New Again – The Latest in LB&I Restructuring and Examination Approach

Pat Chaback, Executive Director – Ernst & Young
Kimberly Edwards, Director, Western Compliance – IRS
Larry Langdon, Partner – Mayer Brown LLP
Jean A. Pawlow, Partner – McDermott Will & Emory LLP
Tony Shabazz, Program Manager, Western Compliance, LB&I Division – IRS
Gloria Sullivan, Director, Financial Institutions & Products, LB&I Division – IRS
Dealing with New IRS Processes with Q&A

Pat Chaback, Executive Director – Ernst & Young
Paul DiSangro, Partner – Mayer Brown LLP
Kimberly Edwards, Director, Western Compliance – IRS
Andy Mattson, Partner – Moss Adams
Tony Shabazz, Program Manager, Western Compliance, LB&I Division – IRS
Gloria Sullivan, Director, Financial Institutions & Products, LB&I Division – IRS
IRS Large Business & International Division (LB&I)

Future Structure and Operations
Why does LB&I need to change?

- LB&I needs to change in order to create an organization that:
  - Continuously evolves to keep pace with LB&I taxpayers operating in a global environment.
  - Uses our most valuable resource, our employees’ time, to achieve predetermined compliance goals.
  - Reflects one LB&I, instead of:
    - International vs. Domestic
    - Field vs. Headquarters
    - Strategy vs. Execution
  - Supports promotional opportunities in all areas of LB&I based on knowledge, skills, and abilities of employees and their willingness to coach, mentor, and transfer skills.
  - Supports better collaboration.
  - Engages in effective tax administration by updating exam processes that have not been refreshed for many years.
A core set of guiding principles establishes the foundation for where LB&I wants to be in the future.

**Flexible, Well-Trained Workforce**
Cultivate an environment of continuous learning to support a flexible workforce with focused training, foundational skillsets, specialized knowledge, and dynamic tools.

**Selection of Better Work**
Utilize data analytics and examiner feedback to select better work with intended compliance outcomes.

**Tailored Treatments**
Employ an integrated set of tailored treatment streams to improve flexibility to address current and emerging issues and achieve compliance outcomes.

**Integrated Feedback Loop**
Drive continual collection and analysis of data and feedback to enhance ability to focus, plan, and execute work, and promote innovation and feedback-based improvement.
Focus training on transactions and issues that employees will encounter in their work.

Provide timely training needed to address current issues.

Create training curriculum designed to allow employees to grow their skills and have the opportunity to focus in a specific issue area.

Enable mentor-protégé roles and expectations to transfer skill and knowledge.
LB&I will use data analysis and feedback from examiners to identify areas of potential non-compliance and will design campaigns to address those issues/areas.

A campaign is a plan focused on the right issues, using the right resources, and using the right combination of treatment streams to achieve the intended compliance outcomes.

A campaign could include examinations and/or some type of alternate treatment such as outreach, form changes or guidance.
Integrated Feedback Loop

- LB&I will obtain employee input and feedback on all aspects of the examination of the examination process, including return selection, training, content, and tools.

- LB&I’s compliance plan will be adjusted in real time based on experience once a campaign gets underway.
Large Business and International Division At-a-Glance

- LB&I is organized into Support and Practice Areas. Support elements use data analysis and an integrated feedback loop to support LB&I’s agile model. The Practice Areas study compliance issues within their area of expertise and suggest campaigns to be included in the compliance plan.
Campaigns: (Info obtained from FY2016 LB&I Field Focus Guide)

The IRS plans to use the combined input of their workforce and data analysis to identify areas of noncompliance and strategically focus resources to these areas.

Campaigns are intended to:

- Identify specific areas of potential noncompliance,
- Identify intended compliance outcomes,
- Identify specific, tailored treatment streams to achieve those outcomes,
- Identify the resources needed to execute these tailored treatment streams,
- Identify training, guidance, mentors, and other support needed, and
- Effectively use feedback from employees to quickly modify our approach as needed.
Using the AGILE model…

Strategically identify and prioritize areas of compliance risk to more effectively address taxpayer compliance.

Scan Universe of External and Internal Inputs

Analyze Risk

FOCUS

Execute work with dynamic tools, enhanced training, a robust support infrastructure, and timely feedback mechanisms.

Execute Work

ADAPT

Continually gather, assess, and incorporate feedback to enhance operations and improve taxpayer compliance.

Select Work

Execute Work

Develop Issues

Build Campaigns

Select Work

Execute Work

Decide what work is performed, who performs it, and what support is needed, based on areas of compliance risk.

Select Work

Execute Work

Decide what work is performed, who performs it, and what support is needed, based on areas of compliance risk.
The Practice Area Approach

- LB&I will be organized by Practice Areas.

- A Practice Area is a group of employees organized together to focus on one or more areas of expertise.

- Each Practice Area (along with other activities) will study compliance issues within their area of expertise and suggest campaigns to be included in the compliance plan.
Double-lined boxes indicate Executive Level

(a) = Acting
Compliance Practice Areas

- Director Western Compliance PA
  - Director of Field Operations West
    - Director of Field Operations Southwest
      - Computer Audit Specialists
      - Global High Wealth
  - Director of Field Operations North Central
    - Engineers
  - Director of Field Operations South Central
- Director Central Compliance PA
  - Director of Field Operations North Central
- Director Eastern Compliance PA
  - Director of Field Operations Great Lakes
    - Tax Computation Specialists
  - Director of Field Operations Southeast
- Director Northeastern Compliance PA
  - Director of Field Operations North Atlantic
  - Director of Field Operations Mid-Atlantic
The way the world does business is constantly changing — taxpayers are changing and to keep pace LB&I must continuously evolve.

We will use data and analysis combined with input from the people who know the work best, our experienced examiners and their leaders, to determine the selection of better work (building campaigns).

We will consider multiple compliance approaches (treatment streams) for campaigns so that we focus our limited and valuable resources in the right areas that drive a specific compliance impact.

We are committed to ensure that we have a well-trained workforce that is equipped to deal with the complex global tax challenges we face on a daily basis.
Internal Revenue Service
Large Business and International Division

Examination Process
Key Changes

- New Publication 5125
  - Sets clear expectations for examiners, taxpayers and representatives
  - Issue based examination from first contact to resolution
  - Environment of transparency and collaboration
- Updates to IRM 4.46
  - Published March 15
Claim for Refunds

- Requires adherence to Treasury Regs. 301.6402-2 and 301.6402-3

- Informal Claims time frame

- Identification of issues and resources
Issue driven Process

- More efficient fact development
- More Effective IDR
- More realistic timeline estimates
- Optimize resources
- More unified Approach
- Eliminate duplication of efforts
- Fewer misunderstandings
- Promote knowledge transfer
Planning Phase

- Determines scope of audit
- Select issues with broadest impact on compliance
- Collaboration among all parties
- Examination Plan reviewed by both parties
Execution Phase

- Outlined issue development process to include the issue-team approach

- Incorporated Information Document Request (IDR) enforcement process

- Added Acknowledgment of Facts step
Emphasizes the use of resolution tools at the earliest appropriate point

Added expectations to address Issue Exist Strategies
Training, New Publication and New IRM

- Extensive Employee Training
- Feedback Loop in Place
- Publication 5125, LB&I Examination Process and
- IRM 4.46 published

Start Date For All New Cases —

May 1st
Requirements for Issuing IDRs

- Discuss the issue related to the IDR with the taxpayer.
- Discuss how the information requested is related to the issue under consideration and why it is necessary.
- After this consultation with the taxpayer, determine what information will ultimately be requested in the IDR.
- Ensure the IDR clearly states the issue that is being considered and that the IDR only requests information relevant to the stated issue.
  - Initial IDR’s that requests basic books and records and general information about a taxpayer’s business are not subject to this requirement.
Specific steps within the IDR Enforcement Process

- The process has three graduated steps:
  - Delinquency Notice
  - Pre-Summons Letter
  - Summons

- This process is mandatory and has no exceptions.
Delinquency Notice (Letter 5077)

The Delinquency procedures:

- Discuss the Delinquency Notice with the taxpayer.

- Issue the Delinquency Notice signed by the Team Manager to the taxpayer within 10 days of the application of the Enforcement Process.

- The Delinquency Notice should include a response date that is generally no more than 10 business days from the date of the Delinquency Notice.

  ✓ A Territory Manager must approve any date beyond 10 business days.
Pre-Summons Letter (Letter 5078)

The Pre-Summons process involves the following steps:

- Discuss the lack of a complete response to the Delinquency Notice with the Team Manager, Specialist Manager, the respective Territory Managers and Counsel and prepare the Pre-Summons Letter.

- The appropriate Territory Manager must discuss the Pre-Summons Letter with the taxpayer.

- Issue a Pre-Summons Letter signed by the appropriate Territory Manager, no later than 10 business days after the due date of the Delinquency Notice.

  - Address this letter to the taxpayer management official that is at a level equivalent to the LB&I Territory Manager.

  - This should be a level of management above the taxpayer management official that received the Delinquency Notice.
Summons

The summons process involves the following procedures:

- Discuss the lack of response to the Pre-Summons Letter with the Team Manager, Specialist Manager, the respective Territory Managers and DFOs, and Counsel and prepare the summons.

- Coordinate the issuance of the summons with assigned Counsel.

- Summons procedures can be found in IRM 25.5.
Collaboration is the Key

Thank you, TEI — Our Partners in Tax Administration
Happy to Entertain Your Questions