

OSCPA Tulsa Chapter

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Senior Stakeholder Liaison

May 24, 2016

Correspondence Examinations



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May 24, 2017

The information in this presentation is current as of the date it is presented and should not be considered official guidance.

Objectives

- Review:
 - Correspondence Exam process
 - Issue resolution
 - Case closure

Correspondence Examinations

- Efficient
- Broad compliance coverage
- Highly automated
- Campus operations
- IRS Audits webpage
—www.irs.gov/audits

Inventory Analysis and Selection

- Identify returns with high potential for a tax adjustments using:
 - Results of prior audits
 - Third party information
 - Entries on the return

Inventory Analysis and Selection

- Referrals from:
 - Criminal Investigation
 - Preparer /promoter actions
- Non-filer conditions

Correspondence Examinations

- Defined scope
- Generally less complex
- Focus on documenting specific tax return entries

Common Examination Issues

- Earned Income Tax Credit
- Schedule A
 - Employee business expenses
 - Charitable contributions
- Schedule C
- Emerging issues
- Non-filing conditions

Common Initial Letters and Notices

- Initial contact letters, no examination report
 - CP 18/19 Unallowable Items
 - CP 75/75A – Earned Income Tax Credit
 - CP 06/06A – Premium Tax Credit
 - Letter 566 – Most other issues
- Combination Letter:
 - Letters 1862 or 1864 and examination report

Letter 566



Department of the Treasury
Internal Revenue Service

[Redacted]

[Redacted]

Date: [Redacted]
Taxpayer ID number: [Redacted]
Form: [Redacted]
Tax periods ended: [Redacted]
Contact telephone number: [Redacted]
Contact fax number: [Redacted]
Contact hours: [Redacted]
Person to contact: [Redacted]

We're auditing your [Redacted] Form [Redacted], and need a response from you

Dear Taxpayer:

We're auditing your [Redacted] federal income tax return and need additional information to support the items checked below that you claimed on your return.

- | | | |
|---|--|---|
| <input type="checkbox"/> Filing Status and Exemptions | <input type="checkbox"/> Schedule A - Itemized Deduction | <input type="checkbox"/> Tax Credits |
| <input type="checkbox"/> Head of Household | <input type="checkbox"/> Medical & Dental Expense | <input type="checkbox"/> Foreign Tax Credit |
| <input type="checkbox"/> Exemptions | <input type="checkbox"/> Interest You Paid | <input type="checkbox"/> Earned Income Credit |
| <input type="checkbox"/> Adjustments to Income | <input type="checkbox"/> Gifts to Charity | <input type="checkbox"/> Child Care Credit |
| <input type="checkbox"/> Alimony Paid | <input type="checkbox"/> Casualty & Theft Losses | <input type="checkbox"/> Education Credit |
| <input type="checkbox"/> Moving Expense | <input type="checkbox"/> Unreimbursed Employee Expense | <input type="checkbox"/> Adoption Credit |
| <input type="checkbox"/> [Redacted] | <input type="checkbox"/> Other Miscellaneous Deduction | <input type="checkbox"/> Credit for the Elderly |
| <input type="checkbox"/> [Redacted] | <input type="checkbox"/> Schedule C - Gross Receipts | <input type="checkbox"/> Pension Tax on Early Distributions |
| <input type="checkbox"/> [Redacted] | <input type="checkbox"/> Schedule C - Expenses | <input type="checkbox"/> Premium Tax Credit |
| <input type="checkbox"/> [Redacted] | | |

What you need to do

- Please see the enclosed explanation of the documentation you need to provide.
- Send the documentation to us within 30 days from the date of this letter.



Enclosures with Initial Contact Letters

- Forms 886 and Questionnaires
- Publication 3498-A

Acknowledgement and Interim Letters

- Acknowledgment Letter 3500
- Interim Letter 3501

Publication 3498-A



Publication 3498-A

The Examination Process (Audits by Mail)

This publication will guide you through the audit process and explain your responsibilities and rights during and after an audit. While most returns are accepted as filed, some are selected for audit to determine if income, expenses, and/or credits are being reported accurately.

If you have questions or need help

Please visit www.irs.gov/formspubs/ to find all the IRS tax forms and publications mentioned here, or to do a keyword search on any topic.

You can also visit your local IRS office, or call the number on the letter you received. If you don't have a letter, please call:

- 1-800-829-1040 (individuals)
- 1-800-829-4933 (businesses)

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Common Follow Up Letters and Notices

- Letter 525/692 – Follow-up including the examination report
 - Form 4549
 - Form 886-A
- Letter 3219 - Statutory Notice of Deficiency, (“90 Day” Letter)
- Letter 555 – Follow up after Letter 3219 issuance

Resolve Disagreements and Reconsideration

- Resolve Disagreements
- Reconsideration
 - Publication 3598, The Audit Reconsideration Process

Correspondence Examinations - Key Points

- Respond to notices timely
- Ask for additional time to respond if needed
- Provide a complete and organized response
- Fax or mail documentation
- Work with IRS to resolve issues
- Reconsiderations

Practitioner Priority Service

- For expedited access to Correspondence Exam contact PPS:
 - Call 1-866-860-4259
 - At the voice prompt press or say “6”

**Taxpayer Digital
Communications (TDC) –
Secure Messaging
Correspondence
Examination Pilot Program**



SB/SE TDC Pilot Program

- Correspondence Examinations
 - SB/SE Schedule A audits by mail
 - Philadelphia Correspondence Examination Operation
- Secure Messaging
 - Interaction using secure online environment
- Invitation only
 - Taxpayers and POA clients receive marketing insert

Power of Attorney Participation

- Taxpayers signed up for Secure Messaging
- Taxpayer and their POA must pass the IRS Secure Access
 - POA already in the CAF database
 - POAs authenticate under their SSN

TDC – Secure Messaging

- TDC Secure Messaging pilot launched FY 17
 - Last about 12 months.
 - Weekly mail-outs/invitations rest of FY 17
- 4,200 taxpayer invites

IRS Automated Underreporter Program



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Automated Underreporter Process Overview

- Computer Matching
- Inventory (case) Selection
- Screening
- Responses
- Case closure
- Reconsideration

Automated Underreporter Matching and Case Selection

- IRS matches returns with information from third parties
- Matching begins *after* original return due date
- AUR cases are created after potential discrepancy identification

Automated Underreporter Screening

- Tax examiners attempt resolution of the discrepancy prior to taxpayer contact
- CP 2501 – preliminary contact
- CP 2000 – proposed changes and tax calculations
- Statutory Notice of Deficiency (Letter 3219)

CP 2000



Department of the Treasury
Internal Revenue Service
PO Box 16335
Philadelphia, PA 19114-0439

s018999546711s
JAMES & KAREN Q. HINDS
22 BOULDER STREET
HANSON, CT 00000-7253

Notice	CP2000
Tax Year	2010
Notice date	January 23, 2017
Social Security number	999-99-9999
AUR control number	99999-9999
To contact us	Phone 1-800-829-8310 Fax 1-215-516-2335

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AUR Bar Code

Proposed changes to your 2010 Form 1040

Amount due: \$2,349.00

The information you provided in your December 10, 2016 request for removal or reduction of penalties associated with your 2010 Form 1040 did not meet our guidelines. As a result, we are not removing or reducing any penalties, and the total amount you owe for tax due, including penalties and interest, is \$2,349.00.

Billing Summary

Tax you owe	\$2,519.00
Payments and credits	-410.00
Negligence penalty	60.00
Interest charges	180.00
Amount due by February 22, 2017	\$2,349.00

What you need to do immediately

Review this notice, and compare our changes to the information on your 2010 tax return.

If you agree with the changes we made

- Complete, sign and date the Response form on Page 5, and mail it to us along with your payment of \$2,349.00 so we receive it by February 22, 2017.
- If you can't pay the amount due, pay as much as you can now, and make payment arrangements that allow you to pay off the rest over time. If you want to apply for an installment plan, send in your Response form AND a completed Installment Agreement Request (Form 9465). Download Form 9465 from www.irs.gov, or call 1-800-829-3676 to request a copy. You can also save time and money by applying online if you qualify. Visit www.irs.gov, and search for keyword: "tax payment options" for more information about:
 - Installment and payment agreements
 - Payroll deductions
 - Credit card paymentsOr, call us at 1-800-829-8310 to discuss your options.

If you don't agree with the changes

- Complete the Response form on Page 5, and send it to us along with a signed statement and any documentation that supports your claim so we receive it by February 22, 2017.

If we don't hear from you

If we don't receive your response by February 22, 2017, we will send you a Statutory Notice of Deficiency followed by a final bill for the proposed amount due. During this time, interest will increase and penalties may apply.

Automated Underreporter Response Process

- AUR issues a notice or letter
- Cases are controlled in a suspense file
- The suspense file has a pre-set suspense period based on notice/letter type
- Controlled responses remove cases from suspense
- No response received

Automated Underreporter Response Process

- If taxpayer disputes the proposed liability:
 - Taxpayer sends in response or makes telephone contact
 - IRS AUR Unit reviews taxpayer response
 - Possible phone contact made
 - Determination made on case

Automated Underreporter Responding

- Respond timely
- Include the Response Page – even if faxing the response
- Use the return envelope
- Include detailed explanations
- Provide contact information

AUR - Helpful Hints

- Do not group or net amounts
- Report income on correct line
- Include explanation of incorrect payer data
- Include all back-up schedules

CP 2000 – Practitioner Preferential Call Routing to AUR

- 1) IRS Practitioner Priority Service
1-866-860-4259
- 2) Menu Option 5 - Automated
Underreporter Notice

AUR Compliance Program

- Key Points:
 - Respond to notice
 - Cooperate to resolve issues

Publication 5181



Publication 5181

Tax Return Reviews by Mail CP2000, Letter 2030, CP2501, Letter 2531

While most returns are accepted as filed, some are selected for review to determine if income, credits, and/or deductions are being reported accurately. This publication will guide you through the tax return review process and explain your rights and your responsibilities after receiving a notice proposing additional tax liability.

If you have questions or need help

Please call the number on the notice you receive; that office will be able to view your notice and will provide specific guidance to help you respond with the information or documentation the IRS needs.

Visit www.irs.gov/formspubs to find all the IRS tax forms and publications mentioned here, or to do a keyword search on any topic.

You can also visit your local IRS office or call 1-800-829-1040 (individuals) or 1-800-829-4933 (businesses).

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THANK YOU!!!

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