Analysis of Ten Year Trends in Large Business Examination Results (Fiscal Years 2001 – 2011)

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IRS Database

- Audit Information Management System ("AIMS")
- Audit Computer Information System ("ACIS")
- Issue Management System ("IMS")
- Coordinated Examination Management Information System for Large Cases ("CEMIS")

Audit Recommended Dollars for FY 2001 to 2011

Dollars Recommended ($B)	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Total Corporate Audits (Assets over $10 M)	$13.25	$14.30	$13.04	**$15.93**	**$31.52**	$26.68	$24.87	$25.20	$29.65	$25.23	$24.78
Corporate Audits (Assets $10 -250M)	$0.49	$0.64	$0.78	$0.73	$1.40	$1.17	$0.73	$0.90	$1.10	$1.49	$0.93
Corporate Audits (Assets over 250M)	$12.76	$13.66	$12.26	$15.20	**$30.12**	$25.51	$24.14	$24.30	$28.55	$23.74	$23.84

Issue to Address

- Why did LB&I field examination results in dollars double in 2005 compared with prior years? And why did they remain constant thereafter?
- Was there a particular sub-industry or IRC Code Section issue that drove the increase?
- Were the recommended dollars generated from a small group of entities?
- How can LB&I management use the results of this study to support future decision making?

Findings

- The FY 2004 LB&I Special Initiative to Improve Business Results by decreasing cycle time on both Industry Cases ("IC") and Coordinated Industry Cases ("CIC") Examinations appears to be successful.

- LB&I introduced issue tiering in FY 2006, which did help in focusing IRS resources on the most significant issues.

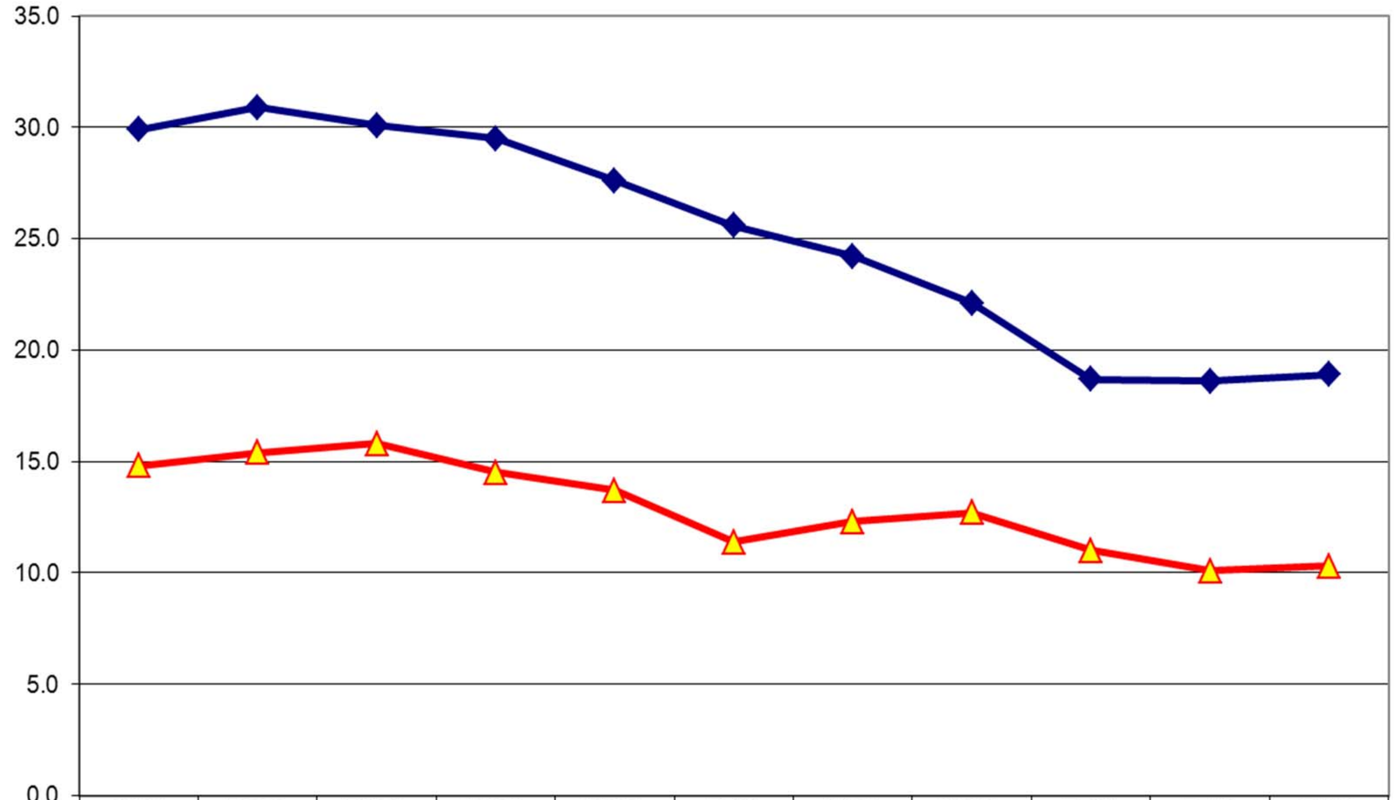
- The exam recommended dollars in FY 2005 and thereafter were mostly driven by a small number of sub-industries. These sub-industries are Utilities, High Technology, Petroleum, Commercial Banking, Securities and Financial Services and Telecommunications.

- The major issues that drove the increase in examination dollars appear to be transfer pricing and capitalization.

- The increase in recommended dollars appeared to be concentrated in a small group of CIC cases. We identified 147 CIC examinations that drove examination results from FY 2001 through FY 2011.

LB&I Special Initiative to Improve Business Results

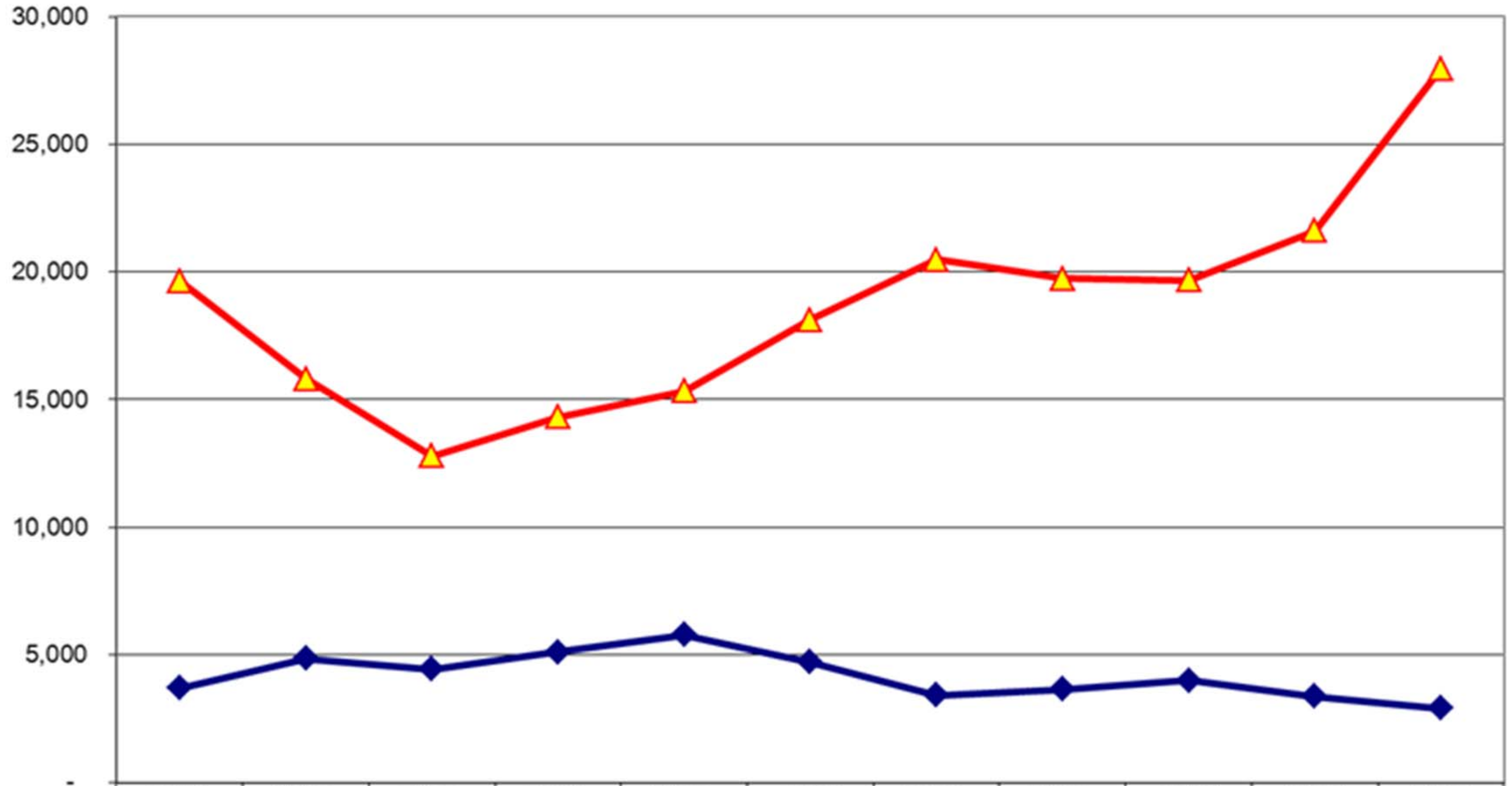
Cycle Time – Status 12* to Close (Month)



	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
CIC Cycle Time	29.9	30.9	30.1	29.5	27.6	25.6	24.2	22.1	18.7	18.6	18.9
IC Cycle Time	14.8	15.4	15.8	14.5	13.7	11.4	12.3	12.7	11.0	10.1	10.3

*Status 12: Tax Return in Examination Status

Return Closures



	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Total CIC Returns	3,676	4,849	4,426	5,098	5,760	4,697	3,420	3,632	3,992	3,366	2,894
Total IC Returns	19,648	15,822	12,792	14,310	15,318	18,121	20,467	19,727	19,678	21,599	27,926

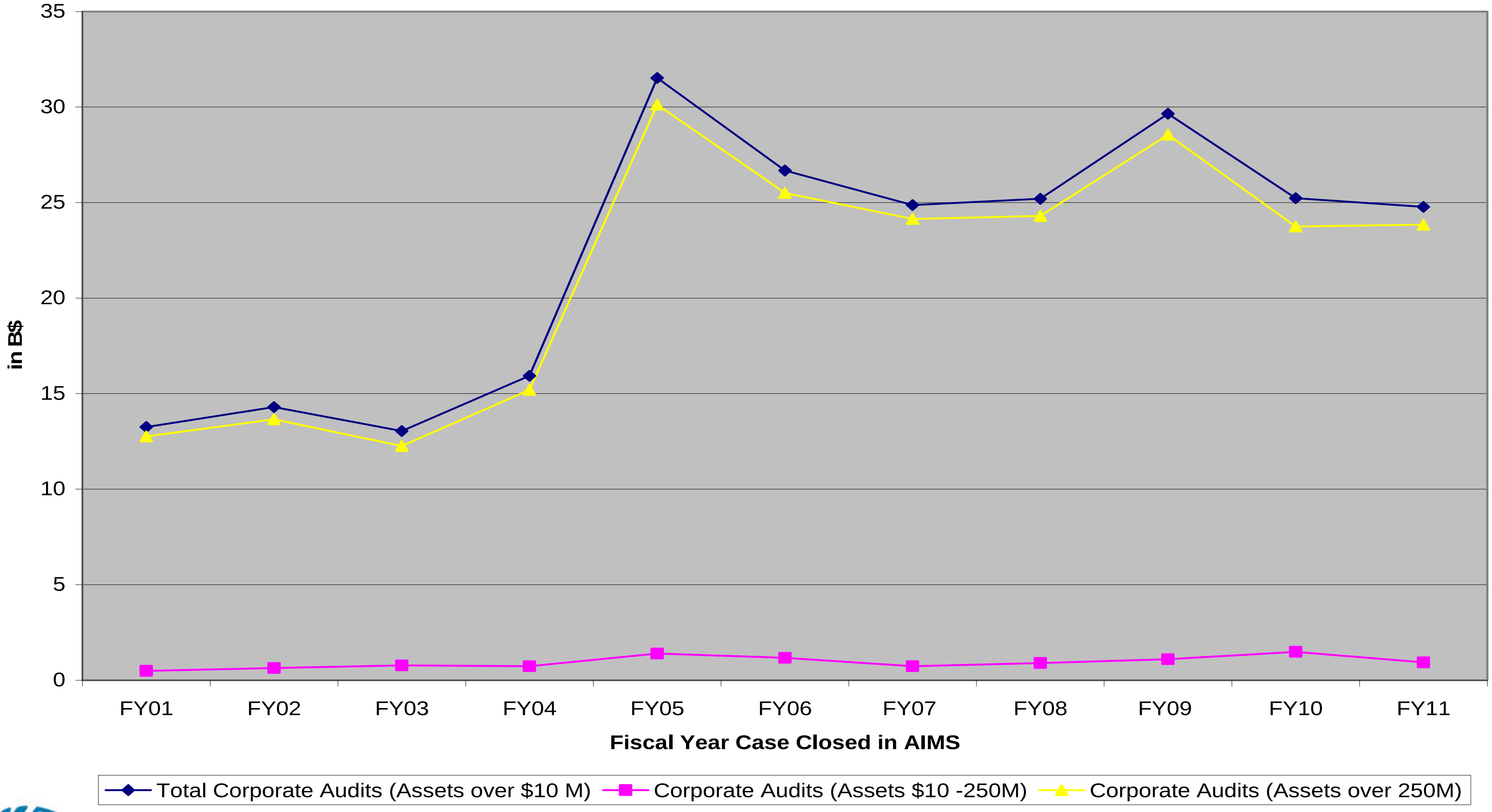
Issue Tiering

Issue Tiering

- Transfer of Intangibles / Offshore Cost Sharing
- Foreign Tax Credit Generator
- Research Credit Claims
- All Recognized and Listed transactions (Reportable Transactions on Form 8886)
- Section 199, Domestic production Deduction

Data Analysis

Large Corporate Audit – Recommended $ (In B$) by Assets Size



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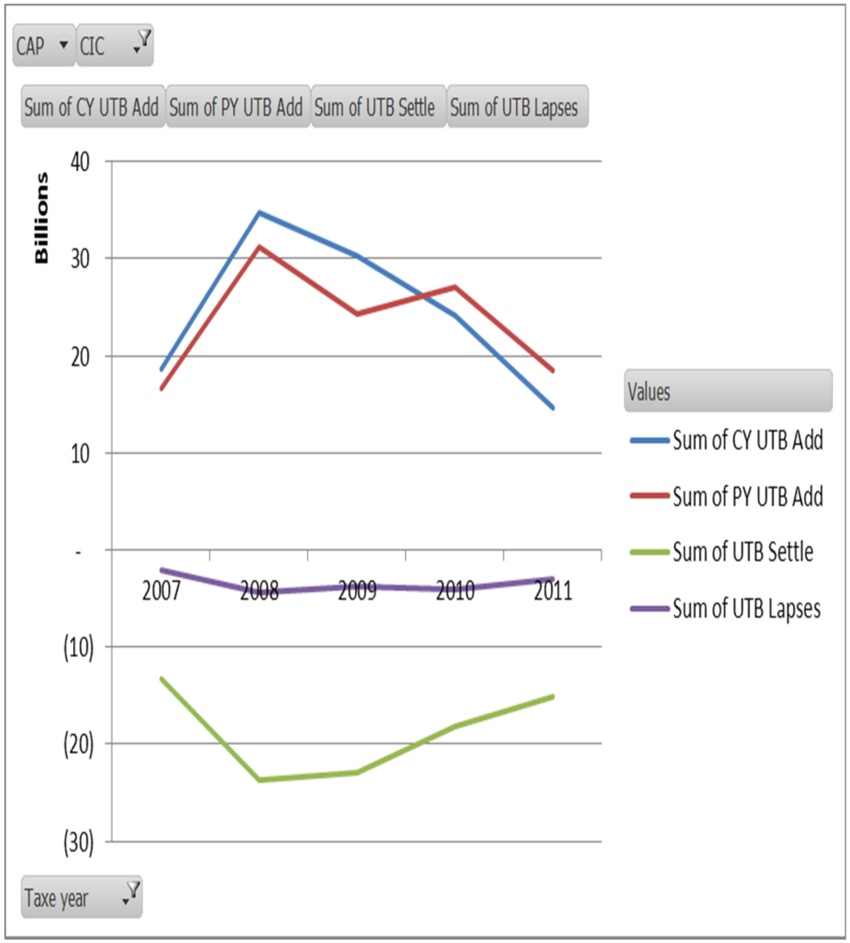
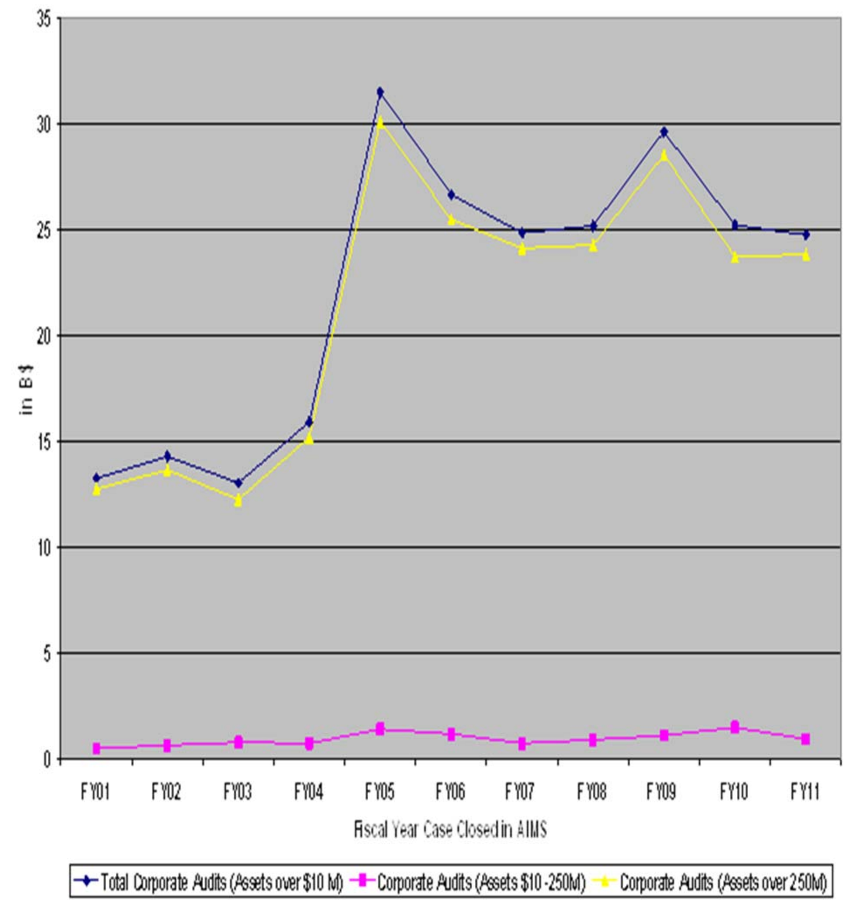
Selection of CIC Taxpayers

- Selection based on Taxpayer Identification Number (TIN)
  - CIC Taxpayer
  - Disposal code 07 (unagreed)
  - Accumulated Exam Audit Amount exceed 250 million dollars during the period

Case Closed 2001-2011	**Selected CIC**	**LB&I Population**	**%**
Audit Amount (in Millions)	127,203	179,886	71%
Number of Audited Taxpayer	147	8,443	2%
Number of Audited tax return	6,778	41,873	16%

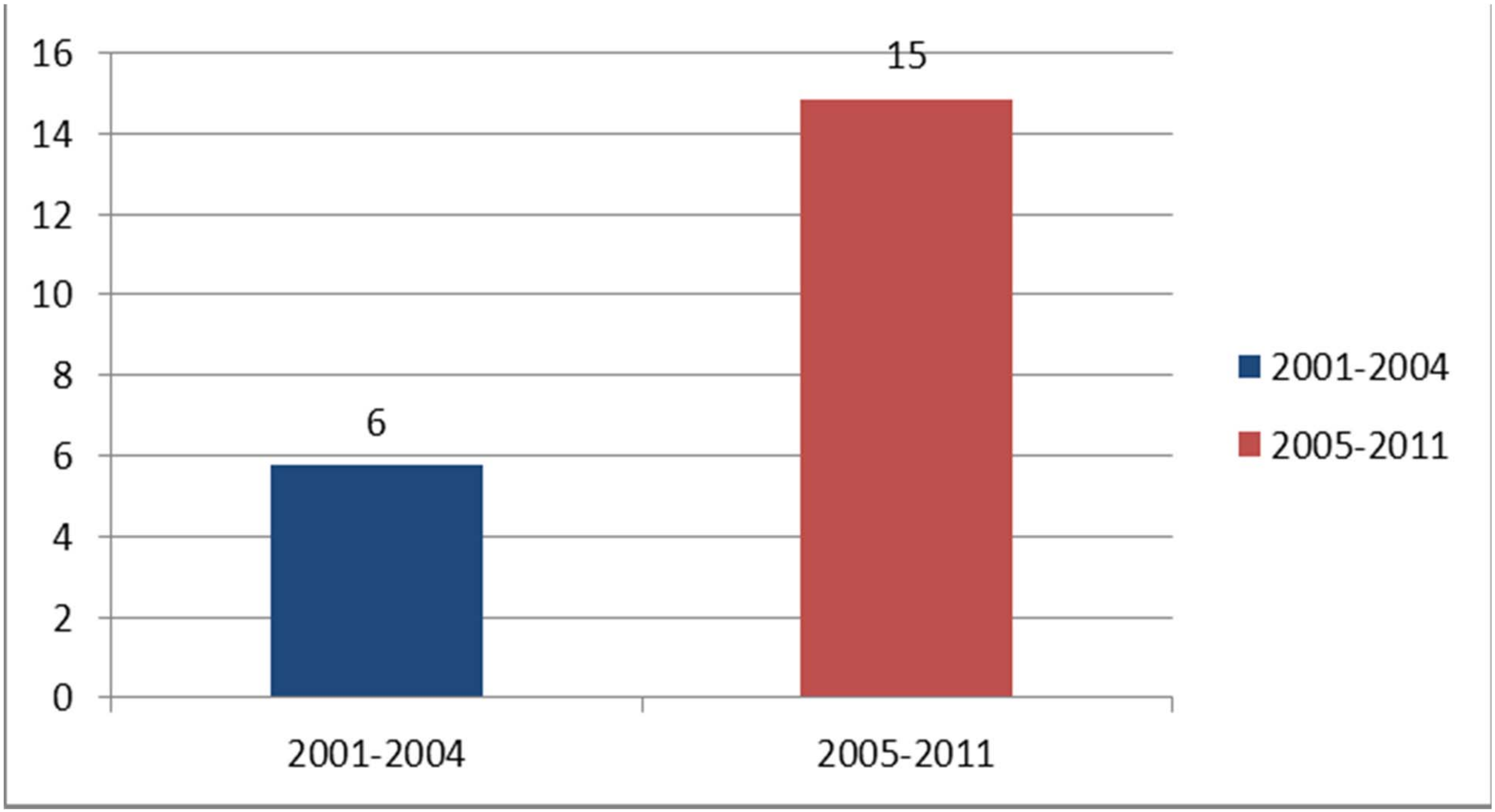
Uncertain Tax Benefit (UTB) Characteristics





Selected Taxpayers Characteristics

Selected CIC Taxpayers' Two period Average Examination Recommended Dollars



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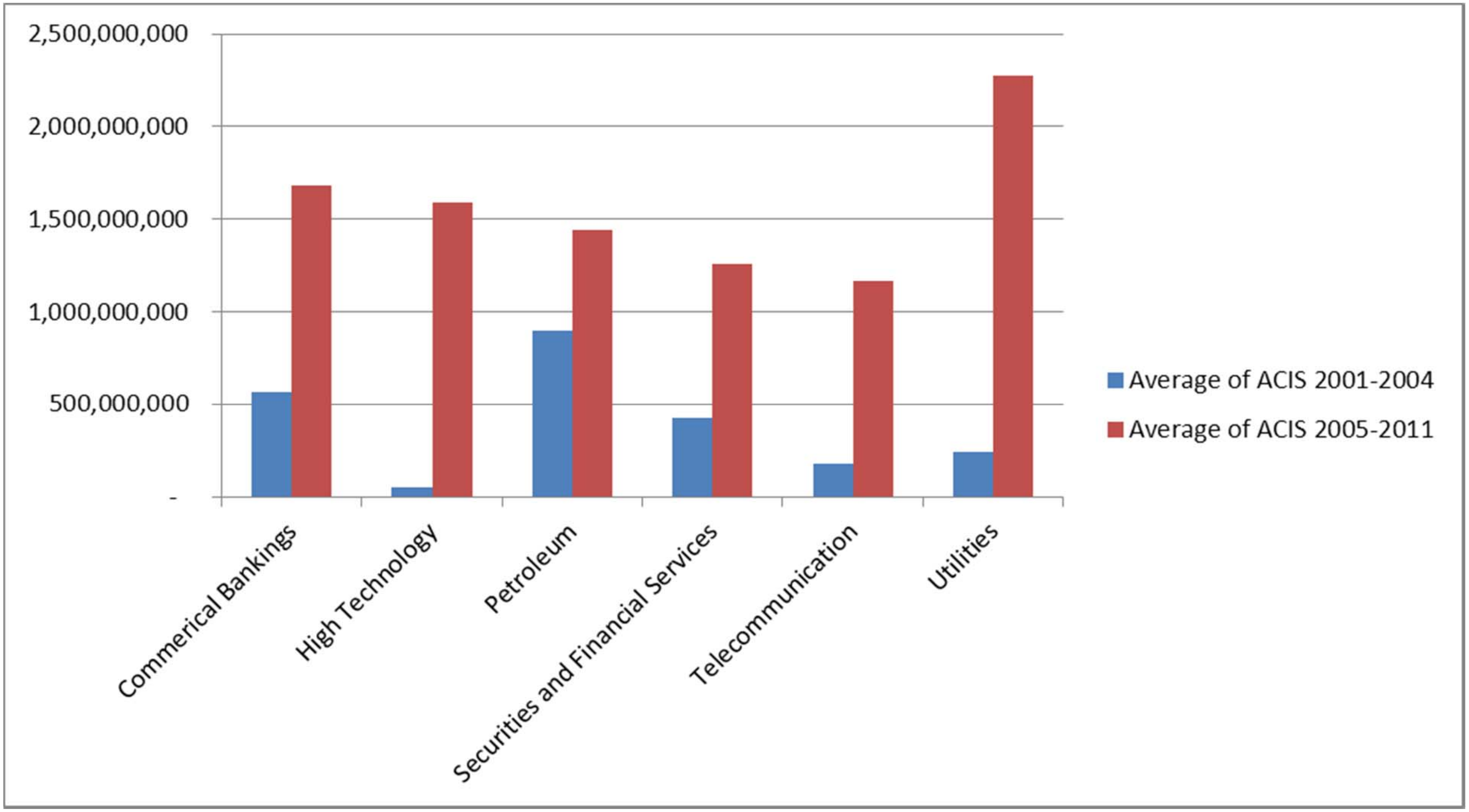
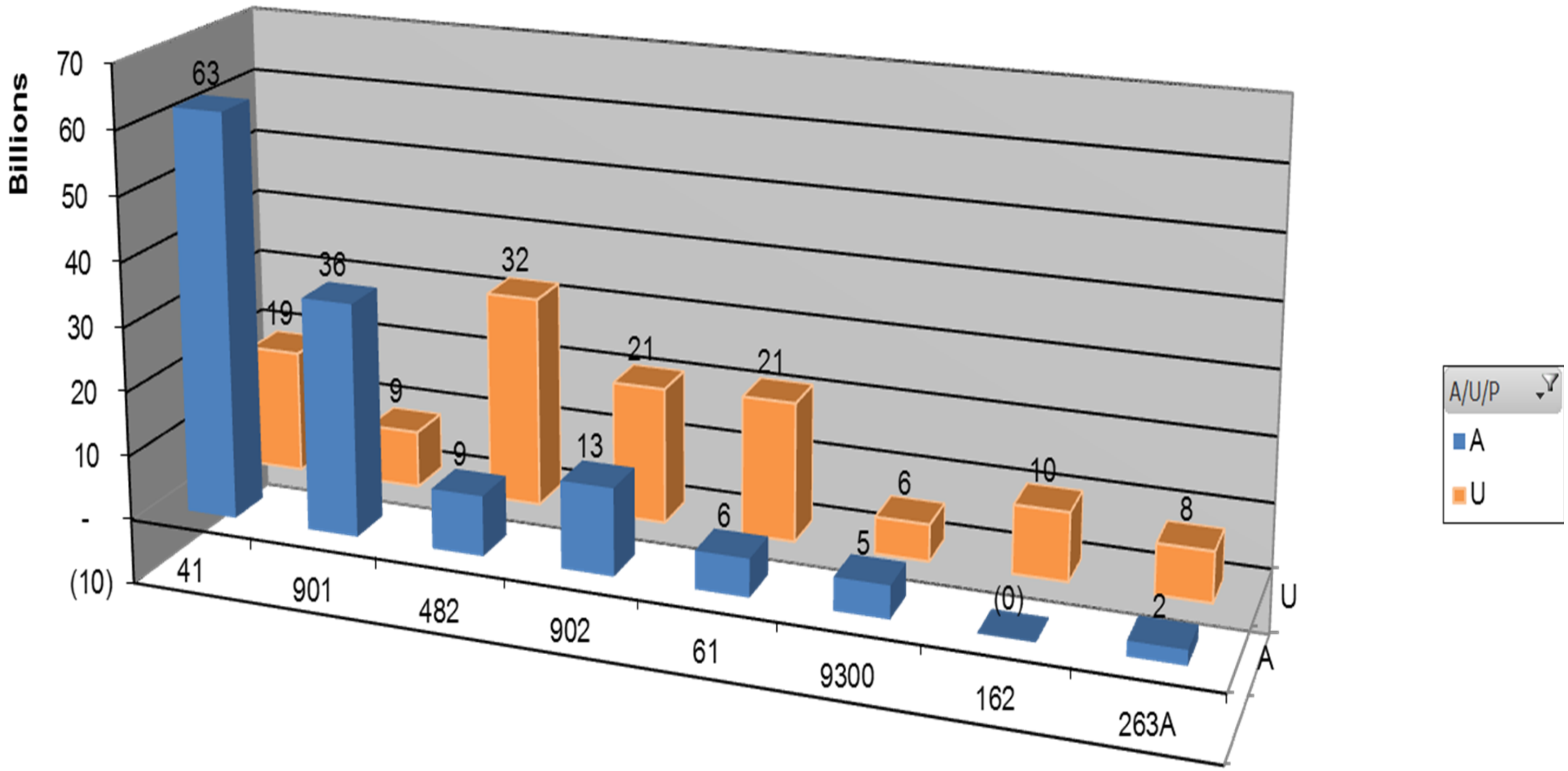
Top 6 Sub Industry of Selected CIC Taxpayers’ Average Audit Recommended Dollars in Two Periods and Dollar Amount Recommended



Top 8 IRC Code of the Selected CIC Taxpayers' by Agreed and Unagreed Issues (In $ Billions)



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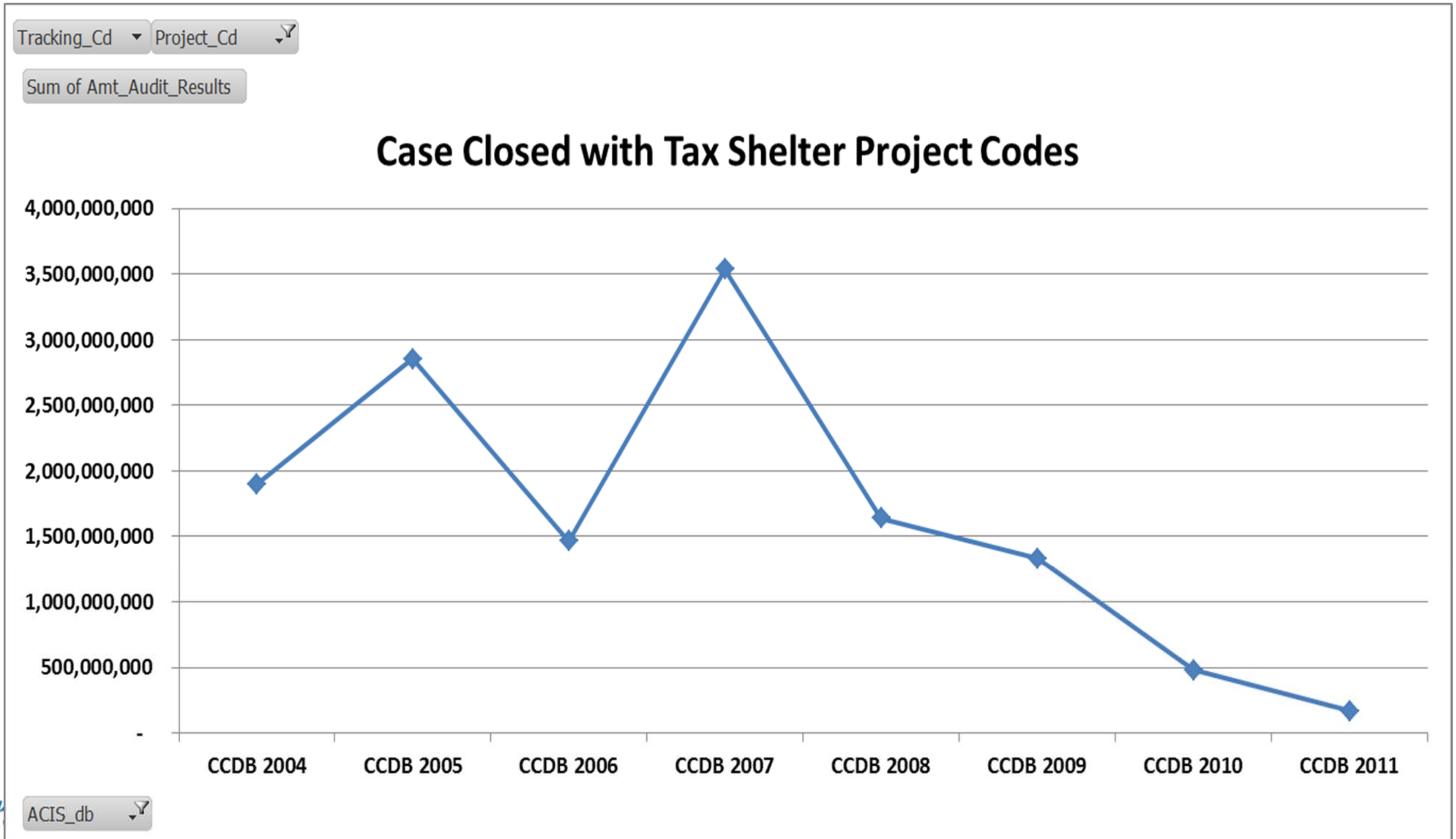
Tax Shelter Cases Closed in FY 2001 to 2011



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Future Considerations

Informing Future LB&I Strategies

Findings from this study offer insights that can help inform future LB&I strategies involving:

- Changes in exam practices and procedures
- Issue management approaches
- Changes to the CIC program

Question?

Thank you!

For more information, go to:

http://lmsb.irs.gov/hq/srp/index.asp

This presentation was last updated as of X/X/X

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