

The Facts of LIFE

Based on the variety of questions and feedback the LIFE Design Team would like to emphasize some of the facts of LIFE. They are:

- LIFE should only be used when appropriate. All of its features should be consistently applied.
- Termination of the process and subsequent scope expansion must take place when warranted. Scope expansion could be anything from one issue to multiple issues and the estimated completion date should be extended.
- Materiality considerations, such as the timing vs. permanent nature of an issue and its respective dollar value, will be utilized to select issues for the LIFE examination. Materiality thresholds do not need to be utilized for issue selection. Materiality thresholds do not impact whether an adjustment will be made after examining a LIFE issue. Finally, thresholds do not apply to transactional or invoice level data an examiner will review in examining a LIFE issue or the depth at which the issue will be examined.
- Materiality thresholds in the MOU will be utilized only to govern subsequent scope expansion after the examination plan is set. Expansion includes both the raising of new issues by the examiner and the filing claims and affirmative issues by the taxpayer.
- Unagreed rollover and recurring issues may be included in the LIFE examination plan regardless of any thresholds that will be established. Inclusion of these issues should be based on the risk analysis. This decision will be made before the thresholds in the MOU are determined.
- A full and robust risk analysis (a/k/a, pre-plan and preliminary audit steps) must be completed for the identification of large, unusual, and questionable items. The risk analysis and subsequent prioritization of issues is completed to determine if LIFE should be utilized, to set the scope of the exam, and to document the case file for quality standard purposes.
- Risk analysis includes, but is not limited to: the reconciliation of books to return, review of the general ledger, issuance of preliminary IDRs, review of the taxpayer's accounting system, etc.
- LIFE should not be offered before the risk analysis process is complete. Depending on the size and complexity of the return and the examiner's history with the taxpayer, the risk analysis may take days, weeks, or even months.
- Materiality concepts such as the timing vs. permanent nature of an issue, dollar value, and future compliance risk are all things to consider in prioritizing issues.

Issues are selected for the LIFE examination plan before setting materiality thresholds and executing the MOU.

- LIFE may be used even when the examiner does not have a prior history with the taxpayer. If the risk analysis and taxpayer behavior at the beginning of the examination indicates the process is appropriate, then it can be utilized.
- LIFE should be considered on all LMSB examinations, even the largest CIC case.
- The MOU should not be entered into until the risk analysis process is complete and, for CIC cases, after the disclosure period is over.
- Claims and affirmative issues filed during the disclosure period and/or before the MOU is signed are not subject to materiality thresholds.
- Correction of obvious computational, accounting errors or omissions may be made without having the LIFE examination terminated. These can be below the thresholds, but they may not be technical in nature and should take little time to resolve.
- Referrals to specialists must be made. All specialists will be involved in the risk analysis and the decision to use LIFE.
- LIFE does not dictate a specific cycle time (e.g. 18 months) for completion of the exam. LIFE focuses on examining the issues of greatest compliance risk and the cycle time needed to address only those issues.
- Taxpayers who are examined under LIFE are not automatically entitled to a LIFE examination in the future. Each year/cycle stands on its own and should be evaluated accordingly.
- A 30 day response time for IDRs is not a LIFE requirement. The response time can be more or less than 30 days; the examiner and the taxpayer must agree on a timeframe.
- A "few" issues as discussed in the LIFE training materials does not mean that a LIFE exam is only 1-3 issues. A LIFE case can have any number of issues, however, the number should be substantially less than a traditional examination.
- The examiner retains the right to set the scope of the examination and to set the materiality thresholds contained in the MOU. However, these must be discussed with the taxpayer.