

# **EMPLOYEE PLANS FY 2004 WORK PLAN**

## **Operating Priorities and Program Guidance**



**September 2003**

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# **FY 2004 Employee Plans Work Plan**

## **Executive Summary**

The work plan is designed to provide program guidance and direction to all EP employees. The structure of this year's plan differs from past years. Section I provides the **EP Operating Priorities** that are contained in the FY 04-05 Servicewide Strategy and Program Plan. The Operating Priorities support the "major strategies" to be pursued to address the key challenges TE/GE faces in achieving its goals. The major strategies are:

- Understand and improve compliance;
- Reduce burden by meeting customer needs; and,
- Be an efficient and effective steward of resources.

Section II provides the specific program priorities and goals/objectives for each of the 3 program areas: Customer Education & Outreach (CE&O), Rulings & Agreements and Examinations.

While the work plan provides guidance for FY 04, it is important that we look at our FY 03 results as a measure of where we stand organizationally. In the area of **Employee Satisfaction**, the results from Survey2003 indicate that EP and TE/GE continued to gain on overall results at a faster rate than the IRS, and have been gaining across all survey items since Survey2001. The EP management team thanks all employees who took the time to take the survey, as it is the best measure of gauging the effectiveness of our actions and identifying opportunities for improvement. While the survey results support our efforts to improve the quality of your electronic research capabilities and to enhance organizational communication, the verbatim comments reiterate the need to improve the systems that support our core operations of determinations and examinations. In reaction to those comments, there are 2 critical **automation initiatives** underway which will have a significant impact in improving our operations:

- **Redesign of the EP/EO Determination System (EDS)** – The new Tax Exempt Determination System (TEDS) will provide critical business capabilities required by TE/GE customers and improve overall system performance and reliability. The pilot for TEDS Release 1, processing Form 5307 applications, started during the 4<sup>th</sup> quarter of FY 03. TEDS Release 2 will extend TEDS capabilities to all applications for both EP and EO. Benefits of these releases include improved usability, timeliness and accuracy of determination cases, as well as simplified system access, integration and support.
- **TE/GE Reporting and Electronic Examination System (TREES)** – The TREES agent workcenter project will consolidate systems currently used by TE/GE agents and increase the accuracy, consistency and efficiency

of the examination process. While the initial rollout of Release I will not occur before the 1<sup>st</sup> quarter of FY 05, EP resources will be invested in this initiative throughout FY 04.

Stay tuned for more information on both of these initiatives.

The **Customer Satisfaction** ratings for both determinations and examinations remain quite favorable despite slippage in the determination ratings due to the inventory build-up created by the GUST amendment workload. This was particularly evident in the determination respondent's ratings of the "length of process", which decreased from a rating of 5.43 (out of a possible score of 7) to 5.10. The results from the latest survey reports (August 2003), for the period ending March 2003, are as follows:

- ❑ **Determinations – 5.81 overall score**
  - **69% of the customers rated their overall satisfaction at 6/7 (satisfied)**
  - **5% indicated they were dissatisfied (a rating of a 1,2 or 3)**
- ❑ **Examinations – also a 5.77 overall score**
  - **69% were satisfied with service received**
  - **8% were dissatisfied**

In the **Business Results** area, considerable improvement has been accomplished in reducing the **determination inventory**. We started FY 03 with over 39,000 cases in inventory, as a result of receiving more than 72,000 determination requests in FY 02. As of the end of August, the inventory had been reduced to 23,000 cases. It is expected that we will be able to shift significant resources back to examination activities by the 2<sup>nd</sup> quarter of the year, as we complete "in process inventory".

As of September 21, 2003, 95 employees were permanently reassigned from Examinations to Determination. This marks the completion of our effort to establish dedicated EP determination groups. Expected benefits include: improved customer service by increasing consistency; increased employee satisfaction; and, improved business results through linking line authority to the work product.

The EP Compliance Resolution System (EPCRS) continues to be the centerpiece of our efforts to encourage **Voluntary Compliance** by plan sponsors and practitioners. Rev. Proc. 2003-44 and the Retirement Plan Correction Programs CD-ROM (Publication 4050) were issued in FY 03 and provide guidance on the various components of EPCRS.

The primary focus in the **Examination** area during FY 04 will be devoted to validating the Compliance Risk Assessment. The EP customer population has been divided into the 19 major business segments listed in the instructions to the

Form 5500. Once validated, the Risk Assessment will identify those market segments most likely to have compliance problems. The overall goal of the Risk Assessment is to improve the use of internal resources, conduct more productive examinations, increase employee satisfaction by assigning better quality cases, and improve customer satisfaction by minimizing the examination of those entities that are compliant.

The work plan is designed to be a point of reference for all the activities that will be going on in EP throughout the year. While there are parts of the work plan that don't directly affect the day to day activities of each employee, it is important that all employees are aware of the program initiatives and operating priorities that are being implemented throughout the organization. The work plan can be found on the EP intranet website under the "Library - Resources by Offices" section. Then you will need to click on "Director, Employee Plans", and then "Memorandums & Messages". The work plan is also available under "EP Managers Resources".

## Section I. FY 2004 EP Operating Priorities

Employee Plans shares the IRS's three strategic goals of: top-quality service to each taxpayer; top-quality service to all taxpayers; and productivity through a quality work environment. To address the key challenges EP faces in achieving its organizational goals, ongoing efforts will be directed to:

- Understanding and improving compliance and
- Reducing burden by meeting customer needs

Efforts to achieve these goals will focus on the following 6 Operating Priorities:

- Increase Retirement Plan Information and Services for Small Business Customers
- Stabilize Determination Receipts Flow
- Refine Compliance Risk Assessment with Data from Examinations
- Develop Education and Examination Strategies to Identify and Counter Abusive Tax Avoidance Transactions
- Collaborate with DOL to Prevent Abusive Retirement Transactions
- Collaborate with DOL to Identify Form 5500 Non-Filers

### □ **Increase Retirement Plan Information and Services for Small Business Customers**

#### ▪ **Background**

Beginning in FY 02, CE&O implemented the "Retirement Plan Life Cycle" campaign primarily to assist small businesses understand the benefits and responsibilities of retirement plans. This campaign has the purpose of engaging a greater portion of small business employers to:

- Invest now using a retirement plan for future financial security,
- Adopt the right retirement plan for their business and employees, and
- Understand their responsibilities as plan sponsors.

The overall goal of the educational campaign is to encourage employers to maintain retirement plans by providing information about the various stages in the life of a retirement plan and focuses on the following four stages:

- *Choosing*
- *Establishing*
- *Operating*
- *Terminating*

#### ▪ **Lead EP Office** CE&O

- **EP Office(s) With "Shared" Interest**

Rulings & Agreements and Examinations support this operating priority through the development of outreach products, content for the Retirement Plans web page (IRS.gov) and direct contact with customers at Customer Educational Events.

- **Other Non-EP Offices**

CE&O is partnering with the Department of Labor (DOL) and the IRS Small Business/Self-Employed (SB/SE) Operating Division in the development of educational information to assist small businesses.

- **Prior Strategies/Accomplishments**

Under the Choosing stage of the life cycle, Publication 3998, *Choosing A Retirement Solution for Your Small Business* was issued in July 2002. The IRS and DOL jointly developed this publication in conjunction with the Small Business Administration and U.S. Chamber of Commerce. In February 2003, applicable "Choosing stage content" was released with the Small Business Resource Guide CD-ROM. In addition, it contained a link to an on-line version of the guide on the Retirement Plans web page (IRS.gov).

The following products were developed in FY 03:

<b>Product</b>	<b>Date(s)</b>
Establishing and Operating stages information on IRA-Based Plans (SEP, SIMPLE, Payroll Deduction IRA) & overall Retirement Plans Life Cycle information on Retirement Plans web page (IRS.gov)	July 2003
<i>Retirement Plan Correction Programs</i> CD-ROM (information on IRS, DOL and PBGC retirement plan correction programs) plus on-line web version	August 2003
<i>Retirement Plan Correction Programs</i> Publication (information on IRS, DOL and PBGC retirement plan correction programs)	August 2003
<i>Lots of Benefits</i> Publication	September 2003
<i>401(k) Plans for Small Businesses</i> Publication	September 2003

Note: Employees can obtain copies of all EP outreach products & publications from an EP CE&O Area Analyst. "Contact Us" information for applicable area analysts can be found on the EP CE&O INTRANET web page. The public can view and/or order their copies by visiting [www.irs.gov/ep](http://www.irs.gov/ep).

- **FY 2004 Strategies**

Each year, EP premieres newly developed products at the IRS Nationwide Tax Forums (July – September). This information will also be provided to

customers at EP national and local customer educational events and will be distributed via various outreach vehicles.

CE&O will continue to develop further content on IRA-Based Plans and IRC 401(k) Plans relating to the “Establishing” and “Operating” stages. In partnership with DOL, CE & O will develop two new joint publications (SEP and SIMPLE-IRA) with availability in FY 04. This information will be added to the Retirement Plans web page (IRS.gov) and other outreach products (such as the Small Business Resource Guide 2004 CD-ROM).

Through customer partnerships and “informational contact letters”, awareness information will be provided to SEP, SIMPLE-IRA, and SARSEP plan sponsors. A checklist will be developed to assist plan sponsors in operating their plans in accordance with applicable requirements. Rulings & Agreements and Examinations will work with CE&O in this effort.

□ **Stabilize Determination Receipts Flow**

▪ **Background**

Determination letters provide plan sponsors with reliance that their employee retirement plan meets the qualification requirements under the tax code. Frequent changes in pension law have resulted in significant “spikes” of application receipts as plan sponsors meet deadlines for updating plan language. These “spikes” result in inventory backlogs and the need to shift resources between the Examination and Determination functions. The current determination letter process results in delays in the issuance of determination letters during periods of high receipts, increased training costs, and a reduced level of resources available for examinations and other programs.

▪ **Lead EP Office**

Rulings & Agreements

▪ **EP Offices with “Shared” Interest**

CE&O

Examinations

▪ **Prior Strategies/Accomplishments**

On August 8, 2001, a “White Paper” was published (Announcement 2001-83) to solicit stakeholder comments on long-term alternatives to address the significant variation in application receipts caused by legislative changes. Based on comments received, the alternatives were narrowed to two final possibilities. Specifically, these options are maintaining the status quo and implementing a staggered remedial amendment period. A second “White Paper” was issued (Announcement 2003-32) describing the two alternatives in detail and requesting feedback.



- **FY 2004 Strategies**

The comments received regarding the second "White Paper" were due by September 2, 2003. They will be evaluated in FY 04 to determine a final course of action that will result in a more effective balance of EP resources, thereby improving service to each and all of our customers. R&A will work with Counsel and Treasury to implement any changes by the end of FY 04. Minimizing the shift of resources between determination and examination work remains the ultimate goal.

- **Refine Compliance Risk Assessment**

- **Background**

During FY 01, each of the operating divisions of the IRS was directed to create a Risk Assessment approach to analyzing their customer population. EP decided to divide its customer population into the nineteen major business segments that are listed in the instructions for the Form 5500. Each business segment was broken down into market segments based on ten plan types. Using RICS to analyze exam data over the past ten years, *Risk Assessment* (an estimate of the consequences if we do not perform examinations in a segment) and *Risk Reliability* ratings (a measure of how much we know) were assigned to each market segment.

- Current examinations are validating the compliance levels of each market segment. Ultimate risk assessment will serve as a means to focus our compliance and outreach activities on less compliant segments. The Risk Assessment data allows us to identify those segments we know a lot about (High Reliability), and those we do not know too much about (Low Reliability). The overall goal of the *Risk Assessment* process is to improve the use of resources, conduct more productive examinations, increase employee satisfaction by assigning better quality cases, and improve customer satisfaction by minimizing the examination of those entities that are compliant.

- **Lead EP Office**

Examination Planning & Programs (EP&P)

- **EP Office(s) With "Shared" Interest**

Area Offices  
CE&O

- **Other Non-EP Offices**

TE/GE Office of Research & Analysis  
Department of Labor

▪ **Prior Strategies/Accomplishments**

The Risk Assessment is designed to identify those market segments most likely to have compliance problems. There have been over 10,000 examinations assigned under this program since the rollout in early FY 02. This involves 50 (23%) of the 220 segments in the design. Four are statistically valid samples and 46 are being populated with returns as needed. Over 3,800 returns have been closed through August 2003.

Each month, EP&P analyzes current exam data and works with Classification to ensure that returns from selected segments are being provided to Area Offices for examination. To date closed case reviews have been completed on 4 groups of Profit Sharing cases:

- Insurance/Financial Institutions Industry
- Professional/Scientific Organizations
- Construction Industry
- Health & Social Services Employers

The results from examinations provide feedback to management and the Area Offices on the quality of the data received. This will include a detailed analysis of the CECA data, and the actual case statistics. We plan on using the CECA data to provide leads on the specific issues being found for use in a “limited scope” program in FY 04.

▪ **FY 2004 Strategies**

The overall goal of the *Risk Assessment* process is to improve the use of resources, conduct more productive examinations, increase employee satisfaction by assigning better quality cases, and improve customer satisfaction by minimizing the examination of those entities that are compliant.

- During FY 04, we plan to close and analyze at least 7 additional segments. We expect to know the compliance levels of at least 21 market segments by the end of FY 05.

**Segments Projected to Close**

FY 2004		FY 2005	
Plan Type	Industry	Plan Type	Industry
Money Purchase	Construction	Defined Benefit	Construction
Profit Sharing	Manufacturing	Profit Sharing	Wholesale
Money Purchase	Manufacturing	410(k)	Wholesale
401(k)	Manufacturing	Defined Benefit	Retail
Money Purchase	Professional, Scientific & Technical	Money Purchase	Retail
Defined Benefit	Health Care & Social Assistance	Defined Benefit	Information

Money Purchase	Health Care & Social Assistance	Money Purchase	Finance & Insurance
		401(k)	Finance & Insurance
		Defined Benefit	Real Estate & Leasing
		Profit Sharing	Accommodations & Food Services

- In FY 04, examinations will be assigned in at least 9 new market segments. The segments anticipated to be assigned in FY 04 and FY 05 are as follows:

### Segments Projected to Open

FY 2004		FY 2005	
Plan Type	Industry	Plan Type	Industry
Defined Benefit	Mining	Other DCP	Information
ESOP's	Construction	Stock Bonus	Wholesale
Combination	Professional, Scientific & Technical	401(k)	Retail
Combination	Wholesale	401(k)	Construction
Combination	Health Care & Social Assistance	Defined Benefit	Management of Companies
Profit Sharing	Utilities	Target Benefit	Construction
Money Purchase	Mining	ESOP's	Management of Companies
401(k)	Professional, Scientific & Technical	Stock Bonus	Finance & Insurance
401(k)	Health Care & Social Assistance	Combination	Construction
		403(b)	Finance & Insurance
		Defined Benefit	Finance & Insurance
		401(k)	Management of Companies

- After a sufficient number of exams have been completed in a given market segment, an analysis of the examination results will be made to determine the segment's compliance level. For those market segments found to be non-compliant, appropriate follow-up programs (i.e. education, outreach, focused exams, etc.) will be identified. These findings will be shared throughout the organization.

- Ongoing data analysis of closed market segments will be used to further refine and update the Risk Assessment design and long-term plan. As market segments are closed, the findings will be shared with CE&O for posting on the Retirement Plans web page (IRS.gov).
  - FY 04 selections and beyond will be made based on our long-term plan. This will include selecting examinations in market segments not yet validated, continuing examinations in segments where we have not yet completed sufficient examinations, and doing follow-up examinations in segments found to be noncompliant. We are also developing a Limited Issue examination program to be piloted in select High Risk - High Reliability segments. These examination cases will be reviewed before they are assigned, and limited pre-selected issues will be chosen to be addressed in the examination.
- **Develop Education and Examination Strategies to Identify and Counter Abusive Tax Avoidance Transactions**
- **Background**  
Abusive tax avoidance transactions involving employee plans appear to be growing in number. Transactions have been identified that take advantage of the tax exempt status of retirement plans to facilitate abusive tax transactions. Two examples of these include accelerated deductions for IRC 401(k) plans and S-Corporation ESOPS that violate IRC 409(p). Left unchallenged, transactions such as these undermine confidence in our voluntary tax system.
  - **Lead EP Office**  
Director, Employee Plans
  - **EP Office(s) With "Shared" Interest**  
CE&O  
Rulings & Agreements  
Examinations
  - **Other Non-EP Offices**  
SB/SE Lead Development Center for Tax Avoidance Transactions;  
TE/GE Tax Shelter Group; and,  
LMSB
  - **Prior Strategies/Accomplishments**  
We previously had no organized structure for combating tax avoidance transactions in prior years. Internal procedures have not existed for front-line employees to make referrals of potential avoidance transactions.

- **FY 2004 Strategies**

- A centralized point of contact will be created to permit both internal and external sources to make referrals of potentially abusive tax transactions or emerging issues.
- A committee representing Examinations, R&A, Technical, and the EP Technical Advisor will review the referrals to ensure that all functions within EP are aware of these issues.
- The committee will make preliminary recommendations addressing compliance concerns as follows:
  - ✓ Recommending that guidance be issued, internally or externally;
  - ✓ Recommending the type of compliance initiative to be used; and,
  - ✓ Forwarding the issue to the TE/GE Tax Shelter Group for consideration as a listed transaction.
- CE&O will:
  - ✓ Coordinate within EP to develop various outreach initiatives.
  - ✓ Create an Abusive Shelter Information Package on the Retirement Plans web page (irs.gov) and the EP Intranet site.
- Examinations or Determinations (as appropriate) will:
  - ✓ Develop a training module to provide an awareness of abusive issues;
  - ✓ Coordinate the training of EP specialists to improve their ability to recognize and address tax avoidance transactions; and,
  - ✓ Coordinate examination initiatives within TE/GE in an effort to improve compliance.
- Although efforts will be focused on upfront education to alert taxpayers of these transactions, examinations and determinations will also be used to identify promoters. EP will work with SBSE and LMSB in this effort.
- Develop and refine internal procedures to allow front-line employees to make referrals of potential tax avoidance transactions

- **Collaborate with DOL to Prevent Abusive Retirement Transactions**

- **Background**

As previously discussed, abusive tax transactions involving various types of tax-exempt and government entities are being identified. DOL is also in a position to identify these types of transactions through their examination program.

- **Lead EP Office**

Examinations

- **EP Office(s) With "Shared" Interest**

R&A

- **Other Non-EP Offices**

DOL

- **Prior Strategies/Accomplishments**  
There has been no organized structure for coordinating with DOL to identify and examine tax abusive transactions. Meetings with DOL have been held to discuss creation of procedures to allow the DOL and IRS to share information and conduct joint examinations.
- **FY 2004 Strategies**
  - Examination Planning & Programs (EP&P) will coordinate with the DOL to share information on these transactions
  - Develop strategies for identification of any entities that need to be flagged for follow-up action.

□ **Collaborate with DOL to Identify Form 5500 Non-filers**

- **Background**  
In FY 03, the IRS entered into a joint initiative with DOL to identify potential Form 5500 non-filers, and to ensure that all employee benefit plans have complied with their annual return/report filing obligations.
- **Lead EP Office**  
Examinations
- **EP Office(s) With "Shared" Interest**  
CE&O  
Rulings and Agreements
- **Other Non-EP Offices**  
DOL
- **Prior Strategies/Accomplishments**  
During FY 03, EP&P collaborated with DOL to identify potential non-filers through the comparison of information from various databases. These databases included determination letter requests, 1120 deductions, and prior year filings. EP&P contacted valid samples of potential non-filers based on the comparison of the above databases with records of Form 5500 filings.

Based on our data collected, the non-filer problem appears not to be that widespread. However, several database inaccuracies have been identified.

Large populations of employee benefit plans do not have a filing requirement (most notably church and government plans). Although the EPMF database allows for a filing requirement indicator, this information is often found to be inaccurate or unreliable. In addition, numerous taxpayers appear to have filed their Form 5500s using incorrect EINs. Without consistent, correct EINs, we cannot accurately match up filing requirements with actual filings.

- **FY 2004 Strategies**

EP&P will continue collaboration with the DOL in FY 04 to identify potential non-filers. Additional sources of potential non-filers will be explored including, but not limited to, master and prototype adopters and W-2 and 1099 information. Identified system problems will be addressed in conjunction with DOL.

Mail-outs on valid samples of potential non-filers will continue with expanded contacts in those samples where a significant number of non-filers are identified.

In collaboration with CE&O and R&A, significant findings from this project will be shared with the pension community in an effort to educate them about Form 5500 filing requirements.

## Section II. Program Guidance

### ***Customer Education & Outreach Program Guidance***

#### **OVERVIEW**

Customer Education & Outreach (CE&O) assists EP's external customers (*plan practitioners, plan sponsors, plan participants and plan vendors*) understand their tax responsibilities by achieving the following two objectives:

- Develop a tailored customer education program focused on TE/GE's strategic/program priorities and identified customer's demand/need for educational services.
- Through customer partnerships, evaluate non-compliance trends and feedback to design/maintain proactive electronic outreach products, forms/publications, *Employee Plans News* (electronic newsletter), and Retirement Plans web page (IRS.gov) for use by customers.

Activities relating to CE&O include both direct and indirect contacts with external customers.

- **Direct** contact with customers through IRS delivery at EP Benefit Conferences, speeches/workshops/ panels and exhibiting.
- **Indirect** contact with customers through newsletters, publications (includes educational videos and interactive CD-ROMs), websites and customer partnerships.

CE&O will support the programs of Examinations and Rulings & Agreements by providing products and services that communicate to external customers educational information on these programs.

Beginning in FY 02, CE&O implemented the “**Retirement Plan Life Cycle**” **Campaign** to help customers understand the benefits and responsibilities of retirement plans. This campaign has the purpose of engaging a greater portion of America's employers (**with the primary focus on small businesses**) to:

- Invest now using a retirement plan for future financial security;
- Adopt the right retirement plan, their business and their employees; and,
- Understand their role as plan sponsors.

The educational campaign is designed to encourage employers to maintain retirement plans by providing information about the various stages in the life of a retirement plan and focuses on the following four stages:



- *Choosing*
- *Establishing*
- *Operating*
- *Terminating*

## **PERFORMANCE INDICATORS**

The following performance indicators will be used in FY 04 for assessing the effectiveness of CE&O programs and activities:

<b>Employee Plans</b>	<b>FY 2003 Actual – Aug</b>	<b>FY 2004 Goal</b>
Number of Outreach Efforts	332	280
Customers Reached	94,182	83,480

The goals were reduced from FY 03 due to a decrease in both FY 04 planned staff days for customer educational events and support dollars (for program travel and exhibiting costs). Customers Reached includes both direct contacts through customer educational events and indirect contacts through customer partnership meetings. Beginning in FY 04, electronic subscriptions to the *Employee Plan News* will be considered in the “Customers Reached” indicator.

37 FTEs are planned for CE&O activities in FY 04.

## **Goals and Objectives**

### **Customer Satisfaction**

#### ➤ **Customer Education Program (Direct Contact)**

Priorities for the Customer Education Program are to:

- Partner with **DOL** and **SB/SE Division** to educate small business customers;
- Work with **IRC 403(b)/457** Compliance Planning Group to increase education to IRC 403(b) and IRC 457 customers;
- Work with **IRC 401(k)** Compliance Planning Group to focus on IRC 401(k) customer education;
- Work with **Voluntary Compliance** to encourage plan sponsors to conduct self audits and correct any defects;
- Support **2004 IRS Nationwide Tax Forums**;
- Maintain **EP Speaker’s Resource Library** (IRS INTRANET) and continue to encourage use by employees of the library’s content in their delivery of customer education;

- Distribute monthly “Employee Plans CE&O Talking Points” to all EP employees for their use at Customer Educational Events or during one-on-one meetings with customers as part of their normal duties;
- Support EP and TE/GE cross-functional **exhibiting** using various exhibit display booth units. The key message for EP exhibiting is “Partnering to Protect Retirement Benefits”; and
- Co-sponsor **EP Benefits Conferences** in accordance with established “Best Practices”. These conferences include the following:

Spring EP Benefits Conference Season:

- Great Lakes Benefits Conference
- Mid-Atlantic Benefits Conference
- Northeast Benefits Conference
- Cincinnati Employee Benefits Conference

Fall/Winter EP Benefits Conference Season:

- Mountain States Benefits Conference
- SWBA/IRS Employee Benefits Conference
- Los Angeles Benefits Conference

## ➤ **Outreach (Indirect Contact)**

CE&O will coordinate outreach activities to foster customer partnerships, increase customer education and leverage existing resources to develop and deliver outreach products. Outreach products include *Employee Plans News*, educational videos, educational CD-ROMs, and publications. The available products will be offered to customers through various outreach options (for example, IRS Retirement Plans web page (IRS.gov) or customer partnerships).

- **Employee Plans News** – 4 editions (Fall, Winter, Spring and Summer), plus periodic special editions, will be issued. EP will explore the development of a version of the *Employee Plans News* tailored for the informational needs of plan sponsors.
- **Forms/Publications** – Existing forms/publications will be maintained. Efforts will be undertaken to assess external customers’ needs on any necessary changes to existing forms/publications. As part of the “Retirement Plan Life Cycle” Campaign, two new IRA-Based Plans publications (SEP and SIMPLE-IRA) will be developed (in partnership with DOL) in FY 04. Two additional publications (SARSEP and Payroll Deduction IRA) are also planned. These new publications will relate to the Establishing and Operating stages.
- **Intranet/Internet** – In coordination with other IRS’ offices, CE&O Area Analysts will timely develop and post information to the Retirement Plans

web page (IRS.gov) and IRS INTRANET websites. CE&O will continue to market educational information available on the Retirement Plans web page (IRS.gov). In FY 04, efforts will continue to develop content for the Retirement Plan Life Cycle, IRA-Based Plans, Retirement Plan Correction Programs, IRC 403(b)/457 Plans plus the development of on-line resource guides on IRC 401(k) Plans and the EP Examinations Audit Process.

- **Customer Partnerships** - CE&O will continue to develop partnerships with government agencies, practitioner/stakeholders groups and advisory councils of practitioners. CE&O will also coordinate national customer partnerships and work with Determinations and the Area Offices on customer partnership efforts within their established Practitioner/Liaison/Council groups.

Through customer partnerships and “informational contact letters”, awareness information will be provided to SEP, SIMPLE-IRA, and SARSEP plan sponsors. A checklist will be developed to assist these plan sponsors in operating their plans. Rulings & Agreements and Examinations will work with CE&O in this effort.

- **Products (Electronic) Development** - Further marketing will occur on the Retirement Plan Correction Programs CD-ROM. In FY 04, efforts will focus on developing content for the following SB/SE products:
  - ✓ Small Business Resource Guide 2004 CD-ROM
  - ✓ A Virtual Small Business Workshop CD-ROM.

# ***Rulings & Agreements Program Guidance***

## **OVERVIEW**

Rulings & Agreements will focus on assuring plan sponsors' compliance by offering up-front programs to achieve the following objectives:

- Issuing timely and accurate determination letters to applicants,
- Providing easily accessible, consistent and equitable voluntary compliance programs,
- Issuing timely and accurate opinion letters and private letter & actuarial rulings, and
- Publishing technical and procedural guidance for both our internal and external stakeholders.

## **DETERMINATION PROGRAM**

As of September 21, 2003, dedicated Determinations groups were established in El Monte, Brooklyn, Baltimore, Atlanta and Chicago. The new management team will meet during the first quarter to develop strategies and goals for the new organizational structure. They will decide how best to transition and train employees new to this function. The team will also set the framework for implementing the primary goals of this initiative: consistency and timeliness of determination review.

FY 04 will see the end of the high volume of GUST receipts. New receipts for this year are expected to total about 42,000. Form 5307 applications should comprise 26,000 of the total receipts as we deal with the final pre-approved plan adoptions under GUST. Determination groups will concentrate on completing these submissions.

**Area Office employees, who have been assisting with the review of the determination applications, will continue to work through their “in-process” inventory until the cases are completed.** The assignment of “new” applications to Area Office employees will be discontinued as soon as this is feasible. The time frame will be determined based on the volume of cases in inventory and the grade level of the receipts.

Determinations will continue to fully support the TE/GE Determination System (TEDS) initiative. The pilot test of Form 5307 processing started during the last

quarter of FY 03. TEDS is anticipated to include all EP applications during FY 04.

### **Technical Screening**

With the establishment of dedicated determination workgroups, the technical screening function will be the sole responsibility of the determinations technical screening centers. The centers will remain operational, but will see a decreased workload due to declining receipts. Specialists who have been primarily screening will receive a mix of determination cases and screening work. This shift will allow employees to enhance their technical abilities and knowledge.

### **Training**

Area Office employees re-assigned to Determinations with either limited or no prior experience in this work will receive significant training in the first quarter of FY 04. Seasoned determination specialists will also provide on-the-job instruction.

Determinations will continue to offer Phase II & III classes originally piloted in FY 03 to agents and specialists as needed.

Since CPE will be affected by travel restrictions during FY 04, Determinations management will implement alternate, cost-effective methods to deliver training in all dedicated groups. These methods will incorporate innovative media, such as Centra, to deliver the products.

### **Quality Assurance**

The Determinations Quality Assurance Staff (QAS) will continue to analyze data collected under TEQMS to discover opportunities for improvement. Specifically, QAS will work with Determinations in an ongoing effort to improve the accuracy and quality of determination letters. The following standards are targeted for improvement:

- Issuing Correct Determination Letters
- Properly Determining the Qualified Status of Plans

Actions to improve these include extending the 100% peer review of merit closure letters from Cincinnati to the remainder of the realigned groups, managerial review of regular determination letters and direct involvement of reviewers with all individual groups.

In addition to TEQMS reports, QAS will continue to issue:

- Quality Assurance Bulletins on topics of interest
- Recurring Issue Reports with language comparisons
- Alert Memoranda

QAS is considering initiating "Reviewer Visitations" to Determinations groups in lieu of the "Roadshow" presentations since Area Office agents will be phasing out of determination work. QAS reviewers would spend a week with each of the twelve Determinations groups to provide direct feedback and guidance.

The Technical Clearinghouse will be operational for the first part of FY 04 and will be scaled back as Area Office agents return to examination work. Consideration is being given to adding an "Ask the Reviewer" button to the website if resources are sufficient to answer these inquiries in a timely manner.

### **Planning Assumptions**

The following assumptions were used in planning the time applied to the Determination Letter program in FY 04:

- An estimated 42,000 determination receipts are expected.
- Approximately 10,000 of these are expected as a result of the application deadline extension for adopters of pre-approved plans to January 31, 2004.
- Determinations will assume full responsibility for the technical screening function at the beginning of FY 04.
- Examinations will continue to provide resources to the determination program to process their "in-process" inventory. The assignment of "new" determination cases to Examination personnel will be discontinued as soon as possible during the year.

### **Goals and Objectives**

#### **Business Results (Quality)**

Timeliness (cycle time) - The computation of cycle time is based on a 12 month "rolling average". **While various cycle time/timeliness objectives have been established, it should be emphasized that cases should not be closed prematurely simply to adhere to a cycle time objective.**

- *Merit Closures* - the objective is 75 days from the control date to the closing of the application (EDS table 6b.1).
- *Cases worked at the group level (status 75 or 52 to closing)* - this includes all non-merit closures (disposal codes 00, 01, 02), excluding those applications that were transferred to other Area Offices (EDS table 9.1). The national objective is 140 days.
- *All Cases* - the national objective for all cases closed (merit closures and status 75 or 52 to closing - cases worked at the group level) with a determination letter issued is 165 days (EDS table 8e.1).

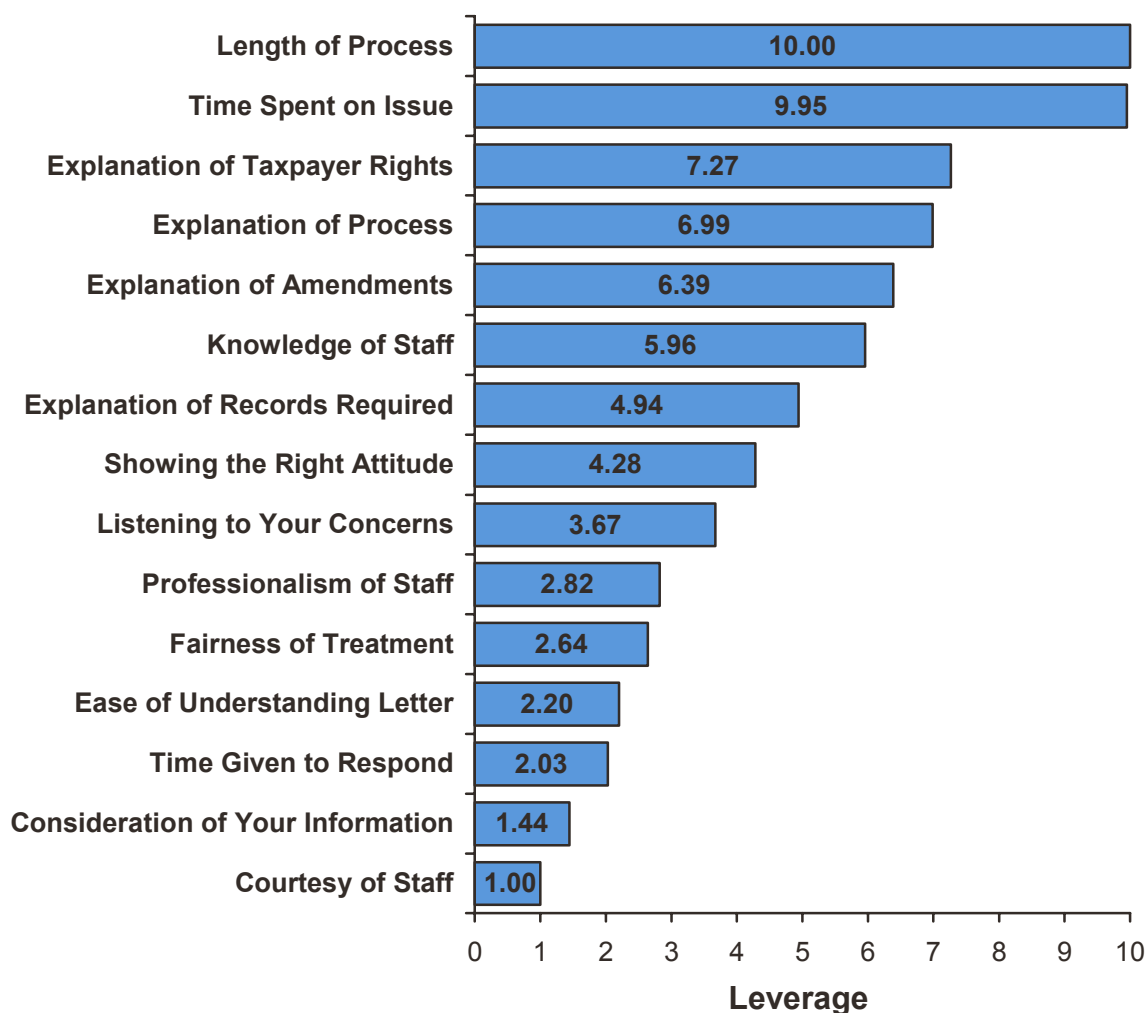
#### **Business Results (Quantity)**

Determination cases closed will be used as the performance indicator. The primary focus will be to finish the build-up of cases from the GUST remedial amendment period. The national objective is 50,000 cases.

### **Customer Satisfaction**

The August 2003 Customer Satisfaction ratings for determinations (cases closed from October 2002 – March 2003) continue to be quite favorable. 69% of the respondents indicated they were satisfied with service provided, while only 5% were dissatisfied. The balance of the respondents were “neutral” in the rating the quality of service provided. The results also provide information on “improvement priorities” for Determinations as shown by the following chart. The higher scores are those areas where the customer is less satisfied and/or the item is very important.

### **Improvement Priorities for Determination Customers**



The GUST inventory backlogs have contributed to the identification of the “*length of process*” as the prime improvement opportunity. As the inventory decreases,

customer concerns should diminish. However, due to the significant number of "aged" GUST cases closed from April - September 2003 and to be worked in FY 04, near term improvement will be difficult to achieve.

The Customer concerns about "*time spent on issue*" are also being addressed. As previously discussed, QAS will work with EP Determinations to discuss the potential implementation of a peer review system for determination letters. In addition, Determinations continues to offer a power-of-attorney numbering system for interested practitioners. This system will promote consistent specialist requests for plan language changes, thus decreasing the time practitioners must spend addressing these requests.

### **Performance Indicators**

<b>Performance Measure</b>	<b>FY2003 Actual – as of 08/03</b>	<b>FY2004 Goal</b>
Timeliness (merit closures)	111	75
Timeliness (cases worked at group level)	163	140
Timeliness (all cases)	175	165
Customer Satisfaction <sup>1</sup>		
✓ Satisfied Customers (rating of a 6 or 7)	69%	70%
✓ Dissatisfied Customers (rating of a 1, 2 or 3)	5%	7%
Determination Quality (as of June 2003)	79%	83%
Determination Cases Closed	75,009	50,000

<sup>1</sup> The FY 2003 column is based on the August 2003 report that covers the six-month period ending March 2003.

### **THE VOLUNTARY CORRECTION PROGRAM (UNDER EPCRS)**

The Employee Plans Compliance Resolution System (EPCRS) provides a comprehensive system of correction programs that permit plan sponsors to correct failures in qualified plans, tax sheltered annuities and Simplified Employee Pension Plans, thereby enabling them to provide plan participants with retirement benefits on a tax-favored basis. EPCRS has three components:

- Self-Correction Program (SCP),
- Voluntary Correction Program (VCP) and,
- Audit Closing Agreement Program (Audit CAP).

EPCRS is described in detail in Rev. Proc. 2003-44, 2003-25 IRB 1051, which can be found on the IRS Retirement Plans web page (IRS.gov). Audit CAP and SCP are applied on cases under examination. The Voluntary Correction Program is administered in the Voluntary Compliance ("VC") component of Rulings and Agreements.



During FY 04, VC will focus on providing more efficient and timely processing of the cases in inventory and will assist Examinations with respect to the consistent application of EPCRS cases. In support of these goals, VC will:

- Leverage resources, including EP Technical, to assist in reducing open case inventory,
- Provide correction guidance on the Intranet page, and
- Update the EPCRS revenue procedure to provide for new refinements and improvements to the correction programs. Changes to the revenue procedure will continue to focus on simplification.

The VC Council, established as a link between VC and other parts of the organization, will continue to meet on a quarterly basis. The Council is responsible for high-level guidance to assure cross-program consistency throughout all of EP.

The ERIM database is now available as the inventory control system for all VC cases. As a final step, the ERIM database will be merged into TREES. This enhancement to ERIM will enable EP employees nationwide to research issues and correction methods used under EPCRS.

VC will market the correction program's CD-ROM (Publication 4050). The CD contains several tools for navigating through the many available features of EPCRS such as: frequently asked questions about available programs, links to useful IRS forms and publications, and information about the DOL and the PBGC voluntary correction programs.

VC will continue to enhance the "Correction" page on IRS.gov to help educate customers about the responsibilities of plan sponsorship, proper maintenance of plans and correction of plan failures through EP's correction programs.

### **Performance Indicators**

The number of voluntary compliance cases closed will be used as an indicator of performance.

<b>Performance Measure</b>	<b>FY2003 8/03 Actual</b>	<b>FY2004 Goal</b>
Voluntary Compliance Cases Closed	807	1,000

### **OPINION LETTERS/RULINGS**

The Technical and Actuarial groups are responsible for:

- Issuing opinion letters on Master & Prototype plans and IRAs;
- Issuing private letter rulings;

- Issuing responses to requests for funding waivers;
- Issuing general information letters;
- Assisting agents in all areas by issuing technical advice on determination/examination cases;
- Providing technical quality assurance;
- Providing support for CE&O regarding questions and items for the EP website; and,
- Providing assistance to CAS with R-mail inquiries.

Technical also provides actuarial support. Each Area Office has access to at least one actuary to provide technical guidance on complex examination and determination issues.

Specific areas of focus in FY 04 are:

- IRA Program – Complete the processing of opinion letter requests of sponsors of IRAs, SEPs, and SIMPLE SEPs submitted under Rev. Proc. 2002-10. The Rev. Proc. required all prototype IRAs, SEPs, and SIMPLE SEPs to be amended to incorporate EGTRRA changes and the final required minimum distribution rules. Applications under the Revenue Procedure were submitted no later than December 31, 2002.
- Private Letter Rulings and Technical Advice – Resources that had been directed to IRAs, SEPs, and SIMPLE SEPS will be redirected to working private letter rulings. In particular there is a number of requests for a waiver of the 60-day rollover period. We anticipate some increased work on technical advice cases, including the cash balance conversions.

## **Performance Indicators**

<b>Performance Measure</b>	<b>FY2003 8/03 Actual</b>	<b>FY2004 Goal</b>
Technical Activities Closed	5,653	4,800

Projected FY 04 disposals are lower than FY 03 due to a change in workload mix from IRA applications to private letter rulings and technical advice cases.

As of August 31, 2003, 61 requests for funding waivers had been submitted. In FY 04, this figure should see a significant increase and exceed 100 requests.

Technical will continue to provide assistance to Voluntary Compliance. During FY 03, approximately 200 cases were worked for VC. During FY 04, an additional 200 cases will be worked in support of the VC function.

## **TECHNICAL AND PROCEDURAL GUIDANCE**

Technical guidance is an integral part of an agent's/tax law specialist's tools for applying pension law and keeping abreast of its frequent changes. The interpretation of law and development of the IRS procedures as they apply to the Determinations and Examinations programs is the optimal way to assure consistency. The availability of timely guidance not only promotes efficiency, but it facilitates professionalism that enhances both employee satisfaction as well as customer satisfaction.

The objective of published guidance is to assist in procedural matters and to provide timely and current technical guidance consistent with the annual Guidance Plan that is established in conjunction with the Office of Chief Counsel of the IRS and the Office of Tax Policy of the Department of the Treasury. While a specific instance of published guidance generally is directed at one or more specific issues found in the Determinations or Examinations program, other functions of the Service, such as the Office of the Associate Chief Counsel (Financial Institutions and Products) that have jurisdiction over different aspects of tax law that impact on pension law also develop and/or implement published guidance. In addition to publishing routine and as needed procedural guidance, it is anticipated that during FY 2004 final Income Tax Regulations will be issued under:

- Section 401(a)(9) on required minimum distributions,
- Section 408(q) on deemed IRAs and
- Section 411(d)(6) on the elimination of certain benefits,

In addition, it is anticipated that technical guidance in the form of revenue rulings and notices will be issued with respect section 401(a) distribution rules for rollover contributions, section 411(a) issues, and section 416(g)(4)(H) regarding safe harbor 401(k) plans.

### **Performance Indicators**

<b>Performance Measure</b>	<b>FY2003 8/03 Actual</b>	<b>FY2004 Goal</b>
Guidance Documents Published	56	50

# ***Examination Program Guidance***

## **OVERVIEW**

Examinations will identify and correct non-compliance by meeting the following strategic goals:

- Conduct focused, efficient examinations.
- Resolve issues at the lowest possible level using appropriate resolution mechanisms.
- Ensure consistency and fairness in application of law.
- Maintain a high level of Examination Customer Satisfaction.
- Coordinate with other TE/GE functions, other IRS functions, and other Federal Agencies to identify emerging areas of non-compliance.
- Improve the overall quality of our examinations based on both TEQMS and Customer Satisfaction results.

## **Goals and Objectives**

### **Business results (Quality)**

*Timeliness (cycle time)* - Cycle time is computed based on a 12-month “rolling average.” The national objective is 215 days. Cycle time is measured from the date the case is placed in AIMS status code 12 (assigned – taxpayer contacted) to the date it is closed (status code 90). Individual Area Office objectives have been established. **NOTE: Managers and employees should not close a case prematurely simply to meet a cycle time objective.** The cycle time objective excludes:

- All LMSB and EO Large Case Support returns,
- All EP Team Audit Large Case returns,
- All non-research sample Multi-employer returns,
- All non-return unit cases,
- Technical Advice Cases, and
- Appeals cases.

AIMS status code 55 identifies cases that have previously been suspended for technical advice, or have been to Appeals and returned to EP for closing. Project codes will be used to identify LMSB Large Case Support, EPTA returns, and non-research sample multi-employer plans. AIMS Table 61 will be used to monitor cycle time accomplishments.

- ◆ *Examination Quality* – this score is determined by the results of the TEQMS review process. The quality rate for the first three quarters of FY 03 was 84%, which is a significant increase from the FY 02 rate of

77%. Examination personnel are to be commended for this marked improvement. The FY 04 goal is to maintain the overall quality of the examinations with a goal of achieving a 84% quality rate. The Director, EP Examination will establish individual Area Office objectives. Actions will also be taken to develop and successfully execute an action plan to improve two examination audit standards:

- Examination planning; and
- Workpapers and reports.

TEQMS results will be published quarterly in monitoring reports from the TEQMS Review Staff. Managers should ensure that these reports are discussed with their employees.

### **Business Results (Quantity)**

- *Performance Indicator* – this will be the number of returns closed. The number of examinations will be affected by the time needed to process the current backlog of determination cases in group inventories and technical screening. The FY 04 goal is 10,900 return closures. For FY 04, monitoring of examined units will also be applied to all direct examination categories. EP AIMS Table 20 will be used to monitor this measure.

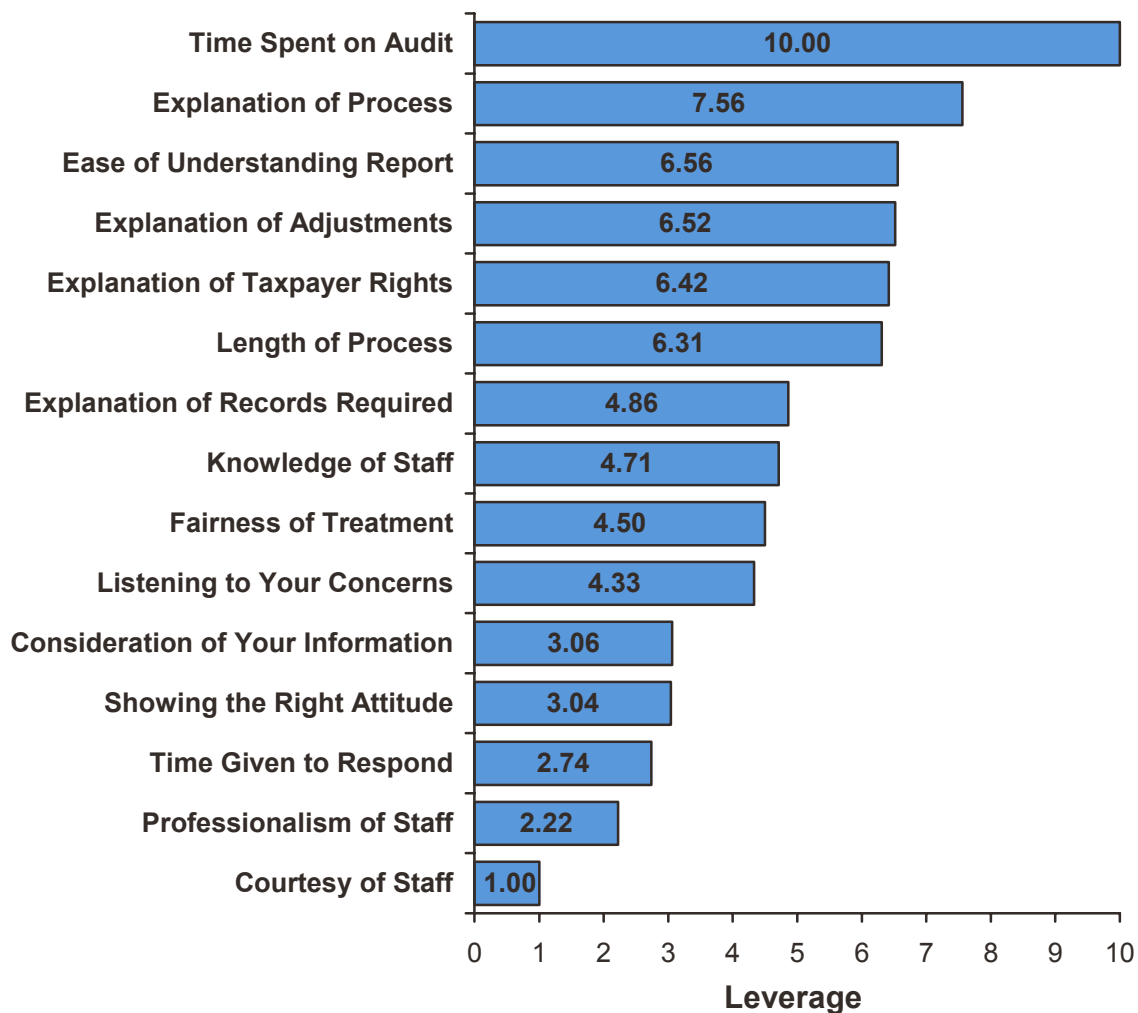
The following compliance programs will continue in FY 04:

- IRC 403(b)/457 Plans – new selections will be made taking into consideration the changes made in EGTTRA. An IRM Audit Guide for IRC 457 plans is being developed, and will be published in FY 04. The pilot program for ineligible employers in Central Mountain Area will continue. Because FSLG is starting an exam program on school districts, EP Examinations personnel should coordinate with them on these audits. This will ensure that cases selected by either function are not being examined and have not recently been examined.
- IRC 401(k) Plans – The baseline cases and the Automated Workpapers Project Cases have all been assigned, and almost all have been examined. In FY 04, this project should be completed, the analysis done, and any recommended follow-up actions should be started.
- Multi-Employer Plans – New cases will be selected based on data research which has identified three industries that have been historically noncompliant. Additional cases may be selected from one other industry to determine that industry's compliance level. Program findings are being used to create baseline data, which will, in turn, be used to develop long-term compliance strategies.
- EPTA – EPTA groups will be reporting to the Area Managers in FY 2004. They should conclude all of their non-EPTA work and begin focusing exclusively on large team audit cases, including MAP, 403(b) and LMSB support work.

### **Customer Satisfaction**

The August 2003 Customer Satisfaction ratings for examinations (cases closed from October 2002 – March 2003) continue to be quite favorable. 69% of the respondents indicated they were satisfied with the service provided, while 8% were dissatisfied. The balance of the respondents were “neutral” in the rating of the quality of service provided. The overall rating was a score of 5.77 out of a possible score of 7.0. The results also provide information on “improvement opportunities” for Examinations as shown by the following chart. The higher scores are those areas where the customer is less satisfied and/or the item is very important to them.

### **Improvement Priorities for Examination Customers**



Each of the Area Offices has initiated projects to increase customer satisfaction, particularly related to “time spent on audit” and “explanation of process”. Among the items underway is the development of a special Pub. 1 to explain the audit process to EP customers, an initial appointment letter to explain why the taxpayer was selected for audit, and a web-based examination audit guide for

use by external customers. Additional projects include training classes for Agents, partnerships with Practitioners, and streamlining the discrepancy adjustment and Form 5330 examination processes. The goal for FY 04 is to have 70% or greater satisfied customers, and 7% or fewer dissatisfied customers.

## **Performance Indicators**

The following performance indicators will be used to assess the effectiveness of examination programs and activities:

<b>Performance Measures</b>	<b>FY2003 Actual – as of 08/03</b>	<b>FY2004 Goal</b>
Timeliness (cycle time)	228	215
Examination quality (as of June 2003)	84%	84%
Examination cases closed	5,595	10,900
Customer Satisfaction <sup>1</sup>		
Overall Customer Satisfaction	5.77	5.7
Satisfied Customers (rating of a 6 or 7)	69%	70%
Dissatisfied Customers (rating of a 1,2 or 3)	8%	7%

<sup>1</sup> The FY 2003 column is based on the August 2003 report that covers the six-month period ending March 2003.

## **Employee Satisfaction**

The FY 04 Training Plan emphasizes the continued development of the workforce hired in FY 00-01 and the training needed to transition employees from determination work to examination work. An EP Training Advisory group has been established to develop training proposals and to oversee training development. Based on the feedback from attendees and instructors, the Advisory group recommended that EP Phase IIA and Phase IIB be revised to improve the training. These new sessions will be two or three weeks in length, concentrating on fewer topics and have accompanying OJT periods. As an example, Phase IIB was restructured as Phase IV and V. In the new Phase IV, only 401(k) and related topics are covered. Later in Phase V, DB plans and related topics will be covered. In the past, these two subjects and related issues were covered together in a three-week course.

A similar Advisory Group will be established to oversee CPE development.

- Phase II, III, IV and V classes and OJT sessions have been scheduled for FY 04.
- EP Work Center (RGS 4.0) training classes for all examination agents will be completed in FY 04. Training had been delayed due to lack of funding and the determination workload.

- Specialized training for those agents conducting MAP, 403(b), 401(k), and EPTA examinations will continue to be provided.
- Survey 2003 issues will be addressed and corrective action implemented as appropriate. Elevated issues will be addressed under existing guidelines.

### **Additional Examination Initiatives**

- Fully conduct examinations of new automatic selections. (This includes Referrals, Claims, Reversions, and Determination Conversions).
- Fully conduct new examinations supporting EO and LMSB, and fully conduct EP Team Audits.
- Fully conduct examinations of new pension underfunding cases identified by the RICS database
- Continue to fully conduct non-return examinations of SARSEP IRA plans, and start examinations of SIMPLE IRA plans.
- A pilot program will be run in FY 04 to determine if limited scope audits are an efficient use of resources, and are effective in improving compliance. It will involve three groups from different Areas, and these agents will receive appropriate training.
- Continue to provide personnel to assist in the development of TREES (TE/GE Reporting and Electronic Examination System). This system will be developed in FY 04 and will support inventory control, compliance testing, tax computations and team examination monitoring.

Examinations will continue to shift resources to support and augment the programs of Rulings and Agreements and Customer Education and Outreach.