



COMMISSIONER
TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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Affected IRM: 4.71.1, 4.71.5, 4.71.16,
4.71.17, 4.71.27, 4.75.7,
4.75.10, 4.75.40, 4.81.5,
4.86.1, 4.86.5

MEMORANDUM FOR ALL TAX EXEMPT AND GOVERNMENT ENTITIES (TE/GE)
MANAGERS AND EMPLOYEES

FROM: Edward T. Killen /s/ *Edward T. Killen*
Deputy Commissioner, Tax Exempt and Government Entities

SUBJECT: Interim Guidance on Tax Exempt and Government Entities
Examination Process

Purpose:

This memo provides guidance and implements the Tax Exempt and Government Entities (TE/GE) Examination Process used in all TE/GE Examinations. This guidance defines the overall TE/GE Examination Process and RCCMS Issue Code data grid functionality. It also includes definitions of key terms related to the examination process. TE/GE revenue agents, tax law specialists, tax compliance officers ("TE/GE Examiners") should refer to the [TE/GE Examination Process Procedural Handbook](#) for additional details.

Background/Source(s) of Authority:

Various TE/GE IRM sections describe the examination process to varying degrees of detail for each function. The authority to conduct examinations, resolve issues and determine tax liability is derived from Title 26, Internal Revenue Code, Subtitle F – Procedure and Administration, which includes but isn't limited to:

- IRC Section 6201, Assessment authority, which falls under Chapter 63 – Assessment
- IRC Section 7602, Examinations of books and witnesses, which falls under Chapter 78 – Discovery of Liability and Enforcement of Title

- IRC Section 7803(a)(3), Execution of duties in accord with taxpayer rights
- Policy Statement 1-236, Fairness and Integrity in Enforcement Selection
- Policy Statement 4-117, Examination authority to resolve issues
- Policy Statement 4-119 (formerly P-7-20), Selection and Examination of Returns
- Delegation Order 7-13 (Rev. 2) (formerly DO-248, Rev. 1), Authority to Accept Classification Settlement Program (CSP) Offers and to Execute the Pro Forma Closing Agreements on CSP Issues
- Delegation Order 8-3 (formerly DO-97, Rev. 34), Closing Agreements Concerning Internal Revenue Tax Liability (Updated 10-02-2000 to reflect additional new organizational titles required by IRS Modernization)

Procedural Change:

The TE/GE Examination Process provides an organizational approach for conducting professional examinations from the first contact with the taxpayer through the final stages of issue resolution and case closure. Our exam compliance program takes a strategic approach to effective tax administration. Not all examinations are the same in scope, size, and complexity; therefore, portions of this guidance may be more applicable to some cases than others. This guidance supersedes and consolidates all existing procedural guidance describing functional examination processes.

There are three phases to the TE/GE examination process: Planning, Execution and Resolution

PLANNING PHASE

This phase of the examination process determines the scope of the exam. Issues selected for examination should have the broadest impact on compliance regardless of the size and type of entity or organization. Once the examiner determines the issues for examination, they will work to establish effective steps to complete the examination in a timely manner. TE/GE processes and procedures for conducting an examination, along with an overview of taxpayer rights, will be explained at the opening conference.

Examination Plan

The examination plan will be issue focused and contain the following:

- the issues (i.e. LUQs) identified
- exam steps
- timeline(s)
- determined method of conducting the exam either in person or remotely.

The plan is intended to be nimble and agile and when warranted adjusted throughout the examination. The examiner must obtain managerial concurrence upon development, and/or subsequent modification, of the plan.

EXECUTION PHASE

Stages of issue development include determining the facts, applying the law to those facts, and understanding the various tax or compliance implications of the issue. The parties will conduct interactive discussions, using the Information Document Request (IDR) process to develop the facts. Every effort should be made to resolve any factual differences. If required, Notices of Proposed Adjustment will be provided throughout this phase to present the government's legal position to the taxpayer. The entity or organization's response to these proposals will allow the examiner to gain an understanding of the entity or organization's position to facilitate issue resolution at the earliest appropriate point.

RESOLUTION PHASE

The goal of the resolution phase is to reach agreement, if possible, on the tax or compliance treatment of each issue examined and if necessary, issue a Revenue Agent Report (RAR) or Closing Agreement to the taxpayer. Starting with the development of the issue and continuing through resolution, early and frequent discussions are crucial for a complete understanding of the respective merits of an issue. During this phase, examiners should consider Alternative Dispute Resolutions such as Fast Track Settlement where appropriate.

RCCMS Issue Code Data Grid

A new functionality has been added to RCCMS that will aid the organization in tracking the development of examinations from selection of cases through the entire examination process. This new functionality requires that all users familiarize themselves with its capabilities and is required for all examinations. Please review the [TE/GE Examination Process Procedural Handbook](#) for additional details.

A new workflow associated with this functionality has been developed to ensure a consistent level of managerial engagement in the process of making key strategic decisions during our examinations. Those decisions include, but are not limited to, establishment and/or revision of the exam plan including modifications to the scope of that exam. Therefore, examiners will submit requests for approval by their manager through RCCMS. These messages will go directly to the manager's inbox in RCCMS for approval or rejection, and therefore managers must monitor this inbox to ensure appropriate and timely action on these messages. Please review the [RCCMS Release 3.5.1 Change Document](#) (July 2020) for additional details.

Data captured in the Issue Code data grid is intended to replace the capturing of Principal Issue Codes (or EP Issue Codes) in certain fields on the RCCMS Closing Record tabs. The data captured in the Issue Code data grid will provide a consistent form of measurement of the impact of each technical issue in relation to the overall

results of the exam, enhance the evaluation of determining the productivity of our various workload selection methodologies (i.e. compliance strategies, compliance query sets, referrals, claims, etc.), systemic identification of potential emerging issues, systemically automate the exam plan approval process, and provide meaningful real-time feedback pertaining to issue identification in current workload. Effective 9/28/2020, the Principal Issue Code and EP Issue Code fields within the RCCMS Closing Record tabs will be disabled and no longer require completion.

Effect on Other Documents:

This guidance will be incorporated into IRM 4.70 (IRM section to be determined) no later than September 22, 2022.

Also, note that these changes modify IRM procedures. This memo primarily affects:

- IRM 4.71.1, 4.71.5, 4.71.16, 4.71.17, 4.71.27
- IRM 4.75.7, 4.75.10, 4.75.40
- IRM 4.81.5
- IRM 4.86.1, 4.86.5

We'll add references to IRM 4.70 (IRM section to be determined) in these sections as well.

Effective Date:

September 28, 2020

Contact:

If you have any questions, please contact [George Brim](#) (EP) at (609) 858-7979, [Laurice Ghougasian](#) (EO) at (716) 961-5148 and [Lionette Graham](#) (GE) at (505) 415-7794.

Distribution:

[IRS.gov \(http://www.irs.gov\)](http://www.irs.gov)

Attachment:

[TE/GE Examination Process Map](#)
[TE/GE Examination Procedural Handbook](#)