

## SBSE Examination Update

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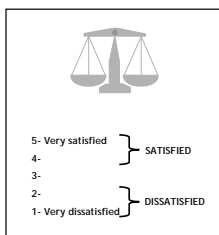
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## IRS SB/SE Examination Customer Satisfaction Survey

- A sample of closed cases from April-June 2008.
- 560 cases were sampled each month
- Sampling error = 4.15% (at 95% confidence)
- Response rate = 34%



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## Highlighted Results

- POAs (77%) are significantly more satisfied than non-POAs (62%).
- Customers who experienced a field exam are more satisfied overall (68%) compared to customers who experienced an office exam through office visit (60%) or an office exam through correspondence (49%).
- Overall satisfaction decreases as the length of the examination increases. This is especially evident after 7 months where satisfaction drops from 69% (4 to 6 months) to 56% (7 to 12 months).
- Customers are least satisfied with the amount of time they had to spend on the examination (55%) and the length of the exam from start to finish (59%).

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### Ratings for Each Question by Type of Examination

Overall	Field Exam (N=357)		Office Exam through Visit (N=157)		Office Exam through Correspondence (N=37)	
	Se	D	Se	D	Se	D
QUANTITATIVE SATISFACTION	68%	20%	60%	18%	43%	35%
Explanation of why you were being examined	61%	18%	57%	17%	50%	33%
Explanation of the exam process	67%	13%	64%	19%	46%	24%
Ease of understanding the notice regarding your initial appointment	71%	13%	65%	13%	55%	28%
Time given to you to provide requested information to the IRS	71%	11%	73%	9%	43%	19%
The time the IRS took to respond to you	64%	20%	63%	13%	60%	27%
Flexibility of auditor in scheduling meetings	77%	8%	66%	8%	54%	33%
Reasonableness of the information you were asked to provide	66%	17%	61%	14%	53%	25%
Explanation of why records were required after initial appointment	64%	19%	65%	14%	46%	19%
Business knowledge of your auditor	66%	16%	65%	14%	53%	27%
Tax knowledge of your auditor	71%	14%	69%	11%	59%	21%
Courtesy of your auditor	62%	8%	73%	6%	63%	23%
Consideration given to the information you furnished	70%	12%	60%	23%	47%	28%
Length of the exam process from start to finish	59%	29%	63%	20%	50%	37%
Amount of time you had to spend on the examination	53%	27%	58%	19%	57%	26%
Understanding that you have payment options	69%	14%	70%	15%	48%	16%
Explanation of why adjustments were made	63%	18%	64%	20%	49%	38%
Fairness of treatment by the IRS	67%	20%	56%	23%	51%	35%

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### Ratings for Each Question by Type of Examination

Question	Field Exam (N=307)	
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<b>OVERALL SATISFACTION</b>	<b>68%</b>	<b>28%</b>
Explanation of why you were being examined	61%	18%
Explanation of the exam process	67%	17%
Ease of understanding the notice regarding your initial appointment	71%	13%
Time given to you to provide requested information to the IRS	71%	11%
Time the IRS took to respond to you	64%	20%
Flexibility of auditor in scheduling meetings	77%	8%
Reassurances of the information you were asked to provide	68%	17%
Explanation of why records were required after initial appointment	64%	19%
Business knowledge of your auditor	68%	16%
Tax knowledge of your auditor	71%	14%
Courtesy of your auditor	82%	8%
Consideration given to the information you submitted	72%	19%
Length of the exam process from start to finish	59%	29%
Amount of time you had to spend on the examination	53%	27%
Understanding that you have payment options	69%	14%
Understanding of why adjustments were made	63%	18%
Fairness of treatment by the IRS	67%	20%

**Highest Satisfaction**

- Courtesy – 82%
- Flexible scheduling – 77%
- Time to provide info – 71%

Highest Dissatisfaction

- Length start to finish – 29%
- Time spent – 27%
- IRS time to reply – 20%

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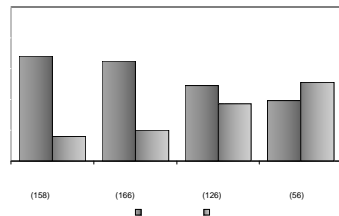
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### Satisfaction with Length of Exam Process

- Customer satisfaction with the length of the exam process decreases as the actual length of their examination increases. Dissatisfaction with the length of the exam process increases as the actual length of the exam increases, rising to 51% after 13 months or more.



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## Overall Satisfaction by Segmentation

Customer Group	Subgroup	Satisfied	Dissatisfied	No. of Respondents
Customer Agreement with Tax Change	No Tax Change	80%	8%	216
	Agree with Tax Change	60%	18%	295
	Disagree with Tax Change	25%	55%	16
	Other (Deposit Code 08)	50%	45%	12
Type of Examination	Field Exam	68%	20%	350
	Office Exam through Office Visit	60%	18%	153
	Office Exam through Correspondence	49%	35%	36
Length of Examination	3 Months or Less	73%	12%	109
	4 to 6 Months	69%	17%	204
	7 to 12 Months	58%	29%	92
	13 Months or More	37%	42%	44
Currency of Examination	12 Months or Less	68%	20%	393
	13 to 18 Months	56%	21%	94
	19 to 24 Months	65%	22%	112
	25 Months or More	64%	24%	40
Power of Attorney	Yes	77%	13%	55
	No	62%	22%	473

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## Actions to Improve Customer Satisfaction

- Support External Customers – Participate in Stakeholder Events
- Improve Timeliness of our Audits:
  - Reduce Overage Examinations
  - Reduce Examination Cycle Time
  - Effectively Use Risk Management Tools
  - Perform Examinations at Taxpayers' Premises, Conduct Taxpayer Interviews, and Tour Business Operations

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## Examination Hot Topics

- Place of Examination
- Tour of Business
- Interview of Taxpayer
- Proposing Adjustments & Examination Reports
- California Examination Plans

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**Place of Examination –  
IRM 4.10.2.7.6**

- IRC section 7605(a) – “..the time and place of examination shall be such time and place as may be fixed by the Secretary and as are reasonable under the circumstances.”
- Office Exam: In the IRS office closest to the taxpayer's residence.
- Field Exam: At the location where the original books, records and source documents are maintained. This is usually the taxpayer's principal place of business.

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**Place of Examination –  
IRM 4.10.2.7.6 (cont.)**

- Definition of books and records:
  - Bookkeeping and accounting records,
  - Vouchers, invoices, canceled checks, and
  - other source documents usually maintained at the business site.

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**Tour of Business**

- Treas. Reg. 301.7605–1(d)(3)(iii)
  - Examiners retain the right to tour the taxpayer's business to establish facts that can only be ascertained by a direct visit, regardless of where the examination takes place.
- IRM 4.10.2.7.6
  - Regardless of where an examination takes place
  - Examiner should visit the taxpayer's place of business or residence to establish facts that can only be established by direct visit
  - Including inventory and/or asset verification.

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## Interview of Taxpayer

- The purpose of an initial interview is to obtain an understanding of the taxpayer's financial history, the business operations, and the accounting records in order to evaluate the accuracy of the books and records and to determine the depth and scope of the examination.

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## Interview of Taxpayer

- A taxpayer will not be required to accompany a representative in the absence of an administrative summons.
- IRC 7521(c) permits a representative authorized by a taxpayer to represent that taxpayer at any interview.
- RRA 98, section 3502, requires taxpayers to be more clearly informed of their rights to be represented at interviews.
- If the taxpayer is not available for the initial interview, or if the representative is adamant in not having the taxpayer present at the initial interview, the examiner should attempt to conduct the initial interview with the taxpayer's representative.

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## Interview of Taxpayer

- The taxpayer's presence will not be mandated as long as the person being interviewed:
  - Has first hand knowledge of the taxpayer's business, business practices, bookkeeping methods, accounting practices and the daily operation of the business.
  - Provides factual, reliable information to questions asked by the examiner;
  - Timely provides follow-up information for any questions that could not be answered at the time of the initial interview; and
  - Has a properly executed Form 2848, Power of Attorney and Declaration of Representative, or Form 8821, Tax Information Authorization, from the taxpayer

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## Interview of Taxpayer

- If the examiner determines that the representative does not have sufficient knowledge of the taxpayer and his/her business to provide factual information, the examiner should request an interview with the individual who possesses that information.
- **Note:** The examiner will not conduct the audit with someone who will serve as a courier, shuttling back and forth between the Service and the taxpayer with Service questions and client answers, with Service follow-up questions and client follow-up answers. This type of arrangement impedes the flow of the examination and does not do justice to the tax system or the taxpayer.
- If the taxpayer's representative does not comply with the request to interview someone more knowledgeable, including the taxpayer, the examiner should consider management involvement and/or by-passing the representative (See IRM 4.11.55.3)

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## Correspondence

- Original notices and other written communications will be sent to the taxpayer and a copy to the Form 2848 representative.
- Although the examiner is obligated to observe the taxpayer's representative, taxpayers should be kept informed of all stages of the examination.
- Examiners should forward a copy of any correspondence, discussions, reports and/or other material to the taxpayer at the same time it is sent to the representative (See 26 CFR 601.506).

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## Proposing Adjustments & Examination Reports (IRM 4.10.7.5)

- Communication with the taxpayer or representative on an on-going and continuous basis is a critical part of the examination process.
- The examiner should discuss the progress of the audit and issues proposed at frequent intervals during the examination.

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## Proposing Adjustments & Examination Reports (IRM 4.10.7.5)

- Office examinations
  - Discuss issues as they are concluded or at the conclusion of the appointment.
  - Prepare an audit report at the conclusion of the appointment and discuss audit issues face to face
  - If the taxpayer says he has additional information to consider at the end of the initial meeting, this should not delay the issuance of a report.
- Field examinations
  - Discuss issues as they are concluded.
  - Allows the resolution process to begin as the examination continues
  - Each issue is discussed as it is completed and resolved so that at the conclusion of field work the status of each issue is known.

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## Examination Priorities

- Increase Audit Coverage
- Address Abusive Transactions
  - Promoters and participants
- Address Unreported Income
- Focus on High Income Non-filers
- National Research Program

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## California Examination Plans

- More than 33,000 Office Exams
  - 12,000 F1040 Under \$200K – No Sch C
  - 19,700 F1040 Under \$200K – With Sch C
  - 1,600 F1040 Over \$200K
- More than 33,000 Field Exams
  - 19,000 F1040 Under \$200K
  - 6,600 F1040 Over \$200K, 2,300 Over \$1 Mill
  - 3,000 Corporations
  - 4,000 Flow-through (1120-s, 1065, 1041)

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Questions?

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