



Treasury Inspector General for Tax Administration Office of Audit

SUCCESSFULLY PROCESSING LARGE CORPORATE TAX RETURNS ELECTRONICALLY WAS A MAJOR ACCOMPLISHMENT, BUT ELIMINATING MORE COMPLIANT RETURNS FROM THE AUDIT STREAM IS A WORK IN PROGRESS

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Highlights

Highlights of Report Number: 2011-30-048 to the Internal Revenue Service Commissioner for the Large Business and International Division.

IMPACT ON TAXPAYERS

Implementing the electronic filing (Modernized e-File) system and requiring large corporations to use it were major accomplishments. The benefits of the Modernized e-File system are enabling the Large Business and International (LB&I) Division to better meet the expectations for efficient, modern service among the large corporations it serves.

WHY TIGTA DID THE AUDIT

This audit was conducted in response to a suggestion by the Internal Revenue Service (IRS) Oversight Board and is part of our Fiscal Year 2011 Annual Audit Plan addressing the major management challenge of Tax Compliance Initiatives. The overall objective of this review was to evaluate the progress the LB&I Division is making to take advantage of the opportunities offered by electronic filing (*e-file*).

WHAT TIGTA FOUND

As envisioned in the LB&I Division's business case, meaningful work process improvements have been realized in the years after large corporations were required to *e-file*. Notably, the accomplishments include reducing the costs associated with the inefficiencies of manually processing paper returns, while enhancing customer service and increasing availability of taxpayer information. Corporate taxpayers also report that *e-filing* has reduced the time and expense (burden) they spend filing their tax returns and related forms.

Due to numerous process improvement projects to enhance its audit process for corporations, it is very difficult, if not impossible, to isolate the impact *e-filing* is having on audit productivity. However, when compared

to the years before *e-filing* was mandated for large corporations, LB&I Division statistics show that corporate audits are taking less time and generating more additional recommended taxes.

Although *e-filing* was expected to provide the LB&I Division with the capability to eliminate more compliant taxpayers from its audit stream, this key benefit has not been realized. In each of the fiscal years since mandatory *e-filing* was introduced for large corporations, a higher percentage (roughly one out of four) of corporate returns audited in the Industry Case Program were closed with no adjustment when compared to any of the three fiscal years preceding its introduction.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, LB&I Division, ensure projects that are taking advantage of *e-file* data to enhance how returns are identified and selected for audit include methodologically sound plans in evaluating project outcomes. TIGTA also recommended that the Commissioner, LB&I Division, assess the current methods of promoting and sharing best practices for working with *e-file* data and use the assessment, as well as the observations in this report, to adjust current methods, as needed, to better meet examiner needs.

In their response to the report, IRS officials agreed with the recommendations and they plan to (1) develop, document, and carryout evaluation plans to assess project results for workload selection processes and (2) assess the relative effectiveness of the LB&I Division's current methods of promoting and sharing best practices for working with *e-file* data and plan to record an improved Web-based training session for employee use.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201130048fr.pdf>.