

**Internal Revenue Service
Large and Mid-Size Business Division
Limited Issue Focused Examinations**

Limited Issue Focused Examinations - Need for Change

- Examination process is too long
- Need to expand coverage to other compliance risk areas
- Taxpayer and IRS resources are limited
- Current process is contentious
- Overall dissatisfaction with the Post-filing process

Limited Issue Focused Examinations - LMSB Actions

- LMSB recognized the need to review our examination process
- Established Post-Filing Design Team to consider alternatives to our traditional exam process
- LIFE sub-team established April 2002
- LIFE aligns with LMSB Issue Management Strategy

Limited Issue Focused Examinations -Design Process

- Developed objectives/plan
- Internal focus groups and brainstorming
- Input from external stakeholders
- Interviewed internal teams with successful limited scope exams
- Developed possible features of LIFE
- Socialized and finalized process

Limited Issue Focused Examinations - Key Features

- Full risk analysis, includes all specialists involvement up-front
- Use materiality principles to limit the scope
- Set materiality threshold(s) to govern scope expansion by both parties
- Mandatory MOU to govern key aspects of examination – signed by Team Manager and Taxpayer
- Shared responsibility for timely completion of examination
- Increased communication between team and taxpayer
- Issue focused approach
- Extending the LIFE process to a taxpayer is the decision of the examination team and team manager
- Scope is limited - may not be expanded without managerial approval
- No claims or affirmative issues below thresholds
- Consistent process for all LIFE examinations
- LIFE process may be terminated if either party does not meet commitments

Limited Issue Focused Examinations - Team Action Required

Team must:

- Engage taxpayer in the LIFE process
- Involve taxpayer in the planning process
- Share potential issues to be examined – full and limited scope
- Share materiality threshold(s)
- Establish cut-off date for claims

Limited Issue Focused Examinations - Team Action Encouraged

Team should:

- Discuss IDRs and NOPAs with taxpayer before issuance
- Provide timely closure to taxpayer on IDRs
- Work with taxpayer to resolve issues
- Suggest efficiencies
- Consider full range of issue resolution tools

Limited Issue Focused Examinations -Taxpayer Action Required

Taxpayer must agree to:

- Execute MOU
- Provide computations/support for agreed rollover and recurring issues
- Adhere to IDR response times
- File claims within agreed time period, with supporting data, only above materiality threshold
- Discuss issues as they arise

Limited Issue Focused Examinations - Taxpayer Action Encouraged

Taxpayer should:

- Brief team on business events, practices, transactions, and tax records
- Participate in planning phase
- Suggest efficiencies
- Consider full range of issue resolution tools

Limited Issue Focused Examinations - When is LIFE Appropriate?

- To move towards currency
- Taxpayer has cooperated in past or shown genuine willingness to do so
- Special Projects or Programs
- No prior/recent experience with taxpayer, but interaction indicates they will support process
- Few material issues identified

Limited Issue Focused Examinations - When is LIFE Not Appropriate?

- Taxpayer has been uncooperative in past and has not shown a desire to change
- Indications of Fraud
- Taxpayer appears cooperative but plays the “game”
- Taxpayer is not willing to support LIFE
- Significant number of MATERIAL issues

Limited Issue Focused Examinations - When is LIFE Offered?

- After full risk analysis
- After all material issues have been identified
- After the traditional and LIFE scopes have been identified
- Could be weeks or months into exam depending on size of the taxpayer

Limited Issue Focused Examinations - When is LIFE Exam Terminated

- Memorandum of Understanding commitments not met
- Failure to disclose abusive tax shelter or listed transaction
- Results in reversion to traditional full scope examination

Limited Issue Focused Examinations - Benefits to the Taxpayer

- Greater certainty
- Conservation of resources
- Increased communication with team
- Increased involvement in the examination
- If efficiencies suggested – scope remains the same

THAT’S LIFE!!!