

Quality Examination Process

REFERENCE GUIDE

Large Business and International Division
October, 2010



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This Reference Guide summarizes the Quality Examination procedures found in [IRM 4.46 – LB&I Guide to Quality Examinations](#). It is intended to assist revenue agents and exam teams in efficiently planning, executing and resolving their post-filing examinations.

While this Guide is generally appropriate both for Coordinated Industry (CIC) and Industry (IC) Cases, certain sections may apply more to some cases than others. Agents/teams should utilize sections of this Guide as necessary and appropriate.

EXAMINATION PLANNING

Pre-Audit

The exam team gathers publicly available information (e.g., annual reports, SEC filings, materials from the taxpayer’s web site, etc.) and data internal to the IRS (e.g., current transcripts, data on related entities, etc.), then conducts a preliminary risk analysis to determine if an examination is warranted.

Preliminary Meetings and Discussions

1. *At the first meeting, the exam team will present and discuss with taxpayer the “Achieving Quality Tax Examinations through Effective Planning, Execution and Resolution” publication. The exam team and taxpayer should then discuss:*
 - a. Roles, expectations, and responsibilities for both the exam team and taxpayer.
 - b. [IRM 4.51.1 - Rules of Engagement](#).
 - c. Names of individuals the taxpayer authorizes to serve as point(s) of contact for the exam team. (See Form 2848 – “Power of Attorney and Declaration of Representative,” and “Communication Agreement,” found on page 2 of [Form 4764 – LB&I Examination Plan](#).)
 - d. The attachment entitled, “Formal Opening Conference with Taxpayer” found on pages 5 – 6 of [Form 4764 – LB&I Examination Plan](#) (optional for IC).
 - e. Findings from the preliminary risk analysis.
 - f. Establishing a timeline with specific milestones that can be used to ensure mutual accountability.
 - g. Processes for monitoring and adjusting the plan for ongoing developments, and how changes in the plan by either party will be communicated.

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- h. Methods for tracking taxpayer and IRS resource needs and constraints and advising each other when planned vacations, training, periods of high workload and/or other significant factors may result in exam delays or increased burden.
 - i. Exam team site requirements and taxpayer-provided arrangements (e.g., office space, internet access, building security, emergency drills, information/data security, secure e-mail, etc.).
2. *The exam team may schedule additional meetings and informal conversations as required, depending on taxpayer size, return complexity, and proposed staffing levels, to discuss:*
- a. Prior examination results (CIC) or (IC), to determine if areas of review can be limited or eliminated.
 - b. Pre-audit and initial risk analyses.
 - c. Taxpayer's plans for, or anticipation of, filing of claims.
 - d. Potential domestic or international industry issues, coordinated issues, and/or Tier I issues.
 - e. New audit initiatives and general administrative procedures; IDR management process; Form-5701 process; and issue resolution strategies and options.
 - f. Whether the IRS or the taxpayer will prepare the schedule of rollover adjustments that resulted from a prior examination.
 - g. Giving the exam team access to the taxpayer's e-mail system as a way of facilitating the communication of IDRs, IDR responses, records, Forms-5701, etc.
 - h. Providing secure email to taxpayer.
 - i. Applicability of limited scope audit procedures to this examination (LIFE, remote audits, etc.).
 - j. Materiality threshold agreements, developed when the exam team is determining exam scope. (Since each taxpayer and each year is unique, materiality thresholds will be set on a case-by-case, year-by-year basis.)
 - k. Draft audit plan. (Exam team provides taxpayer with the draft audit plan and an opportunity to provide feedback before the plan is finalized.)
 - l. The need for support audits and/or third party contacts (for both IRS and taxpayer).
 - m. Possible travel and parking requirements associated with the exam. (Travel requirements should be included in the original exam plan or added as soon as identified.)

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- n. Arrangements for specialists to meet with relevant taxpayer personnel to discuss areas to be examined prior to issuing IDRs.
 - o. Providing the Computer Audit Specialist (CAS) with advance access to the taxpayer's electronic data.
3. *The exam team and taxpayer will sign an audit plan establishing respective commitments (i.e. audit timeframes, materiality thresholds, IDRs, Forms-5701, affirmative issues, etc.).*
4. *The exam team will consider taxpayer input during the preparation of the exam timeline and target milestone dates (i.e. exam plan completion date, 50% risk analysis review, last date for IDRs to be issued, last date for claims to be filed, last date for Forms 5701 to be issued, turnaround dates for IDRs and Forms 5701, target date for issuance of the RAR, etc.).*
5. *The taxpayer should provide the exam team with key information. This includes:*
- a. A meaningful orientation to its operation, including a general overview of business activities (particularly if the exam team is new) to enhance external awareness, financial statement preparation, tax return results, if applicable, and known significant changes from the prior examination.
 - b. A list of significant transactions for the current examination and any other information that is new and/or different from previous examination(s) (e.g., acquisitions, dispositions, tax shelters, accounting method changes - Forms 3115, etc.).
 - c. Access to general ledgers; a complete audit trail from the general ledgers and financial statements to taxable income; identification and full description of all significant Schedule M-3 book/tax differences and the requisite supporting documentation; breakdown of all general ledger accounts aggregated in Schedule M-3, and reconciliation of Schedule M-3 items to disaggregated general ledger accounts; and any other tax reconciliation workpapers and/or other workpapers in accordance with the Service Policy outlined in [IRM 4.10.20.3 - Requesting Audit, Tax Accrual, or Tax Reconciliation Workpapers](#).
 - d. Financial information (such as the general ledger) in electronic format to allow the exam team to review information directly, thereby potentially reducing the number of IDRs issued.
 - e. List of known and anticipated claims and requested audit adjustments (with all supporting documentation made readily available) to ensure that these items are included in the audit plan.
6. *Based upon the initial risk analyses and review of preliminary documents (i.e.,*

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annual statements, tax returns, historical files, etc.), the exam team will advise the taxpayer of potential examination areas/issues, and/or business units it plans to review.

Involvement of IRS Counsel, Technical Advisors and Specialists

The exam team and taxpayer will discuss the availability and accessibility of personnel assigned to the exam. In addition, the exam team will:

- a. Notify the taxpayer if significant involvement by technical advisors, Office of Chief Counsel and/or specialists is anticipated.
- b. Endeavor to reach agreement with the taxpayer on the facts of an issue or case before extensive involvement of a technical advisor.
- c. Coordinate as early as possible when assistance from the Office of Chief Counsel is anticipated. Contact with Counsel can be made informally via telephone or e-mail, or formally, such as through a request for a Technical Advice Memorandum (TAM).
- d. Invite technical advisors and/or Counsel to attend key issue meetings between the taxpayer and the IRS, as needed and appropriate.
- e. Employ the use of summonses during the IDR management process when appropriate. Prior to issuance of any summonses, the taxpayer will be given notice and encouraged to provide the requested information via a pre-summons letter.

EXAMINATION EXECUTION

Scope of Exam

1. *The exam team will discuss with the taxpayer any new issues identified during the exam that were not included in the original audit plan prior to the commencement of extensive audit work on those issues.*
2. *The exam team will share/discuss subsequent risk analysis results (i.e., 50% or ongoing risk analysis) with the taxpayer, indicating the scope, depth, and status of the audit.*
3. *The exam team will consider the use of statistical sampling or alternative testing methods (e.g. mutually agreed upon judgment sampling) if records are voluminous.*
4. *The taxpayer will discuss or provide preliminary information on issues, with the intent of narrowing the scope of the audit and focusing on the most*

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significant issues.

5. *The exam team will inform the taxpayer if issues are dropped or the scope is narrowed.*
6. *The exam team will advise the taxpayer that the examination may be expanded if tax shelters, listed transactions or similar transactions are discovered during the course of the examination.*
7. *The exam team will engage the appropriate issue management team and/or technical advisor as early as possible in the development of a tiered issue. The team will contemporaneously involve and update the taxpayer to ensure effective communication and consistent application.*

Exam Timeline/ Monitoring Progress

1. *To avoid delays during the audit, the exam team will share, solicit and consider all input when planning the matching of audit issues to available taxpayer and examination team resources.*
2. *The Rules of Engagement will be timely considered and used as appropriate when impasses and significant concerns arise that cannot be resolved at the IRS team manager and taxpayer audit manager level.*
3. *The team manager and team coordinator will share IRS' input and solicit and consider taxpayer's input in monitoring the examination and determining who will attend the regular audit progress meetings. This includes meetings to discuss:*
 - a. Ongoing risk analysis.
 - b. Status of issues.
 - c. Status of IDRs.
 - d. Obstacles/anticipated delays and possible solutions.
 - e. Anticipated changes to the audit timeline.
4. *At IRS/taxpayer meetings, all agreements and actions items will be recorded (noting the responsible parties) to avoid delays and misunderstandings.*
5. *Feedback from audit participants will be collected at prescribed intervals, such as the end of the planning phase, at the 50% mark, and the end of the examination, to assess overall progress and to suggest ways to improve upon the on-going and/or subsequent examination(s).*

Information Document Requests (IDRs)

1. *Exam team and taxpayer will agree on primary IDR communication contacts.*
 - a. Exam team information requests and responses will be directed through the taxpayer's designated representative(s).

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- b. Taxpayer responses will be directed to the IRS team coordinator, primary revenue agent, or specialist.
2. *The exam team will discuss planned draft IDRs with taxpayers in advance of issuance, unless agreed otherwise.*
 - a. The taxpayer will be informed of the intent of an IDR.
 - b. The purpose of an IDR will be plainly stated in its text (i.e., identify the issue).
 - c. IDRs will be resolution-focused, ensuring that information requested and/or questions asked add value to the identification or resolution of an issue.
3. *Prior to issuance of an IDR, the appropriate team member(s) and the taxpayer will meet to review the IDR for completeness. All IDRs will be entity - specific unless agreed otherwise.*
4. *The taxpayer will be informed of any tiered, coordinated and/or industry issues under audit.*
5. *The taxpayer will be notified whenever mandatory IDRs are issued.*
6. *The exam team will reach agreement with the taxpayer regarding effective IDR management.*
 - a. A standard response time for IDRs will be established. Any deviations or exceptions to the response time will be considered on an individual IDR basis.
 - b. The taxpayer agrees to advise the exam team as early as possible if and why additional time is needed in responding to any IDR.
7. *The exam team will advise the taxpayer within an agreed timeframe after receiving an IDR response whether it considers the response complete, or if additional information or action is required.*
8. *Upon receiving an IDR response, the exam team will review the response within a specific timeframe. Possible outcomes include:*
 - a. Informing the taxpayer that the IDR response resulted in a closed issue with no further action(s) required.
 - b. Issuance of a follow-up IDR.
 - c. Issuance of a [*Form 5701- Notice of Proposed Adjustment*](#).
 - d. Notifying the taxpayer that additional time to process the IDR is required and is estimated to take place within a specific timeframe.

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EXAMINATION RESOLUTION

Issue Resolution/Notices of Proposed Adjustments – Form 5701

1. *The exam team will discuss all issues with the taxpayer prior to issuance of Form 5701. Consideration should be given to:*
 - a. The need to either reach agreement or to agree to disagree on the facts.
 - b. A discussion of applicable areas of the law.
 - c. The identification of specific areas of legal contention or disagreement.
 - d. The use of an IDR to confirm any of the above.
2. *The exam team and taxpayer will reach an understanding regarding timeframes and expectations relating to the issuance of and response to Forms 5701:*
 - a. To facilitate early issue resolution, Notices of Proposed Adjustment (Forms-5701) will be issued throughout the examination instead of at the end.
 - b. When a draft Form 5701 is presented, the taxpayer will confirm the facts of the issue and clarify its position within an agreed upon timeframe.
 - c. When issues are agreed, the exam team will utilize abbreviated, proposed adjustment narrative formats on Form 886-A – Explanation of Items, attached to Form 5701.
 - d. The taxpayer and the exam team will engage in an earnest and collaborative effort to resolve all issues.
 - e. Issue resolution tools, such as Fast Track, early referrals to Appeals, etc., will be considered for all unagreed issues as early as possible in the examination.
3. *Within agreed upon timeframes, the exam team will advise the taxpayer when an issue has been closed.*
4. *The exam team will inform the taxpayer as early as possible when and why penalties are being considered. The team will provide the taxpayer an opportunity to respond to and/or refute the assertion based on facts and legal application.*