

**5<sup>th</sup> Annual IRS/SJSU Small Business Tax  
Biltmore Hotel in Santa Clara  
June 22, 2017**

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**How to Successfully Deal with Correspondence  
Audits and IRS Notices**

**A review of the process, relevant IRM procedures, types of audit letters and notices, how to get help, and more**

Practitioner and IRS Analyst Panel

Torie Charvez, Enrolled Agent  
Barbara Doherty, Tax Attorney  
Gail Murphy, Tax Policy Analyst, IRS  
Susan Clark, Tax Policy Analyst, IRS

Moderator

Caroline Chen, Professor, SJSU

**Introducing  
Practitioners & IRS Analyst Panelists**

- Torie Charvez, Enrolled Agent
- Barbara Doherty, Tax Attorney
- Gail Murphy, Tax Policy Analyst, IRS
- Susan Clark, Tax Policy Analyst, IRS

# Correspondence Examinations



Gail Murphy, Tax Policy Analyst  
Susan Clark, Tax Policy Analyst

June 22, 2017

## Objectives

- Review:
  - Correspondence Exam process
  - Issue resolution
  - Case closure



# Correspondence Examinations

- Efficient
- Broad compliance coverage
- Highly automated
- Campus operations



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# Correspondence Examinations

- IRS Audits webpage
  - [www.irs.gov/audits](http://www.irs.gov/audits)
- EITC Central
  - [www.eitc.irs.gov](http://www.eitc.irs.gov)



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## Inventory Analysis and Selection

- Identify returns with high potential for a tax adjustments using:
  - Results of prior audits
  - Third party information
  - Entries on the return



## Inventory Analysis and Selection

- Referrals from:
  - Criminal Investigation
  - Preparer /promoter actions
- Non-filer conditions



# Correspondence Examinations

- Defined scope
- Generally less complex
- Focus on documenting specific tax return entries



# Common Examination Issues

- Refundable Tax Credits
  - Earned Income Tax Credit (EITC)
  - Child
  - American Opportunity
- Schedule A
  - Employee business expenses
  - Charitable contributions
- Schedule C
- Emerging issues
- Non-filing conditions



## Common Initial Letters and Notices

- Initial contact letters, no examination report
  - CP 75/75A – Earned Income Tax Credit
  - CP 06/06A – Premium Tax Credit
  - Letter 566 – Most other issues
- Initial contact letters, examination report
  - Letter 1862
  - Letter 2194



## Initial Letters and Notices Enclosures

- Forms (listing requested documentation) and Questionnaires
- Publication 3498-A, The Examination Process (Audits by Mail)



## Acknowledgement and Interim Letters

- Acknowledgment Letter 3500
- Interim Letter 3501



## Common Follow Up Letters and Notices

- Letter 525/692 – Follow-up including the examination report
  - Form 4549
  - Form 886-A
- Letter 3219 - Statutory Notice of Deficiency, “90 Day” Letter
- Letter 555 – Follow up after Letter 3219 issuance



## Resolve Disagreements and Reconsideration

- Resolve Disagreements
- Reconsideration



## Correspondence Examinations- Key Points

- Respond to notices timely
- Ask for additional time to respond if needed
- Provide a complete and organized response
- Fax or mail documentation
- Work with IRS to resolve issues
- Reconsiderations





## Correspondence Examinations- Future Initiatives

- Taxpayer Digital Communication (TDC)
  - Resolve correspondence examination in a secure online environment
  - Pilot launched in December of 2016
  - Documentation for audit issues can be directly uploaded instead of mailed



## Practitioner Priority Service

- For expedited access to Correspondence Exam contact PPS:
  - Call 1-866-860-4259
  - At the voice prompt press or say “6”



# Successfully Dealing with Correspondence Audits & IRS Notices

Practitioner Tips & Suggestions  
by Barbara Doherty, Tax  
Attorney

## Practitioner Tips and Suggestions

- Disclose any actual or potential conflict of interest
- Weigh reliability of the underlying data
  - Taxpayer penalties
  - Potential preparer penalties.
- Consider if continued representation violates of legal and ethical considerations.
- Small business owners and rental property owners may not have enough data to withstand a large adjustment.
- After being engaged to represent the taxpayer complete Form 2848 Power of Attorney to include the year **before** the examination year and **up to 3 years ahead** of the current tax year.

## Practitioner Tips and Suggestions

- Initial Response.
  - Call, fax or mail as indicated in the examination letter.
    - Consider if an experienced tax attorney, or criminal tax attorney, should be referred.
    - All the information you be providing are essentially statements and admissions
    - If there are gross discrepancies to the tax return, engage a legal tax professional immediately.
- Correspondence audit is the standard. Selected IRS field campuses are utilized for centralized examination and standard.
- Only with exceptional circumstances, would a return selected for a correspondence exam be transferred to a local office for an in person examination.

## Practitioner Tips and Suggestions

- Taxpayer or representative should provide all requested information.
  - All materials should be printed, banded together with clear summary pages to indicate the detail therein.
  - Be very specific with what information is being provided and what income or deduction amounts you are requesting.
- Be prepared for several exchanges of information by fax or mail.
  - Not all the adjustments will be seen in an IRS response.
  - May have to request some adjustments a second or third time.
- Appeals cannot consider new information so a case will be returned to Exam for review of any new information.

## Practitioner Tips and Suggestions

- Prepare research ahead of time if you know an item of income or expense will be contested.
  - Include the law and research subtlety in your correspondence.
  - On appeal, you can provide your legal analysis developed in your earlier writings.
- Always replicate the original return data.
- Amend any return information to isolate the additional tax with the changes you want, and later with the agreed examination changes.
  - Calculate the expected tax before the IRS provides the revised changes so you will know **immediately** if the agreed changes were processed correctly.
  - Estimate penalty and interest with a few quick multipliers.
  - Do not forget there are opportunities for penalty abatement.

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  - Be very specific with what information is being provided and what income or deduction amounts you are requesting.
- Be prepared for an additional exchange of information by fax or mail.
  - Not all the adjustments requested may be seen in an IRS first response if there are many adjustments requested.
  - May have to request some adjustments a second or third time.
  - The more clear and simple your request is written and assembled, the better it may be interpreted by the IRS examiner.
- Appeals cannot consider new information so a case will be returned to Exam for review of any new information.

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## Internal Revenue Manual 25.1.2.3 (06-09-2015) Indicators (Badges) of Fraud

- Omissions of entire sources of income
- Substantial unexplained increases in net worth, especially over a period of years
- Substantial excess of personal expenditures over available resources
- Bank deposits from unexplained sources substantially exceeding reported income
- Concealment of bank accounts, brokerage accounts and other property
- Failure to deposit receipts to business account, contrary to normal practices
- Substantial overstatement of deductions
- Keeping two sets of books or no books
- False statement, especially if made under oath, about a material fact involved in the examination
- Patterns of consistent failure over several years to report income fully
- Use of secret bank accounts for income
- Deposits into bank accounts under nominee names

# Your Client got an IRS letter, now what? – Torie Charvez, EA

- Case Studies
  - Sample IRS Notices & Practitioner Responses

See separate file with materials.

Questions?

