

TEI-SJSU High Tech Tax Institute

November 7 & 8, 2016

Crowne Plaza Cabana
4290 El Camino Real
Palo Alto, CA



Monday, November 7

3:45 – 5:15

New Again – The Latest in LB&I Restructuring and Examination Approach

Pat Chaback, Executive Director – *Ernst & Young*

Kimberly Edwards, Director, Western Compliance – *IRS*

Larry Langdon, Partner – *Mayer Brown LLP*

Jean A. Pawlow, Partner – *McDermott Will & Emory LLP*

Tony Shabazz, Program Manager, Western Compliance, LB&I Division – *IRS*

Gloria Sullivan, Director, Financial Institutions & Products, LB&I Division – *IRS*

Tuesday, November 8

1:30 – 3:00

Dealing with New IRS Processes with Q&A

Pat Chaback, Executive Director – *Ernst & Young*

Paul DiSangro, *Partner – Mayer Brown LLP*

Kimberly Edwards, Director, Western Compliance – *IRS*

Andy Mattson, Partner – *Moss Adams*

Tony Shabazz, Program Manager, Western Compliance, LB&I Division – *IRS*

Gloria Sullivan, Director, Financial Institutions & Products, LB&I Division – *IRS*

IRS Large Business & International Division (LB&I)

Future Structure and Operations



Why does LB&I need to change?

- LB&I needs to change in order to create an organization that:
 - ✓ Continuously evolves to keep pace with LB&I taxpayers operating in a global environment.
 - ✓ Uses our most valuable resource, our employees' time, to achieve pre-determined compliance goals.
 - ✓ Reflects one LB&I, instead of:
 - International vs. Domestic
 - Field vs. Headquarters
 - Strategy vs. Execution
 - ✓ Supports promotional opportunities in all areas of LB&I based on knowledge, skills, and abilities of employees and their willingness to coach, mentor, and transfer skills.
 - ✓ Supports better collaboration.
 - ✓ Engages in effective tax administration by updating exam processes that have not been refreshed for many years.

A core set of guiding principles establishes the foundation for where LB&I wants to be in the future.

Flexible, Well-Trained Workforce

Cultivate an environment of continuous learning to support a flexible workforce with focused training, foundational skillsets, specialized knowledge, and dynamic tools

Selection of Better Work

Utilize data analytics and examiner feedback to select better work with intended compliance outcomes

Tailored Treatments

Employ an integrated set of tailored treatment streams to improve flexibility to address current and emerging issues and achieve compliance outcomes

Integrated Feedback Loop

Drive continual collection and analysis of data and feedback to enhance ability to focus, plan, and execute work, and promote innovation and feedback-based improvement

Flexible, Well-Trained Workforce

- Focus training on transactions and issues that employees will encounter in their work.
- Provide timely training needed to address current issues.
- Create training curriculum designed to allow employees to grow their skills and have the opportunity to focus in a specific issue area.
- Enable mentor-protégé roles and expectations to transfer skill and knowledge.

Selection of Better Work & Tailored Treatments

- LB&I will use data analysis and feedback from examiners to identify areas of potential non-compliance and will design campaigns to address those issues/areas.
- A campaign is a plan focused on the right issues, using the right resources, and using the right combination of treatment streams to achieve the intended compliance outcomes.
- A campaign could include examinations and/or some type of alternate treatment such as outreach, form changes or guidance.

Integrated Feedback Loop

- LB&I will obtain employee input and feedback on all aspects of the examination of the examination process, including return selection, training, content, and tools.
- LB&I's compliance plan will be adjusted in real time based on experience once a campaign gets underway.

Campaigns

https://www.irs.gov/businesses/international-businesses/large-business-and-international-division-at-a-glance?_ga=1.169994149.408352577.1459440089

Large Business and International Division At-a-Glance

- LB&I is organized into Support and Practice Areas. Support elements use data analysis and an integrated feedback loop to support LB&I's agile model. The Practice Areas study compliance issues within their area of expertise and suggest campaigns to be included in the compliance plan.

Campaigns

<https://www.irs.gov/pub/irs-utl/d11809--2016-01-00.pdf>

Campaigns: (Info obtained from FY2016 LB&I Field Focus Guide)

The IRS plans to use the combined input of their workforce and data analysis to identify areas of noncompliance and strategically focus resources to these areas.

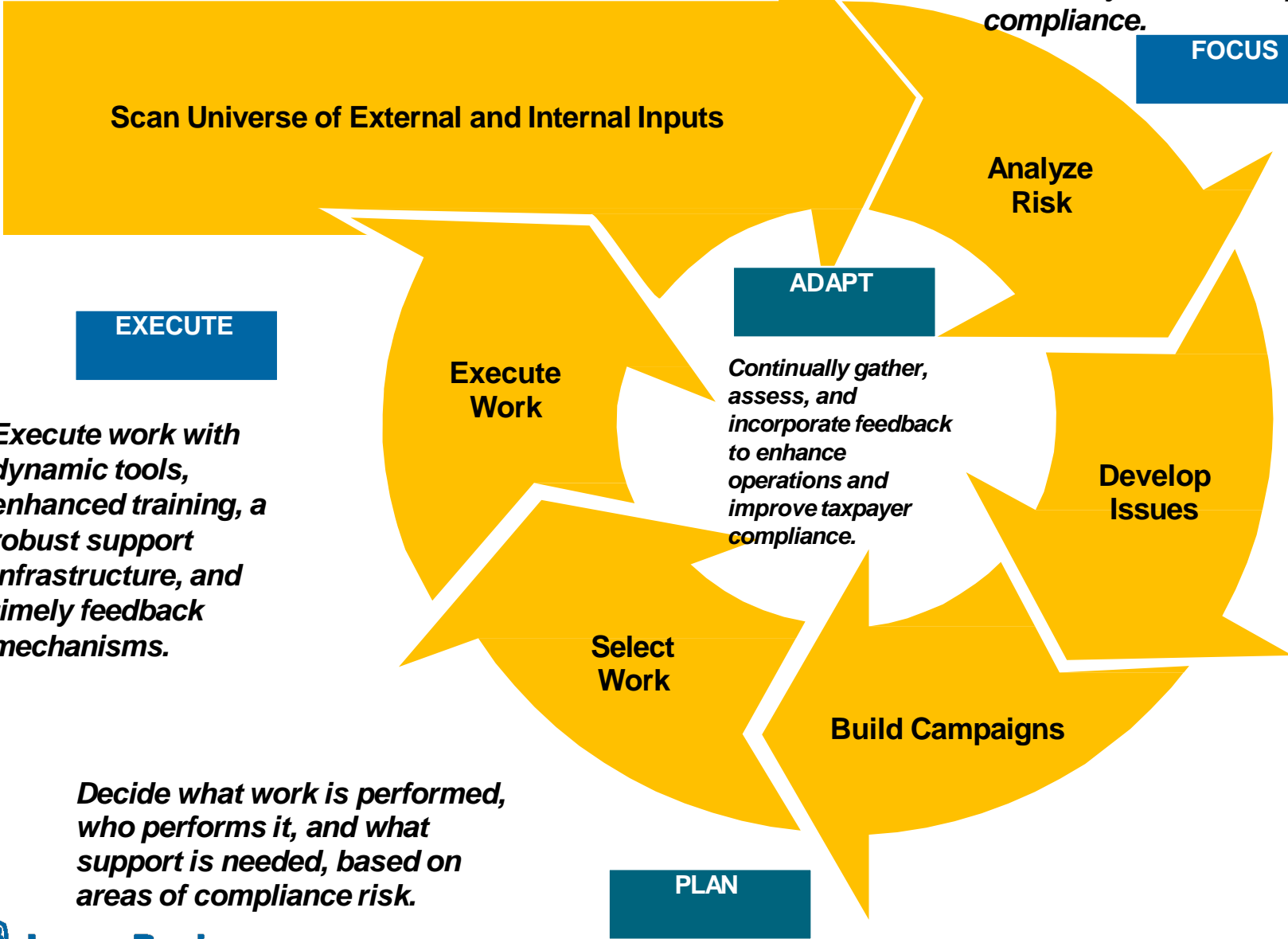
Campaigns are intended to:

- Identify specific areas of potential noncompliance,
- Identify intended compliance outcomes,
- Identify specific, tailored treatment streams to achieve those outcomes,
- Identify the resources needed to execute these tailored treatment streams,
- Identify training, guidance, mentors, and other support needed, and
- Effectively use feedback from employees to quickly modify our approach as needed

Using the AGILE model...

Strategically identify and prioritize areas of compliance risk to more effectively address taxpayer compliance.

FOCUS



Scan Universe of External and Internal Inputs

Analyze Risk

ADAPT

Continually gather, assess, and incorporate feedback to enhance operations and improve taxpayer compliance.

Develop Issues

EXECUTE

Execute work with dynamic tools, enhanced training, a robust support infrastructure, and timely feedback mechanisms.

Execute Work

Select Work

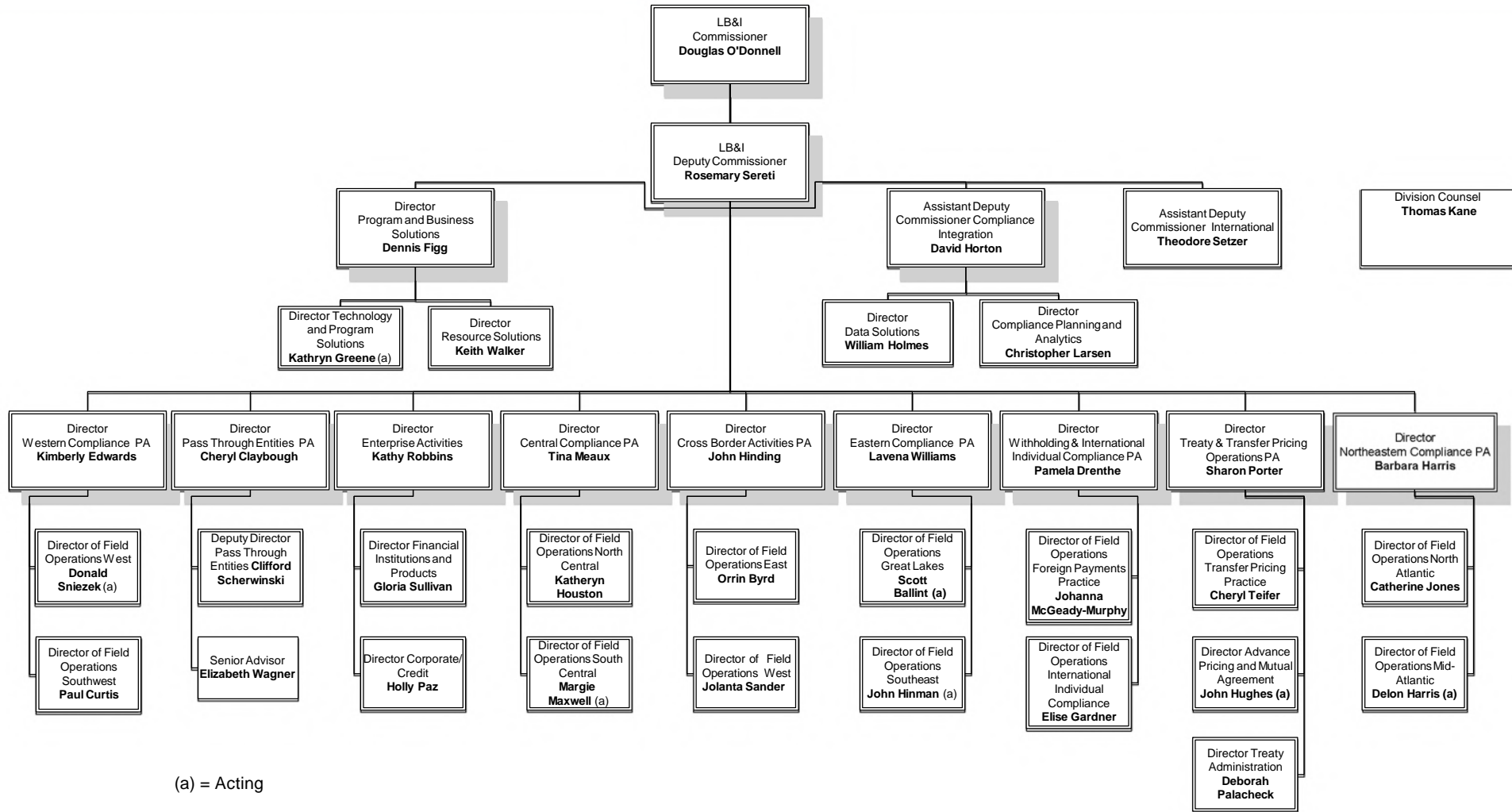
PLAN

Decide what work is performed, who performs it, and what support is needed, based on areas of compliance risk.

The Practice Area Approach

- LB&I will be organized by Practice Areas.
- A Practice Area is a group of employees organized together to focus on one or more areas of expertise.
- Each Practice Area (along with other activities) will study compliance issues within their area of expertise and suggest campaigns to be included in the compliance plan.

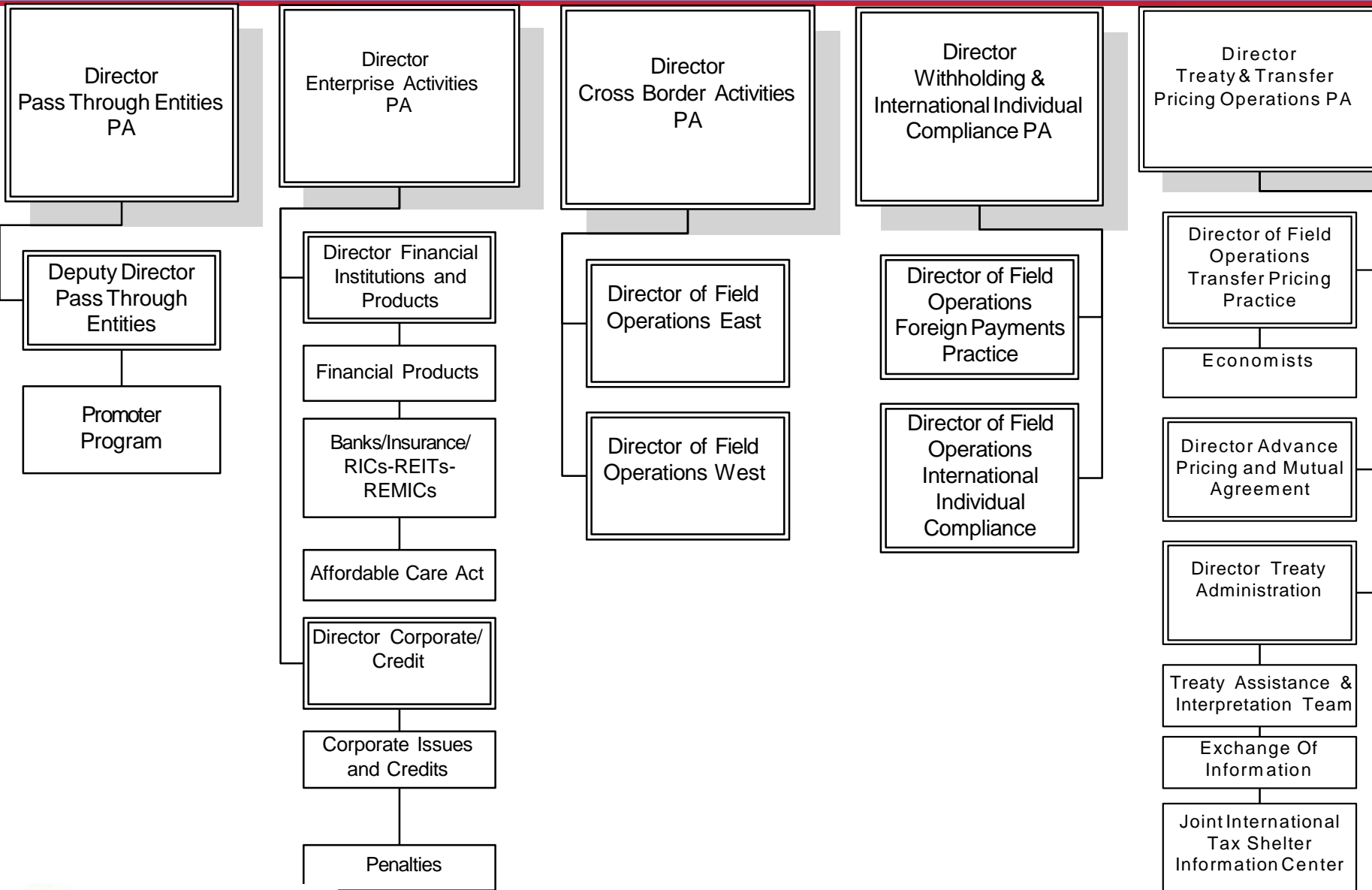
LB&I Organizational Chart



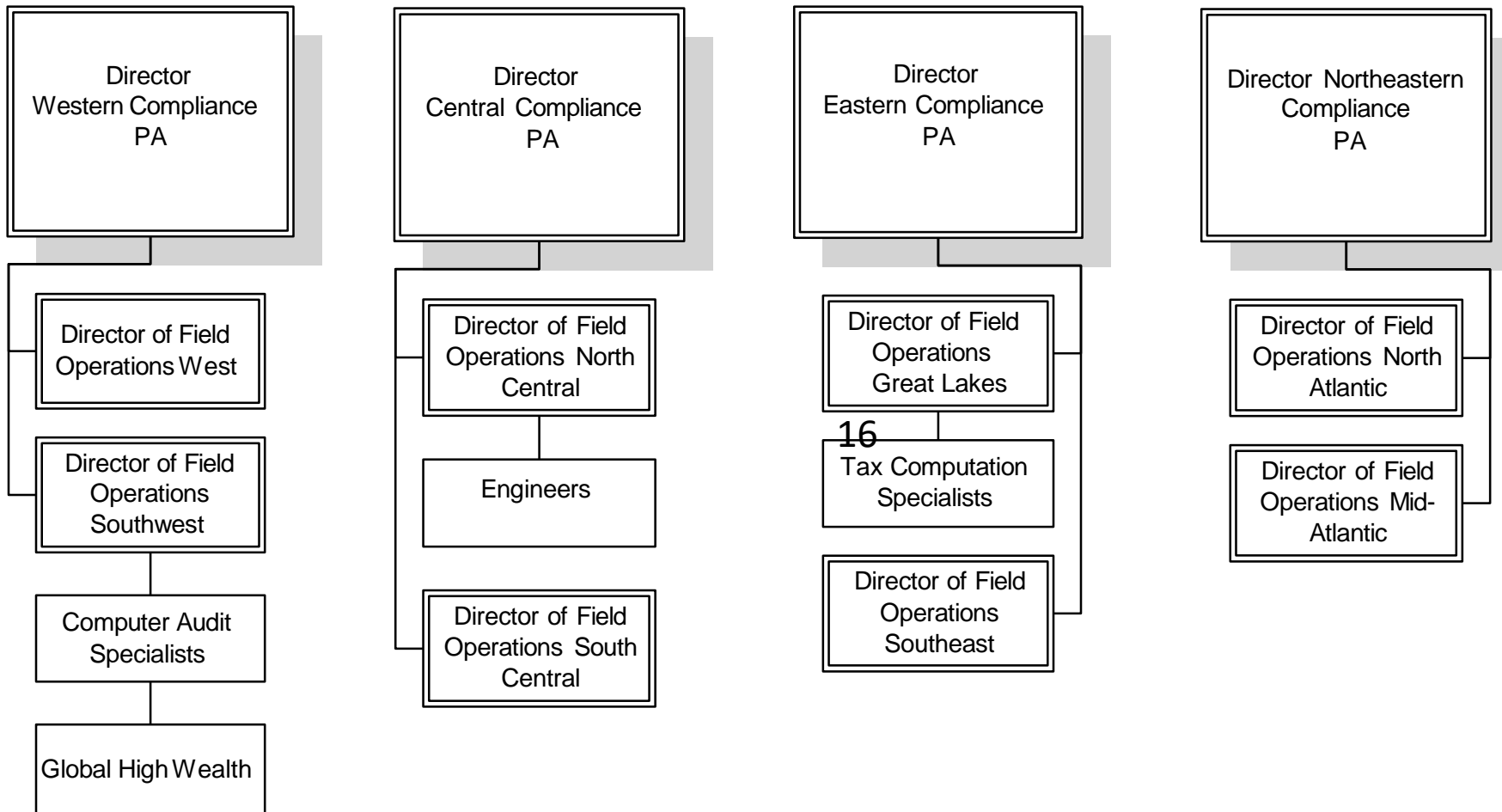
(a) = Acting

Double-lined boxes indicate Executive Level

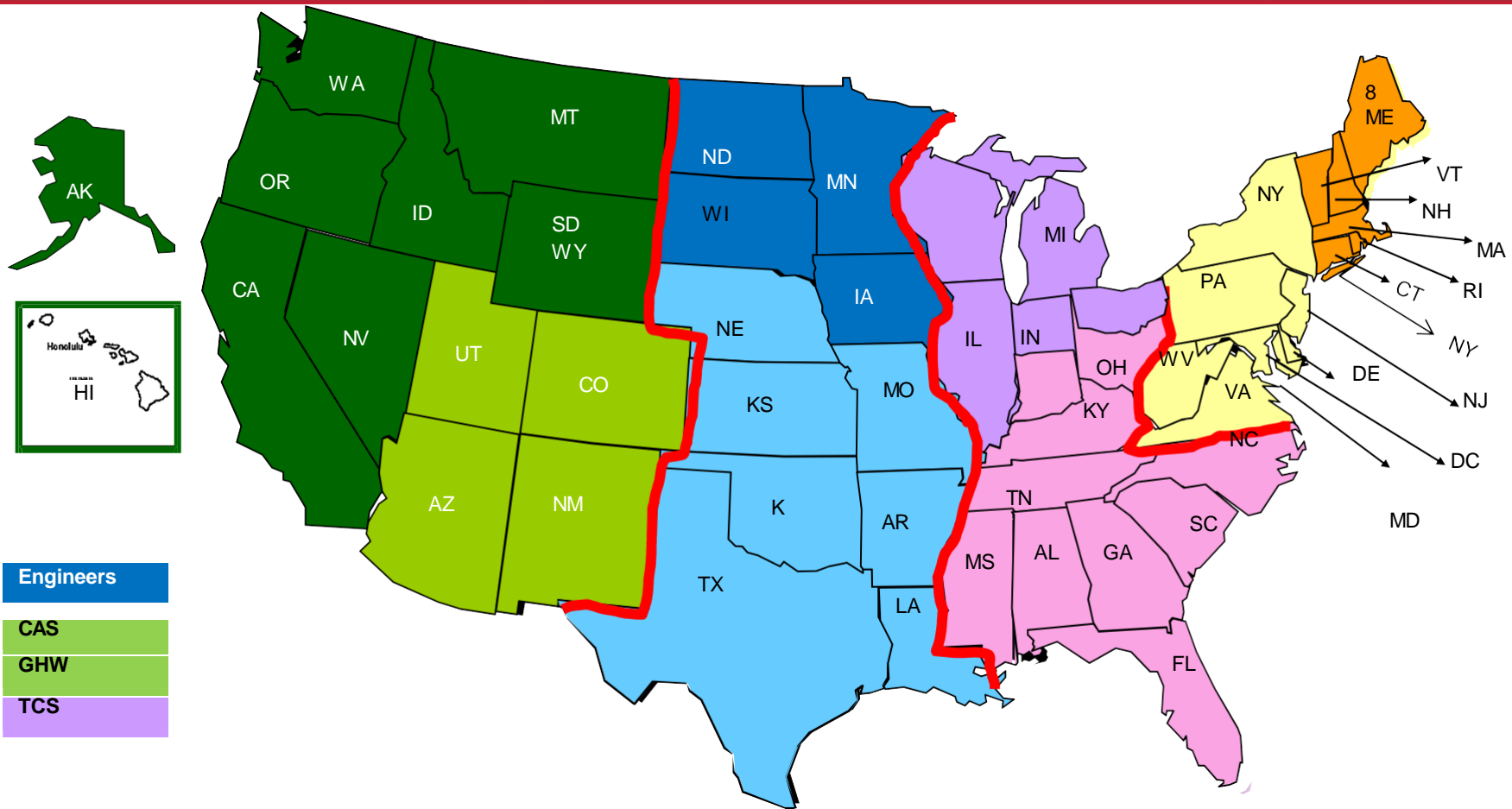
Practice Areas



Compliance Practice Areas



Geographic Practice Area Map



- Engineers
- CAS
- GHW
- TCS

West						North east	
DFO-W	DFO-SW	DFO-SC	DFO-NC	DFO-GL	DFO-SE	FO-NA	DFO-MA

Summary

- The way the world does business is constantly changing — taxpayers are changing and to keep pace LB&I must continuously evolve.
- We will use data and analysis combined with input from the people who know the work best, our experienced examiners and their leaders, to determine the selection of better work (building campaigns).
- We will consider multiple compliance approaches (treatment streams) for campaigns so that we focus our limited and valuable resources in the right areas that drive a specific compliance impact.
- We are committed to ensure that we have a well-trained workforce that is equipped to deal with the complex global tax challenges we face on a daily basis.

Internal Revenue Service Large Business and International Division

Examination Process



Key Changes

- New Publication 5125
 - ✓ Sets clear expectations for examiners, taxpayers and representatives
 - ✓ Issue based examination from first contact to resolution
 - ✓ Environment of transparency and collaboration
- Updates to IRM 4.46
 - ✓ Published March 15

Claim for Refunds

- Requires adherence to Treasury Regs. 301.6402-2 and 301.6402-3
- Informal Claims time frame
- Identification of issues and resources

Issue driven Process

More
efficient fact
development

Optimize
resources

Eliminate
duplication
of efforts

More
Effective
IDRs



Fewer
misunderstandings

More realistic
timeline
estimates

More
unified
Approach

Promote
knowledge
transfer

Planning Phase

- Determines scope of audit
- Select issues with broadest Impact on compliance
- Collaboration among all parties
- Examination Plan reviewed by both parties

Execution Phase

- Outlined issue development process to include the issue-team approach
- Incorporated Information Document Request (IDR) enforcement process
- Added Acknowledgment of Facts step

Resolution Phase

- Emphasizes the use of resolution tools at the earliest appropriate point
- Added expectations to address Issue Exist Strategies

Training, New Publication and New IRM

- Extensive Employee Training
- Feedback Loop in Place
- Publication 5125, LB&I Examination Process and
- IRM 4.46 published

Start Date For All New Cases —
May 1st

Internal Revenue Service Large Business and International Division

LB&I Information Document Enforcement Process

LB&I Information Document Request Enforcement Process

Requirements for Issuing IDRs

- Discuss the issue related to the IDR with the taxpayer.
- Discuss how the information requested is related to the issue under consideration and why it is necessary.
- After this consultation with the taxpayer, determine what information will ultimately be requested in the IDR.
- Ensure the IDR clearly states the issue that is being considered and that the IDR only requests information relevant to the stated issue.
 - ✓ Initial IDR's that requests basic books and records and general information about a taxpayer's business are not subject to this requirement.

IDR Enforcement Process

Specific steps within the IDR Enforcement Process

- The process has three graduated steps:
 - ✓ Delinquency Notice
 - ✓ Pre-Summons Letter
 - ✓ Summons

- This process is mandatory and has no exceptions.

Delinquency Notice (Letter 5077)

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The Delinquency procedures:

- Discuss the Delinquency Notice with the taxpayer.
- Issue the Delinquency Notice signed by the Team Manager to the taxpayer within 10 days of the application of the Enforcement Process.
- The Delinquency Notice should include a response date that is generally no more than 10 business days from the date of the Delinquency Notice.
 - ✓ A Territory Manager must approve any date beyond 10 business days.

Pre-Summons Letter (Letter 5078)

Pre-Summons Letter (Letter 5078)

The Pre-Summons process involves the following steps:

- Discuss the lack of a complete response to the Delinquency Notice with the Team Manager, Specialist Manager, the respective Territory Managers and Counsel and prepare the Pre-Summons Letter.
- The appropriate Territory Manager must discuss the Pre-Summons Letter with the taxpayer.
- Issue a Pre-Summons Letter signed by the appropriate Territory Manager, no later than 10 business days after the due date of the Delinquency Notice.
 - ✓ Address this letter to the taxpayer management official that is at a level equivalent to the LB&I Territory Manager.
 - ✓ This should be a level of management above the taxpayer management official that received the Delinquency Notice.

Summons

Summons

The summons process involves the following procedures:

- Discuss the lack of response to the Pre-Summons Letter with the Team Manager, Specialist Manager, the respective Territory Managers and DFOs, and Counsel and prepare the summons
- Coordinate the issuance of the summons with assigned Counsel
- Summons procedures can be found in IRM 25.5

Collaboration is the Key

Thank you, TEI — Our Partners in Tax
Administration

Happy to Entertain Your Questions

