy>
- **Section 199 Pre-Filing Agreements: Capturing the Opportunities**, Deloitte Insights (podcast)
<http://www.deloitte.com/us/podcasts>
- **Understand the Current Environment and Your Opportunity**, Deloitte Tax LLP Tax Controversy Services (article)
Access through the Dbriefs U web site at <http://www.deloitte.com/us/dbriefsu>
- **IRS Pre-Filing Agreements**, Deloitte Tax LLP Tax Controversy Services (article)
Access through the Dbriefs U web site at <http://www.deloitte.com/us/dbriefsu>

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