

Correspondence Examinations: Understanding the Process and Working Together

Presented by:

Dennis Parizek

Program Manager, Ogden Campus

Compliance Services

Automated Underreporter Operation

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Discussion

- Role of correspondence examination
- Inventory selection
- Notice process
- Workflow process
- How to respond
- Concerns raised by practitioners & corrective actions



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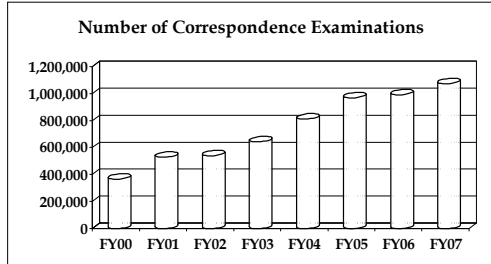
Role of Correspondence Examinations in the IRS

- Efficiently address non-compliance with tax law
- Increased significantly since 2000
- Constitute a significant percentage of the Service's audit coverage



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The Growing Role of Correspondence Examinations



Source: Fiscal Year 2007 IRS Enforcement and Service Statistics



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Striving for a Balanced Compliance Approach

IRS is shifting examination resources to reduce the Tax Gap and balance audit coverage of individuals.

Individual Examinations

	FY 2005	FY 2006	FY 2007
Total Individual	1,215,308	1,283,950	1,385,650
EIC Exams	527,969	517,617	503,267
% EIC Exams	43%	40%	36%



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Role of Correspondence Examination

Criteria for a correspondence examination:

- Defined scope: single or limited audit issues
- Focus on recordation to substantiate tax return entries
- Limited potential for a face-to-face interview or discussion with the taxpayer or their representative/preparer



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Inventory Selection

We select returns deemed to have a

questionable deduction, expense or credit

- Use data to identify returns with high potential for a tax adjustment
 - Third party information
 - Potentially inconsistent line items on the tax return
- Referrals from Criminal Investigation and preparer /promoter actions



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Collection Risk or Audit Issue Determines the Initiation of the Examination Process

- Pre-Refund examinations protect revenue
 - Refunds are held during the audit process
 - High risk of releasing the refunds (collectability)
 - Information from the return is verified as false through third-party contacts
 - Entries on the return are contradictory
- Other issues are examined after the original return is processed.



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Primary Audit Issues Addressed via a Correspondence Examination

- Earned Income Credit (EIC)
- Certain Non-filing Conditions
- Schedule A Issues
 - Employee Business Expenses (EBE)
 - Charitable Contributions



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Inventory Selection Walkthrough Earned Income Credit

- Third-party information is related against a tax return to determine the validity of dependent and EIC claims
 - Federal Case Registry (FCR)
 - The FCR information provides custody orders for children receiving public assistance as well as those arising from private divorce cases.



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Inventory Selection Walkthrough Earned Income Credit (Continued)

- Social Security Administration
 - Validates the Social Security Number for the Qualifying Child and provides names of parents
- Results of prior audits are used to project potential of an EIC disallowance
- Once scored, returns are ranked for selection



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EIC Case Selection – Key Points

- If a return is selected, the EIC portion of the refund will be held.
 - The non-EITC amount will be refunded to the taxpayer.
- A letter will generate to alert the taxpayer that the refund is being held pending an examination.



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EIC Case Selection – Key Points

- The letter will contain specific paragraphs that explain the issues being examined.
- Cases are assigned to an examiner only when correspondence is received from the taxpayer.
- Cases with no responses are worked completely through an automated system.



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Communication with Taxpayers “ICL” vs. “Combo” Letters

There are two types of letters used to begin a correspondence examination:

- ICL (Initial Contact Letter) is used to notify a taxpayer of the opening of an audit without proposing a balance due. These letters are used on all EITC examinations and when we are questioning a general deduction or credit.



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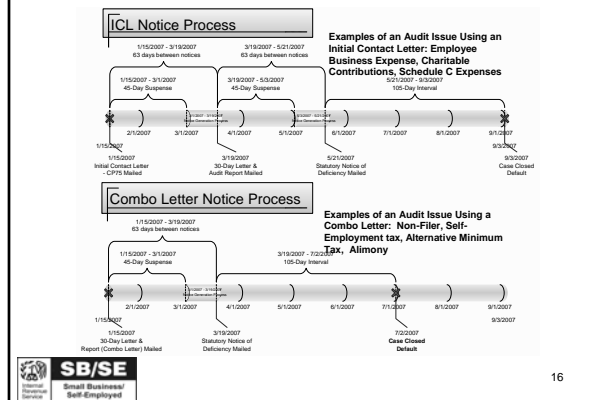
Communication with Taxpayers “ICL” vs. “Combo” Letters (Continued)

- Combo Letter includes an examination report with the notification of the audit. We use combo letters on issues where there is reasonable certainty of the potential liability.
- Combo letters:
 - Significantly reduce the audit cycle; and,
 - Present the taxpayer with a clearer understanding of our proposed changes.



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Two Notice Processes for Non-EIC



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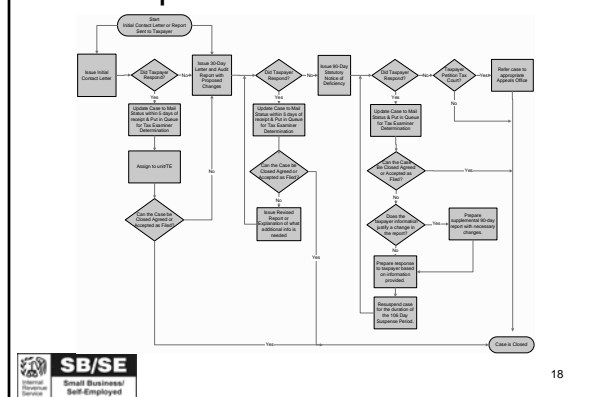
Examination Workflow

- Use of automation
 - Audit contacts with no-response are systemically advanced through the audit process
 - Receipt of mail precludes subsequent notices from being issued
- Telephone contact is encouraged
- Tax examiners use judgment when evaluating responses



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Correspondence Exam Process



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Responding to an Examination Notice

- Review your tax return
- Read the enclosed Form 886 which outlines what information is being requested
- Answer any questions on the attachments
- Provide a phone number where you can be reached
- Respond by the due date
- Enclose the Response Page from the Examination notice
- Use the return envelope provided
Use the complete address shown on the provided return envelope if you need to use a larger envelope



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Practitioner Concerns

In the Fall of 2007 we began to hear concerns about the correspondence examination process. Most notably:

- Premature issuance of the Statutory Notice of Deficiency
- No acknowledgement or disregard of submitted documentation
- We promptly addressed these concerns. We:
 - Acted to ensure consistency
 - Modified our processes
 - Revised and clarified our procedures
 - Initiated studies on taxpayer behavior and process performance
 - Initiated Outreach forums



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Common Questions

- *Sometimes when I call, I spend a long time on hold or listening to a recorded message. Why is it so difficult to get to the person who is assigned my case?*
 - Assignment based on written response
 - Cases often reassigned



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Common Questions

- *I've contacted you by mail and haven't received a response. How do I know you've received my correspondence?*
 - Interim response
 - Follow-up by phone



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Common Questions

- *I received a CP-2000 and I filed an amended return. When can I expect to hear from you?*
 - Automated Underreporter (not correspondence exam) notice
 - Similar programs and timeframes
 - Attach amended return to response



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Common Questions

- *My client brought a case to me that has been closed. Can I do anything to change your determination?*
 - Audit reconsideration process
 - Calling (or responding to) the office that conducted the examination
 - Refer to IRS Publication 3598



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Feedback

- Hearing your questions and concerns is essential for our efforts to improve the process for our customers. We value your input.

QUESTIONS?



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Contact Information

Phone: (801) 620-6276

E-mail: dennis.l.parizek@irs.gov

Practitioner Priority Service
(866) 860-4259



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