



Treasury Inspector General for Tax Administration Office of Audit

CHIEF COUNSEL SHOULD TAKE STEPS TO MINIMIZE THE RISK OF OUTSIDE INFLUENCE ON ITS LETTER RULINGS

Issued on August 29, 2013

Highlights

Highlights of Report Number: 2013-10-081 to the Internal Revenue Service Chief Counsel.

IMPACT ON TAXPAYERS

The IRS issues letter rulings that interpret and apply the tax laws to a specific set of facts provided by corporations, individuals, and international entities. Because each letter ruling can impact millions of dollars of tax collections, the IRS must protect the integrity and independence of the letter ruling process. The appearance that practitioners could possibly manipulate the letter ruling process may result in the risk that inappropriate favorable rulings could cost the Government substantial tax revenues.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess Chief Counsel's policy to limit the number of letter ruling requests handled by its attorneys from the same taxpayer or practitioner. Chief Counsel implemented this policy in order to address the taxpayers' and practitioners' reported strategy to increase their chances of obtaining expeditious and favorable letter rulings by having their requests handled by a preferred attorney.

WHAT TIGTA FOUND

Chief Counsel does not have written policies or an effective management information system to prevent practitioners or taxpayers from having letter ruling requests assigned to a preferred attorney. Specifically, five of the six associate offices that provide rulings had no written policies and insufficient management information to assess the potential risk of outside influence on the assignment of their letter rulings.

The remaining associate office responsible for corporate tax issues developed a written policy to limit the number of rulings assigned to an attorney from the same taxpayer or practitioner. However, TIGTA found that this policy was not effectively implemented due to the lack of complete management information on its letter rulings inventory. Instead, management relied on each attorney to determine whether he or she should work directly assigned letter rulings or have them assigned to another

attorney through the normal case assignment process. However, the attorneys did not always provide specific information about their decisions to work or not work the ruling to the front office for input in its inventory system.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Counsel 1) develop written policies for all Associate Chief Counsel offices to oversee, manage, and, as appropriate, limit the number of letter ruling assignments from the same practitioner; 2) establish a centralized processing location for receipt and review by the Office of the Associate Chief Counsel (Corporate) for letter rulings sent directly to attorneys and require management to periodically review the inventory system to ensure that established policies and procedures are effective in limiting the number of letter rulings assigned to a specific attorney that originates from the same practitioner; and 3) periodically review the Technical Management Information System to ensure that front office staff is receiving and inputting all applicable letter ruling requests and related information in the inventory system.

The IRS agreed with all of our recommendations and plans to revise the written procedures on letter rulings to formalize and strengthen management oversight of its case assignment process.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201310081fr.pdf>.