



*Fiscal Year 2010 Statutory Audit of
Compliance With Notifying Taxpayers
of Their Rights When Requested to
Extend the Assessment Statute*

August 25, 2010

Reference Number: 2010-30-103

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information



HIGHLIGHTS

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

Highlights

Final Report issued on August 25, 2010

Highlights of Reference 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 ****1**** taxpayers' files containing authorizations for third-party representation. Our review found that ****1**** (2.67 percent) of the ****1**** 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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 25, 2010

**MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT**

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Fiscal Year 2010 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When Requested to Extend
the Assessment Statute (Audit # 201030010)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) was complying with Internal Revenue Code Section 6501(c)(4)(B), which requires that the IRS provide notice to 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. The Treasury Inspector General for Tax Administration is statutorily required to provide information annually regarding the IRS' compliance with this provision.¹ We are also required to include the results in one of our Semiannual Reports to Congress. This is our eleventh review of the IRS' compliance with the statute extension provisions of the law.

Although we made no recommendations in this report, we did provide IRS officials an opportunity to review the draft report. The IRS did not have any written comments in response to the report.

Copies of this report are also being sent to the IRS managers affected by the report results. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

¹ Internal Revenue Code Section 7803(d)(1)(c).



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Abbreviations

FY	Fiscal Year
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
RRA 98	Restructuring and Reform Act of 1998



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Background

The Internal Revenue Service (IRS) is required by the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ and the Internal Revenue Code (I.R.C.)² to advise taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties. When the IRS audits a tax return and determines that there is an additional tax liability, the additional tax assessment must generally be processed within 3 years from the date the return was due or from the date on which the return was actually filed, whichever is later. This 3-year assessment statute of limitations normally cannot be extended without the taxpayer's written consent.³ To extend the statute, the IRS generally requests that the taxpayer(s) provide a signed consent form, either Consent to Extend the Time to Assess Tax (Form 872) or Consent to Extend the Time to Assess Employment Taxes (Form SS-10).⁴

The IRS is required to advise taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties.

These consents extend the assessment statute of limitations to either a specific period of time or an unlimited, indefinite period. The statute is usually extended for a period that both the IRS and the taxpayer agree is reasonable to complete the examination. The consent can also be negotiated to apply only to certain audit issues.

In passing the RRA 98, Congress expressed concern that taxpayers had not always been fully aware 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 of time. Some taxpayers might believe that they are required to agree to an extension upon the request of the IRS. Congress wanted to ensure that taxpayers were informed of their rights to refuse the proposed statute extension or to have it limited.

¹ RRA 98 Section (§) 3461(b)(2)(B), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² I.R.C. § 6501(c)(4)(B).

³ There are some exceptions to the 3-year statute of limitations. For example, I.R.C. § 6501(c)(1) extends the assessment statute indefinitely when false or fraudulent returns are filed.

⁴ IRS employees who most often request assessment statute extensions are examiners in the various Examination functions of the business divisions and appeals officers in the Office of Appeals.



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A taxpayer might agree to extend the assessment statute of limitations for the following reasons:

- The taxpayer might want to pursue additional audit issues that are in the taxpayer's favor in offsetting a proposed tax assessment or that might allow for a tax refund.
- If the remaining time before the statute expires is too short, the IRS might have to prematurely stop the audit process and issue a notice of deficiency that limits the time for the normal appeals process before the taxpayer must file a petition with the United States Tax Court.

A taxpayer might decide to limit or refuse to extend the assessment statute of limitations because:

- The taxpayer might not want to provide the IRS more time to consider additional audit issues.
- The taxpayer might not want to allow the IRS the opportunity to further develop audit issues already under consideration after the normal statute period has expired.

RRA 98 Section (§) 3461(b)(2)(B) requires the IRS to "...notify the taxpayer of the taxpayer's right to refuse to extend the period of limitations, or to limit such extension to particular issues or to a particular period of time, on each occasion when the taxpayer is requested to provide such consent." To implement this statutory requirement, the IRS revised its procedures to direct IRS employees to provide the taxpayer with a Request to Extend Assessment Statute (Letter 907) or Letter Transmitting Consent Extending Period of Limitation (Letter 967). Included with these Letters should be the actual consent forms to be signed and

The RRA 98 requires taxpayers to be informed of their rights to refuse to extend the period of limitations or to limit the extension to specific issues or a period of time.

Extending the Tax Assessment Period (Publication 1035). In addition, Federal regulations require that any notice or other written communication required to be given to a taxpayer should also be given to the taxpayer's representative (unless restricted by the taxpayer).⁵ IRS employees are instructed to document in their case file activity log whether the taxpayer was notified of his or her rights each time the IRS requested an assessment statute extension.

The Treasury Inspector General for Tax Administration is required by the RRA 98 to provide information annually regarding the IRS' compliance with I.R.C. § 6501(c)(4)(B). This report presents the results of our eleventh annual review of the IRS' compliance with the statute extension provisions of the law.⁶ As in the previous 10 reports, we continued to identify some noncompliance with procedures because documentation was not adequate to support that taxpayers were advised of their rights. However, compliance has improved since the IRS revised

⁵ 26 C.F.R. § 601.506 (2002).

⁶ See Appendix V for a list of our prior reports.



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the various consent forms and incorporated them into guidelines in response to our Fiscal Year (FY) 2004 report.⁷

The consent forms were revised to include a prominent statement informing taxpayers of their rights regarding assessment statute extensions and to provide information about Publication 1035. In addition, as shown in Figure 1, the revised consent forms include a statement for the taxpayers' representatives to sign, confirming they were notified of their rights regarding assessment statute extensions and the taxpayers were made aware of the same rights.

Figure 1: Excerpt From Form 872

Form 872 (Rev. October 2009)	Department of the Treasury-Internal Revenue Service Consent to Extend the Time to Assess Tax	In reply refer to: TIN: _____
--	--	--------------------------------------

Your Rights as a Taxpayer

You have the right to refuse to extend the period of limitations or limit this extension to a mutually agreed-upon issue(s) or mutually agreed-upon period of time. **Publication 1035, Extending the Tax Assessment Period**, provides a more detailed explanation of your rights and the consequences of the choices you may make. If you have not already received a Publication 1035, the publication can be obtained, free of charge, from the IRS official who requested that you sign this consent or from the IRS' web site at www.irs.gov or by calling toll free at 1-800-829-3676. Signing this consent will not deprive you of any appeal rights to which you would otherwise be entitled.

YOUR SIGNATURE HERE → _____ (Date signed) _____
I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B).

TAXPAYER'S REPRESENTATIVE

SIGN HERE → _____ (Date signed) _____
I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B). In addition, the taxpayer(s) has been made aware of these rights.

Note: The wording in the Form SS-10 is consistent with that shown in Form 872.

Source: IRS Form 872.

This review was performed at the Office of Appeals Headquarters, Large and Mid-Size Business Division Headquarters, Small Business/Self-Employed Division Headquarters, and Tax Exempt and Government Entities Division Headquarters in Washington, D.C., during the period November 2009 through May 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁷ Fiscal Year 2004 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2004-40-108, dated June 9, 2004).



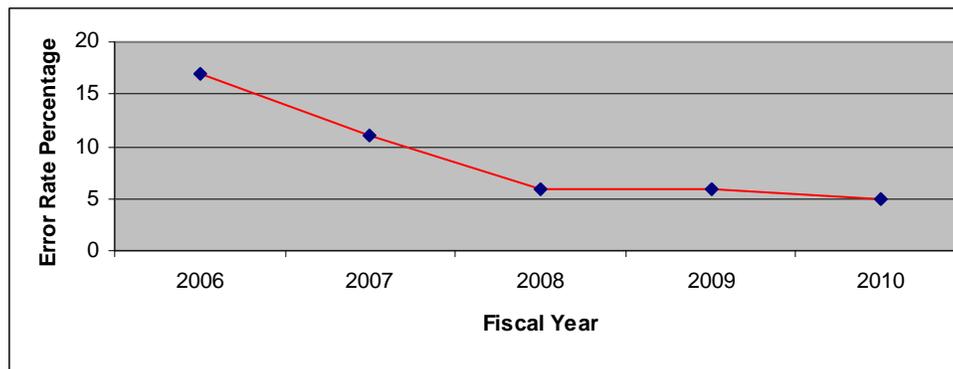
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Results of Review

The Internal Revenue Service Has Shown Improvement in Documenting That Taxpayers Were Informed of Their Rights

Over the past 5 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 particular issues or to a particular period of time. Specifically, as shown in Figure 2, the percentage of case files without required documentation decreased from FY 2006 to FY 2010.

Figure 2: Error Rate of Taxpayers Who Were Not Directly Informed by the IRS



Source: Prior Treasury Inspector General for Tax Administration audit reports (see Appendix V).

For FY 2010, case files for 5 (5 percent) of the 111 taxpayers in our statistical sample did not contain sufficient documentation to indicate whether the IRS directly advised taxpayers of their rights before consenting to extend the time to assess tax. In each of the five taxpayer cases, the taxpayer’s representative signed Form 872 or Form SS-10, both of which contain a statement detailing the taxpayer’s rights regarding extending the assessment statute of limitations. However, there was no evidence in the case files documenting that the taxpayers themselves were advised of their rights.

IRS procedures state that when a taxpayer asks the IRS to work with his or her representative, IRS employees should do so exclusively. However, IRS procedures also require employees to provide copies of any correspondence with the representative to the taxpayer. Specifically, the Internal Revenue Manual states that “...notification must be made to the taxpayer...and the taxpayer’s representative...”



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The notification process is also explained in *Practice Before the IRS and Power of Attorney* (Publication 947), in which the IRS informs the taxpayer:

If you have a recognized representative, you and the representative will receive notices and other correspondence from the IRS. . . . the IRS will send your representative(s) a duplicate of all computer-generated correspondence that is sent to you. . . . The IRS employee handling the case is responsible for ensuring that the original and any requested copies of each manually-generated [sic] correspondence are sent to you and your representative(s) in accordance with your authorization.

Although notification to the taxpayer's representatives appears to meet the intent of the law, the failure to notify both the taxpayer and the representatives does violate the IRS' internal procedures. IRS procedures and publications are clear that the expectation is for both the taxpayer and the taxpayer's representative to receive notices, including notification of the taxpayer's rights. Based on our sample results, from the population of 5,321 taxpayers with statute extensions, we projected that documentation for 132 taxpayers⁸ was not adequate to show that taxpayers were directly advised of their rights by the IRS. We considered that employees had advised taxpayers of their rights if any of the required documentation appeared to have been given to the taxpayers or a log entry to that effect was found in the related case files. The fact that we could not identify the required documentation in the case file does not mean the taxpayer was not informed of his or her rights. It means that, from the information available to us, we could not determine if the taxpayer was informed directly by the IRS.

Taxpayer rights could be negatively affected if the IRS does not comply with the procedures requiring that taxpayers be directly notified of their rights related to extensions to the assessment statute of limitations. However, because we identified no legal violations and the number of procedural violations was relatively small, we are making no recommendations.

Some Case Files Did Not Have Documentation That Taxpayers' Representatives Were Provided With Copies of the Notification of Taxpayer Rights

While IRS employees had documented that the taxpayers were informed of their rights and the taxpayers had signed the extensions, there were still instances in which IRS employees did not document that the taxpayer's representative was properly advised of the taxpayer's rights.

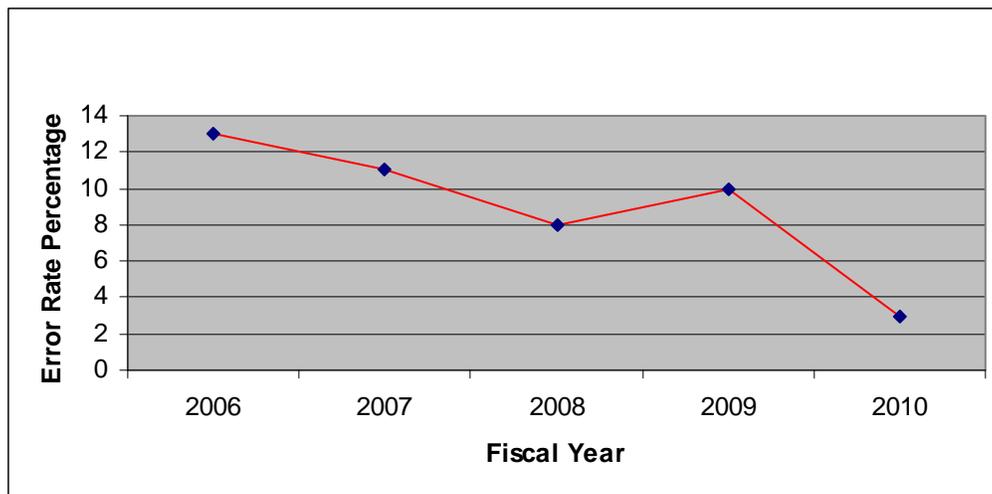
The IRS has generally improved over the years in documenting that taxpayers' representatives were informed of the taxpayers' rights to refuse to extend the statute of limitations or to limit it. Figure 3 shows there was a slight increase in the error rate in FY 2009 but the error rate decreased for FY 2010.

⁸ See Appendix IV for details.



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Figure 3: Error Rate – No Documentation That Representative Was Informed



Source: Prior Treasury Inspector General for Tax Administration audit reports (see Appendix V).

In our sample of 111 taxpayers, **1** taxpayers' files contained authorizations for third parties to represent the taxpayers before the IRS. For these **1** taxpayers, **1** (2.67 percent) files did not contain any documentation supporting that the taxpayers' representatives were provided with the required notifications. From an estimated population of 1,553 taxpayers with authorized representatives, we estimated that 41 taxpayers' files⁹ were not adequately documented to show that the representatives were notified in advance of taxpayer rights or given copies of written communications advising taxpayers of their rights. 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 taxpayers' files or the documents were separated from the taxpayers' files.

Federal regulations require that once a taxpayer representative has been recognized as such, he or she must be given copies of all correspondence issued to the taxpayer. This applies to all computer-generated or manually generated notices or other written communications. Without the required documentation, we could not determine if the IRS properly notified the taxpayers' representatives in these two cases. 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. However, because the number of errors was relatively small and notifications to taxpayer's representatives have shown improvement, we are not making any recommendations.

⁹ Based on an estimated population of 1,553, we are 95 percent confident that between 5 and 145 taxpayers' files were not documented to show that taxpayers' representatives were given notification advising taxpayers of their rights regarding assessment statute extensions. See Appendix IV for additional details.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall audit objective was to determine whether the IRS was complying with I.R.C. § 6501(c)(4)(B), which requires that the IRS provide notice to 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. To accomplish this objective, we:

- I. Determined whether taxpayers were being advised of their rights when the IRS requested an extension of the assessment statute.
 - A. Reviewed Internal Revenue Manual, memoranda, and IRS guidelines to determine whether there had been any changes to existing policies and procedures for processing requests to extend the assessment statute of limitations since our last audit.
 - B. Identified a population of 5,321¹ unique taxpayers from the combined Business Master File and Individual Master File² with closed examinations for which the assessment statute was extended. The period for the Individual Master File and Business Master File cases was from January 1 through June 30, 2009. We validated the Business Master File and the Individual Master File data by examining a random sample of 50 (25 from each Master File extract) of the 5,321 taxpayers. This random sample was used for data validation and not for projecting or reporting results.
 - C. The validation test results demonstrated that the data were reliable and could be used to meet the objective of this audit. We developed a statistical sampling plan using a 95 percent confidence level, an expected error rate of 8 percent, and a precision of ± 5 percent, which resulted in a minimum sample size of 111 taxpayers (closed cases). A statistical sample was taken because we wanted to estimate the number of tax returns in the population for which taxpayer rights were potentially affected.
 - D. We randomly selected 400 taxpayer cases from the population identified in Step I.B. We over selected our sample to make sure that we received enough cases

¹ We obtained a total of 7,343 tax periods representing 5,321 unique taxpayers for which the assessment statutes were extended. We used 5,321 as our population to select our random sample to prevent the review of duplicate taxpayers because the 7,343 included some taxpayers with multiple tax periods with extended statutes.

² The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes. The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.



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that met our criteria.³ We screened these cases until we obtained our valid sample of 111 unique taxpayers.

- E. Reviewed the 111 selected taxpayer's returns and related case files for the necessary documentation to verify whether taxpayers and their representatives, if applicable, were properly advised of their rights regarding assessment statute extensions and whether the revised consent forms were used in the process.
- F. Discussed exceptions identified with management officials of the IRS business unit or function that had requested the extension for concurrence or an explanation of why the IRS believed that proper procedures were followed.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the policies, procedures, and practices used by the Office of Appeals, Large and Mid-Size Business Division, Small Business/Self-Employed Division, and Tax Exempt and Government Entities Division as they relate to notifying 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. We evaluated these controls by reviewing applicable manuals and documentation, interviewing management from these functions, and reviewing a statistical sample of 111 taxpayer cases.

³ No consent form is required for a return that has the statute date extended for procedural issues. Our criteria required a signed consent form to be a valid sample case.



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Appendix II

Major Contributors to This Report

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Carl Aley, Director
Phyllis Heald London, Audit Manager
Lynn Wofchuck, Audit Manager
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Mike Della Ripa, Senior Auditor
Joseph Snyder, Senior Auditor
Lauren Bourg, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Large and Mid-Size Business Division SE:LM
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Tax Exempt and Government Entities Division SE:T
Chief, Appeals AP
Chief Counsel CC
Deputy Commissioner, Large and Mid-Size Business Division SE:LM
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Director, Communications and Liaison, Tax Exempt and Government Entities Division
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Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
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National Taxpayer Advocate TA
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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our current findings will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlement – Potential; 132 estimated taxpayers whose related case files did not contain adequate documentation to show that the taxpayers were directly advised of their rights by the IRS when assessment statutes were extended (see page 4).

Methodology Used to Measure the Reported Benefit:

To determine the number of taxpayers for which documentation was not adequate to support that the taxpayers were advised of their rights, we electronically identified 5,321¹ unique taxpayers from the universe of Business Master File and Individual Master File² closed cases in which the assessment statute was extended. The time period was January 1 through June 30, 2009. We used a 95 percent confidence level, an expected error rate of 8 percent, and a ± 5 percent precision to determine our sample size of 111 taxpayers

Because of the difficulty we encountered with obtaining the associated case files for some of these returns, we requested tax returns for 400 taxpayers for which the assessment statute was extended. This enabled us to obtain entire case files (more than one tax period if necessary) for each taxpayer. After screening through files for 400 taxpayers having at least 1 tax period with an extended statute and selecting 1 tax period for each taxpayer, we met our sample size of 111 taxpayers with complete case files that met our criteria. Some of the cases that we screened did not meet the criteria for a Consent to Extend the Time to Assess Tax (Form 872) and we needed to eliminate 91 taxpayers.³ Some other cases did not have complete documentation although they met our criteria.

¹ We obtained a total record of 7,343 tax periods representing 5,321 unique taxpayers for which the assessment statutes were extended. We used 5,321 as our population to select our random sample to prevent the review of duplicate taxpayers because the 7,343 included some taxpayers with multiple tax periods with extended statutes.

² The Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes. The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

³ No consent form is required for a return that has the statute date extended for procedural issues. Our criteria required a signed consent form to be a valid sample case.



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We reviewed the sample of 111 taxpayer case files to determine if taxpayers were advised of their rights and identified 5 (5 percent) taxpayers for whom the required documentation was not found. This was the exception rate. However, since we had excluded 91 taxpayer case files that were received but did not meet our criteria, we needed to account for those returns when projecting to the population. As a result, we added those back to the 111 to get to 202 taxpayers. We then took the 5 exceptions and divided by 202 cases (2.48 percent) and used that percentage to project to the population. We then multiplied the 2.48 percentage by the population to project the total number of taxpayers whose case files did not have sufficient documentation (5,321 * 2.48 percent = 132 taxpayers). The range of lower and upper limits was then calculated using the actual error rate, the actual precision of 2 percent with a 95 percent confidence level.⁴

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 41 taxpayers whose related case files were not documented to show that the taxpayers’ representatives were given copies of the written communications advising taxpayers of their rights regarding assessment statute extensions (see page 5).

Methodology Used to Measure the Reported Benefit:

To determine the number of taxpayers for which documentation was not adequate to support that the taxpayers’ representatives were advised of the taxpayers’ rights, we used the same sample of 111 taxpayers and identified **1** taxpayer case files that contained an authorization for a third party to represent the taxpayer before the IRS. In **1** (2.67 percent) of the **1** taxpayer case files, there was no documentation that employees provided the representatives with a copy of the written communications provided to the taxpayers.

The data we received on the 5,321 taxpayer population did not contain sufficient information to identify the number of cases that had representatives in the population. Therefore, we had to estimate the size of the population of taxpayers that had authorized third-party representatives. This was accomplished by dividing the number of taxpayers in our sample with declarations of representation by the total tax returns screened for which the assessment statute was executed by consent (**1** = 29.18 percent) and then multiplying this percentage by the population to estimate the number of tax returns for which the assessment statute was executed by consent and had a declaration of representation (5,321 * 29.18 percent = 1,553 taxpayers). Using the estimated population, we projected the reported error rate (1,553 taxpayers * 2.67 percent =

⁴ This projection is an estimate of the number of exception cases in the population. We are 95 percent confident that the range is between 20 and 244 taxpayers based on a 2.48 percent error rate and 2 percent precision.



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41 taxpayers).⁵ The projection was calculated using valid statistical formulas to determine the variable range of total error returns.

⁵ This projection is an estimate of the number of exception cases in the population. We are 95 percent confident that the range is between 5 and 145 taxpayers based on a 2.67 percent error rate and 4 percent precision.



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Appendix V

Prior Audit Reports

The Treasury Inspector General for Tax Administration has previously performed 10 mandatory audits in this subject area. These audits were:

Fiscal Year 2009 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2009-30-113, dated August 3, 2009).

Fiscal Year 2008 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2008-40-127, dated June 5, 2008).

Fiscal Year 2007 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2007-40-167, dated August 31, 2007).

Fiscal Year 2006 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2006-40-163, dated September 21, 2006).

Fiscal Year 2005 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2005-40-112, dated July 21, 2005).

Fiscal Year 2004 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2004-40-108, dated June 9, 2004).

Fiscal Year 2003 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2003-40-193, dated September 11, 2003).

Improved Documentation Is Needed to Ensure Taxpayers Are Informed of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2002-40-175, dated September 24, 2002).

Most Taxpayers Are Advised of Their Rights Before Signing an Agreement to Extend the Assessment Statute of Limitations (Reference Number 2001-10-157, dated September 24, 2001).



*Fiscal Year 2010 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When
Requested to Extend the Assessment Statute*

*Information Provided to Taxpayers When Requesting Extensions of the Assessment Statute of
Limitations Can Be Improved (Reference Number 2000-10-142, dated September 29, 2000).*



*Fiscal Year 2010 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When
Requested to Extend the Assessment Statute*

Appendix VI

Case Review Results by Division

Compliance With Requirement to Notify Taxpayers of Their Rights	Division¹				Totals
	Appeals	LMSB	SB/SE	TE/GE²	
Number of Taxpayers' Files That Did Not Contain Adequate Documentation That Taxpayers Were Informed of Their Rights	**1**	**1**	**1**	**1**	5
Number of Taxpayers' Files Reviewed:	21	16	71	3	111

Compliance With Requirement to Notify Representatives of Taxpayer Rights	Division				Totals
	Appeals	LMSB	SB/SE	TE/GE	
Number of Taxpayers' Files That Did Not Contain Adequate Documentation That Taxpayers' Representatives Were Provided With Copies of the Notification of the Taxpayers' Rights	*****	*****	**1**	*****	*****
Number of Taxpayers' Files Reviewed:	*****	*****	**1**	*****	*****

¹ No cases from the Wage and Investment Division occurred in our sample.

² Office of Appeals, Large and Mid-Size Business Division (LMSB), Small Business/Self-Employed Division (SB/SE), and Tax Exempt and Government Entities Division (TE/GE).