



*Fiscal Year 2016 Statutory Audit of
Compliance With Notifying Taxpayers
of Their Rights When Requested to
Extend the Assessment Statute*

August 31, 2016

Reference Number: 2016-30-081

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HIGHLIGHTS

FISCAL YEAR 2016 STATUTORY AUDIT OF COMPLIANCE WITH NOTIFYING TAXPAYERS OF THEIR RIGHTS WHEN REQUESTED TO EXTEND THE ASSESSMENT STATUTE

Highlights

Final Report issued on August 31, 2016

Highlights of Reference Number: 2016-30-081 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The IRS is required by law to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. Taxpayers might be adversely affected if the IRS does not follow the requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to assessment statute extensions.

WHY TIGTA DID THE AUDIT

TIGTA is required by law to annually determine whether the IRS complied with Internal Revenue Code Section 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues.

WHAT TIGTA FOUND

TIGTA's review of a statistical sample of 60 closed taxpayer audit files with assessment statute extensions found that the IRS was compliant with Section 6501(c)(4)(B). However, nine of the taxpayer audit files did not contain documentation to indicate whether taxpayers were properly notified of their rights as required by the IRS's internal procedures. In addition, TIGTA found nine instances in which the audit files lacked documentation to support that the IRS complied with procedures requiring the notification of a taxpayer's representative when an authorization for third-party representation exists.

WHAT TIGTA RECOMMENDED

TIGTA did not make any recommendations in this report because the IRS has taken sufficient actions to remind employees of their responsibilities to properly notify taxpayers and their representatives.

IRS officials were provided an opportunity to review the draft report and did not provide any comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 31, 2016

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2016 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Audit # 201630006)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) complied with Internal Revenue Code Section 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. The Treasury Inspector General for Tax Administration is statutorily required to provide information annually regarding the IRS's compliance with this provision. This audit is included in our Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Taxpayer Protection and Rights.

Although we made no recommendations in this report, we provided IRS officials an opportunity to review the draft report. IRS management did not provide us with any report comments.

Copies of this report are also being sent to the IRS managers affected by this report. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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Abbreviations

BMF	Business Master File
IMF	Individual Master File
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
RRA 98	Restructuring and Reform Act of 1998
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Internal Revenue Service (IRS) is required by the IRS Restructuring and Reform Act of 1998 (RRA 98)¹ and the Internal Revenue Code (I.R.C.)² to notify taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties. When the IRS audits a tax return and determines that there is an additional tax liability, the additional tax assessment must generally be processed within three years from the date the return was due or from the date on which the return was actually filed, whichever is later. This three-year assessment statute of limitations normally cannot be extended without the taxpayer's written consent.

The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties.

To extend the statute, the IRS generally requests that the taxpayer provide a signed consent form, such as Form 872, *Consent to Extend the Time to Assess Tax*; Form 872-P, *Consent to Extend the Time to Assess Tax Attributable to Partnership*;³ or Form SS-10, *Consent to Extend the Time to Assess Employment Taxes*.⁴ These consents extend the assessment statute of limitations to either a specific period of time or an unlimited, indefinite period. The statute is usually extended for a period of time that both the IRS and the taxpayer agree is reasonable to complete the examination. The consent can also be negotiated to apply only to certain audit issues.

In passing the RRA 98, Congress expressed concern that taxpayers had not always been fully aware of their rights to refuse to extend the statute of limitations or to request that a statute extension be limited to a specific period of time or specific issues. Some taxpayers might believe that they are required to agree to an extension upon the request of the IRS. Congress wanted to ensure that taxpayers were notified of their rights to refuse the proposed statute extension or to have it limited to specific issues.

¹ RRA 98 § 3461(b)(2)(B), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² I.R.C. § 6501(c)(4)(B).

³ For partnerships, Form 872-P, *Consent to Extend the Time to Assess Tax Attributable to Partnership*, is used for fixed-date TEFRA partnership-level consent. This form should be signed by the Tax Matters Partner or authorized officials. TEFRA is the Tax Equity and Fiscal Responsibility Act of 1982 (Pub. L. No. 97-248, 96 Stat. 324 (codified as amended in scattered sections of 26 U.S.C.)).

⁴ IRS employees who often request assessment of statute extensions are examiners in the various Examination functions of the business divisions and appeals officers in the Office of Appeals.



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A taxpayer might agree to extend the assessment statute of limitations for the following reasons:

- The taxpayer might want to pursue additional audit issues that are in the taxpayer's favor in offsetting a proposed tax assessment or that might allow for a tax refund.
- If the remaining time before the statute expires is too short, the IRS might have to prematurely stop the audit process and issue a notice of deficiency that limits the time for the normal appeals process before the taxpayer must file a petition with the U.S. Tax Court.

A taxpayer might decide to limit or refuse to extend the assessment statute of limitations because the taxpayer might not want to:

- Provide the IRS more time to consider additional audit issues.
- Allow the IRS the opportunity to further develop audit issues already under consideration after the normal statute period has expired.

Specifically, RRA 98 Section 3461(b)(2)(B) requires the IRS to "...notify the taxpayer of the taxpayer's right to refuse to extend the period of limitations, or to limit such extension to particular issues or to a particular period of time, on each occasion when the taxpayer is requested to provide such consent." To implement this statutory requirement, the IRS revised its procedures to direct IRS employees to provide the taxpayer with Letter 907, *Request to Extend Assessment Statute*, or Letter 967, *Letter Transmitting Consent Extending Period of Limitation*. Included with these letters should be the actual consent forms to be signed as well as Publication 1035, *Extending the Tax Assessment Period*, which includes a more detailed explanation of the taxpayer's rights and consequences of the taxpayer's choices.

The consent forms include a prominent statement informing taxpayers of their rights regarding assessment statute extensions and provide information about Publication 1035. Figure 1 shows that the consent forms also include a statement for the taxpayer's representative to sign, confirming that they were notified of their rights regarding assessment statute extensions and that the taxpayers were made aware of the same rights.



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Figure 1: Excerpt of Form 872

Form 872 (Rev. July 2014) Department of the Treasury-Internal Revenue Service Consent to Extend the Time to Assess Tax

Your Rights as a Taxpayer

You have the right to refuse to extend the period of limitations or limit this extension to a mutually agreed-upon issue(s) or mutually agreed-upon period of time. Publication 1035, Extending the Tax Assessment Period, provides a more detailed explanation of your rights and the consequences of the choices you may make.

YOUR SIGNATURE HERE (Date signed) (Type or Print Name)

I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B).

TAXPAYER'S REPRESENTATIVE SIGN HERE (Only needed if signing on behalf of the taxpayer.) (Date signed) (Type or Print Name)

I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B). In addition, the taxpayer(s) has been made aware of these rights.

If this document is signed by a taxpayer's representative, the Form 2848, Power of Attorney and Declaration of Representative, or other power of attorney document must state that the acts authorized by the power of attorney include representation for the purposes of Subchapter C of Chapter 63 of the Internal Revenue Code in order to cover items in paragraph (4).

Source: IRS Form 872. Note: The wording on Form SS-10 is consistent with that shown on Form 872.

IRS procedures require that any notice or other written communication required to be given to a taxpayer also be given to the taxpayer's representative (unless restricted by the taxpayer). IRS employees are instructed to document in their audit file activity log whether the taxpayer was notified of his or her rights each time the IRS requested an assessment statute extension.

The Treasury Inspector General for Tax Administration (TIGTA) is required by the RRA 98 to provide information annually regarding the IRS's compliance with I.R.C. Section 6501(c)(4)(B). This report presents the results of our seventeenth annual review of the IRS's compliance with the statute extension provisions of the law.

This review was performed with information obtained from the Office of Appeals, the Large Business and International Division, and the Tax Exempt and Government Entities Division

5 Conference and Practice Requirements, Statement of Procedural Rules, 26 C.F.R. § 601.506 (2002). 6 See Appendix V for a list of our most recent prior reports issued from Fiscal Years 2006 through 2015.



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Headquarters in Washington, D.C.; the Small Business/Self-Employed Division Headquarters in New Carrollton, Maryland; and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period January through June 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

The Internal Revenue Service Was Compliant With Legal Requirements Related to Requests to Extend the Assessment Statute

The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. Based on the results of this review, we believe that the IRS was compliant with legal requirements.⁷ Our review of a sample of 60 closed taxpayer audit files did not identify any instances in which the IRS failed to provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. In all 60 taxpayer audit files, legal requirements were satisfied when the taxpayers or the taxpayers' representatives signed Forms 872, 872-P, or SS-10, which clearly specify the taxpayers' rights on the front of the forms.

Some Audit Files Lacked Documentation to Support That Employees Followed Internal Procedures for Notifying Taxpayers and Their Representatives of the Taxpayers' Rights

IRS procedures and publications are clear that both the taxpayer and the taxpayer's representative are to be provided with notices, including notification of the taxpayer's rights. The IRS's internal procedures require that notification be made to the taxpayer by sending Letter 907 or Letter 967, along with a properly completed consent form, which contains the notice of taxpayers' rights, and Publication 1035 each time a request is made. IRS employees must also document in the case file on Form 9984, *Examining Officer's Activity Record*, that the required notification was made. We found that taxpayer audit files did not always contain documentation to support that the IRS complied with these procedures.

- We reviewed a statistically valid sample of 60 taxpayer audit files and identified nine audit files that did not contain documentation to indicate whether taxpayers were properly notified of their rights as required by IRS's internal procedures. Based on our sample results, from a universe of 11,559 taxpayer audit files with statute extensions,⁸ we projected there were

⁷ See I.R.C. § 6501(c)(4)(B).

⁸ Our original population was 13,105 audit files with statute extensions. However, there were 1,546 audit files in our population with statute extensions due to procedure issues, which do not require the taxpayer's consent to extend the statute. Therefore, these audit files were removed, reducing our population to 11,559 (13,105 – 1,546).



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approximately 1,131⁹ taxpayer audit files¹⁰ that did not contain documentation to show that the taxpayers were properly notified of their rights when assessment statutes were extended.

- The 60 taxpayer audit files included 46 taxpayer audit files that had authorizations for third-party representation before the IRS. Nine (20 percent)¹¹ of these 46 taxpayer audit files did not contain documentation to support that the taxpayers' representatives were provided with the required notifications. Based on our sample results, from our universe of 11,559 taxpayer audit files with statute extensions, we projected there were approximately 1,131¹² taxpayer audit files that did not contain documentation to support that the taxpayers' representatives were provided with the required notifications.¹³

We considered the notification sufficient if any of the required documentation appeared to have been given to the taxpayers or a log entry to that effect was found in the related taxpayer audit files. The fact that we could not identify the required documentation in the audit file does not mean the taxpayers and/or their representatives were not properly notified of their rights. However, based upon the information available to us, we could not determine if the taxpayers or their representatives were properly notified of their rights. Taxpayers may be adversely affected if the IRS does not follow requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to statute extensions.

Management Actions

In response to the errors identified in this review, the IRS has taken actions to remind employees of the requirements to properly notify taxpayers and their authorized representatives, if applicable, of the taxpayers' rights to refuse to extend the statute of limitations. Specifically, the IRS:

- Published an article in its employee newsletter in June 2016 emphasizing the importance of following procedures when requesting consent and notifying taxpayers and their authorized representatives of the taxpayers' rights to refuse to extend the statute of limitations.
- Issued a memorandum in July 2016 reminding examiners to document statute control procedures.

⁹ The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between 603 and 1898.

¹⁰ See Appendix IV for details.

¹¹ The error rate of 20 percent is rounded to the nearest hundredth percent, with a 90 percent confidence interval between 5.2 percent (lower limit) and 16.4 percent (upper limit). The rate used for projecting to the population is 9.8 percent, which is further explained in Appendix IV.

¹² The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between 603 and 1898 taxpayer audit files that did not contain proper documentation.

¹³ See Appendix IV for additional details.



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In addition, IRS officials informed us that they plan to:

- Update Internal Revenue Manual procedures for documenting statute extension notifications to taxpayers and their representatives in Fiscal Year 2017. This update will include instructions for examiners on using Form 10949, *Statute Extension Checklist*.
- Discuss notification requirements at managers' training sessions scheduled during Fiscal Year 2016.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall audit objective was to determine whether the IRS complied with I.R.C. Section 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. To accomplish this objective, we:

- I. Determined whether taxpayers and their designated representatives are being notified of their rights when the IRS requests an extension of the assessment statute.
 - A. Reviewed the Internal Revenue Manual¹ and consulted with IRS officials to determine if there were any changes to existing policies and procedures for processing requests to extend the assessment statute of limitations since our last audit.
 - B. Identified a universe of 13,105 taxpayer audit files from the combined Individual Master File (IMF)² and Business Master File (BMF)³ with closed examinations for which the assessment statute was extended and the examination subsequently closed. The period covered IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2014, and September 30, 2015.
 1. Analyzed the universe of 13,105 taxpayer audit files and determined that all four business operating divisions were represented in our population. Additionally, we determined the types and volume of tax return forms represented in the total population of 13,105 taxpayer audit files that met our sampling criteria.
 2. Validated the IMF and BMF data by examining a judgmental sample of 30 (15 from each extract) taxpayer audit files. This judgmental sample was used for data validation and not for projecting or reporting results. The validation test results demonstrated that the data extracts were reliable and could be used to meet the objective of this audit.
 3. Developed a statistical sampling plan using a 90 percent confidence level, a 6 percent expected error rate, and a ± 6 percent precision to identify a statistically designed sample size of 60 taxpayer audit files. It was necessary to screen 102 audit files to meet the designed sample size of 60 files. A statistical sample

¹ Internal Revenue Manual 25.6.22 (Aug. 26, 2011).

² The IRS database that maintains transactions or records of individual tax accounts.

³ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.



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was taken because we wanted to estimate the number of taxpayers in the universe for which taxpayer rights were potentially affected.

4. Used RAT-STATS⁴ to select a sample of 180 taxpayer audit files from the universe identified in Step I.B. We selected more than our sample of 60 taxpayer audit files in the event that some of the files received were either systemic extensions or incomplete (did not include all related tax years, audit file history notes, *etc.*), which would prevent us from performing our review of such files. We screened 102 of the taxpayer audit files received. Of those 102 taxpayer audit files, we identified 60 complete taxpayer audit files that had statute extensions with the taxpayer's written consent.
- C. Reviewed the sample of 60 taxpayer audit files and related audit files for the necessary documentation to determine whether taxpayers and their representatives, if applicable, were properly notified of their rights regarding assessment statute extensions. We then discussed exceptions with the appropriate business unit coordinator to obtain agreement to the facts.
1. Projected our sample results to the universe of 11,559⁵ taxpayer audit files from which we selected our sample to identify the number of taxpayer audit files that potentially did not contain documentation to support that the taxpayers or taxpayers' representatives were properly notified of the taxpayers' rights when assessment statutes were extended.
 2. TIGTA's contracted statistician reviewed our methodology and projections.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the policies, procedures, and practices used by the Office of Appeals and IRS business operating divisions as they relate to notifying taxpayers, and their designated third-party representatives, of their rights to decline to extend the assessment statute of limitations or request that any extension be limited to a specific period of time or specific issues. We evaluated these controls by reviewing applicable Internal Revenue Manual sections and documentation, interviewing management from these divisions, and reviewing a statistical sample of 60 taxpayer audit files.

⁴ The Office of Inspector General for the Department of Health and Human Services, Regional Advanced Techniques Staff (RATS) in San Francisco, California, initially developed the RAT-STATS statistical software package.

⁵ See Appendix IV for an explanation.



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Appendix II

Major Contributors to This Report

Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Glen Rhoades, Director
Michelle Philpott, Audit Manager
Tram Le, Acting Audit Manager
Ken Henderson, Senior Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Commissioner, Large Business and International Division
Commissioner, Small Business/Self-Employed Division
Commissioner, Tax Exempt and Government Entities Division
Commissioner, Wage and Investment Division
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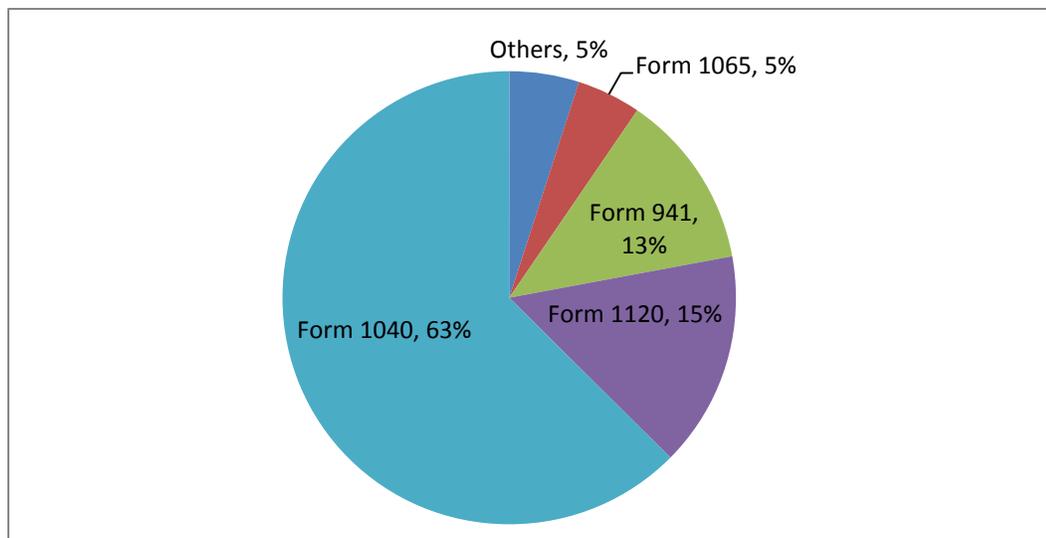
Appendix IV

Sampling and Case Review Methodology

Methodology Used for Identifying the Universe and Sample Cases

To determine the number of taxpayer audit files for which there was no documentation to support that the taxpayers were notified of their rights, we identified 13,105 taxpayer audit files from the combined universe of IMF and BMF¹ closed taxpayer audit files in which the assessment statute was extended and the examination subsequently closed. The period covered the IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2014, and September 30, 2015. As noted in Figure 1, the majority of these consents were obtained for Form 1040, *U.S. Individual Income Tax Return*, with nearly equal numbers of consents received during examinations of Form 941, *Employer's Quarterly Federal Tax Return*, and Form 1120, *U.S. Corporation Income Tax Return*. The types of audit files with extensions for Fiscal Year 2015 are consistent with the extensions in Fiscal Year 2014.

Figure 1: Number of Extensions by Form²



Source: Analysis of TIGTA Data Center Warehouse IMF and BMF records for Fiscal Year 2015.

¹ The IMF is the IRS database that maintains transactions or records of individual tax accounts. The BMF is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

² Form 1065, *U.S. Return of Partnership Income*. The remaining forms in “Other” include forms such as Form 990, *Return of Organization Exempt From Income Tax*; Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*; and Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*.



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We used a 90 percent confidence level, a 6 percent expected error rate, and a ± 6 percent precision to select a statistical sample size of 180 taxpayer audit files. After screening 102 taxpayer audit files, we met our sample size of 60 taxpayer audit case files. The remaining 42 taxpayer audit case files were not included in our sample because the files were either systemic extensions, not complete, or did not meet our criteria, *i.e.*, the audit file did not contain a statute extension consent form.

Methodology Used for Identifying the Number of Taxpayers That Were Not Properly Notified

To determine the number of taxpayer audit files for which there was no documentation to support that the taxpayers were properly informed of their rights, we identified 13,105 taxpayer audit files from the universe of IMF and BMF closed taxpayer audit files in which the assessment statute was extended and the examination subsequently closed. The period covered the IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2014, and September 30, 2015. We used a 90 percent confidence level, a 6 percent expected error rate, and a ± 6 percent precision to determine our sample size of 60 taxpayer audit files.

After screening through 102 taxpayer audit files, we met our sample size of 60 taxpayer audit files. Of the remaining 42 taxpayer audit files that were not included in our sample, 32 were either systemic extensions or not complete. The remaining 10 taxpayer audit files did not meet our criteria.³ We performed an analysis of the cases that did not meet our criteria and determined that there were a total of 1,546 of these types of cases in our population of 13,105 taxpayer audit files. We removed these cases, which included the 10 cases above that were screened and did not meet our criteria. As a result, this reduced our population to 11,559 (13,105 – 1,546).

We reviewed the sample of 60 taxpayer audit files and identified nine taxpayer audit files that did not contain documentation to show that the taxpayers were properly informed of their rights. Since we determined, as previously noted, that a percentage of our population included taxpayer audit files that were screened and not complete, we decided to make the conservative assumption that all of the 32 incomplete audit files were compliant. Therefore, our error rate was based on the 60 taxpayer audit files we reviewed as well as the 32 taxpayer audit files that we screened that were not complete (32 + 60 = 92 taxpayer audit files). We then calculated our projected error rate by dividing nine by 92 and multiplied that percentage by the population size of 11,559 to obtain the projected number of taxpayers who were not notified, 1,131.

The range of lower and upper limits was then calculated using this error rate and a 90 percent confidence interval between 5.2 percent (lower limit) and 16.4 percent (upper limit). We are

³ There were 10 audit files with statute extensions due to procedural issues that do not require the taxpayer's consent to extend the statute. Therefore, we did not test these audit files to determine whether the IRS properly notified the taxpayers or the taxpayers' representatives of the taxpayers' rights.



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90 percent confident that the range of procedural errors is between 603 and 1,898 taxpayer audit files.

Methodology Used for Identifying the Number of Taxpayer Representatives That Were Not Properly Notified

We reviewed the same sample of 60 taxpayer audit files and identified 46 taxpayer audit files that contained an authorization for a third party to represent the taxpayer before the IRS. In the subpopulation of all taxpayer representatives, nine (20 percent) of the 46 taxpayer audit files showed no documentation to support that the employees provided the representatives with a copy of the written communications provided to the taxpayers. Although we were able to determine that there were 46 taxpayer representatives in our sample of 60 taxpayer audit files, we were unable to determine the true number of taxpayer representatives in our sampled population of 11,559 taxpayer audit files with statute extensions.

In our general sample, we found 46 audit files from taxpayer representatives of which nine were noncompliant. Projected to the general population of all 11,559 audit files, and assuming the 32 incomplete audit files were all compliant, we project that nine out of 92 audit files (9.8 percent) in the general population were noncompliant and were represented by an authorized representative. The 90 percent confidence interval for this projection is 5.2 to 16.4 percent. From this, we estimate that 1,131 audit files were noncompliant and were represented by authorized representatives. The 90 percent confidence interval for this projection is 603 to 1,898 audit files.



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Appendix V

*Prior Reports on Compliance With
Requests to Extend the Assessment Statute*

1. TIGTA, Ref. No 2015-30-071, *Fiscal Year 2015 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2015).
2. TIGTA, Ref. No 2014-30-066, *Fiscal Year 2014 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2014).
3. TIGTA, Ref. No. 2013-30-071, *Fiscal Year 2013 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (July 2013).
4. TIGTA, Ref. No. 2012-30-102, *Fiscal Year 2012 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Sept. 2012).
5. TIGTA, Ref. No. 2011-30-055, *Fiscal Year 2011 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (June 2011).
6. TIGTA, Ref. No. 2010-30-103, *Fiscal Year 2010 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2010).
7. TIGTA, Ref. No. 2009-30-113, *Fiscal Year 2009 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2009).
8. TIGTA, Ref. No. 2008-40-127, *Fiscal Year 2008 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (June 2008).
9. TIGTA, Ref. No. 2007-40-167, *Fiscal Year 2007 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2007).
10. TIGTA, Ref. No. 2006-40-163, *Fiscal Year 2006 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Sept. 2006).



*Fiscal Year 2016 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When
Requested to Extend the Assessment Statute*

Appendix VI

Audit Review Results by Division¹

Noncompliance With Requirement to Notify Taxpayers and Their Representatives of Taxpayer Rights	Division²					Total
	Appeals	LB&I	SB/SE	TE/GE	W&I	
Noncompliance With Requirement to Notify Taxpayers	3	0	6	0	0	9
Noncompliance With Requirements to Notify Taxpayer Representatives	**1**	**1**	6	0	0	9
Number of Taxpayer Audit Files Reviewed	**1**	5	47	**1**	0	60³

¹ The sample selected is statistically valid based on the overall population and was not stratified by business unit. Therefore, we did not project the error rate by division.

² Office of Appeals, Large Business and International (LB&I) Division, Small Business/Self-Employed (SB/SE) Division, Tax Exempt and Government Entities (TE/GE) Division, and Wage and Investment (W&I) Division.

³ Of the 60 taxpayer audit files reviewed, 46 taxpayer audit files contained an authorization for a third party to represent the taxpayer before the IRS.



*Fiscal Year 2016 Statutory Audit of Compliance
With Notifying Taxpayers of Their Rights When
Requested to Extend the Assessment Statute*

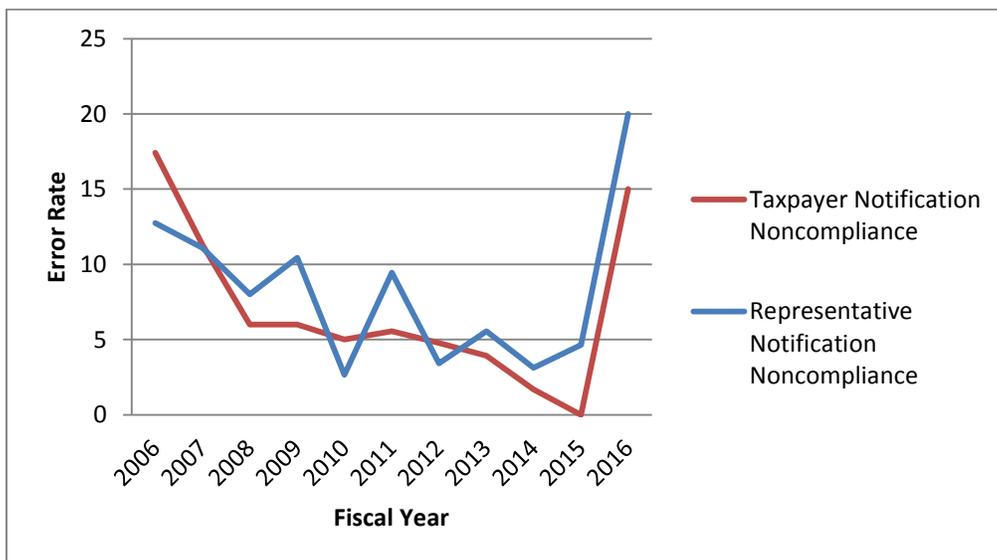
Appendix VII

*Error Rates for Noncompliance With Internal
Revenue Service Procedures for Notifying
Taxpayers and Taxpayer Representatives*

As noted in the report, we found that the IRS is in compliance with statutory requirements as it is providing taxpayers and taxpayers’ representatives, when applicable, notice of the taxpayers’ rights on Form 872. However, the IRS’s internal procedures state that taxpayers and their representatives should be provided with copies of any notices and correspondence regarding their rights on extending the assessment statute of limitations.

Our review of audit case files found that the IRS’s noncompliance with such procedures has increased. Specifically, as shown in Figure 2, we reviewed 60 audit case files and found no evidence that the taxpayers were properly notified in nine audit case files (15 percent), which is up significantly from 0 percent in Fiscal Year 2015, as shown in Figure 2. As for the IRS’s compliance with notifying the taxpayers’ representatives, we reviewed the 60 audit case files and found that 46 cases involved a representative. Of those 46 audit case files, we found no evidence that the taxpayers’ representatives were properly notified in nine cases (20 percent), which is a significant increase from the ****1**** percent in Fiscal Year 2015, as shown in Figure 2 below.

Figure 2: Error Rates – No Documentation to Support That the Taxpayer and Representative Were Properly Notified



Source: Prior TIGTA audit reports (see Appendix V).