



## Treasury Inspector General for Tax Administration Office of Audit

### CHIEF COUNSEL CAN TAKE ACTIONS TO IMPROVE THE TIMELINESS OF PRIVATE LETTER RULINGS AND POTENTIALLY REDUCE THE NUMBER ISSUED

Issued on September 10, 2010

## Highlights

Highlights of Report Number: 2010-10-106 to the Internal Revenue Service Chief Counsel.

### IMPACT ON TAXPAYERS

Internal Revenue Service (IRS) Chief Counsel issues Private Letter Rulings (PLR) that interpret and apply the tax law to taxpayers' specific set of facts and advises taxpayers of the tax treatment they can expect from the IRS in the circumstances specified by the ruling. TIGTA determined that Chief Counsel can take additional actions to more timely contact taxpayers and close their requests for PLRs. Delays in providing letter rulings can substantially increase taxpayer burden because PLRs are generally needed before the taxpayer files a tax return and could result in delayed tax return filing or amended returns as well as additional accounting fees. Further, Chief Counsel can potentially reduce the number of PLRs requested by issuing more published guidance that would benefit a greater number of taxpayers.

### WHY TIGTA DID THE AUDIT

This audit was initiated as part of our Fiscal Year 2010 Annual Audit Plan. The overall objective of this review was to determine whether IRS Chief Counsel provided timely legal advice to taxpayer requests for PLRs and charged taxpayers the appropriate user fees for PLRs.

### WHAT TIGTA FOUND

Overall, the Office of Chief Counsel ensured that the correct PLR user fees were charged to taxpayers. However, the IRS can take additional actions to more timely provide taxpayers with responses to their requests for PLRs. TIGTA determined that Chief Counsel personnel did not always timely contact taxpayers after case assignment to discuss the taxpayer's issues. In addition, the PLR cases sampled for review were not always closed by Chief Counsel personnel in a timely manner. Specifically, 50 of the 65 sampled cases involved an untimely PLR that was issued after Chief Counsel's 120-calendar day goal (closures ranged between 121 to 3,548 calendar days).

Our review also showed that Chief Counsel is not monitoring available information to consider whether published guidance should be issued on certain issues. TIGTA determined some PLR cases closed during Fiscal Years 2007 through 2009 related to similar issues. Specifically, PLRs were issued to taxpayers more than 150 times for four of the top five most used issue codes during our audit period. If Counsel issued more published guidance for these tax issues, it may prevent the need for a number of PLRs.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Counsel establish and track formal goals that require Chief Counsel personnel to issue PLR rulings within an established number of calendar days, develop and implement a review process that will enable Chief Counsel management to identify delays in both timely contacting taxpayers and closing PLR requests within established time periods, and better document and monitor when taxpayers are initially contacted and the reasons for any delays in closing PLR requests. TIGTA also recommended that the Chief Counsel establish a process to annually review issue codes related to PLRs and determine whether published guidance should be issued.

IRS management fully agreed with two recommendations and partially agreed with the remaining two recommendations. Management plans to review their procedures to determine what changes are needed to strengthen their ability to identify delays in letter rulings, and reemphasize the importance of file maintenance and management information system requirements. Management did not fully agree to establish formal timeliness goals for issuing PLR rulings or agree to specifically establish an annual review process of PLR issue codes to identify the opportunity to issue published guidance.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201010106fr.pdf>.

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