

Correspondence Examinations



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Objectives

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



Correspondence Examinations

- Efficient
- Broad compliance coverage
- Highly automated
- Campus operations



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Correspondence Examinations

- IRS Audits webpage
—www.irs.gov/audits
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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

- Refundable Tax Credits
 - Earned Income Tax Credit (EITC)
 - Child
 - American Opportunity
- 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 75/75A – Earned Income Tax Credit
 - CP 06/06A – Premium Tax Credit
 - Letter 566 – Most other issues
- Initial contact letters, examination report
 - Letter 1862
 - Letter 2194



Initial Letters and Notices Enclosures

- Forms (listing requested documentation) and Questionnaires
- Publication 3498-



Acknowledgement and Interim Letters

- Acknowledgment Letter 3500
- Interim Letter 3501



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



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”

Successfully Dealing with Correspondence Audits & IRS Notices

Practitioner Tips & Suggestions
by Barbara Doherty, Tax
Attorney

Practitioner Tips and Suggestions

Practitioner Tips and Suggestions

- Initial Response.
 - Call, fax or mail as indicated in the examination letter.
 - Consider if an experienced tax attorney, or criminal tax attorney, should be referred.
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Practitioner Tips and Suggestions

- Taxpayer or representative should provide all requested information.
 - All materials should be printed, banded together with clear summary pages to indicate the detail therein.
 - Be very specific with what information is being provided and what income or deduction amounts you are requesting.
- Be prepared for several exchanges of information by fax or mail.
 - Not all the adjustments will be seen in an IRS response.
 - May have to request some adjustments a second or third time.
- Appeals cannot consider new information so a case will be returned to Exam for review of any new information.

Practitioner Tips and Suggestions

- Prepare research ahead of time if you know an item of income or expense will be contested.
 - Include the law and research subtlety in your correspondence.
 - On appeal, you can provide your legal analysis developed in your earlier writings.
- Always replicate the original return data.
- Amend any return information to isolate the additional tax with the changes you want, and later with the agreed examination changes.
 - Calculate the expected tax before the IRS provides the revised changes so you will know **immediately** if the agreed changes were processed correctly.
 - Estimate penalty and interest with a few quick multipliers.
 - Do not forget there are opportunities for penalty abatement.

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Internal Revenue Manual 25.1.2.3 (06-09-2015) Indicators (Badges) of Fraud

- Omissions of entire sources of income
- Substantial unexplained increases in net worth, especially over a period of years
- Substantial excess of personal expenditures over available resources
- Bank deposits from unexplained sources substantially exceeding reported income
- Concealment of bank accounts, brokerage accounts and other property
- Failure to deposit receipts to business account, contrary to normal practices
- Substantial overstatement of deductions
- Keeping two sets of books or no books
- False statement, especially if made under oath, about a material fact involved in the examination
- Patterns of consistent failure over several years to report income fully
- Use of secret bank accounts for income
- Deposits into bank accounts under nominee names

Questions?

