



## Treasury Inspector General for Tax Administration Office of Audit

### FISCAL YEAR 2010 STATUTORY AUDIT OF COMPLIANCE WITH NOTIFYING TAXPAYERS OF THEIR RIGHTS WHEN REQUESTED TO EXTEND THE ASSESSMENT STATUTE

Issued on August 25, 2010

## Highlights

Highlights of Report Number: 2010-30-103 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. In passing this law, Congress expressed concern that taxpayers were not being advised adequately of their rights to refuse to extend the statute of limitations or to request that a statute extension be limited to specific issues or a specific period. Based on the results of our review, TIGTA believes the IRS is complying with the intent of the statute. However, there were still some instances in which IRS employees did not document whether taxpayers or their representatives were advised of these rights. Taxpayers might be adversely affected if the IRS does not follow requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to statute extensions.

### WHY TIGTA DID THE AUDIT

TIGTA is required by law to annually determine whether the IRS complied with Internal Revenue Code Section 6501(c)(4)(B). This requires the IRS to notify taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to specific issues or a specific period of time.

### WHAT TIGTA FOUND

Over the past five fiscal years, the IRS has improved its compliance with requirements for documenting that taxpayers were informed of their rights to refuse to extend the period of limitations or to limit such extension to a particular issue or to a particular period of time. The percentage of case files without documentation decreased from Fiscal Year 2006 to Fiscal Year 2010.

For Fiscal Year 2010, taxpayer files for five (five percent) of the 111 taxpayers in our statistical sample did not contain sufficient documentation to indicate whether

taxpayers were advised of their rights before consenting to extend the time to assess tax. In all five taxpayer cases, the taxpayer's representative signed Consent to Extend the Time to Assess Tax (Form 872) or Consent to Extend the Time to Assess Employment Taxes (Form SS-10), both of which contain a statement detailing the taxpayer's rights regarding extending the assessment statute of limitation. However, there was no evidence in the case files that the taxpayers themselves were advised of their rights, as required by IRS procedures.

In addition, our sample included taxpayers' files containing authorizations for third-party representation. Our review found that 2.67 percent of the taxpayers' files did not contain sufficient documentation that the taxpayers' representatives were provided with the required notifications. For these taxpayers, IRS management officials informed us that some employees may have overlooked the fact that the required information was not documented in the case file or the documents were separated from the case files.

### WHAT TIGTA RECOMMENDED

TIGTA did not make any recommendations in this report. However, a draft of the report was provided to the IRS for review and comment. The IRS did not have any written comments in response to the report.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201030103fr.pdf>

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