TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Fiscal Year 2017 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute

July 31, 2017

Reference Number: 2017-30-047

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information

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HIGHLIGHTS

FISCAL YEAR 2017 STATUTORY AUDIT OF COMPLIANCE WITH NOTIFYING TAXPAYERS OF THEIR RIGHTS WHEN REQUESTED TO EXTEND THE ASSESSMENT STATUTE

Highlights

Final Report issued on July 31, 2017

Highlights of Reference Number: 2017-30-047 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The IRS is required by law to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. Taxpayers might be adversely affected if the IRS does not follow the requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to assessment statute extensions.

WHY TIGTA DID THE AUDIT

TIGTA is required by law to annually determine whether the IRS complied with Internal Revenue Code Section 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues.

WHAT TIGTA FOUND

TIGTA's review of a statistical sample of 60 closed taxpayer audit files with assessment statute extensions found that the IRS was compliant with Internal Revenue Code Section 6501(c)(4)(B). However, seven of the taxpayer audit files did not contain documentation to indicate whether taxpayers were properly notified of their rights as required by the IRS's internal procedures.

In addition, TIGTA's review found six instances in which the audit files lacked documentation to support that the IRS complied with procedures requiring the notification of a taxpayer's representative when an authorization for third-party representation exists. Specifically, TIGTA's review of 44 taxpayer audit files that had authorizations for third-party representation found that six of the taxpayer audit files did not contain documentation to support that the taxpayers' representatives were provided with the required notifications.

WHAT TIGTA RECOMMENDED

TIGTA did not make any recommendations in this report because the IRS has taken sufficient actions to remind employees of their responsibilities to properly notify taxpayers and their representatives.

IRS officials were provided an opportunity to review the draft report and did not provide any comments.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 31, 2017

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

Michael E. McKenney

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2017 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute (Audit # 201730006)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) complied with Internal Revenue Code Section 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. The Treasury Inspector General for Tax Administration is statutorily required to provide information annually regarding the IRS's compliance with this provision. This audit is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Taxpayer Protection and Rights.

Although we made no recommendations in this report, we did provide IRS officials an opportunity to review the draft report. IRS management did not provide us with any report comments.

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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Appendices

Abbreviations

BMF	Business Master File
IMF	Individual Master File
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
RRA 98	Restructuring and Reform Act of 1998
TIGTA	Treasury Inspector General for Tax Administration

Background

The Internal Revenue Service (IRS) is required by the IRS Restructuring and Reform Act of 1998 (RRA 98)[1] and the Internal Revenue Code (I.R.C.)[2] to notify taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties. When the IRS audits a tax return and determines that there is an additional tax liability, the additional tax assessment must generally be processed within three years from the date the return was due or from the date on which the return was actually filed, whichever is later. This three-year assessment statute of limitations normally cannot be extended without the taxpayer's written consent.

The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for the assessment of additional taxes and penalties.

To extend the statute, the IRS generally requests that the taxpayer provide a signed consent form, such as Form 872, *Consent to Extend the Time to Assess Tax*; Form 872-P, *Consent to Extend the Time to Assess Tax Attributable to Partnership Items*;[3] or Form SS-10, *Consent to Extend the Time to Assess Employment Taxes*.[4] These consents extend the assessment statute of limitations to either a specific period of time or an unlimited, indefinite period. The statute is usually extended for a period of time that both the IRS and the taxpayer agree is reasonable to complete the examination. The consent can also be negotiated to apply only to certain audit issues.

In passing the RRA 98, Congress expressed concern that taxpayers had not always been fully aware of their rights to refuse to extend the statute of limitations or to request that a statute extension be limited to a specific period of time or specific issues. Some taxpayers might believe that they are required to agree to an extension upon the request of the IRS. Congress wanted to ensure that taxpayers were notified of their rights to refuse the proposed statute extension or to have it limited to specific issues.

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[1] RRA 98 § 3461(b)(2)(B), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[2] I.R.C. § 6501(c)(4)(B).
[3] For Partnerships, Form 872-P, *Consent to Extend the Time to Assess Tax Attributable to Partnership Items,* is used for fixed-date Tax Equity and Fiscal Responsibility Act (TEFRA) partnership-level consent. This form should be signed by the Tax Matters Partner or authorized officials.
[4] IRS employees who often request extensions of the assessment statute are examiners in the various Examination functions of the business unit divisions (Small Business/Self-Employed, Large Business and International, Tax Exempt and Government Entities, and Wage and Investment) and appeals officers in the Office of Appeals.

A taxpayer might agree to extend the assessment statute of limitations for the following reasons:

- The taxpayer might want to pursue additional audit issues that are in the taxpayer's favor in offsetting a proposed tax assessment or that might allow for a tax refund.
- If the remaining time before the statute expires is too short, the IRS might have to prematurely stop the audit process and issue a notice of deficiency that limits the time for the normal appeals process before the taxpayer must file a petition with the U.S. Tax Court.

A taxpayer might decide to limit or refuse to extend the assessment statute of limitations because the taxpayer might not want to:

- Provide the IRS more time to consider additional audit issues.
- Allow the IRS the opportunity to further develop audit issues already under consideration after the normal statute period has expired.

Specifically, RRA 98 Section (§) 3461(b)(2)(B) requires the IRS to "...notify the taxpayer of the taxpayer's right to refuse to extend the period of limitations, or to limit such extension to particular issues or to a particular period of time, on each occasion when the taxpayer is requested to provide such consent." To implement this statutory requirement, the IRS revised its procedures to direct IRS employees to provide the taxpayer with Letter 907, *Request to Extend Assessment Statute*, or Letter 967, *Letter Transmitting Consent Extending Period of Limitation*. Included with these letters should be the actual consent forms to be signed as well as Publication 1035, *Extending the Tax Assessment Period*, which includes a more detailed explanation of the taxpayer's rights and consequences of the taxpayer's choices.

The consent forms include a prominent statement informing taxpayers of their rights regarding assessment statute extensions and provide information about Publication 1035. Figure 1 shows that the consent forms also include a statement for the taxpayer's representative to sign confirming that they were notified of their rights regarding assessment statute extensions and that the taxpayers were made aware of the same rights.

Figure 1: Excerpt of Form 872

Form **872** (Rev. July 2014)	Department of the Treasury-Internal Revenue Service **Consent to Extend the Time to Assess Tax**	In reply refer to: TIN

Your Rights as a Taxpayer

You have the right to refuse to extend the period of limitations or limit this extension to a mutually agreed-upon issue(s) or mutually agreed-upon period of time. ***Publication 1035, Extending the Tax Assessment Period,*** provides a more detailed explanation of your rights and the consequences of the choices you may make. If you have not already received a Publication 1035, the publication can be obtained, free of charge, from the IRS official who requested that you sign this consent or from the IRS' web site at www.irs.gov or by calling toll free at 1-800-TAX-FORM (1-800-829-3676). Signing this consent will not deprive you of any appeal rights to which you would otherwise be entitled.

YOUR SIGNATURE HERE → ____________________ ____________ *(Date signed)*

(Type or Print Name)

I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B).

TAXPAYER'S REPRESENTATIVE SIGN HERE → ____________________ ____________ *(Date signed)*
(Only needed if signing on behalf of the taxpayer.)

(Type or Print Name)

I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time as set forth in I.R.C. § 6501(c)(4)(B). In addition, the taxpayer(s) has been made aware of these rights.

If this document is signed by a taxpayer's representative, the Form 2848, Power of Attorney and Declaration of Representative, or other power of attorney document must state that the acts authorized by the power of attorney include representation for the purposes of Subchapter C of Chapter 63 of the Internal Revenue Code in order to cover items in paragraph (4).

Source: IRS Form 872. Note: The wording on Form SS-10 is consistent with that shown on Form 872.

IRS procedures require that any notice or other written communication required to be given to a taxpayer also be given to the taxpayer's representative (unless restricted by the taxpayer).[5] IRS employees are instructed to document in their audit file activity log whether the taxpayer was notified of his or her rights each time the IRS requested an assessment statute extension. In addition, IRS internal procedures require employees to provide copies of any correspondence with a taxpayer's representative to the taxpayer.

In response to the exception errors identified in the Fiscal Year[6] 2016 review, the IRS has taken the following actions:

- Issued a memorandum in July 2016 reminding examiners to document statute control procedures.

[5] Conference and Practice Requirements, Statement of Procedural Rules, 26 C.F.R. § 601.506 (2002).
[6] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

- Published articles in its newsletters in Fiscal Years 2016 and 2017.
- During Fiscal Years 2016 and 2017, conducted training at the management and staff levels on guidance for soliciting extensions.
- In Fiscal Year 2017, as a part of Internal Revenue Manual procedures, made progress towards including instructions for examiners on using Form 10949, *Statute Extension Checksheet*,[7] which is scheduled for completion in Fiscal Year 2018.

The Treasury Inspector General for Tax Administration (TIGTA) is required by the RRA 98 to provide information annually regarding the IRS's compliance with I.R.C. § 6501(c)(4)(B). This report presents the results of our eighteenth annual review of the IRS's compliance with the statute extension provisions of the law.[8]

This review was performed with information obtained from the Office of Appeals, the Large Business and International Division, and the Tax Exempt and Government Entities Division Headquarters in Washington, D.C.; the Small Business/Self-Employed Division Headquarters in New Carrollton, Maryland; and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period November 2016 through April 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[7] Form 10949 is an audit tool for preparing, issuing, and receiving consents to extend the statute of limitations, with links to applicable procedures within the Internal Revenue Manual. During FYs 2017 and 2018 the Small Business/Self-Employed Division will be providing additional guidance on use of the Form 10949 to examiners and is working to make use of the Form 10949 mandatory when requesting statute extensions. The Large Business and International Division provides a link to Form 10949 on its internal statute of limitations web page, including recommending its use in every case file.

[8] See Appendix V for a list of our most recent prior reports issued from Fiscal Years 2007 through 2016.

Results of Review

The Internal Revenue Service Was Compliant With Legal Requirements Related to Requests to Extend the Assessment Statute

The IRS is required to notify taxpayers of their rights when requesting an extension of the statute of limitations for assessing additional taxes and penalties. Based on the results of this review, we believe that the IRS was compliant with legal requirements.[9] Our review of a sample of 60 closed taxpayer audit files for cases in which the taxpayers granted an extension of the statute expiration date did not identify any instances in which the IRS failed to provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. In all 60 taxpayer audit files, legal requirements were satisfied when the taxpayers or the taxpayers' representatives signed Forms 872, 872-P or SS-10, which clearly specifies the taxpayers' rights on the front of the forms.

Some Audit Files Lacked Documentation to Support That Employees Followed Internal Procedures for Notifying Taxpayers and Their Representatives of the Taxpayers' Rights

IRS procedures and publications are clear that both the taxpayer and the taxpayer's representative are to be provided with notices, including notification of the taxpayer's rights. The IRS's internal procedures require that notification be made to the taxpayer by sending Letter 907 or Letter 967, along with a properly completed consent form, which contains the notice of taxpayers' rights, and Publication 1035, each time a request is made. IRS employees must also document in the case file on Form 9984, *Examining Officer's Activity Record*, that the required notification was made. We found that taxpayer audit files did not always contain documentation to support that the IRS complied with these procedures.

- We reviewed a statistically valid sample of 60 taxpayer audit files and identified 7 (12 percent) audit files that did not contain documentation to indicate whether taxpayers were properly notified of their rights as required by the IRS's internal procedures. Based on our sample results, from a universe of 9,542 taxpayer audit files

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[9] I.R.C. § 6501(c)(4)(B).

with statute extensions,[10] we projected there were approximately 805 taxpayer audit files[11] that did not contain documentation to show that the taxpayers were properly notified of their rights when assessment statutes were extended.[12]

- The 60 taxpayer audit files included 44 taxpayer audit files that had authorizations for third-party representation before the IRS. Of these 44 audit files, 6 (14 percent)[13] did not contain documentation to support that the taxpayers' representatives were provided with the required notifications. Based on our sample results, from a universe of 9,542 taxpayer audit files with statute extensions, we projected there were approximately 690 taxpayer audit files[14] that did not contain documentation to support that the taxpayers' representatives were provided with the required notifications.[15]

We considered the notification sufficient if any of the required documentation appeared to have been given to the taxpayers or a log entry to that effect was found in the related taxpayer audit files. The fact that we could not identify the required documentation in the audit file does not mean the taxpayers and/or their representatives were not properly notified of their rights. However, based upon the information available to us, we could not determine if the taxpayers or their representatives were properly notified of their rights. Taxpayers may be adversely affected if the IRS does not follow requirements to notify both the taxpayers and their representatives of the taxpayers' rights related to statute extensions.

[10] Our original population was 10,643 audit files with statute extensions. However; we had 1,101audit files in our population with statute extensions due to procedure issues, which do not require the taxpayer's consent to extend the statute. Therefore, these audit files were removed, reducing our population to 9,542 (10,643 – 1,101) prior to generating our sample.
[11] The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between 386 and 1,453.
[12] See Appendix IV for details.
[13] The error rate of 14 percent is rounded to the nearest hundredth percent, with a 90 percent confidence interval between 3.2 percent (lower limit) and 13.7 percent (upper limit). The rate used for projecting to the population is 7.2 percent, which is further explained in Appendix IV.
[14] The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the point estimate is between 307 and 1,311 taxpayer audit files that did not contain proper documentation.
[15] See Appendix IV for additional details.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall audit objective was to determine whether the IRS complied with I.R.C. § 6501(c)(4)(B), which requires that the IRS provide notice to taxpayers of their rights to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific period of time or specific issues. To accomplish this objective, we:

I. Determined whether taxpayers and their designated representatives are being notified of their rights when the IRS requests an extension of the assessment statute.

   A. Reviewed the Internal Revenue Manual[1] and consulted with IRS officials to determine if there were any changes to existing policies and procedures for processing requests to extend the assessment statute of limitations since our last audit.

   B. Identified a universe of 10,643 taxpayer audit files from the combined Individual Master File (IMF)[2] and Business Master File (BMF)[3] with closed examinations for which the assessment statute was extended and the examination subsequently closed. However, we had 1,101 audit files in our universe with statute extensions due to procedure issues, which do not require the taxpayer's consent to extend the statute. Therefore, these audit files were removed, reducing our population to 9,542 (10,643 – 1,101) prior to generating our sample. The period covered IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2015 and September 30, 2016.

      1. Analyzed the universe of 9,542 taxpayer audit files and determined that all four business operating divisions were represented in our population. Additionally, we determined the types and volume of tax return forms represented in the total population of 9,542 taxpayer audit files that met our sampling criteria.

      2. Validated the IMF and the BMF data by examining a judgmental sample of 30 (15 from each extract) taxpayer audit files. This judgmental sample was used for data validation and not for projecting or reporting results. The validation test results demonstrated that the data extracts were reliable and could be used to meet the objective of this audit.

[1] Internal Revenue Manual 25.6.22 (Aug. 26, 2011).
[2] The IRS database that maintains transactions or records of individual tax accounts.
[3] The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

3. Developed a statistical sampling plan using a 90 percent confidence level, a 8.8 percent expected error rate, and a ± 6 percent precision to identify a statistically designed sample size of 60 taxpayer audit files. It was necessary to screen 83 audit files to meet the designed sample size of 60. A statistical sample was taken in order to estimate the number of taxpayers in the universe for which taxpayer rights were potentially affected.
4. Used RAT-STATS[4] to select a sample of 180 taxpayer audit files from the universe identified in Step I.B. We selected more than our sample of 60 taxpayer audit files in the event that some of the files received were either systemic extensions or incomplete, *e.g.*, did not include all related tax years, audit file history notes, *etc.*, which would prevent us from performing our review of such files. We screened 83 of the taxpayer audit files received. Of those 83 taxpayer audit files, we identified 60 complete taxpayer audit files that had statute extensions with the taxpayer's written consent.

C. Reviewed the sample of 60 taxpayer audit files and related audit files for the necessary documentation to determine whether taxpayers and their representatives were properly notified of their rights regarding assessment statute extensions. We then discussed exceptions with the appropriate business unit coordinator to obtain agreement to the facts.

1. Projected our sample results to the universe of 9,542[5] taxpayer audit files from which we selected our sample to identify the number of taxpayer audit files that potentially did not contain documentation to support that the taxpayers or taxpayers' representatives were properly notified of the taxpayers' rights when assessment statutes were extended. TIGTA's contracted statistician reviewed our methodology and projections.

[4] The Office of Inspector General for the Department of Health and Human Services, Regional Advanced Techniques Staff (RATS) in San Francisco, California, initially developed the RAT-STATS statistical software package.
[5] See Appendix IV for an explanation.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the policies, procedures, and practices used by the Office of Appeals, the Large Business and International Division, the Small Business/Self-Employed Division, the Tax Exempt and Government Entities Division, and the Wage and Investment Division as they relate to notifying taxpayers, and their designated third-party representatives, of their rights to decline to extend the assessment statute of limitations or request that any extension be limited to a specific period of time or specific issues. We evaluated these controls by reviewing applicable Internal Revenue Manual sections and documentation, interviewing management from these divisions, and reviewing a statistical sample of 60 taxpayer audit files.

Appendix II

Major Contributors to This Report

Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Glen Rhoades, Director
Curtis Kirschner, Audit Manager
Ken Henderson, Lead Auditor
Tina Fitzsimmons, Senior Auditor
Ali Vaezazizi, Senior Auditor
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Appendix III

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Appendix IV

Sampling and Case Review Methodology

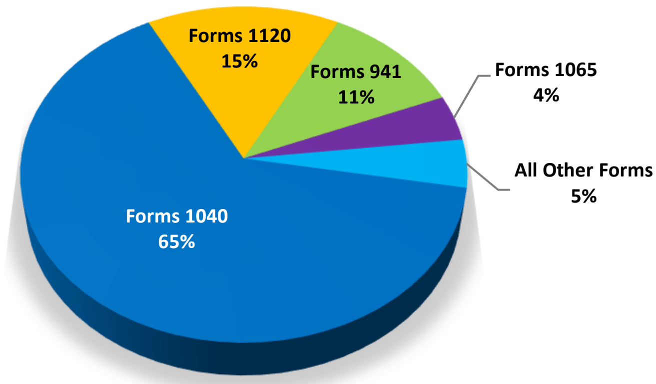
Methodology Used for Identifying the Universe and Sample Cases

To determine the number of taxpayer audit files for which there was no documentation to support that the taxpayers were notified of their rights, we identified 9,542 taxpayer audit files from the combined universe of IMF[1] and BMF[2] closed taxpayer audit files for which the assessment statute was extended and the examination subsequently closed. The period covered the IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2015 and September 30, 2016.

As noted in Figure 1, the majority of these consents were obtained for Form 1040, *U.S. Individual Income Tax Return*, followed by Form 1120, *U.S. Corporation Income Tax Return*; Form 941, *Employer's Quarterly Federal Tax Retur*n; Form 1065, *U.S Return of Partnership Return*; and all other forms.[3] The types of audit files with extensions in our Fiscal Year[4] 2017 review are consistent with the extensions in the Fiscal Year 2016 review.

[1] The IRS database that maintains transactions or records of individual tax accounts.
[2] The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
[3] The remaining forms in "All other forms" include forms such as Form 8868, *Application for Extension of Time To File an Exempt Org. Return*; Form 5330, *Return of Excise Taxes Related to Employee Benefit Plans*; Form 4720, *Return of Certain Excise Taxes on Charities*; Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*; Form 1041, *U.S. Income Tax Return (Estates and Trusts)*; Form 990, *Return of Organization Exempt From Income Tax*; Form 945, *Annual Return Of Withheld Federal Income Tax*; Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*; Form 940, *Employer's Annual Federal Unemployment Tax Return*; Form 720, *Quarterly Federal Excise Tax Return*; Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*; and Form CT-1, *Employer's Annual Railroad Retirement Tax Return.*
[4] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Figure 1: Percentage of Extensions by Form



Source: Analysis of IMF and BMF records for Fiscal Year 2016.

Methodology Used for Identifying the Number of Taxpayers That Were Not Properly Notified

To determine the number of taxpayer audit files for which there was no documentation to support that the taxpayers were properly informed of their rights, we identified 9,542 taxpayer audit files from the universe of IMF and BMF closed taxpayer audit files for which the assessment statute was extended and the examination subsequently closed. The period covered the IMF and BMF taxpayer audit files for which the assessment statute was extended between October 1, 2015, and September 30, 2016. We used a 90 percent confidence level, an 8.8 percent expected error rate, and a ± 6 percent precision to determine our sample size of 60 taxpayer audit files. After screening through 83 taxpayer audit files, we met our sample size of 60 taxpayer audit files. The remaining 23 taxpayer audit files that were not included in our sample did not meet our criteria. We were unable to remove similar types of audit files from our entire population as it was not reasonable to perform a 100 percent review of these files.

We reviewed the sample of 60 taxpayer audit files and identified seven taxpayer audit files that did not contain documentation to show that the taxpayers were properly informed of their rights. As previously noted, our population included taxpayer audit files that did not meet our criteria, in order to provide for the most accurate projection to our known population, we needed to account for those files in our calculations.[5] Therefore, our error rate was based on the 60 taxpayer audit files we reviewed as well as the 23 taxpayer audit files that we screened that did not meet our criteria (23 + 60 = 83 taxpayer audit files). We then calculated our projected error rate by

[5] Projecting our error rate and confidence intervals to the known population is more accurate than calculating and projecting these measures to an estimated effective population.

dividing 7 by 83 and multiplied that percentage by the population size of 9,542 to obtain the projected number of taxpayers who were not notified (805 taxpayers).

The range of lower and upper limits was then calculated using this error rate and a 90 percent confidence interval between 4.0 percent (lower limit) and 15.2 percent (upper limit). We are 90 percent confident that the range of procedural errors is between 386 and 1,453 taxpayer audit files.

Methodology Used for Identifying the Number of Taxpayer Representatives That Were Not Properly Notified

We reviewed the same sample of 60 taxpayer audit files and identified 44 taxpayer audit files that contained an authorization for a third party to represent the taxpayer before the IRS. In the subpopulation of all taxpayer representatives, 6 (14 percent) of the 44 taxpayer audit files showed no documentation to support that the employees provided the representatives with a copy of the written communications provided to the taxpayers. Although we were able to determine that there were 44 taxpayer representatives in our sample of 60 taxpayer audit files, we were unable to determine the true number of taxpayer representatives in our sampled population of 9,542 taxpayer audit files with statute extensions.

In our sample, we found 44 audit files with taxpayer representative authorizations, of which 6 were noncompliant. Projected to the general population of all 9,542 audit files, and including the 23 incomplete audit files that did not meet our criteria, 6 of 83 audit files (7 percent) in the general population were noncompliant and were represented by an authorized representative. The 90 percent confidence interval for this projection is 3.2 percent to 13.7 percent. From this we estimate that 690 audit files were noncompliant and were represented by authorized representative. The 90 percent confidence interval for this projection is 307 to 1,311 audit files.

Appendix V

Prior Reports on Compliance With Requests to Extend the Assessment Statute

1. TIGTA, Ref. No. 2016-30-081, *Fiscal Year 2016 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2016).
2. TIGTA, Ref. No. 2015-30-071, *Fiscal Year 2015 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2015).
3. TIGTA, Ref. No. 2014-30-066, *Fiscal Year 2014 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2014).
4. TIGTA, Ref. No. 2013-30-071, *Fiscal Year 2013 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (July 2013).
5. TIGTA, Ref. No. 2012-30-102, *Fiscal Year 2012 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Sept. 2012).
6. TIGTA, Ref. No. 2011-30-055, *Fiscal Year 2011 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (June 2011).
7. TIGTA, Ref. No. 2010-30-103, *Fiscal Year 2010 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2010).
8. TIGTA, Ref. No. 2009-30-113, *Fiscal Year 2009 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2009).
9. TIGTA, Ref. No. 2008-40-127, *Fiscal Year 2008 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (June 2008).
10. TIGTA, Ref. No. 2007-40-167, *Fiscal Year 2007 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2007).

Appendix VI

Audit Review Results by Division

Noncompliance With Requirement to Notify Taxpayers and Their Representatives of Taxpayer Rights	Division[1]					Total
	Appeals	LB&I	SB/SE	TE/GE	W&I	
Noncompliance With Requirement to Notify Taxpayers	*1*	0	*1*	0	0	7
Noncompliance With Requirements to Notify Taxpayer Representatives	*1*	0	*1*	0	0	6
Number of Taxpayer Audit Files Reviewed	*1*	7	46	*1*	0	60[2]

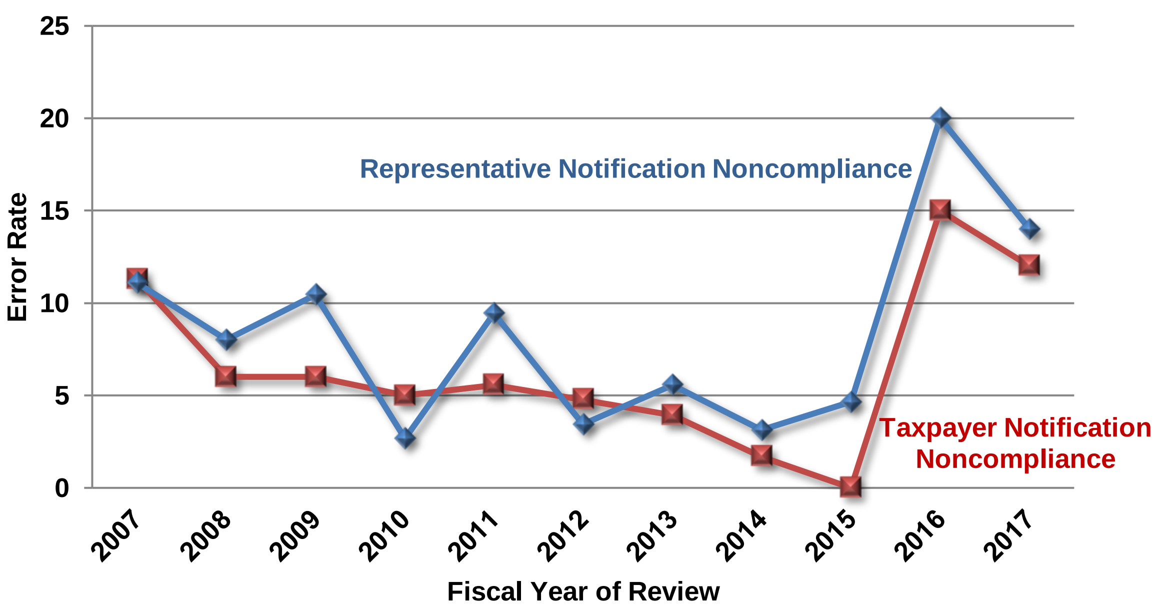
[1] Office of Appeals, Large Business and International (LB&I) Division, Small Business/Self-Employed (SB/SE) Division, Tax Exempt and Government Entities (TE/GE) Division, and Wage and Investment (W&I) Division.
[2] Of the 60 taxpayer audit files reviewed, 44 taxpayer audit files contained an authorization for a third party to represent the taxpayer before the IRS.

Appendix VII

Error Rates for Noncompliance With Internal Revenue Service Procedures for Notifying Taxpayers and Their Representatives

As noted in the report, we found that the IRS is in compliance with statutory requirements and is providing taxpayers and taxpayer's representative with notice of the taxpayers' rights when applicable. In addition, our review found that the IRS's noncompliance with internal procedures has decreased. Specifically, for our Fiscal Year 2017 review, we reviewed 60 audit case files and found evidence that seven taxpayers (12 percent) were not properly notified, which is slightly down from 15 percent in our Fiscal Year 2016 review, as shown in Figure 2. As for the IRS's compliance with notifying the taxpayers' representatives, we reviewed the 60 audit case files and found that 44 cases involved a representative. Of those 44 audit case files, we found evidence that six taxpayer representatives (14 percent) were not properly notified, which is a decrease from the 20 percent in our Fiscal Year 2016 review, as shown in Figure 2.

Figure 2: Trend Analysis of Error Rates From Prior TIGTA Reviews



Source: Prior TIGTA audit reports (see Appendix V).