Correspondence Examinations

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Correspondence Reporting Compliance Programs

• Two major compliance programs within the Campus Reporting Compliance Organization:
  – Correspondence Examination
  – AUR – Automated Underreporter
• Similarities and the differences between AUR and Exam

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Similarities between AUR and Campus Exam

• Notice progression
• A timely written response includes:
  – Response page
  – Detailed explanation for each issue with supporting documents attached
  – Contact number
  – Using the envelope provided
  – Sign the notice and submit payment if you agree with the notice
Audit Selection

- Discriminate Function Audits (DIF scores)
  - Based on the scoring of a tax return
  - Return sent to review
  - Possible audit selected, field, office audit or correspondence audit
  - CP 2000 Notice is not considered an audit
  - Correspondence audits generally one or two issues

Audit Selection

- Classification Audits
  - Campus selected audits
  - Based on DIF score
  - But a human touch is involved

Audit Selection

- Referral Audits
  - Preparer audit
  - An audit cross reference
  - Criminal Investigation
### Correspondence Examination

#### Inventory Selection

- Original or amended returns with potentially questionable deductions, expenses or credits
  - Use data to identify returns with high potential for a tax adjustment
    - Third party information
    - Potentially inconsistent line items on the return
- Referrals from IRS Electronic Fraud Detection System, Criminal Investigation and preparer/promoter actions

### Correspondence Examination Audit

#### Issues

- Earned Income Tax Credit
- Certain non-filing conditions (SFR)
- Schedule A issues
  - Employee business expenses
  - Charitable contributions
- Emerging issues and tax credits (child care, adoption, dependent issues etc.)
- Education Credits (1098-T)
- Schedule C issues (grouping deductions)

### Substitute For Return (SFR)

- Non-filer situation
- Based on information documents
- Generally, single no dependents (least advantageous filing status)
- File an original return
  - IRS will overlay the return information into the record
Correspondence Examination Letters and Notices

- Initial contact letters (CP 75 and L 566)
- No examination report
  - CP 75 (75, 75A, 75D) for EITC and dependency issues
  - Letter 566 – For most non-EITC issues
- Letter 525 – Follow up letter including the examination report (Form 4549)
- Statutory Notice of Deficiency (Letter 3219) “90 day Letter

Additional Information Included

- Publication 1 Your Rights as a Taxpayer
- Publication 3498A The Examination Process
- Publication 5 Your Appeal Rights
- Generally, Form 886 or Form 4564 (IDR) requesting information of the issue being audited
- Various other Letter and Notice forms can be used

Form 886

Form 886-A (Rev. 6-2015)  Supporting Documents to Prove American Opportunity Credit

We need to verify if you are eligible to claim the American Opportunity Credit shown on your tax return. Please provide documentation of associated items, receipts for tuition fees and books as well as tax transcripts from the educational institution. If you received payments for educational expenses, you will need to provide one of the following documents that apply:

- Employer provided educational assistance benefit
- Scholarship from any educational institution arrangement
- U.S. Savings bond interest that is reasonable because you paid qualified education expenses
- Veteran’s educational assistance benefits
- Any other reasonable payment received for education expenses
- Form 1098-T, an amount must be entered in Box 1 showing Payments received for qualified tuition and related expenses

Note: The following expenses are not allowable and do not qualify for the American Opportunity Credit

- Insurance
- Medical expenses (including dental and vision)
- Room and Board
- Related personal, living or family expenses. This is true even if the amount must be paid to the institution as a condition of enrollment or attendance
Form 4564

Correspondence Exam Practitioner Concerns

- Practitioner Priority Service
- Streamlined mail processing
  - IRS is conducting a Major assessment of Correspondence Exam
  - Reviewing and analyzing external feedback
  - Corrective actions based on findings
  - Efforts and pilots to enhance service and processing
- Longer term strategies (e-Communication)

Return Preparation Issues

- Do not net amounts
- Include a breakdown of grouped amounts
- Include any corrected payer documents
- Report income on the correct line
- Include all back-up schedules
Working the Audit

• Key points:
  – Respond to IRS notice
    • Carefully review the information requested
    • Respond to each issue and provide the documentation to prove your deduction or credit
    • More is always better
  – Work with them to resolve the issues
  – Request additional time if needed

Issue Tips

• Charitable Contributions
  – Cancelled checks front and back
  – Document from the organization
    • No goods or services exchanged
    • Contemporaneous in nature

• Education Credits
  – Information about the individuals
  – School attended and dates
  – Lists and receipts of deductible expenses allowed

Issue Tips

• Employee Business Expense
  – Common Sense
  – Description of job
  – Beginning and ending Odometer
  – Mileage Logs
    • Business Purpose
    • Total Mileage
    • Receipts for other expenses
    • Dates
### Issue Tips

• Child and Dependent Care  
  – Receipts of Payment  
  – Care giver information  
  – Children information (under 13 or disabled)

### Issue Tips

• Earned Income Tax Credit  
  – Any due diligence document addressing Form 8867 questions and answers  
  – Birth certificates for dependents that qualify for EITC

### Issue Tips

• Dependents  
  – Birth certificates  
  – Form 8332  
  – Number of nights spent the home  
  – Divorce degree without conditions
When is To Long, To Long?

- IRS is behind in the Correspondence Exam Process
  - Depending on the issue, exam could take 6+ months or more
  - Taxpayers have a right to the progress of the examination
  - Taxpayers have a right to appeal
    - Make sure the request states the fact that you want the Case to go to Appeals

Appeals

- How to file a Small Case Request
  - You may submit a Small Case Request if the entire amount of additional tax and penalty proposed for each tax period is $25,000 or less.
  - Note: Employee plan, exempt organizations, S corporations and partnerships are not eligible for Small Case Requests.
  - Use Form 12203, Request for Appeals Review, or the form referenced in the letter to file your appeal, or prepare a brief written statement. List the disagreed item(s) and the reason(s) you disagree.

Formal Written Protest

- A formal written protest is required in all cases to request an Appeals conference, unless you qualify for the Small Case Request procedure.
- How to file a Formal Written Protest
  - Include all of the following:
    - Your name, address, and a daytime telephone number.
    - A statement that you want to appeal the IRS findings to the Office of Appeals.
    - A copy of the letter you received that shows the proposed change(s).
    - The tax period(s) or year(s) involved.
    - A list of each proposed item with which you disagree.
    - The reason(s) you disagree with each item.
    - The facts that support your position on each item.
    - The law or authority, if any, that supports your position on each item.
Formal Written Protest

- The penalties of perjury statement as follows: “Under the penalties of perjury, I declare that the facts stated in this protest and any accompanying documents are true, correct, and complete to the best of my knowledge and belief.”
- Your signature under the penalties of perjury statement.
- If your representative prepares and signs the protest for you, he or she must substitute a declaration for the penalties of perjury statement that includes:
  - That he or she submitted the protest and any accompanying documents, and
  - Whether he or she knows personally that the facts stated in the protest and any accompanying documents are true and correct.
- You must send your formal written protest within the time limit specified in the letter that offers you the right to appeal the proposed changes. Generally, the time limit is 30 days from the date of the letter.

When do you Ask for an Audit Transfer?

- Practitioners, should first to address the complexity of the return.
- If the issue is complex in nature or the records are voluminous, you will need to address this issue as well.
- The location of books and records and their organization could also be a factor.
- The available IRS resources are also an issue.
- Do not simply say that you want to transfer the audit.
- You must state your case. Use terms like “in the interest of tax compliance” and “a more efficient audit can be conducted.” Make sure you DO NOT use terms like, “we are in the middle of tax season,” or “it is just not convenient to have the audit in the campus or at the location proposed.”
- Remember, you need to make the case for a transfer.

Requesting an Audit Transfer

- Requests by taxpayers to transfer the place of examination will be resolved on a case-by-case basis, using the following criteria set forth in Treas. Reg. §301.7605-1(e).
  - The location of the taxpayer’s current residence;
  - The location of the taxpayer’s current principal place of business;
  - The location at which the taxpayer’s books, records, and source documents are maintained;
  - The location at which the IRS can perform the examination most efficiently;
  - The IRS resources available at the location to which the taxpayer has requested a transfer; and
  - Other factors that indicate that conducting the examination at a particular location could pose undue inconvenience to the taxpayer.
## Notice Statistics

- Over 8 million IRS notices sent out each year  
- Over 4.5 million CP 2000s are sent out each year

## Automated Underreporter (AUR)

- CP 2000 notices are generated under math error and matching programs  
- Corrections made using math error authority (CP 2000) fall under IRC 6213  
- CP 2000 cases are not examinations  
- CP 2000 cases cannot be transferred to field examination
AUR Matching Process

- IRS matches returns with information from third parties
- Matching begins after original return due date
  - Within 7 months
  - Need to ensure all information returns have been received
  - Complexity of the matching process

AUR Matching Process

- AUR case created after discrepancy identified
- Tax examiners attempt resolution of discrepancy prior to taxpayer contact

AUR Matching Process

- Tax return is received by the IRS
- IRS matches information on tax return to information provided by third parties
- Some mismatches generate an automatic CP 2000
- Tax examiners review most situations
Information Reviewed by AUR

• Third party information
• For electronically filed 1040 returns, the tax examiner reviews all the information in the tax return database.

CP 2000 Process

• Tax examiner determines CP 2000 required
  – CP 2000 notice issued
  – IRS waits for taxpayer response
• If taxpayer disputes the CP 2000 findings:
  – Taxpayer sends in response to CP 2000
  – IRS AUR Unit reviews taxpayer response
  – Possible phone contact made
  – Determination is made on case

Hints for Responding to a Notice

• If you agree to the notice, sign and return.
• If you don’t agree, explain why not in detailed WRITTEN response.
Hints for Responding to a Notice

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

Hints for Responding to a Notice

• Use the envelope enclosed with the notice to respond to the notice.
• Staple the bar-coded notice response page to the top of the response.
• Staple the entire notice response package together.
• On each page of the response, write the name control, the whole SSN, the tax year.

Hints for Responding to a Notice

• File amended returns used to respond to a notice with the notice response.
• Request that the AUR unit call if questions arise while reviewing a notice response.
• Include a contact phone number and best days and times to call in the notice response.
Representing Clients

- Taxpayers may authorize practitioners to represent them on AUR cases by:
  - Filling out appropriate section on page 4 of the CP 2000
  - Filing Form 2848, Power of Attorney and Declaration of Representative
- Practitioners may use e-Services (Disclosure Authorization) to submit F 2848

CP 2000 – Practitioner Preferential Call Routing to AUR

1) IRS Practitioner Priority Service 1.866.860.4259

2) Menu Option 6 - Automated Underreporter Notice

Calling the AUR Unit

- Call AUR within the notice response period to get a 30 day extension for a CP 2000 notice
  - Extension starts from the date the practitioner calls
- Call AUR to check to see if a notice response has been received
  - Wait at least 2 weeks after mailing response
Reasons NOT to Call the AUR Unit (& ask them to call you!)

When practitioners call AUR related to wage and investment related issues:
• The assistor can only see if correspondence has been received
• The assistor does not have access to the taxpayer’s file
• The assistor does not have access to the taxpayer’s correspondence or supporting documentation

Suggestions for Practitioners

• When sending in a response, ask the AUR examiner to contact you.
• Give a contact number and the best time to call. For example:
  – “If this documentation is not sufficient to clear up this issue, please call me at (phone number) on Tuesday mornings between 8:00 and 10:00 am or Thursdays between 3:00 and 5:00 pm

Reasons to Request a Call From the AUR Unit

When AUR calls practitioners related to wage and investment related issues:
• The assistants have taxpayer’s file in front of them when making the call.
• The assistants have access to any correspondence has been received, including scanned correspondence
Suggestions for Practitioners

• Ask the assistor for a synopsis of the call before hanging up (read the call notes back to you)
  – Make sure the important points of the discussion were accurately recorded
  – Opportunity to clarify any points of confusion

AUR Initiatives

• Telephone automation
• Enterprise e-Fax
• Notice clarity
• Improved inventory selection
• Program expansion for new income reporting

AUR Compliance Program

• Key Points:
  – Respond to notice
  – Cooperate to resolve issues
• Significant compliance program
  – More than $6.4 billion assessed
• Questions?
CALT Website

http://www.calt.iastate.edu/

July Webinars

- Preparing for an IRS Audit – July 22, Noon to 1:00 - Your client has been informed that they will be subject to an IRS audit. Tips on how to prepare, what information you should gather, pre-audit analysis and other issues will be discussed.
- Issues Related to Estates, Procedures and Developments in Estate Tax Law – July 23, Noon to 1:00 - What’s new with Estates tax law? An overview of some of the recent estate issues and a review of typical estate tax issues that you face with your clients.

2015 Ethics Summer Webinars

- July 15, 2015 To register: http://goo.gl/JBkNu
- August Ethics Webinars will post soon to the CALT website
- August 3 Part 2
- August 11 Part 1
- August 12 Part 2
- August 18 Part 1
- August 19 Part 2
- Remaining Ethics webinars will all be held in December
Upcoming August Webinars

• August 4 – 10 and W-4 Compliance with Hiring Employees: Your client hires employees and comes to you to get started correctly. This class will review the forms necessary to be in compliance with Immigration, the IRS, Iowa Workforce Development and the Iowa Department of Revenue. The majority of the discussion will center on the federal requirements.

• August 5 – Minister Tax Law: Under the Internal Revenue Code of 1986 ministers are accorded some unique tax benefits for income, social security and Medicare taxes, which present several potential examination issues on ministers’ tax returns in addition to income and expenses issues found in most examinations. We will discuss the following issues; Parsonage/Housing Allowance, Gift or Compensation Issues: Self-Employment Tax, Employee or Independent Contractor and Business Expenses: Operation of Section 265.

• August 6 – Form 941 and Matching with Form W-2: IRS match Forms W-2 to information on annually reported on Form 941. Where the numbers don’t add up IRS issues a Combined Annual Withholding Report Notice (CAWR) and it’s up to you to assist your client in resolving the discrepancies. Tips on how to resolve the issues and prevent the notices from being issued will be discussed.

• August 10 – Fringe Benefits: An overview of fringe benefits that employees enjoy and whether or not they are taxable income or exempt from tax will be discussed. Publication 5137 will be used for this class.

2015 Farm Tax Schools

• November 9, 2015 to December 15, 2015
• 8 Locations in Iowa
• Registration and the Fall Brochure will be out in August
• The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations.
• The program stresses practical information to facilitate the filing of individual and small business returns, in addition to farm returns.

2015 Farm Tax Schools- Dates and Locations

• Waterloo: Nov 9-10
• Sheldon: Nov. 10-11
• Red Oak: Nov. 11-12
• Ottumwa: Nov. 12-13
• Mason City: Nov. 16-17
• Maquoketa: Nov. 23-24
• Denison: Dec. 7-8
• Ames: Dec. 14-15 – live as well as attendance via webinar available
CALT Website

http://www.calt.iastate.edu/

Tour of the CALT Website

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Scoop Dates for Post Filing Season

- July 15, 2015
- August 5, 2015
- September 23, 2015
- October 21, 2015

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