Risk Based Reporting Compliance

A Remote Examination

Selection Application

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RISK BASED COMPLIANCE

A new Paradigm in Compliance
Workload Selection and
Management proposed by the IRS
Phase II SBSE Modernization Team
CORE CONCEPTS OF RISK BASED COMPLIANCE

- Develop risk scoring models for tax returns at the issue level
- Match compliance treatments to specific risk factors
Phase IIA Conceptual Description of a Risk Based Examination Process

Source: SB/SE Phase IIA Deck
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Examination method based on taxpayer risk, taxpayer needs and effectiveness of treatment
CANDIDATES FOR EXAMINATION ARE IDENTIFIED BY ANALYZING DATA ON TAXPAYER BEHAVIOR, HISTORY AND NEEDS

- Filing History
- Collectibility
- Type of Business
- Emerging Issues
- Time in Business
- Return Inconsistencies
- Financial Ratios
- Market Segment
- Payment Pattern
- State Compliance Record

EXAMPLES OF SCORES
- Accuracy
- Collectibility

Up to 200 variables initially considered
30 - 50 Key Variables Identified
10 - 15 Variables Actually Used
2 - 5 Scores Calculated

Source: SB/SE Phase IIA Deck
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Feedback on performance & effectiveness

POOL OF ALL SB/SE TAXPAYERS

RISK SCORES ASSIGNED

DECISION SUPPORT SYSTEM

• Includes all known SB/SE customers
• Filers and non-filers

• All taxpayers receive risk scores
• Scores are dynamically updated based on latest available information

• Automated/objective case selection
• Determines treatment and tone for each taxpayer based on inputs
  - filer & matching data
  - workplan, resource availability
  - projected risk
  - sampling requirement
  - taxpayer needs
  - collectibility
  - issues

ASFR
AUR
Matching
FIELD AUDIT
High Risk
Corr.
EXAM
Lower Risk
DO NOTHING
Lowest Risk
CRITERIA FOR SUCCESSFUL RISK BASED MODELS

- Availability of relevant internal and external data
- Ability to identify relevant issues for risk scoring
- Ability to apply appropriate treatments
PRI OR IRS PROJECTS IN ISSUE IDENTIFICATION

- Automated Issue Identification System (AIIS, late 1980’s)
- Compliance Improvement Monitoring System (CIMS, mid-1990’s)
- EITC Dependent Database System
Examination Projects
- Form 1040 Alimony Payments (W&I, SBSE)
- Small Corporation Issue Selection System (SBSE)
- Remote Exam Filing Analysis Module (W&I, SBSE)
Objectives:
- Identify invalid SSN’s entered as alimony recipients
- Identify different amount reported as alimony payment and income

Methodology:
- Apply rules based on tax law interpretations and data matching

Potential Treatments:
- Math Error notice, taxpayer education, correspondence audits