



Recommendation 75-5

Internal Revenue Service Procedures: The Audit and Settlement Processes

(Adopted December 11-12, 1975)

(a) *Individual Agent's Requisition of Returns for Audit.* The Internal Revenue Service should amend its procedures whereby an examining officer requisitions a tax return for the purpose of audit. The procedures should assure that the examining officer will make an adequate written explanation of his need to have the file, and that such explanation accompany the requisition and be reviewed by the requesting officer's Group Manager. For returns that are requisitioned for reasons so routine as to make detailed written explanation unnecessary, however, a code number designating the reason for selection in each case should suffice. The categories of routine reasons for requisition should be specifically and narrowly defined in the Internal Revenue Manual.

(b) *Notification of Reasons for Selection for Audit.* (1) Each individual taxpayer should be given, at the time he is notified of the selection of his return for audit, a brief written statement of the selection program or other criterion on the basis of which his return was selected for audit. To the extent feasible, the selection of returns for audit should be made pursuant to programs and criteria established in advance.

(2) The Internal Revenue Service should annually publish statistics, by income level, showing the number of returns examined, the results of the examinations, and other pertinent information, for each of its selection programs and criteria.

(c) *Repetitive Audits.* The Internal Revenue Service should establish the following procedures to be observed with respect to an individual who has undergone one or more audits with respect to the three preceding taxable years resulting in no change or only small change in his tax liability:

(1) The district office's Returns Program Manager should not assign that individual's return to an audit group unless it is accompanied by an adequate file reflecting such recent audit experience.

(2) Before contacting the taxpayer, the Group Manager and the examining officer should carefully review the current return in light of the taxpayer's past audit history to determine



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whether the issues presented by the current return are similar to those of prior audits. If they are, the current year's return should not be further examined unless there is compelling reason to believe that a substantial tax change will result.

(3) When it is decided that the return should be further examined, then, before the examining officer commences his review of the taxpayer's books and records, the taxpayer should be informed in writing that he may inquire about the necessity for this repetitive audit.

Taxpayer Compliance Measurement Program (TCMP) audits should not be subject to the foregoing procedures.

(d) *Review of Audit Selection.* The Internal Revenue Service should carry out a systematic ongoing evaluation of its selection of taxpayers' returns for audit. It should at a minimum maintain procedures whereby the reasons for audit selection, as indicated by Service personnel on Forms 1247 (Examination Record) or 4298 (Audit Requisition and Information Report), can be verified for appropriateness and accuracy. The procedures established should be sufficient to enable the Joint Committee on Internal Revenue Taxation or other Congressional oversight body to obtain listings of all or a specified portion of the returns selected for audit, identified by any of the following characteristics: taxpayer name and identification number; return document locator number; specific (coded) reason for selection; year for which return was filed; date of audit selection; and date of audit completion.

(e) *Staffing for TCMP Audits.* To minimize the time of taxpayers and of Service personnel devoted to the income tax aspects of the Taxpayer Compliance Measurement Program (TCMP), the Internal Revenue Service should select from among its most capable and experienced Revenue Agents and Tax Auditors the personnel to conduct TCMP income tax audits and related research projects.

(f) *Advice to Taxpayers Regarding Retention of Records.* The Internal Revenue Service should annually endeavor to inform each taxpayer: (1) that an audit of his return, should there be one, will not likely commence for some period of time after the return has been filed; (2) that the taxpayer should retain, for use in case of audit, a copy of his return and all records which support the return for at least three years following the time fixed by law for its filing; and (3) that his receipt of a refund, based on the calculations in the tax return, does not preclude audit of that return at a later time. This recommendation could be fulfilled, for example, by presenting such information prominently in the Commissioner's annual message or elsewhere in the instruction materials accompanying the forms mailed to taxpayers.



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(g) *Measurement and Promotion of Voluntary Compliance.* The Internal Revenue Service should seek funds from the Congress to undertake studies to evaluate the effectiveness of methods to measure and promote voluntary compliance with the tax laws of the United States. Such inquiries should include consideration of return selection methods, audit procedures, collection procedures, programs for the education of taxpayers, and taxpayer assistance services.

(h) *Analysis of Recovery Experience.* The Internal Revenue Service should periodically publish a comparative study, for each taxpayer class, of a representative sample of District and Appellate Conference settlements involving the most commonly controverted issues. The study should include comparison and analysis of the recovery ratio (i.e., the ratio of the amount of deficiency agreed upon by the parties to the amount of deficiency originally recommended by the examining officer), with reference to the factors of: (1) amounts of tax involved; (2) whether or not the taxpayers were represented; and (3) patterns of geographic variation.

Citations:

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