



*Fiscal Year 2011 Statutory Audit of
Compliance With Notifying Taxpayers of
Their Rights When Requested to
Extend the Assessment Statute*

June 6, 2011

Reference Number: 2011-30-055

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

Phone Number | 202-622-6500

Email Address | TIGTACommunications@tigta.treas.gov

Web Site | <http://www.tigta.gov>



HIGHLIGHTS

FISCAL YEAR 2011 STATUTORY AUDIT OF COMPLIANCE WITH NOTIFYING TAXPAYERS OF THEIR RIGHTS WHEN REQUESTED TO EXTEND THE ASSESSMENT STATUTE

Highlights

Final Report issued on June 6, 2011

Highlights of Reference Number: 2011-30-055 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. Based on the results of our review, TIGTA believes the IRS is complying with the intent of the statute; however, there were 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

Our case review of 72 taxpayers with statute extensions showed that the IRS is compliant with Internal Revenue Code Section 6501(c)(4)(B). However, case files for 4 (5.6 percent) of the 72 taxpayers in our statistical sample did not contain documentation to indicate whether taxpayers were directly advised of their rights before consenting to extend the time to assess tax, but the taxpayers'

representative signed Consent to Extend the Time to Assess Tax (Form 872) and was notified of taxpayer rights regarding extending the assessment statute of limitations. Although notification to the taxpayer's representatives appears to meet the intent of the law, the IRS's internal procedures require notification to be provided to both the taxpayer and the representative. TIGTA estimated that 136 taxpayers' files did not contain documentation to show the taxpayers were directly advised of their rights when assessment statutes were extended. We are 95 percent confident that the range of taxpayers' files without this documentation is between 6 and 265.

TIGTA also identified cases in which IRS employees improperly used an outdated version of the Form 872, which does not contain a statement detailing the taxpayers' rights. When TIGTA brought this issue to management's attention, management took immediate action to correct the problem.

In addition, our statistical sample of 72 taxpayers included 42 taxpayers' files containing authorizations for third-party representation. Our review found that 4 (9.5 percent) of the 42 taxpayers' files did not contain documentation that the taxpayers' representatives were provided with the required notifications. TIGTA estimated that 136 taxpayers' files were not documented to show that taxpayers' representatives were given copies of the written communications. We are 95 percent confident that the range of taxpayers' files without this documentation is between 6 and 265.

WHAT TIGTA RECOMMENDED

TIGTA did not make any recommendations in this report because the number of errors was relatively small and IRS management took corrective action to prevent the use of outdated Forms 872. 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

June 6, 2011

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

Nancy A. Nakamura

FROM: for Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2011 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When Requested to Extend
the Assessment Statute (Audit # 201130008)

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's compliance with this provision.¹ The audit was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Taxpayer Protection and Rights.

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).



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Table of Contents

BackgroundPage 1

Results of ReviewPage 5

 The Internal Revenue Service Is Compliant With Legal Requirements;
 However, Some Employees Are Not Following Internal Procedures
 to Notify TaxpayersPage 5

 Some Case Files Did Not Have Documentation That Taxpayers’
 Representatives Were Provided With Copies of the Notification
 of Taxpayer Rights.....Page 6

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 9

 Appendix II – Major Contributors to This ReportPage 11

 Appendix III – Report Distribution ListPage 12

 Appendix IV – Outcome Measures.....Page 13

 Appendix V – Prior Audit ReportsPage 15

 Appendix VI – Case Review Results by DivisionPage 17



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Abbreviations

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



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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 of time 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 often request assessment statute extensions are examiners in the various Examination functions of the business divisions and appeals officers in the Office of Appeals.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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).

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. Figure 1 shows that the revised consent forms also 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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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.

Federal regulations require that any notice or other written communication required to be given to a taxpayer 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. In addition, IRS internal procedures require employees to provide copies of any correspondence with a taxpayer's representative to the taxpayer.

The Treasury Inspector General for Tax Administration is required by the RRA 98 to provide information annually regarding the IRS's compliance with I.R.C. § 6501(c)(4)(B). This report presents the results of our twelfth annual review of the IRS's compliance with the statute extension provisions of the law.⁶ As in the previous 11 reports, we continued to identify some noncompliance with Federal regulations and IRS internal procedures.

This review was performed at the Office of Appeals Headquarters, Large Business and International Division Headquarters, Small Business/Self-Employed Division Headquarters, Tax Exempt and Government Entities Division Headquarters, and Wage and Investment Division Headquarters in Washington, D.C., during the period September 2010 through March 2011. 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

⁵ 26 C.F.R. § 601.506 (2002).

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



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Results of Review

The Internal Revenue Service Is Compliant With Legal Requirements; However, Some Employees Are Not Following Internal Procedures to Notify Taxpayers

Our case review of 72 taxpayers with statute extensions showed that the IRS is compliant with I.R.C. § 6501(c)(4)(B). However, case files for 4 (5.6 percent) of the 72 taxpayers in our statistical sample did not contain documentation to indicate whether taxpayers were directly advised of their rights before consenting to extend the time to assess tax, but the taxpayers' representative signed Form 872 and was notified of taxpayer rights regarding extending the assessment statute of limitations. Although legal requirements were satisfied when the taxpayers' representatives were informed of the taxpayers' rights, there was no documentation in the case files to show that taxpayers were directly informed of their rights.

IRS procedures 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. . . ”

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's 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.

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,



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

from the information available to us, we could not determine if the taxpayer was informed directly by the IRS.

Taxpayers could be negatively affected if the IRS does not comply with internal procedures requiring that taxpayers be directly notified of their rights related to extensions to the assessment statute of limitations. Based on our sample results, from an estimated population of 4,815 taxpayers with statute extensions, we projected there were 136 taxpayers⁷ for which case files did not contain documentation to show the taxpayers were directly advised of their rights when assessment statutes were extended. We are 95 percent confident that the range of procedural errors is between 6 and 265 taxpayers. However, because the number of errors was relatively small and consistent with prior years, we are not making any recommendations for this issue.

Employees did not always use the revised version of Form 872

As discussed in the background of this report, the IRS revised the Form 872 consent forms to include a statement notifying taxpayers of their rights regarding assessment statute extensions to ensure that taxpayers are properly informed as required under IRC § 6501(c)(4)(B). In our review, we identified cases in which IRS employees improperly used an outdated version of the Form 872, which does not contain a statement detailing the taxpayers' rights. Although we identified records in the case files that the taxpayers or their representatives were advised of their rights through other means, the taxpayers could be negatively affected if the case files were not properly documented. IRS management informed us that the employees used previous versions of the Form 872 that were saved to their computer hard drives. When we brought this issue to management's attention, the IRS took immediate action to correct the problem by directly notifying Area Directors, Territory Managers, and Group Managers⁸ about the employees' use of the old versions of the Form 872. Area Directors then notified all Examination function managers to destroy old versions of the Form 872 and to use only the most current version.

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

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).⁹ 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

⁷ See Appendix IV for details.

⁸ Area Directors, Territory Managers, and Group Managers are the executive level, senior level, and frontline managers in the Small Business/Self-Employed Division Examination function.

⁹ 26 C.F.R. § 601.506 (2002).

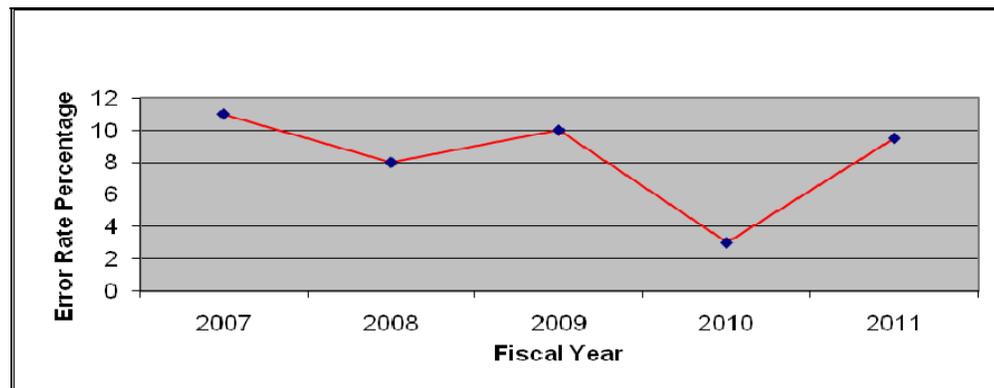


Fiscal Year 2011 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute

extension. This applies to all computer-generated or manually generated notices or other written communications.

While IRS employees documented that the taxpayers were informed of their rights and the taxpayers 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. In our sample of 72 taxpayers, 42 taxpayers’ files contained authorizations for third parties to represent the taxpayers before the IRS. Of these 42 taxpayers, 4 (9.5 percent) files did not contain any documentation supporting that the taxpayers’ representatives were provided with the required notifications. Based on our sample results, from an estimated population of 4,815 taxpayers with statute extensions, we projected there were 136 taxpayers’ files¹⁰ which were not documented to show the taxpayers’ representatives were given copies of the written communications advising taxpayers of their rights regarding assessment statute extensions. We are 95 percent confident that the range is between 6 and 265 taxpayers. 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. Figure 2 shows the trends in the error rate from Fiscal Year 2007 to Fiscal Year 2011. The error rates were calculated as a percentage of the number of taxpayers sampled who had authorized representatives for the identified year.

Figure 2: Error Rate – No Documentation That Representative Was Informed



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

Without the required documentation, we could not determine if the IRS properly notified the taxpayers’ representatives in these four 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

¹⁰ See Appendix IV for details



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

relatively small and consistent with prior years, we are not making any recommendations for this issue.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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 and their designated representatives 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 4,815¹ 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, 2010.
 1. Validated the Business Master File and the Individual Master File data by examining a random sample of 30 (15 from each Master File extract) taxpayers. This random sample was used for data validation and not for projecting or reporting results. The validation test results demonstrated that the data were reliable and could be used to meet the objective of this audit.
 2. Developed a statistical sampling plan using a 95 percent confidence level, an expected error rate of 5 percent, and a precision of ± 5 percent, which resulted in a minimum sample size of 72 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.

¹ We obtained a total of 6,219 tax periods representing 4,815 unique taxpayers for which the assessment statutes were extended. We used 4,815 as our population to select our random sample to prevent the review of duplicate taxpayers because the 6,219 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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

3. Randomly selected 200 taxpayer cases from the population identified in Step I.B.1. We selected more than our sample of 72 to ensure that we received enough cases that met our criteria.³
 4. Screened the cases in Step I.B.3. until we obtained our valid sample of 72 unique taxpayers.
- C. Reviewed the 72 selected taxpayers' 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. We then discussed exceptions with the various business unit coordinators for agreement to the facts.

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 Business and International Division, Small Business/Self-Employed Division, Tax Exempt and Government Entities Division, and Wage and Investment 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 72 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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Phyllis Heald London, Audit Manager
Cristina Johnson, Lead Auditor
Joel Weaver, Lead Auditor
Doris Cervantes, Senior Auditor
Mike Della Ripa, Senior Auditor



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Large Business and International Division SE:LB
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Tax Exempt and Government Entities Division SE:T
Commissioner, Wage and Investment Division SE:W
Chief, Appeals AP
Chief Counsel CC
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Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Deputy Commissioner, Wage and Investment Division SE:W
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Chief, Appeals AP:TP:SS
Chief Counsel CC



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

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; 136 estimated taxpayers whose related case files did not contain documentation to show that the taxpayers were directly advised of their rights by the IRS when assessment statutes were extended in accordance with IRS publications and procedures (see page 5).

Methodology Used to Measure the Reported Benefit:

To determine the number of taxpayers for which there was no documentation to support that the taxpayers were directly advised of their rights, we identified 4,815¹ 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, 2010. We used a 95 percent confidence level, an expected error rate of 5 percent, and a ± 5 percent precision to determine our sample size of 72 taxpayers.

Because of the difficulty we encountered with obtaining the associated case files for some of these returns, we requested tax returns for 200 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 142 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 72 taxpayers with complete case files that met our criteria. Some of the cases that we screened did not meet the criteria for Consent to Extend the Time to Assess Tax (Form 872) and we

¹ We obtained a total of 6,219 tax periods representing 4,815 unique taxpayers for which the assessment statutes were extended. We used 4,815 as our population to select our random sample to prevent the review of duplicate taxpayers because the 6,219 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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

needed to eliminate 70 taxpayers.³ Some other cases did not have complete documentation although they met our criteria.

We reviewed the sample of 72 taxpayer case files to determine if taxpayers were directly advised of their rights and identified 4 (5.6 percent) taxpayers for whom the required documentation was not found. This was the exception rate. However, since we had excluded 70 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 72 to get to 142 taxpayers. We then divided 4 (2.82 percent) by 142 and used this percentage to project to the population. We then multiplied 2.82 percent by the population to project the total number of taxpayers whose case files did not contain documentation that the taxpayers were directly advised of their rights (4,815 * 2.82 percent = 136 taxpayers). The range of lower and upper limits was then calculated using this error rate and the precision of 2.69 percent with a 95 percent confidence level. We are 95 percent confident that the range of procedural errors is between 6 and 265 taxpayers.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 136 taxpayers whose 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 in accordance with Federal regulations (see page 6).

Methodology Used to Measure the Reported Benefit:

To determine the number of taxpayers for which there was no documentation to support that the taxpayers’ representatives were advised of the taxpayers’ rights, we used the same sample of 72 taxpayers and identified 42 taxpayer case files that contained an authorization for a third party to represent the taxpayer before the IRS. In 4 (9.5 percent) of the 42 taxpayer case files, there was no documentation that employees provided the representatives with a copy of the written communications provided to the taxpayers. However, to project our results to the population, we had to fully account for the 72 taxpayer cases reviewed as well as the 70 cases that did not meet our criteria (72 + 70 = 142 taxpayer cases). We divided 4 (2.82 percent) by 142 and used this percentage to project to the population. We then multiplied 2.82 percent by the population to project the total number of taxpayers’ representatives not advised of the taxpayers’ rights (4,815 * 2.82 percent = 136 taxpayers). The range of lower and upper limits was then calculated using this error rate and the precision of 2.69 percent with a 95 percent confidence level. We are 95 percent confident that the range of errors is between 6 and 265 taxpayers.

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.



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

Appendix V

Prior Audit Reports

The Treasury Inspector General for Tax Administration has previously performed 11 mandatory audits in this subject area. These audits were:

Fiscal Year 2010 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Reference Number 2010-30-103, dated August 25, 2010).

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).



*Fiscal Year 2011 Statutory Audit of Compliance With Notifying
Taxpayers of Their Rights When Requested to Extend the
Assessment Statute*

*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).

*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 2011 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	LB&I	SB/SE	TE/GE	W&I	
Number of Taxpayers' Files That Did Not Contain Documentation That Taxpayers Were Directly Informed of Their Rights as Required by Internal Procedures	**1**	0	3	0	0	**1**
Number of Taxpayers' Files Reviewed:	13	6	49	**1**	**1**	**1**

Compliance With Requirement to Notify Representatives of Taxpayer Rights	Division					Totals
	Appeals	LB&I	SB/SE	TE/GE	W&I	
Number of Taxpayers' Files That Did Not Contain Documentation That Taxpayers' Representatives Were Provided With Copies of the Notification of the Taxpayers' Rights	0	**1**	3	0	0	**1**
Number of Taxpayers' Files Reviewed:	8	3	28	**1**	**1**	**1**

¹ Office of Appeals, Large Business and International (LB&I) Division, Small Business/Self-Employed (SB/SE) Division, Tax Exempt and Government Entities (TE/GE) Division, and Wage and Investment (W&I) Division.