An aerial, high-angle photograph of a city skyline, likely New York City, showing a dense cluster of skyscrapers and a large stadium in the foreground. The image is slightly faded and serves as a background for the text.

Large Case Examinations The IRS Viewpoint

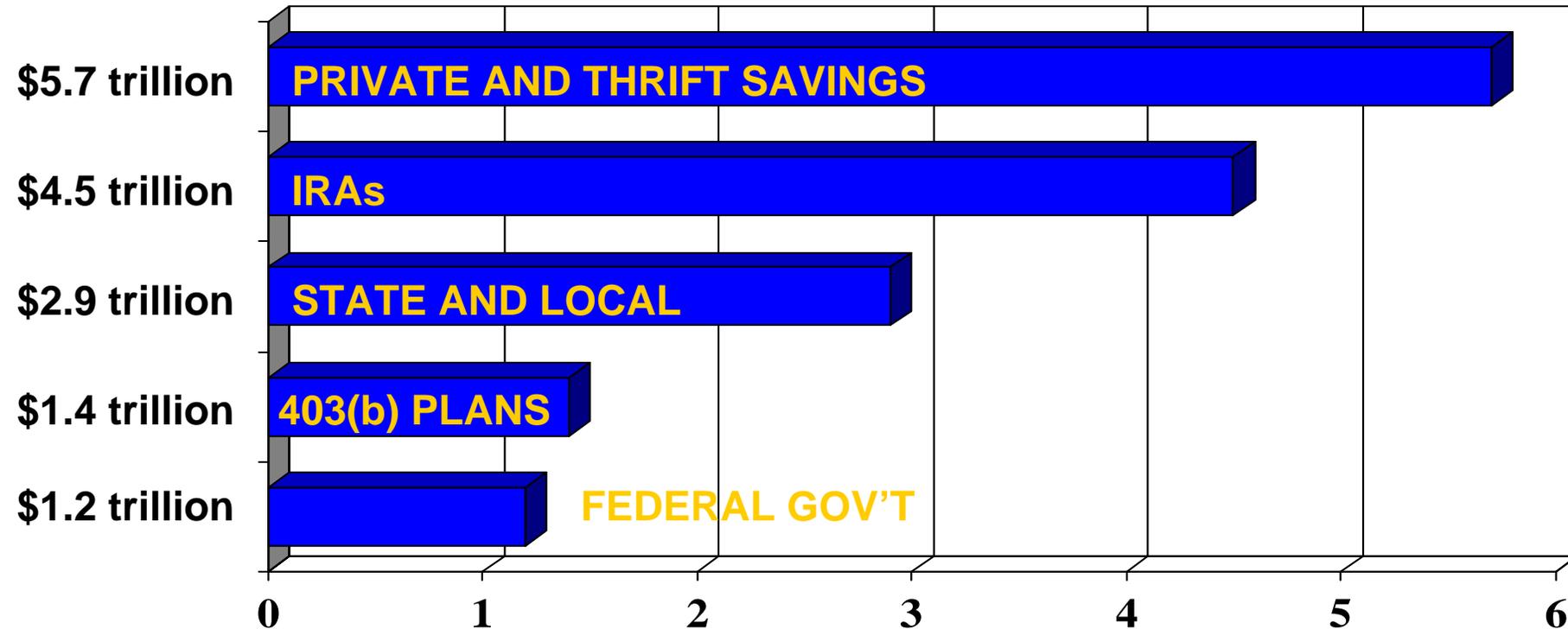
Prepared April 2009

Retirement Plan Universe

- Approximately one million private retirement plans covering over 99 million participants
- Exclusion of pension contributions and earnings to employer plans is estimated to cost \$119 billion in federal tax revenue annually
- Plans range in size from one-person plans to those of major corporations

Large Case (EPTA) Examinations

Retirement Plan Estimated Assets



EP Team Audit Program (EPTA)

Approximately 1 million qualified plans

- About **4,500** (<1%) of these are EPTA plans (having 2,500 or more participants), yet:
 - They cover approx. **60%** of plan participants
 - They hold approx. **70%** of plan assets

EPTA Examinations

- Five Area Offices nationwide with EPTA exam groups
- Coordination with DOL and PBGC
- Teams review each plan to ensure they are compliant in form and in operation
- Primary objective is protection of plan assets and participants
- Closing agreements used to balance the sanction amounts with the violations
- 30% increase in exams projected during FY09

Focused Examinations

- Methodology to leverage resources and employ efficiencies
 - Focus on non-compliant plan
 - Plan qualification is always reviewed
- Based on initial focused review and internal controls interview agent could:
 - Conclude plan is compliant (no issues)
 - Resolve identified issues
 - Expand (issues, years, and/or plans) audit scope

Internal Controls

- Interview to verify controls, for example:
 - HR Personnel
 - Payroll Department
 - Plan Administrator
- Conduct self-audit to:
 - Identify and correct plan failures
 - Improve plan administration

EPTA Program Includes Specialty Work

- Employee Plans Compliance Unit (EPCU) projects
- Multi-Employer plans (20%)
- 403(b)/457/Governmental plans (10%)

Top EPTA Issues

- Failure to amend the plan document
- Failure to follow plan document in operation
 - Definition of compensation
 - Eligibility provisions
- Failure to satisfy required minimum distribution rules

Preventive Maintenance: Why Fix Mistakes Immediately

- IRS Correction Programs provide financial incentives
- Mistakes that are not fixed can result in failure to follow the terms of the plan
- Disqualifying defects, left undetected and/or uncorrected, can be very expensive and difficult to fix
- Can present a real risk to plan sponsors and negatively impact plan participants

Consequences of Plan Disqualification

- Plan disqualification causes:
 - Disallowance of deductions taken by employer
 - Taxation of trust earnings
 - Employees lose:
 - tax deferred benefits
 - the ability to rollover distributions

EPCRS - Correcting Voluntarily

- Program was developed in conjunction with plan sponsors and plan practitioners
- Self-correction:
 - without contact with the IRS
 - through application to the IRS and receipt of a compliance statement
 - can be done on an anonymous basis
- Focus is on correction rather than sanctions

The Three Tiers of EPCRS

- Self Correction Program (SCP):
 - There is no fee, submission, or reporting requirements
- Voluntary Correction Program (VCP):
 - Voluntary correction with IRS approval
 - There is a limited fixed fee
- Audit Closing Agreement Program (Audit CAP):
 - Lets sponsors correct errors discovered during an IRS audit for which they must pay a penalty fee (sanction)

Plan Self Reviews in **5** Easy Steps

Step 1 – Review documentation

Step 2 – Verify operations and internal controls: interview personnel and identify issues and weaknesses

Step 3 – Test plan data: confirm systematic failures

Step 4 – Report findings

Step 5 – Correct plan failures/revise administration

Self-Correction Program (SCP) – General Description

- For Sponsors of qualified plans and 403(b) plans
- **Pay No Fee to the IRS**
 - Plan sponsor may need to pay contributions and earnings to the plan
- No application or reporting requirements

Self-Correction Program (SCP) – General Description

- Relief under the SCP limited to operational defects
- Sufficient compliance practices and procedures must have been established
- Individually designed plan needs IRS determination letter

Self-Correction Program (SCP) – General Description

- An insignificant operational problem can be corrected at any time and the tax-favored status of the plan is preserved
- If the problem is significant, a plan sponsor may preserve the tax-favored status of the plan and pay no fee if, within two years of the year in which the problem occurs:
 - 1) Uncovers an operational problem and
 - 2) Substantially corrects the problem

Voluntary Correction Program (VCP) – General Description

- Experience one or more qualification failures
- Discover the problem(s) prior to the plan coming under examination
- Bring such failures to the attention of the IRS
- The plan sponsor pays a fee to preserve the tax benefit associated with properly maintained retirement plans
- The fee, based on the size of the plan, is equal to only a small fraction of the amount of the tax benefit preserved.

Audit Closing Agreement Program (Audit CAP) – General Description

- Correct serious errors discovered during an IRS audit and prevent plan disqualification
- Correction is via a closing agreement to keep the plan qualified
- Retroactive correction is required
- There is a higher penalty fee (sanction) than under VCP that is negotiated with the IRS

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Visit The EPTA Webpage

www.irs.gov

IRS Employee Plans Programs

RETIREMENT PLANS COMMUNITY

[Determinations](#)
[Educational Services](#)
[Employee Plans Compliance Resolution System \(EPCRS\)](#)
[Self-Correction Program](#)
[Voluntary Correction Program](#)
[Audit Closing Agreement Program](#)
[EP Customer Account Services](#)
[EP Abusive Tax Transactions](#)
[Examinations/Enforcement](#)
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[EP Compliance Unit \(EPCU\)](#)

[Plans and Programs](#)

Wish to go directly to a plan type or IRS Employee Plans program? Find it here.

EPTA Website Includes...

- EPTA Error Trends and Tips **Coming Soon!**
- Taxpayer Documentation Guide
- Internal Control Questionnaire **Coming Soon!**
- FAQs
- Contact Information

IRS 401(k) Fix-It Guide

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
1) Has your plan document been updated within the past few years to reflect recent law changes? (More)	Review annual cumulative list published close to year-end to see if plan made all required law changes (e.g., Notice 2007-94). (More)	EPCRS Adopt amendments for missed law changes. Appendix D, Part II (More)	VCP Audit CAP (More)	Plan sponsors need to resort to a calendar (tickler) of when amendments must be completed. Review your plan document annually. Maintain regular contact with the company that sold you the plan. (More)

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