DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: for Joseph G. Kehoe
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Letter Report - More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision (Audit No. 199930118)

We appreciate the opportunity to respond to your draft report, entitled "More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax (AMT) Exemption Provision." The report raised a number of questions about the eligibility of these taxpayers and the impact if entitlements extend beyond the tax year and number of Small Business Corporate taxpayers sampled. Our recent reorganization will allow us to focus on these issues and incorporate the pre-filing, filing, and post-filing processes and needs for our customers in each of the four operating divisions. For the issues raised in this report, the Small Business/Self-Employed (SB/SE) Division would analyze them, determine the scope, which include subsequent filing periods, and the impact on the filing and post-filing processes, and design a strategy for Taxpayer Education and Communication (TEC), Customer Account Services (CAS), and Compliance. Because SB/SE just became operational on October 1, 2000, we were not able to take this approach prior to responding to this report.

Our comments on your recommendations are as follows:

IDENTITY OF RECOMMENDATIONS

The National Director, Education, Walk-In, and Correspondence Improvement should:

1. Issue a public announcement to taxpayers to emphasize the AMT exemption for qualifying small corporations.
2. Enhance taxpayer instructions and education materials to emphasize the AMT exemption for qualifying small corporations.

ASSESSMENT OF CAUSE

IRS' implementation of a tax law change that affects businesses.

CORRECTIVE ACTION
The Director, Taxpayer Education and Communication (TEC) has responsibility for this action. Working with the Compliance organization, we will review the data used as a basis for this report to ensure the correct designation of the entitlement for the tax year in question and also subsequent periods.

If the findings are validated, TEC will:

- Incorporate the AMT issue through its Relationship Management Channels, and Technology and Small Business workshops.
- Include AMT information in practitioner institutes so they can distribute this information/message to taxpayers who are most likely affected by the change in the law.
- Include AMT information/message in outreach sessions attended by corporate taxpayers.
- Design a strategy for CAS and Compliance to identify the taxpayers affected by this issue and determine corrective action.
- Explore ways to enhance taxpayer instructions in publications and tax forms to emphasize the alternative minimum tax exemption for qualifying small corporations.

IMPLEMENTATION DATE
January 2001

RESPONSIBLE OFFICIAL
Director, Taxpayer Education and Communication

CORRECTIVE ACTION MONITORING PLAN
TBD

If you have any questions about our response, please contact me at (202) 622-0600 or your staff may contact Judy Henderson at (202) 927-1456.