



# New Audit Paradigm: “Issue-Focused” LB&I Examinations

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# Overview

- Context: What is Really Going On?
- LB&I Reorganization
- Issue Focused Examination Program
- Next Steps And Outstanding Questions

# LB&I Reorganization In Context

- Some Recent IRS History:
  - Modified IDR procedures effective March 2014 (LB&I Directive, Feb. 28, 2014)
  - Appeals Judicial Approach & Culture - Phase II (July 2, 2014)
  - Informal Claims Within 30 Days (Sept. 2014)
  - IRS [Draft] Pub. No. 5125 (Released Oct. 2014)
  - Centralized Risk Assessment Pilot Program (Ongoing?)



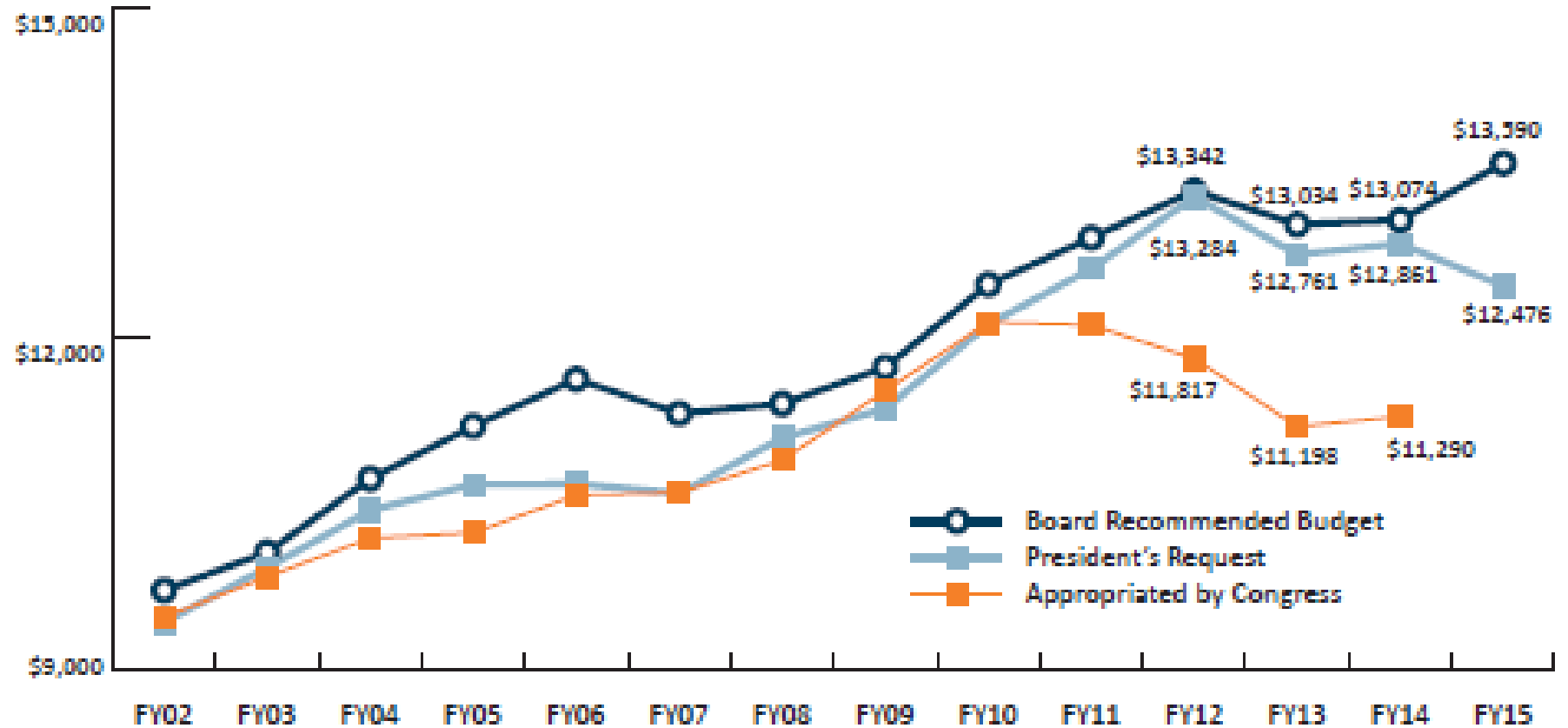
# Current IRS Challenges

- Funding
  - Over \$1B In Budget Cuts Since 2010
  - Training Cut From \$172M (2010) To \$22M (2013)
- Staffing: Retirements Threaten Brain Drain
  - 50% of LB&I Executives In ‘Acting’ Capacity
  - LB&I Agents Down
  - Appeals Down
- Falling Audit Coverage

# IRS Budget

FIGURE 1.  
IRS Funding History, FY2002-2015

Funding (in millions)

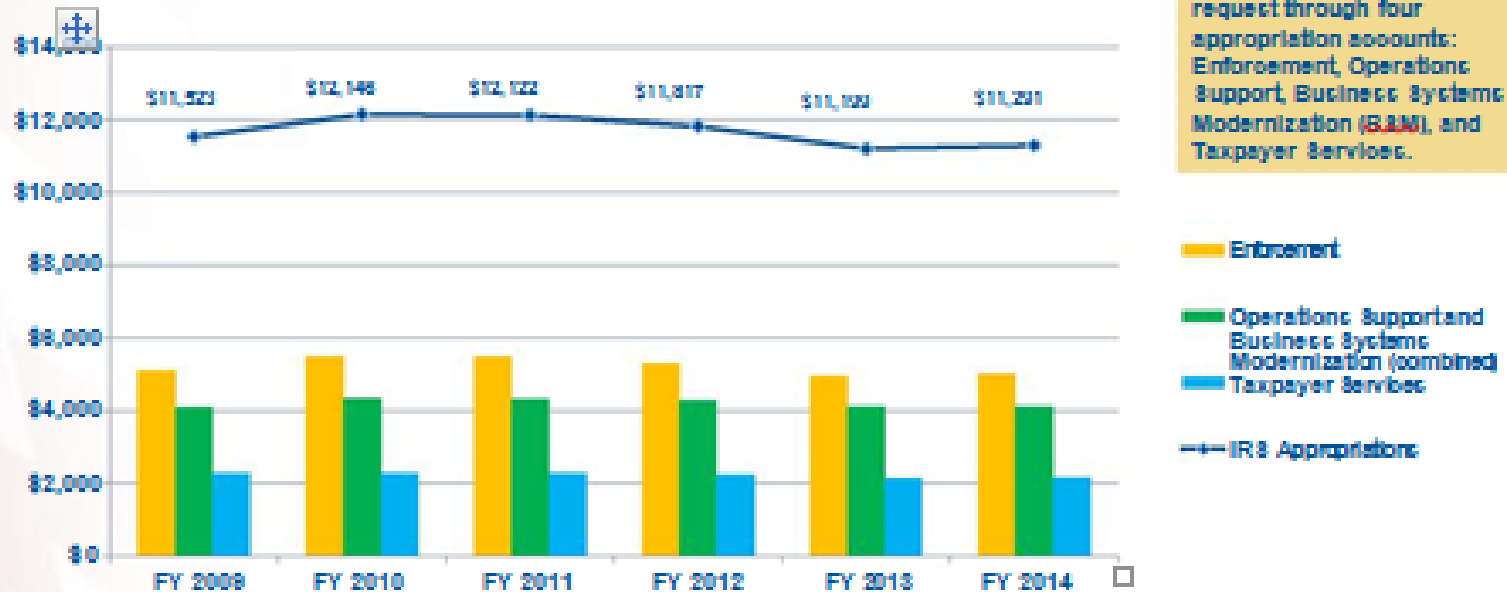


Source: IRS Oversight Board FY2015 Budget Recommendation Special Report



## Funding Trends: IRS's Appropriations Have Declined to Below Fiscal Year 2009 Levels

Figure 1: IRS's Appropriations, Fiscal Years 2008 through 2014 (Dollars in Millions)



IRS presents its budget request through four appropriation accounts: Enforcement, Operations Support, Business Systems Modernization (BSM), and Taxpayer Services.

Legend: FY = fiscal year.

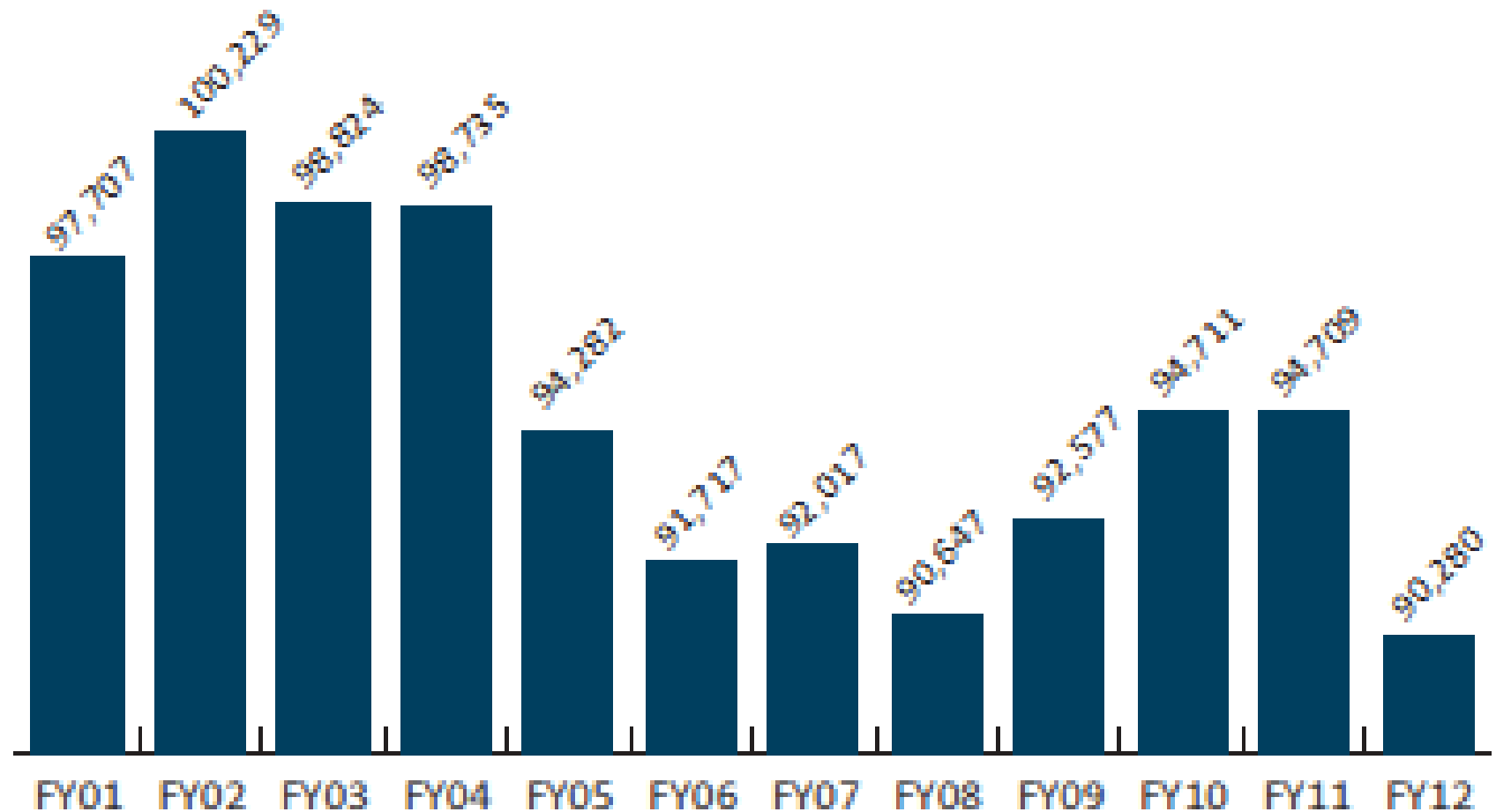
Source: Fiscal years 2008 through 2014 congressional justifications for IRS.

Notes: The fiscal year 2012 levels represent an across-the-board sequestration and reductions required by sequestration. In fiscal year 2014, IRS received \$22 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$55 million to Operations Support. In addition, IRS has proposed to transfer \$29.2 million from Enforcement to Operations Support for information technology infrastructure (\$40

million) and a program reclassification (\$29.2 million). Amounts shown do not include other budgetary resources, such as user fees. See appendix I for more information on IRS budget trends, including other budgetary resources.

FIGURE 3.

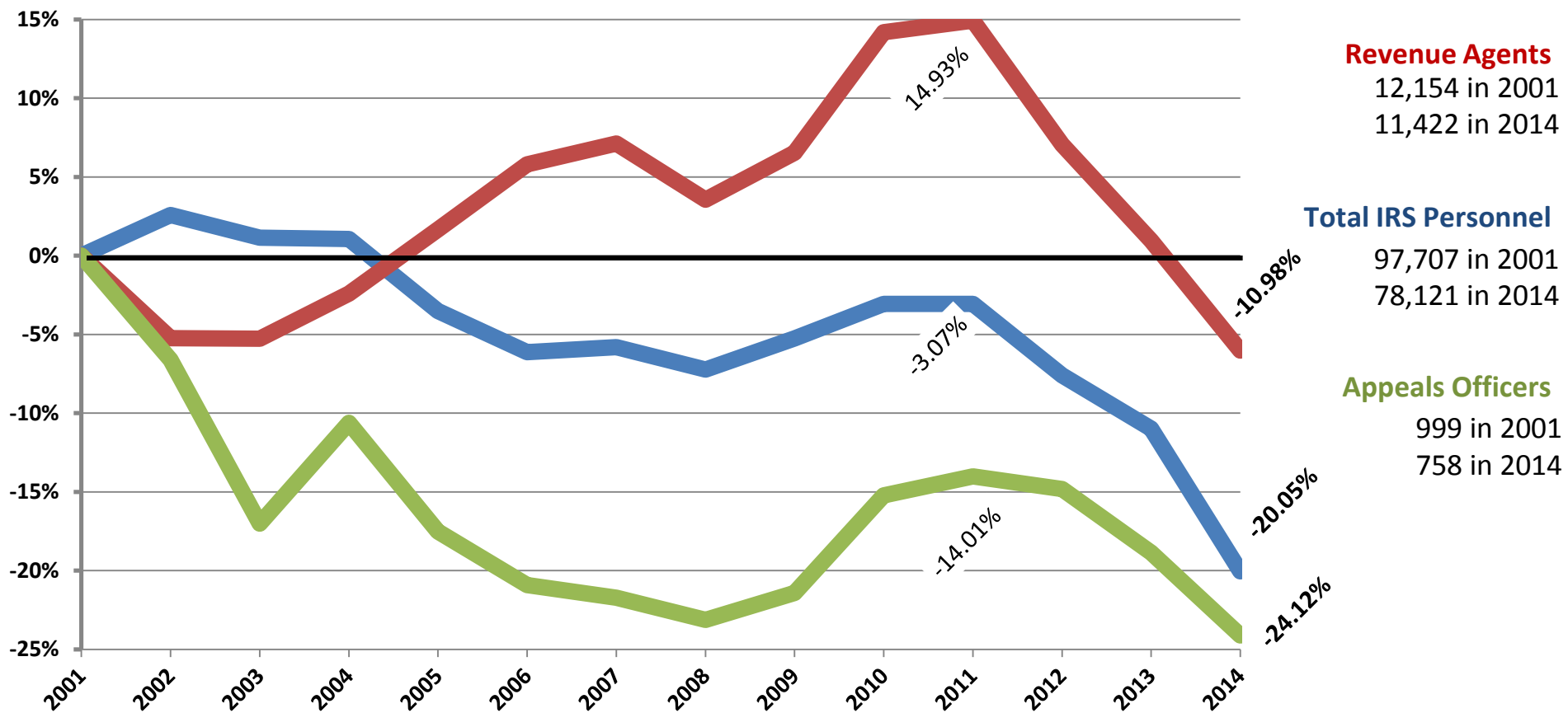
## Number of Full-Time Equivalents, FY2001-2014



Source: IRS Data Book

# IRS Staffing

## Changes in IRS Workforce 2001-2014



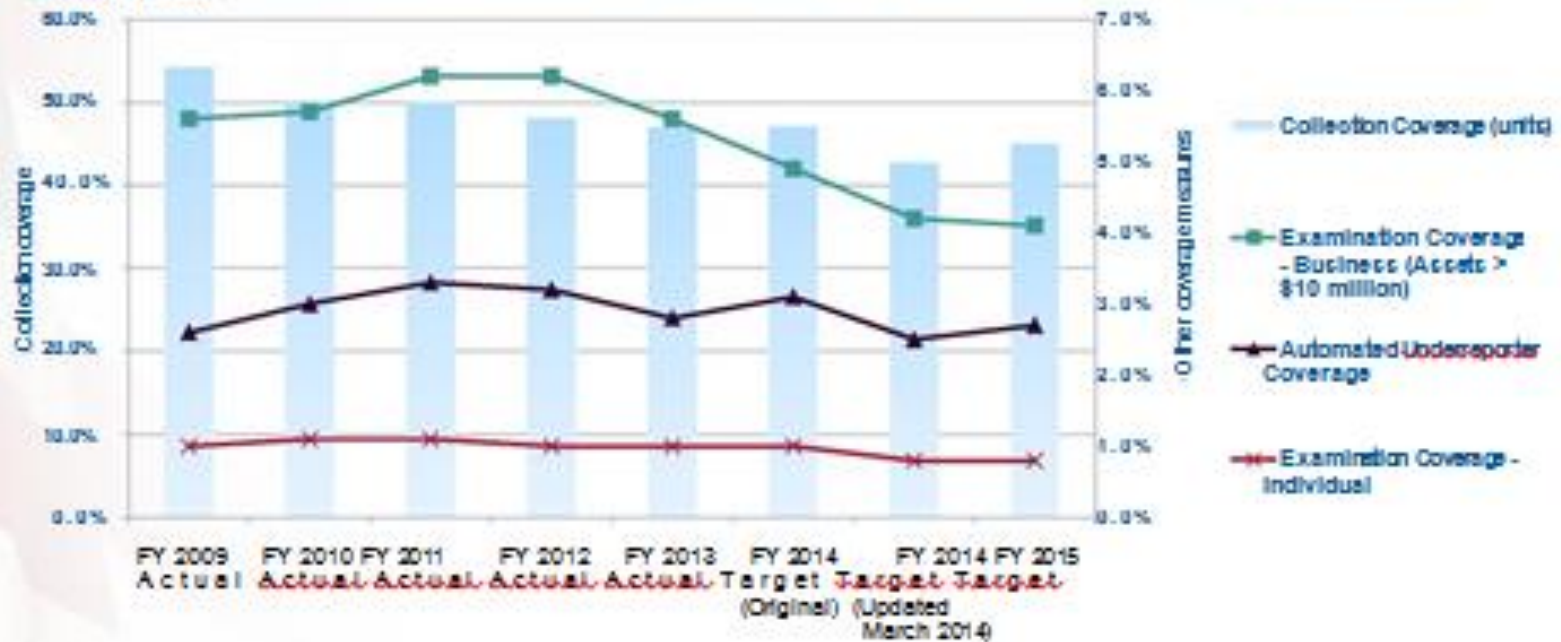
Source: IRS Data Book Table 30.





## Performance Trends: Return Examination and Collection Coverage Measures Show Decline

Figure 3: IRS Return Examination and Collection Coverage Measures, Fiscal Years 2009 through 2013 Actual and Fiscal Year 2014 and 2015 Targets

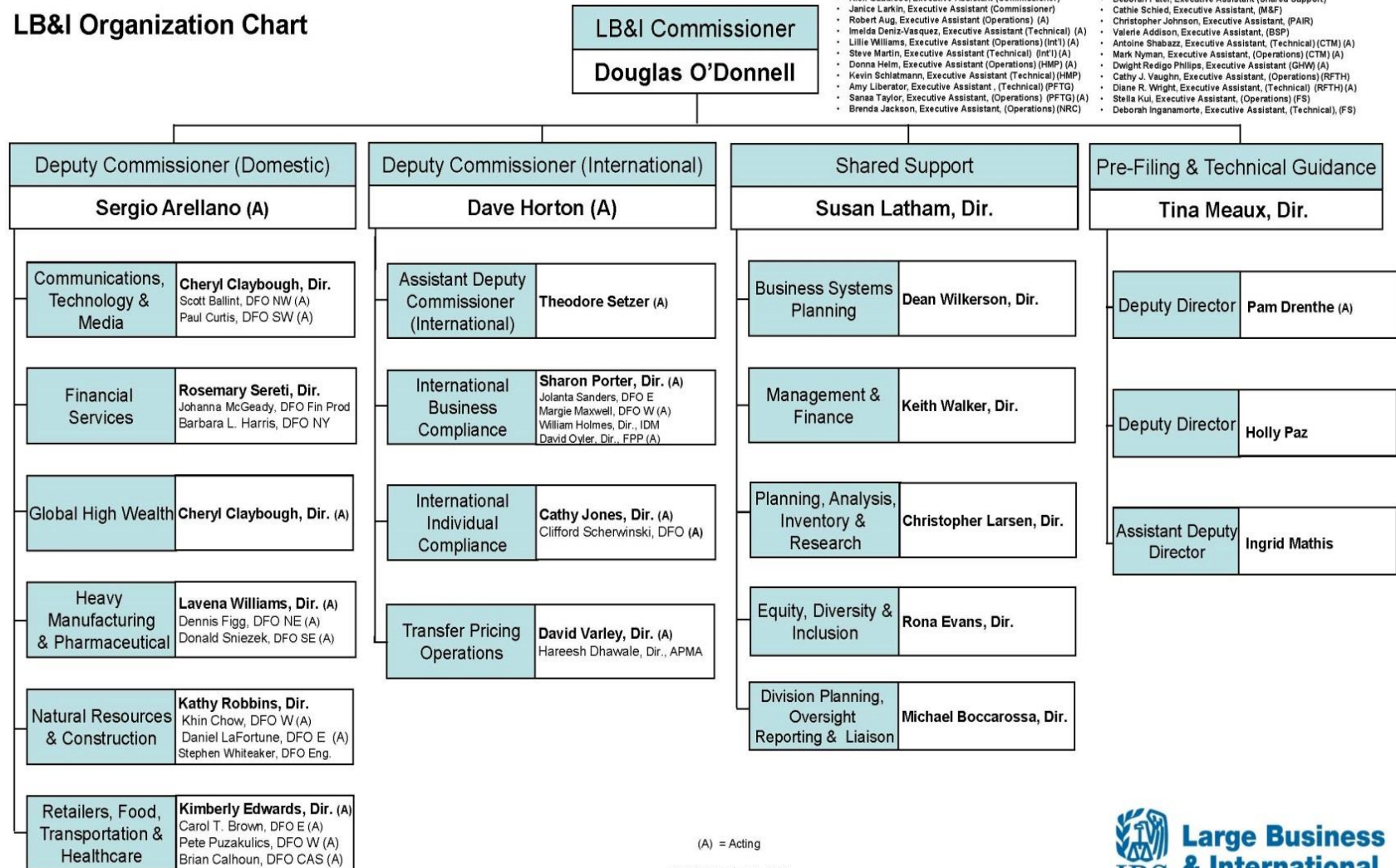


Source: GAO analysis of fiscal years 2009 through 2014 congressional justifications for IRS.

For more information on coverage measures, see appendix III.

# LB&I Pre-Reorganization

LB&I Organization Chart

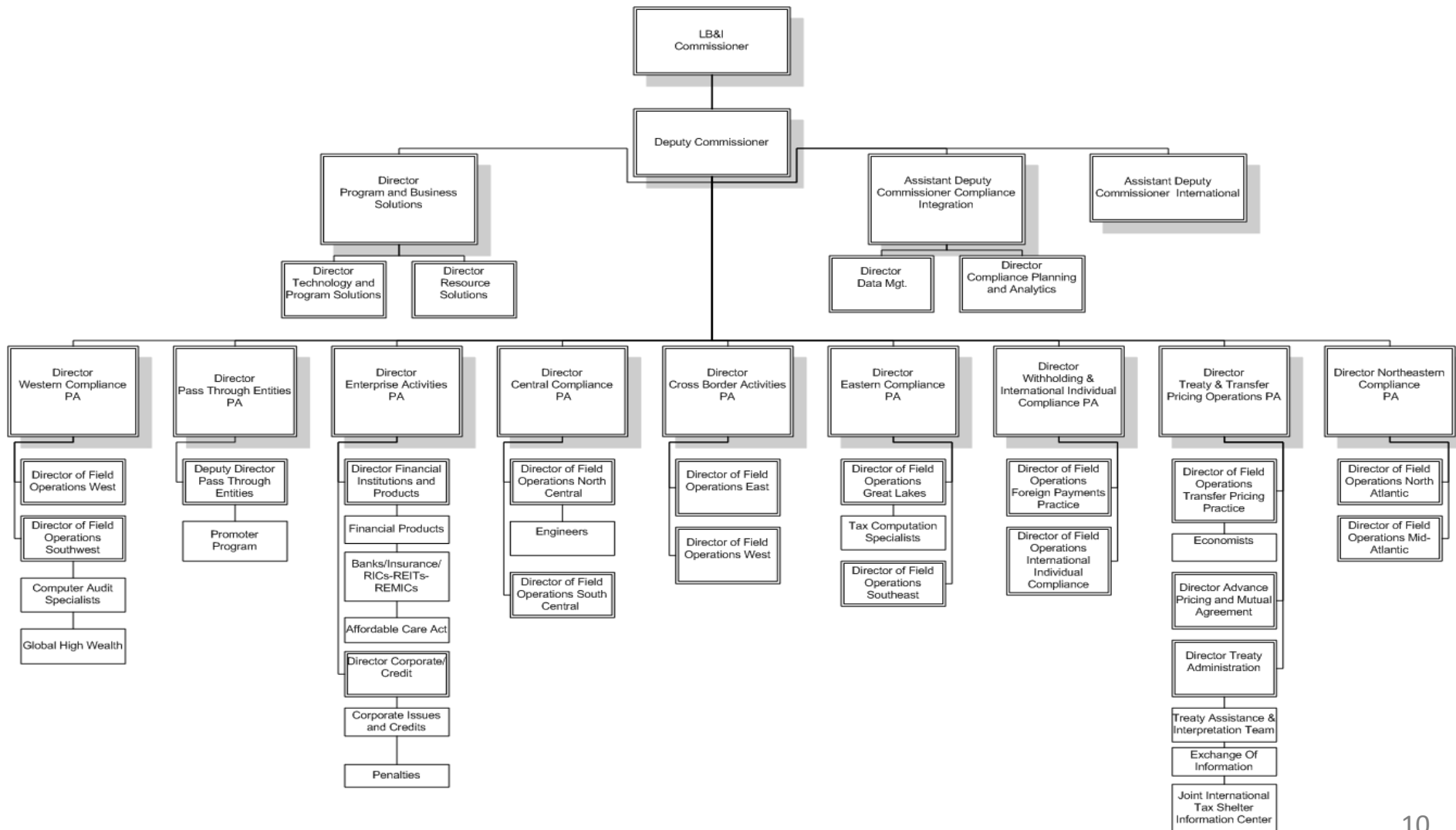


- Elizabeth Wagner, Sr. Advisor to LB&I Commissioner
- Nick Gaudio, Executive Assistant (Commissioner)
- Janice Larkin, Executive Assistant (Commissioner)
- Robert Aug, Executive Assistant (Operations) (A)
- Imelda Deniz-Vasquez, Executive Assistant (Technical) (A)
- Little Williams, Executive Assistant (Operations) (Int'l) (A)
- Steve Martin, Executive Assistant (Technical) (Int'l) (A)
- Donna Helm, Executive Assistant (Operations) (HMP) (A)
- Kevin Schlatmann, Executive Assistant (Technical) (HMP)
- Amy Liberator, Executive Assistant, (Technical) (PFTG)
- Sanaa Taylor, Executive Assistant, (Operations) (PFTG) (A)
- Brenda Jackson, Executive Assistant, (Operations) (NRC)
- Neena Rane, Executive Assistant, (Technical) (NRC)
- Deborah Patel, Executive Assistant (Shared Support)
- Cathie Schied, Executive Assistant, (M&F)
- Christopher Johnson, Executive Assistant, (PAIR)
- Valerie Addison, Executive Assistant, (BSP)
- Antoine Shabazz, Executive Assistant, (Technical) (CTM) (A)
- Mark Nyman, Executive Assistant, (Operations) (CTM) (A)
- Dwight Redigo Phillips, Executive Assistant (GHW) (A)
- Cathy J. Vaughn, Executive Assistant, (Operations) (RFTH)
- Diane R. Wright, Executive Assistant, (Technical) (RFTH) (A)
- Stella Kui, Executive Assistant, (Operations) (FS)
- Deborah Inganamorte, Executive Assistant, (Technical), (FS)

(A) = Acting

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# LB&I Reorganization





# LB&I Reorganization

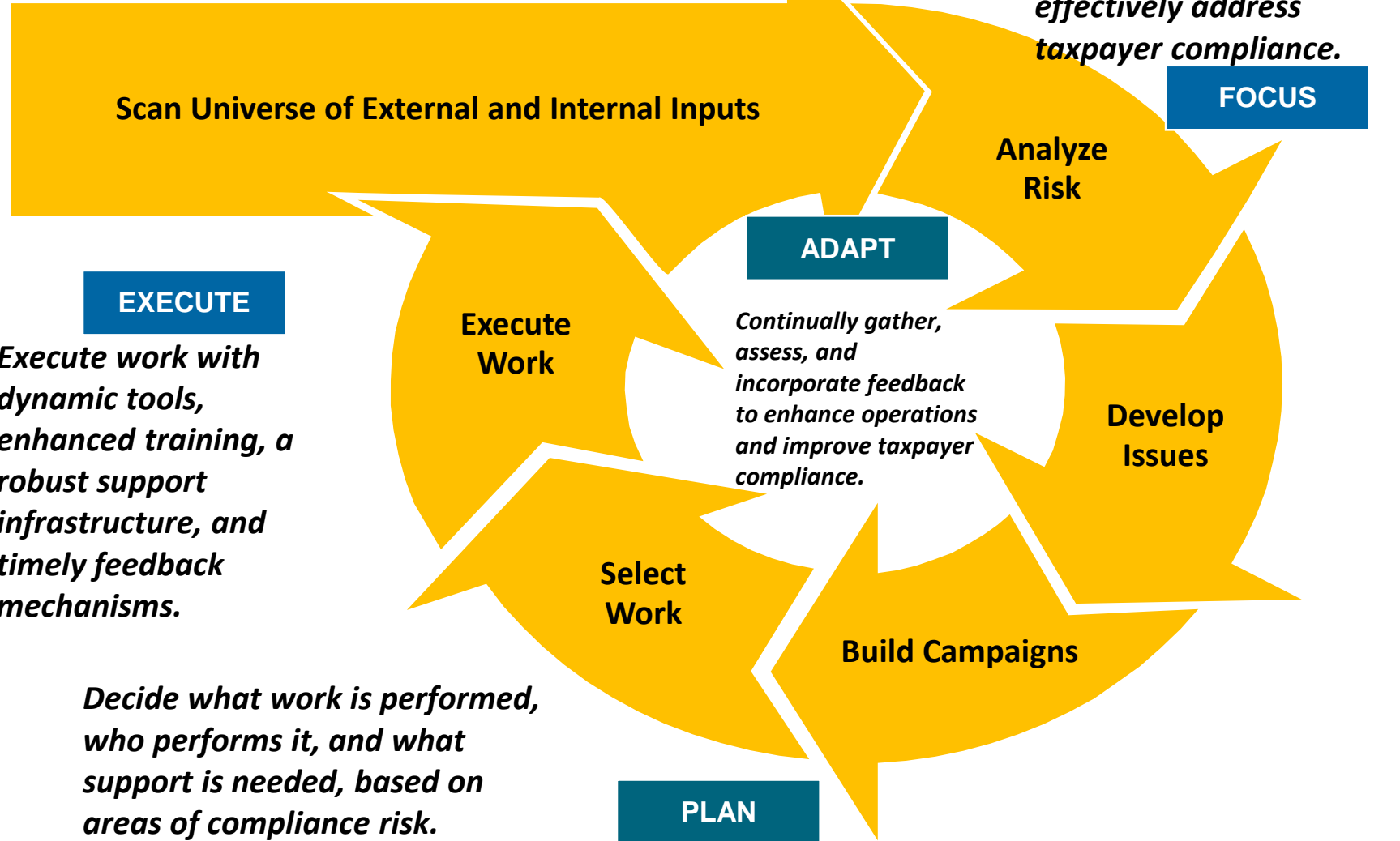
- Four Pillars of Reorganization
  - Flexible, Better Trained Workforce
  - Data Analytics Identify Non-Compliance Areas
  - Tailored Treatment Of Issues
  - Integrated Feedback Loops Improve Processes

# LB&I Reorganization

- Changes to LB&I Organization Chart Create “One LB&I”
  - International/Domestic Deputy Commissioners Merge
  - Two Assistant Deputy Commissioners: International, and Compliance Integration



**Using the AGILE model...**

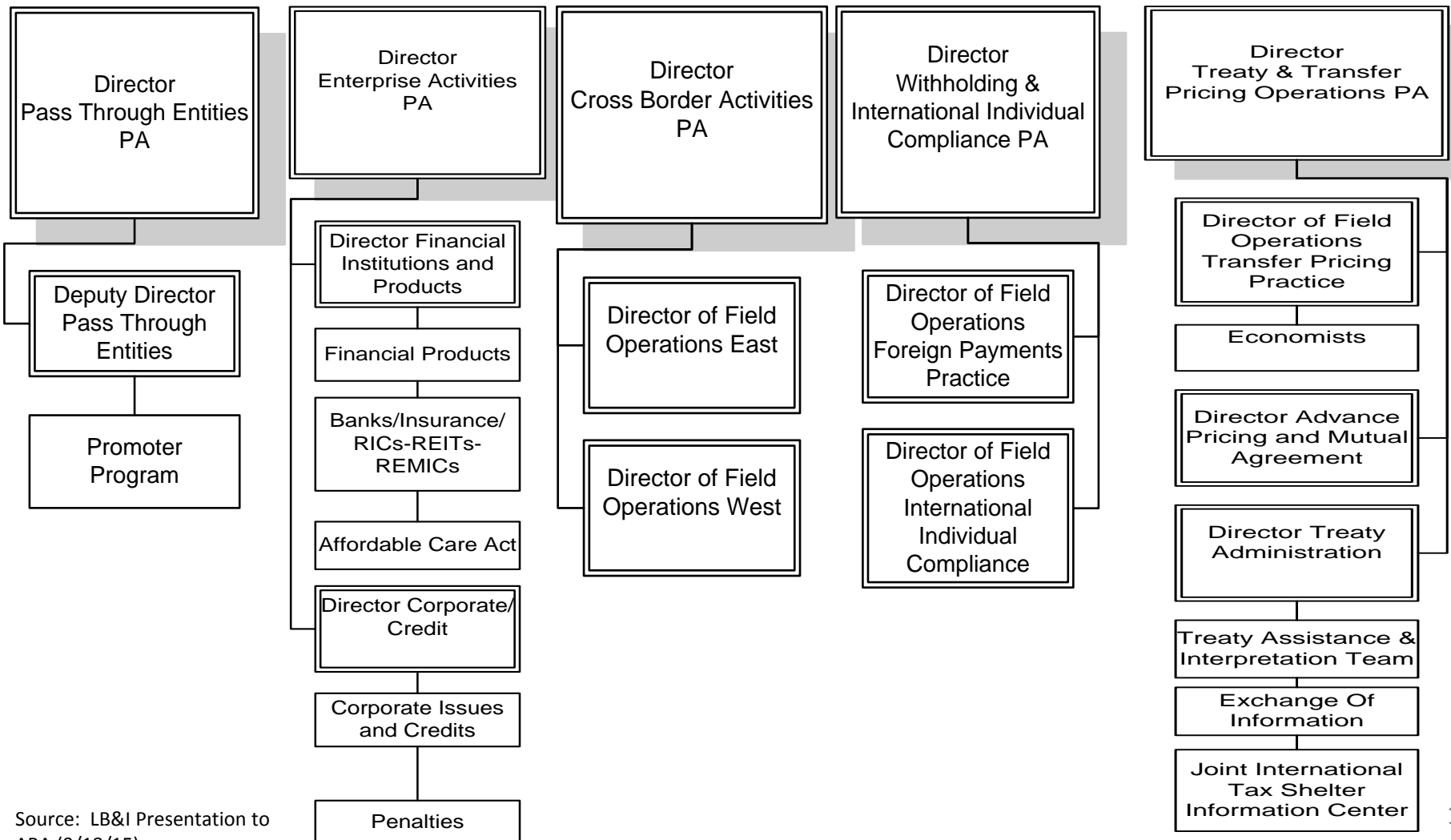




# LB&I Reorganization

- Practice Groups
  - Build On Knowledge Management, Fold in IPNs/IPGs
  - Develop Practice Units
  - Example – Transfer Pricing Practice
- 5 Substantive Groups:
  - Passthrough Entities; Enterprise Activities; Cross-Border Activities; Withholding & International Individual Compliance; and Treaty and Transfer Pricing Operations
- 4 Geographic Groups:
  - Western (Oakland); Central (Houston); Eastern (Downers Grove); and Northeastern (New York)

# LB&I's Substantive Practice Groups



Source: LB&I Presentation to ABA (9/18/15)







# Issue Focused Exam Process

- Eliminate Coordinated Industry Case (CIC) Program
  - Audit Issues Rather Than Returns, But . . .
    - Largest Taxpayers Still Have Continuous Audits
    - Examiners May Still Identify Their Own Issues
- Centralization Of Issue Selection
  - Governance Board Decides Issues To Address, And How
  - Issues Pre-Identified For Examiners
- Campaign Approach:
  - Identify Areas Of Greatest Non-Compliance
  - Deploy Resources To That Area
  - Transparent To Taxpayers
  - Examples: Offshore Disclosure, Tax Shelters




# Issue Focused Exam Process

- Resolve Issues At Lowest Level
  - Exam To Seek Taxpayer Agreement On Facts Before NOPA
  - Exam Team Must Consider Fast Track Settlement
- Intersections With Earlier Directives
  - IDR Directive - Reach Agreed Facts
  - AJAC - No New Issues/Facts, Or Reopening Issues, At Appeals
  - Informal claims Within 30 Days With Full Factual/Legal Support
- New Rules Of Engagement (Coming Soon)
  - Taxpayer Concerns Routed To Issue Experts?



# Issue Focused Exam Process

- Impact For Exam Team
  - Allocation Of Authority To Field
  - Pre-Audit Issue Selection
  - “Just-In-Time Training”
  - Track/Deploy Examiners Based On Knowledge, Abilities
  - Resources Spent On IRS Issues Rather Than Claims
- Impact For Taxpayers
  - Rev. Proc. 94-69 Disclosures
  - Issue Teams Cycle On/Off Exam
  - Coordination Among Issue Teams
  - Rules of Engagement
  - Reduced Ability To Negotiate Global Settlements?



## Risk Assessment: How Will Exam Find The Issues To Audit?

- Roles Of Issue Teams/Governance Board?
- Role of PAIR?
  - Leveraging Taxpayer Disclosures (e.g., Schedule UTP)
  - Other “Data Analytics”?
- Lists of “Hot Issues” (Tiered Issues Redux?)



# Next Steps/Outstanding Questions

- Keeping Case Management/Discretion At Field Level?
- Rev. Proc. 94-69 Disclosures
- Impact On Settlement Negotiations?
- Rules of Engagement?
- Impact on CAP?

# Questions / Comments ...

