



IRS OVERSIGHT BOARD PUBLIC FORUM

Panel 1: How Can Correspondence Audits be More Effective for the IRS and Less Burdensome for Taxpayers?

February 28, 2012

BACKGROUND

NATP is a grassroots organization that was formed in 1979 by tax professionals for tax professionals. Its founders envisioned a support organization that could provide education on the complex tax code, its regulations and other pronouncements in laymen's language. Currently NATP has over 23,000 members and 38 state Chapters.

NATP provides its members with the necessary resources that enable them to properly advise their clients in tax matters and prepare accurate returns. NATP provides as its core benefits to members federal tax research and continuing education. With these tools, tax practitioners are better equipped to effectively resolve taxpayer issues while ensuring tax compliance.

OVERVIEW

This Oversight Board has asked stakeholders for insights and recommendations on how the IRS can effectively conduct correspondence audits while reducing taxpayer burden. It's imperative that we stress here that most taxpayers who receive a notice from the IRS immediately inform their tax preparer and expect their preparer to effectively and efficiently resolve the matter on their behalf. It would seem obvious then that the IRS would take the necessary steps to develop procedures that would also include reduction of burden on the part of the tax practitioners.

According to the recent IRS Fiscal Year 2011 Enforcement and Service Results, the number of correspondence audits has nearly doubled since 2001. This, coupled with the IRS's dwindling resources, has caused lapses in service, excessive burden to taxpayers and tax practitioners and a lack of accountability on the part of the IRS. The IRS cannot be expected to do more with less and maintain a high level of customer service. The National Taxpayer Advocate in her 2011 Annual Report to Congress listed as the most serious issue facing taxpayers is the fact that the IRS is not adequately funded to serve taxpayers and collect taxes. While the use of correspondence audits is a cost effective tool in theory, drastic improvements must be implemented to achieve the desired results.

TAXPAYER BURDEN

First and foremost, taxpayers are human beings. The vast majority of them are greatly challenged with understanding and navigating the tax system and the IRS in general. Not only do they not fully understand the complexities of the tax code, they do not understand the complicated structure of IRS administration much less what the correspondence exam notice is telling them. Taxpayers are of the mind that if they receive a notice with a phone number of a person to call in the event they have questions, that an actual person will answer the phone and provide service. This is rarely the case. When the phone is answered, often the taxpayer is transferred to another person or another service center altogether. Naturally, this causes unnecessary delays in resolving what is often times a simple matter.

It is understood that correspondence audits are cost effective which is primarily the reason for the increased use. But at what cost to the taxpayer or the taxpayer's representative? Correspondence audits involve the submission of documents via mail or fax. When these documents are sent to the IRS, they are often lost, misplaced or the IRS denies ever receiving them (See Appendix, Question #2). This fact alone causes unnecessary burden. The central problem is that there is no accountable tax examiner assigned to the case. As a result, when documentation is submitted, it takes far too long for the IRS to associate the information with an actual taxpayer and the documentation is subsequently ignored. Accordingly, when the taxpayer calls to follow up, the entire process is restarted because the taxpayer is now speaking with a new examiner. What's obvious here is that the taxpayer must resubmit the documentation at an additional cost causing further unnecessary delays. If taxpayers make follow-up calls, chances are extremely high that they will not speak to the same examiner.

NATP recommends the following to ease the burden on the taxpayer and make the correspondence audit experience more efficient:

- If the taxpayer requests a phone call from the IRS, the IRS should make the call as expeditiously as possible. The IRS Oversight Board's own survey indicated that taxpayers consistently prefer phone or face-to-face contact over any other types of assistance (*Taxpayer Service and Channel Preference*, Nov. 2006).
- Assign a tax examiner to each case. This examiner would be the only contact person from the point of first contact through resolution and closing. This will allow the taxpayer to deal with only one examiner who is familiar with the case.
- Allow the taxpayer to request a different examiner who has the authority to make the decisions needed for a prompt resolution.
- If the taxpayer is asked to submit documentation, have the examiner assigned to the case call the taxpayer and confirm receipt of the information.
- The taxpayer should have the option to easily request a face-to-face exam instead of a correspondence exam. Once requested, the option should be granted with all previously submitted documentation forwarded to the new examiner. The taxpayer should be provided the name and phone number of any new examiner assigned to the case.

INEFFICIENCIES WITHIN THE PROGRAM

Without accountability and responsibility on the part of the IRS, the correspondence exam process will never improve. The IRS has the ability to (and currently does) essentially “pass the buck” when it comes to dealing with taxpayer inquiries. Cases move from exam to appeals and it appears the leadership doesn’t communicate with each other. Most of the time, the taxpayer does not know who to contact. Better communications with operating divisions is critical.

The IRS has the responsibility to communicate with taxpayers. It is the taxpayer’s right to have their tax liabilities explained to them on language that they can understand. The IRS must make effective communication a priority. One would surmise that it is far less expensive to resolve a tax matter in one phone call rather than by several mailed notices that do nothing but cause delays in tax collection, an increased cost in resources and added frustration.

The IRS also has an obligation to protect taxpayer rights and ensure that those rights are not being violated. Tax compliance, collection and enforcement all require a personal, human touch. On Nina Olson’s TAS blog she states:

“In the *IRS Restructuring and Reform Act of 1998* (RRA 98), Congress required the IRS to include in all manually-generated correspondence the name, telephone number, and unique identifying number of the [IRS] *employee* the taxpayer may contact regarding correspondence. (See RRA 98, § 3705(a) (1).) RRA 98 also required the IRS to develop procedures that would assign one employee to handle an issue from start to finish, if practical for the IRS and beneficial to the taxpayer [See RRA 98, § 3705(b)].”

It is Olson’s belief that current correspondence exam procedures may violate these requirements. We concur. She notes that the IRS offers reasons for not providing this information. Her blog goes on the state:

“The IRS defines “manually-generated correspondence” as “correspondence issued as a result of an IRS employee exercising his/her judgment in working/resolving a specific taxpayer case or correspondence, or where the employee (Tax Examiner, Revenue Agent, Revenue Officer, etc.) is asking the taxpayer to provide additional case-related information.” [IRM 21.3.3.4.17.1(1)]. This means that the initial audit notification letter – which is *automatically* generated and is usually the only letter other than the Notice of Deficiency a taxpayer receives in corr[espondence] exam – will list only a main IRS toll-free number, “tax examiner” as the person to contact, and an identification number for the IRS *site* that issued the letter (as opposed to the employee). (IRM 4.19.10.1.6(6)).

Clearly this line of reasoning must be changed for the benefit of taxpayers, tax professionals and the IRS. Treating correspondence exam notices as “manually-generated correspondence” will elevate the effectiveness of the collection process. Speaking with an actual single person at the IRS who is assigned to that case, will in the long run, instill confidence in the taxpayer that his or her case is being handled efficiently and appropriately.

NATP also recommends the following to assist the IRS in more efficient handling of correspondence audits without compromising effective tax administration:

- The IRS should develop procedures for handling and cataloging documentation requests. When the taxpayer submits the requested information, technology should be utilized to record (scan) the information into a centralized file so any department has access.
- One examiner should be assigned to each case. That person's name, badge number and phone number should be on each piece of correspondence the taxpayer receives.
- IRS examiners should be well trained and procedures should be implemented uniformly nationwide.
- IRS examiners should acknowledge all documentation that the taxpayer sent in.
- If the taxpayer requests a phone call it should be granted. In most cases, the issue can be resolved more efficiently if the examiner is speaking with the taxpayer.

CLOSING

Thank you for presenting us with this opportunity to express our thoughts regarding what we consider to be important issues with regard to correspondence audits and improvements we believe need to be made in the IRS procedures. We are available to share our unbiased knowledge on issues of tax administration from the perspective of all tax professionals.

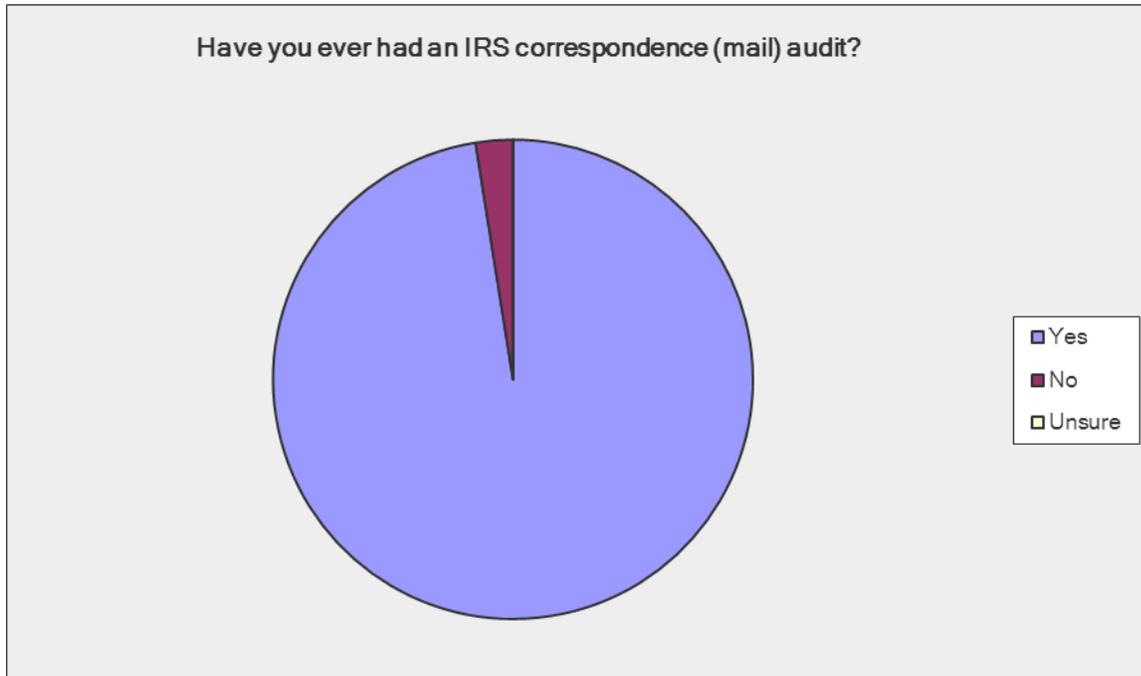
In February 2011, NATP surveyed its members on their experiences with correspondence audits. The survey, in its entirety, follows as an appendix to this paper. While less than 1% of the membership responded to this survey, the responses are clear evidence that there are issues with correspondence audits that are prevalent across the country and IRS campuses. We are confident you will find this survey information useful in making your recommendations for improvements that will create efficiencies within the IRS while reducing taxpayer burden.

Appendix

NATP 2011 IRS Audit Survey February 2011

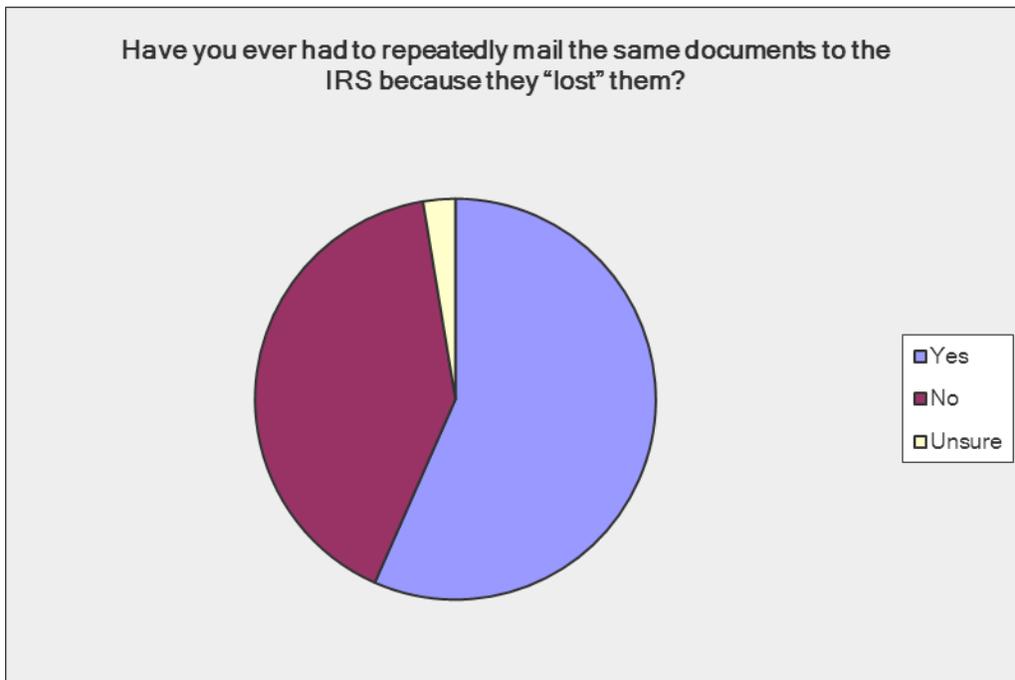
Question#1:

Have you ever had an IRS correspondence (mail) audit?		
Answer Options	Response Percent	Response Count
Yes	97.5%	77
No	2.5%	2
Unsure	0.0%	0
answered question		79
skipped question		0



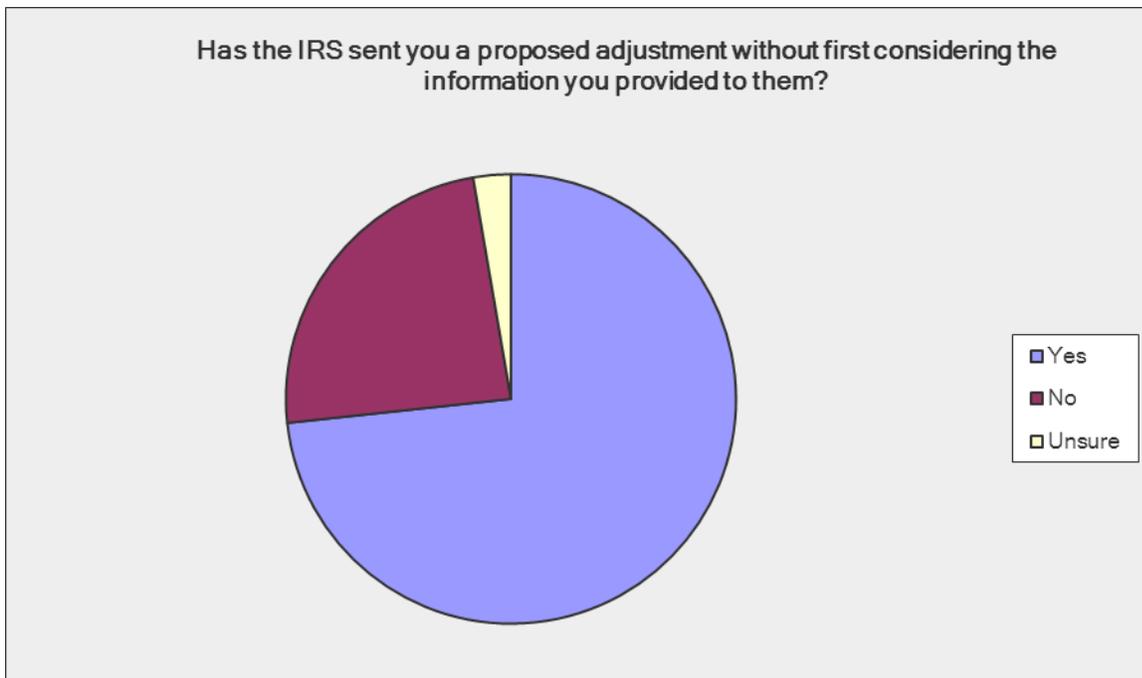
Question #2:

Have you ever had to repeatedly mail the same documents to the IRS because they "lost" them?		
Answer Options	Response Percent	Response Count
Yes	56.6%	43
No	40.8%	31
Unsure	2.6%	2
answered question		76
skipped question		3



Question #3:

Has the IRS sent you a proposed adjustment without first considering the information you provided to them?		
Answer Options	Response Percent	Response Count
Yes	73.3%	55
No	24.0%	18
Unsure	2.7%	2
answered question		75
skipped question		4



Question #4:

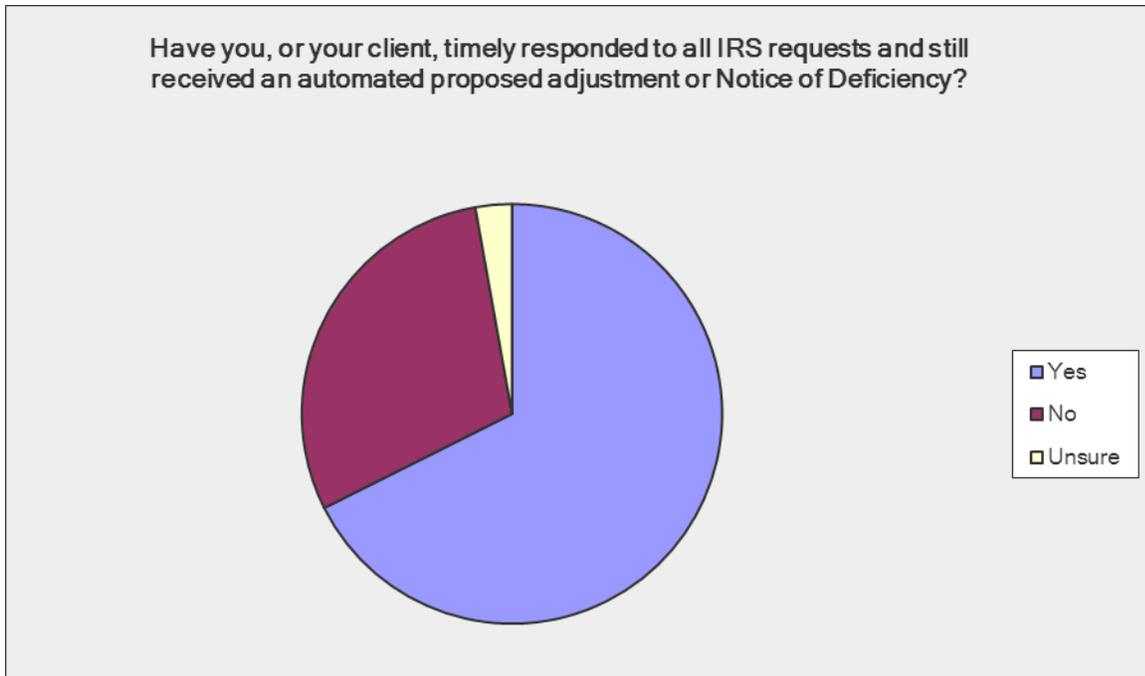
What Service Center or local IRS office have you dealt with?

- Milwaukee I think
- Different ones.
- FRESNO
- MOST OF THEM
- Philadelphia, PA
- HOLTSVILLE, NEW YORK
- Santa Ana, Puerto Rico, San Francisco, Austin
- Fresno
- Cincinnati
- Chamblee, GA
- Holtsville and Ben Salem
- Utah
- Ogden, Chamblee, Philadelphia, Andover, Memphis, Austin
- Ogden, Cincinnati, Austin
- Ogden
- Austin
- HOLTSVILLE
- Cincinnati, Ohio
- Washington
- Kansas City
- New York
- Sacramento
- Hauppauge New York
- Bensalem, PA
- Several... Austin, Philadelphia, Fresno...
- Ogden, Andover
- Cincinnati Ohio
- all of them
- Atlanta
- Ogden/Philadelphia/St. Louis/Cincinnati
- Lincoln and Omaha Nebraska
- San Jose
- Cincinnati
- Fresno, CA
- Atlanta
- Ogden UT
- Los Angeles, CA.
- Austin
- Various
- Several...
- Andover

- Austin, Texas
- Philadelphia, Fairfax
- FRESNO, CA
- Ogden, UT
- PA
- Philadelphia
- Santa Fe and Des Moines
- Philadelphia
- Independence Ohio
- CINCINNATI
- New York
- Cincinnati
- Andover, MA; Holtsville, NY, etc.
- Daytona Beach
- Cincinnati (terrible office), Holtsville (very good), and recently Miami
- OGDEN
- Manchester New Hampshire
- Ogden, UT
- All of them. Once notice comes from one place, another place
- Houston
- Austin or Kansas City
- Ogden
- Philadelphia
- Kansas City

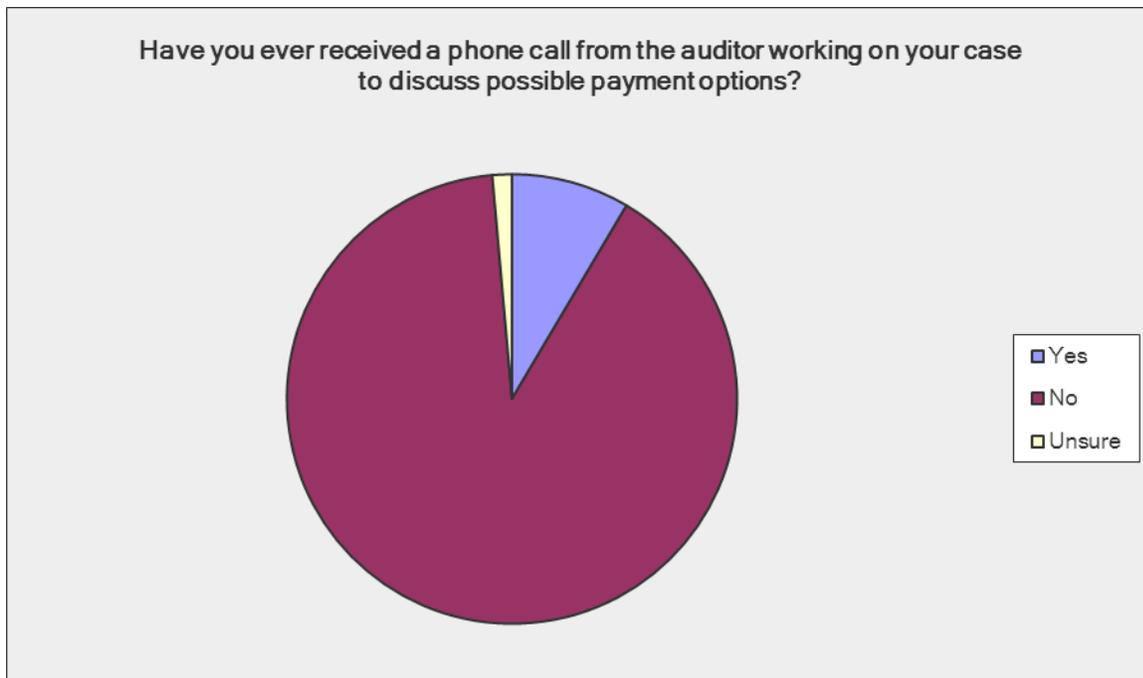
Question #5:

Have you or your client, timely responded to all IRS requests and still received an automated proposed adjustment or Notice of Deficiency?		
Answer Options	Response Percent	Response Count
Yes	67.6%	48
No	29.6%	21
Unsure	2.8%	2
<i>answered question</i>		71
<i>skipped question</i>		8



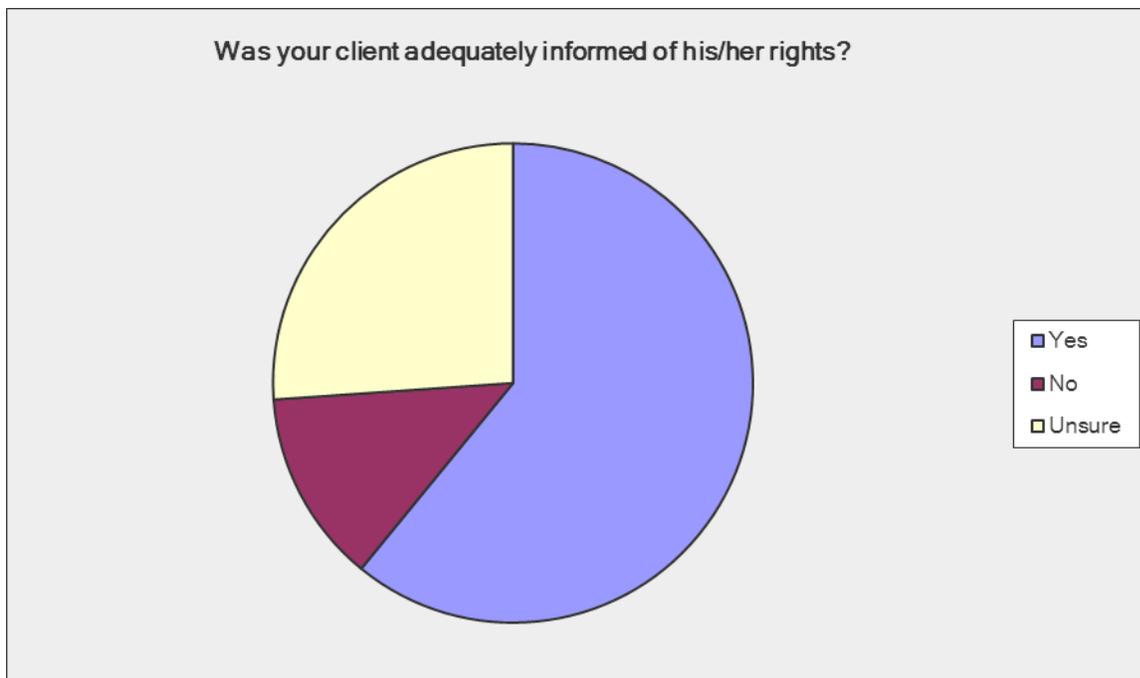
Question #6:

Have you ever received a phone call from the auditor working on your case to discuss possible payment options?		
Answer Options	Response Percent	Response Count
Yes	8.5%	6
No	90.1%	64
Unsure	1.4%	1
answered question		71
skipped question		8



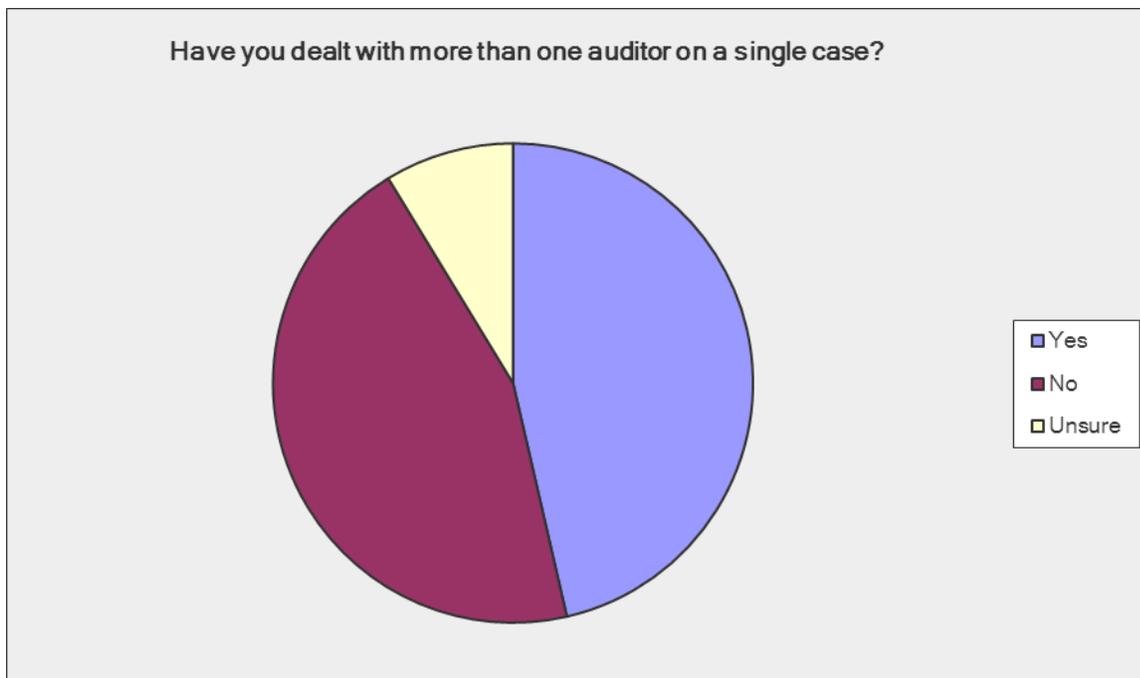
Question #7:

Was your client adequately informed of his/her rights?		
Answer Options	Response Percent	Response Count
Yes	60.9%	42
No	13.0%	9
Unsure	26.1%	18
answered question		69
skipped question		10



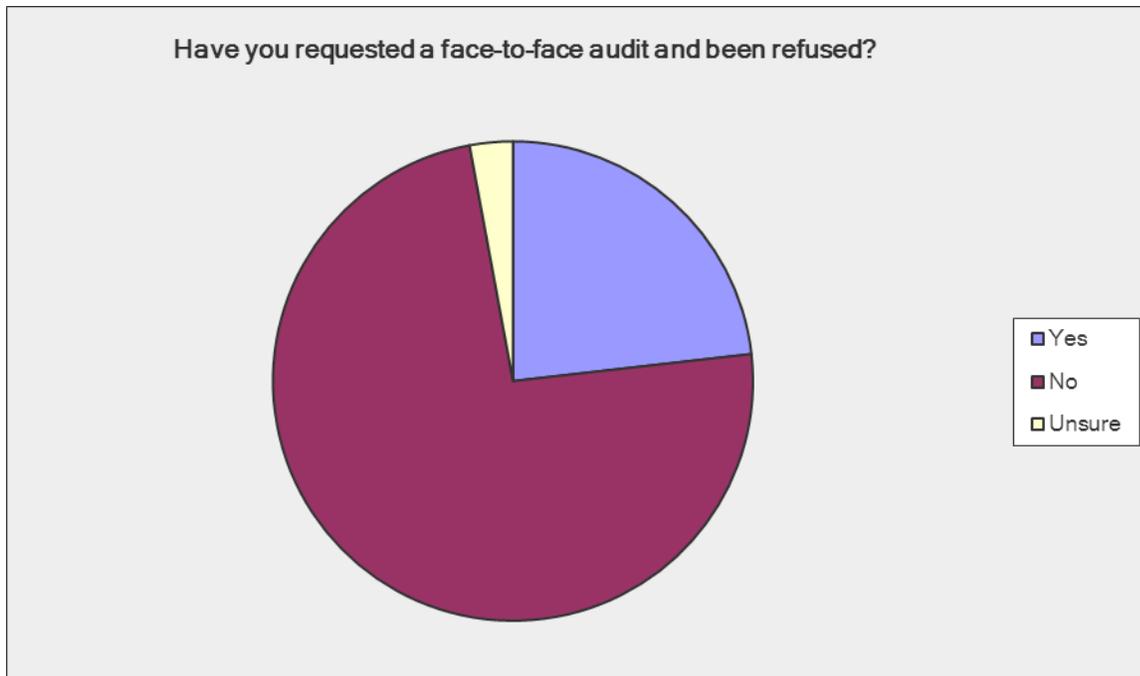
Question #8:

Have you dealt with more than one auditor on a single case?		
Answer Options	Response Percent	Response Count
Yes	46.4%	32
No	44.9%	31
Unsure	8.7%	6
answered question		69
skipped question		10



Question #9:

Have you requested a face-to-face audit and been refused?		
Answer Options	Response Percent	Response Count
Yes	23.2%	16
No	73.9%	51
Unsure	2.9%	2
answered question		69
skipped question		10



Question #10:

Do you have any general comments or anything else that you would like to share concerning IRS correspondence audits?

- Had to take paperwork to Taxpayer Advocate and she immediately said the IRS was incorrect and within one half hour told me she had reversed it and my client would get their money back. They did with a small amt of interest. It was a hassle because our original paperwork was not looked at to show them the error the IRS was making.
- We handled over 200 correspondence audits out of the Fresno office this year. An incredible increase in payroll costs to handle these audits. Finally worked with Moana Sawyer out of Taxpayer Advocates office who put us in touch with Keith Loftus (#3 man in Fresno) to help us clear the audits out. Would like to send an invoice to IRS for additional payroll hours, office supplies, etc to answer this incredible volume of audits.
- Nothing is moving very fast with any of the audit that I have going on. Some have been open for more than a year. Others I have heard from the auditor that other cases have been given priority.
- Have had instances of POA not being addressed when sent in to correspondence audit location and then when trying to get it submitted via another route being told that POA is not accepted since I am unenrolled preparer and client is not under audit currently, while I am in receipt of correspondence audit request.
- In most cases, IRS agents have been very helpful. However, in one case, the agent was very rude and appeared biased.
- We've called and left messages, no phone calls back. No acknowledgement of documents sent. Only response we got was "we are sorry, we really meant we auditing"...after we provided the first round of documents.
- I like them, saves time and effort to go to an office in person.
- Taxpayer had good records, got the automated notices after providing support. First tax year was in Ogden, got a no change letter. Taxpayer then received another desk audit for the next tax year from PA, provided the info and the prior year no change letter, and got another no change letter for that year.
- The Austin service center frequently loses documents sent to them. Once your case goes to collections it is almost impossible to talk to someone who actually understands tax law.
- I would rather have a face to face only because it is a burden on the taxpayer to have to photocopy all his paperwork when a live audit would be less time consuming and much less costly.
- They appear to use delay tactics to then go to the 90 day notice, without responding to the data we sent. I wrote letters to the IRS commissioner and the Taxpayer Advocate. The Taxpayer Advocate was great. She helped me get a new telephone number for the auditor when it was changed without notice. The audit lasted over a year.
- The auditor did not consider the documents that would not have resulted in a disqualification of deduction. The client did not owe the tax and got a bill and paid it because of fear. We have not resolved the issue.
- have one client that received a deficiency notice--I went to local IRS with POA and IRS printed a copy of the CP2000 letter sent to client in September but the client failed to give to me--I then responded to the very late cp2000 notice with proof of a rollover and

told client that if not cleared up by Feb 28 the billing would be theirs to pay. Client asked why IRS did not send certified mail with the first notice that came in September which they claimed they never received. BUT the deficiency notice they rec'd in Dec was not sent to me until end of Jan so I have concluded that I should fire this client!!

- As long as the client has the receipts and you mail in the paperwork within a 7 day period, it seems to work out easier. Anything longer can turn into a redundant paper processing nightmare.
- Received a direct line to the auditor - then they changed her number and would not let us get in contact with her by phone. Very frustrating. The case worked out fine but not very efficient.
- Having auditors from Austin Texas doing a correspondence audit on Emergency Personnel based in New York City is very unsettling for they don't understand LODI or Business expenses for Union Fire and Police personnel outside of their small framework of Texas. Bring back auditing to the local or at least service center level.
- After they refused a face to face audit... it was eventually done... face to face was much better. It appears to me that some situations are too complicated to be explained via mail.
- Very time consuming. We submit documents requested, then IRS agents wants more, more, more. The taxpayer gets anxious and just wants the audit to be over.
- It's very hard to get someone on the phone who can take action on your case. And it's not just the audits, it's being denied one item on a return like the First time home buyers credit, or similar, and never being able to speak with some one regarding the issue. Just months and month of letters back and forth.
- I prefer mail audits.
- The latest, was a letter to Client, where they abated some of the penalties and interest, told the client to pay balance in so many days, but nothing saying what the balance was that he owed. Also had to contact the Tax Advocate for help???. Not too much help, used to the Tax Advocate could get your problem solved, make adjustments, Etc. Now all they do is, Well I will have to contact IRS and see what is happening. Tax Advocate did nothing, we (Client and I) took care of everything with IRs, after about 6 Months.
- Suddenly many new paper audits are being sent to US filers living in France requesting substantiation of foreign taxes claimed as credits on their returns. This requires many documents and explanations, with key words translated into English. It is too early to see how auditors respond to the information clients submit.
- Do not be too aggressive.
- Most recent case is elderly couple trying to get their \$6500 LTHB credit. They were selected for audit on this credit. The stress of not getting their refund in a timely manner will probably kill them. I'm not kidding about that.
- The audit has gone through audit reconsideration, asked for appeals and after 3 taxpayer advocates, finally reopened and supposed to get a face to face locally. Receipts were provided, they refused to contact me. All they did was say over and done and disallowed. I do not believe anyone really even looked at the receipts. Waiting on current auditor to find time for appointment after 5 months, still waiting. Only time was able to speak to first auditor was after she closed the file. She allowed one toolbox but not the second for a mechanic and refused to explain why to me. Felt like they had so much to get done that all they did was shuffle paperwork to the next person. The auditor we are waiting on has said we have a good case from what he has looked at already. Problem is SC, our state has refused to change anything based on what we say. They have confiscated clients refunds to pay a debt he does not owe. Client may be out the

money due to statute of limitations for refund in SC. This is a 2005 tax return filed on time. Some correspondence was sent to client, some to me, EA, some to both. A total disaster. Have requested multiple times to have this relocated to SC for a face to face. But because of holidays and vacations of IRS employees, no one available to sign off it in time. Still waiting although was expecting weeks ago for a face to face per the current auditor.

- Suspect that some in this area in Austin may be overburdened. I also suspect that some are women who are PMSing. There are also some who simply don't want to deal in more depth with an issue. 90 day letters are more common than not, at least in my experience.
- They are a nightmare. I have yet to connect with a knowledgeable auditor.
- Auditors in my experience seem to be very professional and very generous.
- I have found that overwhelming the agent with precise evidence to close the case with minimal effort is key to resolving in the client's favor in an expeditious manner.
- The IRS agents I have dealt with have been extremely helpful.
- I concur with comments in the Houston 1040 workshop about having to train the examiners. My client received much simpler options than previously so I think the newbie examiner errors worked in favor of my client...this time.
- Auditing Sch C or 2106 by correspondence is not practical. For other issues when we mail in information, it appears the auditor does not have an understanding of the audit issue or the documentation being submitted.
- They are the most labor intensive time consuming audits to be involved with, and very expensive to the client.
- Recently had an EIC audit with very favorable results
- I ended up calling a tax advocate who worked with the IRS. Took 1 1/2 years
- Some audits are too difficult to handle long distance.
- If the data requested is properly presented and an allowable deduction, there was no problem. When the agent requested 12 months of bank statements, I had to send the g/l and the cd and cr and told them to do the trace as to copy each check for each category was ridiculous. The client received a no change notice.
- Difficulty in contacting the auditor. Particularly a problem with the Atlanta Service Center.
- I am in the midst of one now where the auditor insists he cannot read the documents - so we requested the audit be transferred to the local IRS office and it has taken months - too bad they aren't held accountable.
- It is extremely time consuming to have to photocopy receipts, documents, substantiation, then label each and organize the whole package to be mailed in. For simple compliance audits, like with CP 2000 letters, the correspondence procedure makes sense. For more involved audits, I think that the taxpayer (and rep) should have full access to an office audit in place of the correspondence audit, if so desired. I have had a number of correspondence audits. Often it seems that they exist solely to train new auditors and there is very little communication between the auditor examining the data and the rep.
- System does not work as you mail info and find it difficult to bring case to resolution where on an office audit you dealt with one person and most of the time resolved the case at one meeting.
- You have to call the auditor in the beginning to establish rapport and ground rules. Even though I did this, one correspondence auditor lost the paperwork twice and it took three months to complete the audit. I have another one that started in October and the auditor is so busy that he has not opened the envelope I sent him with the paperwork that he requested and has already advised me that my client should file an extension on his

2010 personal return because he will not be done in time for me to know if the NOL will stand.

- I had a correspondence audit that took a year to resolve including intervention by the Taxpayer Advocate's office. It is clear that IRS is centralizing functions to save money. When you contact the correspondence section, you can't even find out who your auditor is. They won't acknowledge receipt of materials and proposed an adjustment of 100% of items being audited by sending a boiler-plate reply that made me realize that no one had even looked at the case. I recommend to all my colleagues that when they receive a correspondence audit that they should immediately ask for a transfer to a local office. When after a year I received my request to do so, I spent only 15 minutes with a competent local revenue agent who resolved the case on the spot.
- We are in the Kansas City region. Keep the audits within the region you live. You may get one notice from New York, another from Louisville, another from Atlanta. It doesn't make any sense sending them all over the place like that.
- Lack of communication with the IRS and no direct communication, as IRS agents will never call back.
- Taxpayers tend to "disregard" IRS letters unless they ask for a payment. Handling IRS correspondence audits does not tend to be a problem if you handle it beginning with the first correspondence. Might help if the top of the letter read "This is an AUDIT." You must reply. Or something like that to get their attention.
- A live person should be assigned to each case to resolve issues. This person should provide a direct contact phone number and should respond timely when contacted. This contact person's information should be clearly documented in the correspondence to taxpayer.
- One audit has been re-directed 2x and remains unresolved. In using the mail for my most recent audit cases, redundant mail was received from not only Philadelphia, but also Kansas and California. I still do not understand how the various locations are remiss in identifying the status of a case by social security number and computers are being utilized by the IRS.
- Correspondence audits are to auditing what military music is to music