TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

A Cost-Benefit Analysis Is Needed for the Compliance Assurance Process

August 5, 2026

Report Number: 2026-308-036

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HIGHLIGHTS: A Cost-Benefit Analysis Is Needed for the Compliance Assurance Process

Final Audit Report issued on August 5, 2026 **Report Number 2026-308-036**

Why TIGTA Did This Audit

The Compliance Assurance Process (CAP) is a voluntary Large Business and International (LB&I) Division program to identify and resolve tax issues through open, cooperative, and transparent interaction between the IRS and large corporate taxpayers in real time prior to the filing of a return.

The IRS adjusted the CAP program in Tax Year 2019. We assessed if those changes are helping the IRS enforce complex tax filing and identify high-dollar noncompliance. We also evaluated the IRS's actions taken in response to our recommendations from a prior report.

Impact on Tax Administration

The CAP engagements are different from traditional audits in that they generally do not result in significant audit adjustments. Some goals of the CAP program are to improve federal tax compliance by resolving issues prior to filing the return, increase transparency and cooperation between the IRS and its participants, and reduce the burden of tax administration and compliance. LB&I Division revenue agents assigned to CAP cases are highly skilled with experience in complex tax matters. However, their assignment limits them from performing traditional audits where measurable tax adjustments are proposed.

What TIGTA Found

The IRS lacks financial metrics to assess the efficiency and effectiveness of the CAP program. Although our prior audit recommended that the IRS develop and implement an evaluation plan to verify that tax administration benefits are being realized in relation to costs incurred, the IRS has not established effective metrics to evaluate program savings and does not conduct cost-benefit analyses of the CAP program. Without these metrics, the IRS cannot determine the program's true value or impact on tax compliance.

We also determined that the IRS still does not charge a user fee for taxpayer participation in the CAP program. In a prior audit, we recommended that the IRS evaluate the CAP program as a potential source of new user fees. From Fiscal Years 2019 through 2024, the CAP program labor costs averaged $10 million per year. We believe this use of IRS resources meets the criteria for a user fee because participation is voluntary and provides benefits to participants. Implementing a user fee would help ensure that the CAP participants fund these services and would enhance efficiency by encouraging more responsible use of the CAP while increasing cost transparency.

One of the primary objectives of the CAP program is to resolve taxpayer issues in real time providing tax certainty prior to filing the return. When a taxpayer receives a partial acceptance letter, it means not all issues were resolved at the time of filing the return, which is inconsistent with the CAP program's primary objective. Our review of Tax Years 2019 through 2023 determined that nearly half of CAP participants received partial acceptance letters and that a substantial number of cases remained open beyond expected time frames. Although closed CAP cases appear more efficient than comparable traditional examinations, many open CAP cases have already exceeded the average traditional examination hours. Ensuring that the CAP operates as intended is essential for the efficient use of the IRS's limited resources.

What TIGTA Recommended

We recommended that the IRS: develop quantitative metrics to evaluate the program's effectiveness; reevaluate assessing a user fee for participation in the CAP program; assess the root causes for the high percentage of partial acceptance letters and delayed case closures and develop strategies to increase timely case closure; and implement a tracking mechanism to monitor whether fully disclosed issues are resolved within the 90-day time frame goal.

The IRS agreed with three of the four recommendations. The IRS did not agree to reevaluate assessing a user fee for participation in the CAP program. We believe the CAP program provides benefits to participants and therefore, a user fee should be evaluated.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

August 5, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – A Cost-Benefit Analysis Is Needed for the Compliance Assurance Process (Audit No.: 2025308021)

This report presents the results of our review to determine if the Compliance Assurance Process program is assisting the Internal Revenue Service (IRS) with enforcement of complex tax filing and identifying high-dollar noncompliance. This review was part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenges of *Improving Operational Efficiencies* and *Ensuring Tax Compliance*.

Management's complete response to the draft report is included as Appendix II. 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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Background

The Tax Gap is defined as the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. The Internal Revenue Service (IRS) estimates the Tax Gap to be $696 billion for Tax Year (TY) 2022, with $539 billion of that attributable to underreporting and $44 billion of that underreporting attributable to corporations.[1] The IRS's examination functions are principally responsible for addressing underreporting noncompliance. The Large Business and International (LB&I) Division is responsible for examining corporations with assets exceeding $10 million and uses a variety of programs to address noncompliance, including the Compliance Assurance Process (CAP) program.

The CAP program is a voluntary LB&I Division program used to identify and resolve tax issues through open, cooperative, and transparent interaction between the IRS and large corporate taxpayers in real time prior to the filing of a return. The program consists of a pre-filing period, in which issues are intended to be resolved before filing, and a post-filing period that begins after the return is filed. While CAP post-filing reviews are considered examinations, they differ from traditional IRS examinations because they are expected to result in no or low tax adjustments compared to traditional exams. The IRS and the taxpayer sign a Memorandum of Understanding documenting the terms of the CAP program. Taxpayers participating in the CAP program must disclose all material tax issues and respond to all information requests timely or face removal from the CAP program.

The LB&I Division stated that with the major potential tax issues frequently settled before filing, CAP program participants generally experience shorter and narrower post-filing examinations. It also stated that through the CAP program, large corporate taxpayers should achieve tax certainty sooner and with less administrative burden than traditional post-filing examinations.

The CAP program eligibility criteria includes the following:

- **Entity Type:** Publicly traded corporations required to file Form 10-K, or U.S. C-corporations. Certain grandfathered partnerships may also qualify.
- **Size:** At least $10 million in assets.
- **Restrictions:** Not under IRS investigation or litigation that would limit the IRS's access to tax records.
- **Tax Return Status:**
    - **Current Participants:** No more than two open income tax returns under examination or CAP program review. This includes one filed year and one unfiled year.
    - **New applicants:** No more than 3 open tax years, which must be closed within 12 months.

[1] See Appendix II for a glossary of terms.

The goals of the CAP program are to:

- Improve federal tax compliance of large corporate taxpayers by resolving tax issues prior to the filing of the tax return.
- Increase transparency and cooperation between the IRS and the CAP program participants.
- Reduce the burden of tax administration and compliance.

The IRS piloted the CAP program in December 2005 and made it permanent in March 2011. In August 2018, the IRS announced it had recalibrated the CAP program for TY 2019 with an emphasis on ensuring the taxpayer's eligibility, the application of consistent rules, and better management of resources. There were 123 CAP participants in TY 2023.

The CAP program has three phases with varying levels of review of tax return-related information. The LB&I Division assigns taxpayers to one of these phases based on a number of factors, including the complexity of tax issues for that filing year, the volume of transactions, *etc*. Once placed in a phase, the taxpayer remains in that phase for a full tax year. The taxpayer must reapply each year if they wish to continue in the program. The three phases are as follows:

- **CAP Phase:** All new taxpayers accepted into the program start in this phase, which includes taxpayers with material and complex issues. Taxpayers must make open, comprehensive, and contemporaneous disclosures of their material business transactions. The taxpayer agrees to work collaboratively and transparently with the CAP program team.
- **Compliance Maintenance Phase (*Eligible after completion of at least one CAP phase*):** This phase is for taxpayers with fewer complex and material issues and a history of compliance, cooperation, and transparency. This phase involves a reduced review but still requires open, comprehensive, and contemporaneous disclosures.
- **Bridge Plus Phase (*Eligible after completion of at least one Compliance Maintenance Phase* - Replaced Bridge Phase in TY 2024):** This phase is for taxpayers with a low compliance risk and typically have minimal or no material issues that require resolution. In this phase the IRS requires taxpayers to provide book-to-tax reconciliation, tax credit utilization, and other supporting documentation shortly after their audited financial statements are finalized so a risk review can be conducted. The Bridge Plus Phase replaced the initial Bridge Phase after receiving feedback from taxpayers that they valued the IRS's review of and assurance on tax returns. The initial Bridge Phase did not provide this to taxpayers.

For TY 2025, the IRS expanded CAP program eligibility to include privately held C-corporations, foreign-owned corporations, and publicly traded corporations. As shown in Figure 1, the majority of CAP program participation occurs within the CAP Phase and the Compliance Maintenance Phase.[2]

[2] C-corporations are taxed at the entity level and are named as such because they are addressed in sub-chapter C of the Internal Revenue Code, as opposed to S corporations that are taxed at the shareholder level and are addressed in sub-chapter S of the Internal Revenue Code.

Figure 1: Majority of CAP Taxpayers Are Assigned to the Compliance Assurance and Compliance Maintenance Phases

Phase	TY 19	TY 20	TY 21	TY 22	TY 23	TY 24
CAP	38%	36%	31%	30%	27%	30%
Compliance Maintenance	53%	42%	45%	53%	46%	50%
Bridge/Bridge Plus	9%	22%	24%	17%	28%	20%
Total CAP Taxpayers	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: LB&I provided CAP data for TY 2019 through TY 2024. Percentages may not add up due to rounding.

Following the CAP program recalibration in TY 2019, participation declined in part due to stricter eligibility requirements. However, since this decline, from TYs 2019 through 2023, the program has consisted primarily of the same returning taxpayers. Most of the returning participants remain in the CAP or Compliance Maintenance Phases rather than transitioning to the Bridge/Bridge Plus Phase, which was intended to provide a more resource-efficient option for eligible taxpayers. Returning CAP taxpayers with few, if any, material issues, that continue to satisfy the CAP eligibility and suitability requirements and have participated in a Compliance Maintenance phase (or at least one complete CAP phase when in the best interest of sound tax administration), may progress, if approved, to the Bridge Plus Phase.

The CAP program periodically distributes voluntary surveys to participants to obtain their feedback. From TYs 2019 through 2023, response rates ranged from 45 percent to 70 percent with over 90 percent of respondents rating the program positively each year. On average, slightly more than half of survey respondents indicated that the recalibration improved the CAP program's efficiency. Respondents typically gave the lowest ratings to either issue identification or issue resolution. However, both areas still received strong overall satisfaction scores. Nearly all survey respondents said they would recommend the CAP program to other organizations.

We have previously reported on the impact to the IRS from efforts to reduce the size of the federal workforce beginning in FY 2025, including deferred resignation and early retirement programs.[3] According to IRS records, 25,386 employees separated, took a deferred resignation program offer, or used some other incentive to leave. These departures represent 25 percent of the IRS's total workforce, including 19 percent of the LB&I Division's workforce. These changes increase the importance of ensuring that limited IRS resources are allocated effectively and efficiently.

Results of Review

The IRS Lacks Effective Metrics To Measure the Compliance Assurance Process Program's Impact on Tax Administration

As previously mentioned, one of the goals of the CAP program is to improve tax compliance by enhancing the efficiency and effectiveness of the issue identification, development, and

[3] TIGTA Report No. 2025-IE-R027, *Snapshot Report: IRS Workforce Reductions as of May 2025* (July 2025).

resolution process. However, the IRS lacks financial metrics to assess the CAP program's impact on tax compliance. There are no metrics to track the total proposed dollar adjustments made during the pre-file period, where issues are resolved between the taxpayer and the IRS prior to filing the return. There are also no metrics to track the total dollar adjustments made during the post-filing review conducted by the IRS after the return is filed.

Additionally, there are no metrics to track cost savings, and the IRS does not conduct cost-benefit analyses related to the CAP program. In a prior TIGTA report, we reported that accurately measuring costs and benefits, including associated savings, would help ensure that sufficient CAP benefits are being realized.[4] Although the IRS agreed with the recommendation and LB&I management stated they have taken action to evaluate the program using monthly metric reports, as of January 2026, they have not established procedures to confirm that the CAP program's benefits to tax administration outweigh the costs.

LB&I officials explained that they measure the CAP program's impact on tax compliance by tracking the no-change and agreed-to disposal percentages by tax year on their monthly metric reports. These metrics may reflect the extent to which issues are resolved without dispute, but they do not quantify the program's financial impact on tax compliance. The monthly metric reports also include the average CAP program's full-time equivalents (FTEs) as well as hours and cycle times for CAP cases.[5] However, these data are not compared to traditional post-filing examination results. LB&I management stated that although monthly CAP metrics reports continue to be prepared, comparisons to traditional examinations are no longer performed because they were not considered meaningful.

LB&I officials also stated the CAP program's primary benefit is gaining real time visibility into how taxpayers are addressing issues, thereby enabling earlier identification of emerging issues. The LB&I Division shared documentation including email communications and meeting materials showing that LB&I subject matter experts engage with CAP program personnel on specific tax issues, including those relating to the Inflation Reduction Act of 2022 and the Tax Cuts and Jobs Act of 2017.[6] They also stated that CAP teams contributed to the creation of job aids, risk templates and form changes. However, the information provided did not demonstrate that these CAP activities resulted in identifying emerging issues. Further, the extent of the CAP program's contribution to IRS guidance was not clearly documented. It is also important to recognize that the CAP program is limited to a select group of highly compliant taxpayers, meaning any insights gathered may not be representative of the broader taxpayer population. Additionally, the same information obtained in a CAP engagement about how taxpayers are addressing issues can also be obtained in a traditional examination, although the taxpayer's motivation to be forthcoming may be greater in a CAP engagement.

The LB&I revenue agents assigned to CAP cases are highly skilled with experience in addressing complex tax matters. When these experienced revenue agents are assigned to CAP cases, it

[4] TIGTA, Report No. 2013-30-021, *The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed*, p. 12 (February 2013).

[5] The number of full-time examiners needed to operate the CAP program. The IRS calculates this by dividing the total examiner hours applied to CAP in a fiscal year by the number of hours an employee is available to work during that year.

[6] Pub. L. No. 117-169, 136 Stat. 1818. Pub. L. No. 115-97, 131 Stat. 2054.

limits them from performing traditional audits where measurable tax adjustments are proposed in a post-filing environment.

Figure 2 shows the total estimated labor costs for the FTEs to execute the CAP program for Fiscal Years 2019 through 2025.

Figure 2: TIGTA's Estimate of CAP Labor Costs for Fiscal Years 2019 Through 2025

Fiscal Year	Labor Cost
2019	$12,081,583
2020	$12,391,576
2021	$9,568,236
2022	$8,257,889
2023	$8,917,164
2024	$9,645,545
2025	$14,369,509

Source: Analysis of CAP FTE data.

Using IRS budget data and CAP data for Fiscal Years 2019 through 2025, we estimate that the CAP averaged 76 FTEs annually, with estimated average labor costs of about $10.7 million per year. This estimate reflects only labor costs and does not account for other impacts, such as the opportunity cost of assigning these FTEs to CAP cases rather than other enforcement cases.

Without effective metrics, comprehensive cost tracking, and cost-benefit analyses, the IRS cannot accurately assess the CAP program's impact on tax compliance or determine whether it generates any cost savings. This is especially critical given recent work force reductions, as the IRS cannot evaluate whether the CAP program is an efficient use of limited resources that could be better directed elsewhere.

Recommendation 1: The Commissioner, Large Business and International Division should develop quantitative metrics to evaluate the effectiveness of the CAP program. These metrics should include a comparison to traditional post-filing examinations and cost-benefit analyses addressing proposed changes and adjustments and alternative cost savings compared to the costs of operating the program.

Management's Response: IRS management agreed with this recommendation. The LB&I Division will implement a new reporting function designed to collect essential data on CAP cases. As part of this initiative, the LB&I Division will conduct comparative analyses between CAP cases and traditional post-filing examinations. This comparison aims to assess the overall effectiveness of the CAP program.

Additionally, the LB&I Division will review and determine the relevance of other potential metrics that could further contribute to evaluating the program's effectiveness.

The IRS Could Offset Costs by Charging the Compliance Assurance Process Program Participants a User Fee

The IRS does not charge a user fee for taxpayer participation in the CAP program. We previously reported that the CAP program should be included in upcoming reviews as a potential new user

fee source.[7] We recommended and the IRS agreed that it would evaluate the CAP program as a potential source of new user fees. In a follow up discussion with LB&I management, they stated that they had considered a user fee but determined it would be inappropriate for the CAP program since taxpayers have never been charged for an examination. However, LB&I management did not have any documentation supporting their evaluation of a user fee.

The Independent Offices of Appropriations Act allows agencies to charge user fees when the government provides special benefits to the recipients beyond those given to the general public.[8] For example, the IRS publishes an annual schedule of procedure and user fees it charges applicants for obtaining a letter ruling or pre-filing agreement. The schedule of fees range from $275 to over $181,000. The Office of Management and Budget Circular A-25 defines a special benefit as:

- Enabling the beneficiary to obtain more immediate or substantial gains or values than those given to the general public.
- Provides business stability or contributes to public confidence in the business activity or beneficiary.
- Performed at the request of or for the convenience of the recipient.[9]

The evaluation of whether to charge a user fee should consider the full cost of providing the goods and services. Furthermore, the Internal Revenue Manual requires the IRS's business units to review their services and activities for potential user fees during the annual budget cycle. When performing this review, the business units consider the:

- Voluntary nature of the user fee activities (the IRS does not charge taxpayers for special services that they do not request).
- Identifiable benefit to a specific taxpayer.
- Cost of administering the user fee.
- Effect of the user fee on low-income taxpayers.
- Effect of the fee on voluntary compliance, taxpayer burden, and taxpayer rights.
- Expected change in demand for service resulting from the proposed fee.

We believe the CAP program meets the criteria for a user fee, as it is voluntary and offers benefits to taxpayers participating in the program. According to the CAP program's goals, these benefits include achieving tax certainty sooner and less administrative burden than traditional examinations. According to LB&I management, this option has not been formally evaluated during their annual budget cycle.

A user fee would defray CAP program labor costs and would be appropriate since these specialized services primarily benefit CAP participants instead of the broader pool of taxpayers. Additionally, implementing a user fee would enhance efficiency by encouraging more

[7] TIGTA, Report No. 2013-30-021, *The Compliance Assurance Process Has Received Favorable Feedback, but Additional Analysis of Its Costs and Benefits Is Needed*, p. 17 (February 2013).

[8] Pub. L No. 82-137, 65 Stat. 268.

[9] Office of Management and Budget, Circular A-25, *Transmittal Memorandum No. 1, User Charges* (July 1993).

responsible use of the program and increasing cost transparency, allowing the IRS to better track and manage resources dedicated to the CAP program.

Recommendation 2: The Commissioner, Large Business and International Division, should reevaluate assessing a user fee for participation in the CAP program.

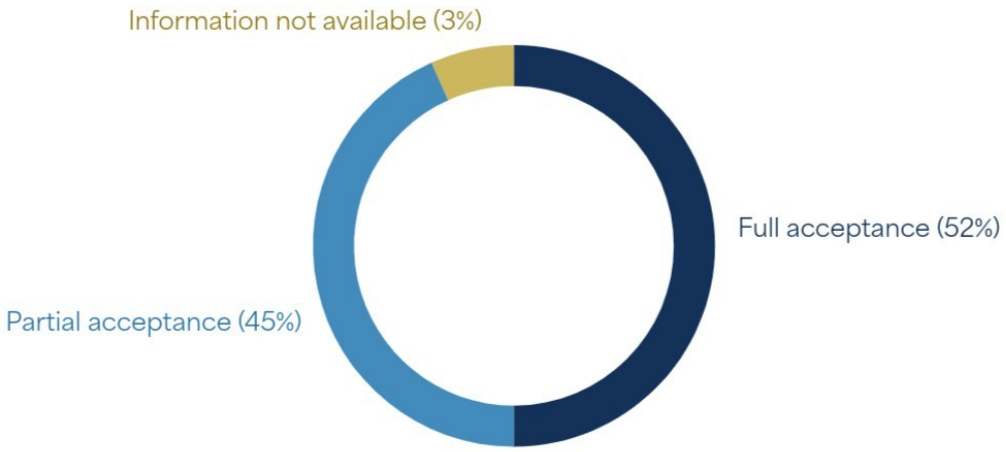
Management's Response: IRS management disagreed with this recommendation. CAP participation provides no "special benefit" as defined in Office of Management and Budget Circular A-25. CAP replaces, rather than supplements, a traditional post-filing examination and is available to all eligible taxpayers meeting defined criteria.

Office of Audit Comment: We acknowledge that CAP participation replaces rather than supplements a traditional examination. However, as the IRS recently acknowledged in a February 2026 frequently asked questions communication, the CAP program provides multiple benefits to participants, including resolving issues prior to filing and providing tax certainty sooner, and allowing real-time review of transactions. Given these benefits and the labor cost of the program, which averages about $10.7 million per year, we believe the IRS should consider reevaluating whether a user fee is appropriate for participation in the program.

Ongoing Delays Challenge the Compliance Assurance Process Program's Objectives

One of the CAP program's primary objectives is to resolve taxpayer issues in real time, thereby providing tax certainty prior to filing the return. Upon review of a taxpayer's return, the CAP program will issue, by the 45th day after the tax return filing, either a full acceptance letter indicating that all material issues have been disclosed and resolved, or a partial acceptance letter if some issues remain unresolved or undisclosed. If the program functions as intended, most CAP program taxpayers should receive a full acceptance letter, and the case should be closed with a no-change letter within 60 days of filing. However, Figure 3 shows that almost half of CAP taxpayers did not receive a full acceptance letter in TYs 2019 through 2023.

Figure 3: Almost 50 Percent of CAP Taxpayers Did Not Receive a Full Acceptance Letter in TYs 2019 Through 2023[10]



Source: LB&I provided CAP data for TY 2019 through TY 2023.

Typically, CAP program work begins after the IRS, and the taxpayer sign the Memorandum of Understanding. For a calendar year taxpayer this generally occurs in March, at which point the IRS and the taxpayer work together to identify and resolve issues in real time before the return is filed. Many of the corporate taxpayers in the CAP program use a calendar year and are required to file their tax returns by April 15, or October 15 if a six-month extension is filed. As previously stated, the goal of the CAP program is to close cases within 60 days of return filing. This means that most cases should be closed no later than December of the same year when the return is filed. For instance, most TY 2023 CAP cases should be closed by December 2024. However, as of March 2025, 83 percent of all TY 2023 CAP cases remain open.[11]

During the CAP program recalibration, the IRS established a goal to resolve fully disclosed issues within 90 days of the disclosure. However, the IRS cannot track its progress towards meeting this goal because its Issue Management System lacks the ability to track this metric. This inability to calculate the number of days from taxpayer disclosure to resolution makes it difficult to track progress towards the IRS's 90-day goal. The additional time and effort required to address the issues leading to the issuance of a partial acceptance letter may factor into longer time frames to complete CAP cases. Figure 4 shows the percentage of open and closed CAP cases for TYs 2019 through 2023.

[10] TY 2024 data was not included because ongoing LB&I review activity and return filing extensions limited the completeness of the data at the time of our review.

[11] The open CAP cases include 20 bridge year taxpayers and taxpayers with late fiscal year ends.

Figure 4: Closure Delays Persist for CAP Cases in TYs 2019 Through 2023[12]

Tax Year	Number of CAP Participants	Closed	Open
2019	156	89%	11%
2020	141	82%	18%
2021	131	73%	27%
2022	122	57%	43%
2023	123	17%	83%

Source: LB&I provided CAP data for TY 2019 through TY 2023.

The LB&I Division stated that the high number of open TY 2023 CAP cases are due to:

- Implementation of new tax laws that require additional casework.
- Data intensive issues require more time.
- High IRS personnel turnover.
- Twenty Bridge Phase cases that the IRS intends to close when one year remains on the assessment statute of limitations, consistent with its revised CAP program procedures.[13]

Our review of TY 2019 through TY 2022 closed Compliance Maintenance and CAP Phase cases indicate these CAP cases required fewer hours and shorter cycle times than traditional post-filing exams of similar sized LB&I taxpayers. This includes taxpayers with assets over $1 billion, including those categorized by the IRS as having assets of more than $20 billion. For instance, TY 2019 closed CAP cases took about 20 percent fewer hours than similar traditional exams closed in Calendar Year 2019. However, the comparison is limited to closed CAP cases. A significant portion of CAP cases' final hours and cycle times are not yet available because the cases remain open. Because many of these open cases have already exceeded the average hours of traditional exams, the results based on closed cases alone may not accurately reflect the program's overall efficiency. Additionally, taxpayers accepted into the CAP program are presumed to be compliant; therefore, their examinations should require less time.

Furthermore, the CAP program does not track all the hours spent reviewing applications or performing risk assessments before each taxpayer is accepted. For returning taxpayers, teams charge time to existing open CAP cases. The LB&I Division estimates that for returning taxpayers, about five hours are typically charged to the prior year for the current year's recommendation process, which runs from November to mid-March. While for new applicants, time is charged as miscellaneous direct examination time. Specialists on risk teams also use miscellaneous direct examination time for CAP related work. However, the hours charged to miscellaneous direct examination time for new applicants and specialists are not included in the case data and may understate reported CAP hours. The time spent performing work for either existing or new applicants should be tracked and considered in the LB&I Division's cost-benefit analyses (discussed earlier in this report). Doing so will ensure that the CAP program operates as

[12] The open CAP cases include 13 bridge cases in TY 2022 and 20 bridge cases in TY 2023 the IRS intends to close when one year remains on the statute of limitation. TY 2023 open cases also include taxpayers with late fiscal year ends. TY 2024 data was not included because ongoing LB&I review activity and return filing extensions limited the completeness of the data at the time of our review.

[13] I.R.C. § 6501(a) provides that generally the IRS has three years to assess tax on a filed return.

intended, demonstrates the impact to tax administration, and efficiently uses the IRS's limited resources.

The Commissioner Large Business and International Division should:

Recommendation 3: Assess the root cause(s) for the high rate of partial acceptance letters and delayed case closures and develop strategies to increase the percentage of CAP cases closed within 60 days of the return filing date.

Management's Response: IRS management agreed with this recommendation. The LB&I Division will conduct a root cause analysis and develop a strategy to help mitigate case closures exceeding 60 days.

Recommendation 4: Implement a tracking system to monitor whether fully disclosed issues are resolved within the 90-day time frame goal.

Management's Response: IRS management agreed with this recommendation. The LB&I Division will use recent enhancements to case management systems and implement new reports. The CAP Program Team will train the CAP Team Account Coordinators to populate the necessary date fields.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine if the CAP program is assisting the IRS with enforcement of complex tax filing and identifying high-dollar noncompliance. To accomplish our objective, we:

- Developed an understanding of the CAP program policies and procedures including how they incorporated past audit recommendations.
- Compared the average hours of traditional LB&I Division examinations to CAP Tax Years 2019 through 2022 to assess if the CAP program was increasing the effectiveness of the examination process.
- Reviewed CAP program metrics used to assess whether the program is achieving its purpose and goals, including providing tax certainty and timely issue resolution.
- Evaluated whether the CAP program conducted any cost-benefit analysis of the program or considered the use of a user fee.
- Estimated labor costs expended on the CAP program for TYs 2019 through 2025.
- Analyzed and reviewed the results of the CAP survey sent to the taxpayers.
- Assessed how the LB&I Division uses information obtained through the CAP to increase enforcement of complex tax filing and noncompliance, including reviewing the identification and tracking of emerging issues.
- Reviewed the CAP case results for TYs 2019 through 2023 including phase acceptance volumes, issuance of partial versus full acceptance letters and number of open cases.

Performance of This Review

This review was performed with information obtained from the Assistant Deputy Commissioner Compliance Integration office of the LB&I Division located in Washington, D.C., during the period October 2024 through February 2026. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Data Validation Methodology

During this review, we obtained extracts from the Examination Audit Information Management System. We also obtained information on the CAP program from the IRS's LB&I Division including participant lists, hours, case status, and disposition codes. Before relying on the data, we ensured that each file contained the specific data elements requested. Additionally, we performed tests to assess reliability, including verifying hours, participant, and cases statuses for consistency within IRS reports, systems and publications, and reviewing records for blank,

unusual, or invalid values. Based on these procedures, we determined the data were sufficiently reliable for purposes of this report.

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: IRS policies, procedures, and practices to monitor the effectiveness and implementation of the CAP. We assessed these controls through interviews with CAP technical specialists and analysts, reviews of current CAP guidance and training, and analyses of CAP case hours and costs.

Appendix II

Management's Response to the Draft Report

COMMISSIONER
LARGE BUSINESS AND
INTERNATIONAL DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

MEMORANDUM FOR DIANA M. TENGESDAL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Mabeline T. Baldwin Mabeline T. Baldwin Digitally signed by Mabeline T. Baldwin Date: 2026.07.27 11:28:19 -04'00'
Acting Commissioner, Large Business and International Division

SUBJECT: Draft Audit Report – A Cost-Benefit Analysis is Needed for the Compliance Assurance Process
(Audit # 2025308021)

Thank you for the opportunity to review and comment on the subject draft audit report titled, *A Cost-Benefit Analysis is Needed for the Compliance Assurance Process*. We appreciate TIGTA's thorough review of the Compliance Assurance Process (CAP) program and their focus on strengthening oversight and program effectiveness.

The goals of the CAP program are to improve tax compliance by enhancing the efficiency and effectiveness of the issue identification, development, and resolution processes; to increase transparency and cooperation between the IRS and Large Business and International (LB&I) taxpayers; and to reduce the burden of tax administration and compliance. One way to achieve these goals is to identify, develop and resolve the material issues before the filing of the tax return. However, in some instances, additional time may be needed to review issues after filing, and doing so can still support the achievement of CAP's goals.

Real-time review of material transactions helps the IRS identify emerging issues early. LB&I's centralized risk assessment of CAP taxpayers' compliance with energy credits, stock repurchase excise tax, and corporate alternative minimum tax (CAMT) provisions allowed resources to be focused on high-risk areas and gave Subject Matter Experts (SMEs) early insight into new issues. Reviewing returns before filing helped flag risks quickly and enabled resolution with field teams after filing. This accelerated SME involvement compared to traditional LB&I exams and facilitated learning, collaboration with Counsel, and detection of new or unintended issues. Notable outcomes included updates to Form 4626 and instructions, new audit procedures for transferred credits, improved filters for non-CAP reviews, and expanded training for CAP and LB&I staff, demonstrating CAP's value to IRS guidance.

The findings from CAP reviews are a strong reflection of the types of issues encountered among the broader population of large LB&I taxpayers. CAP participants, though compliant, deal with complex tax issues like other LB&I cases, showing they share similar audit challenges and compliance concerns.

In administering the CAP program, the IRS is committed to continuous improvement and to developing meaningful quantitative metrics to evaluate program effectiveness, strengthen compliance, and reduce the tax gap.

We agree with some of TIGTA's recommendations. Attached is our detailed response to the recommendations. If you have any questions, please contact Ronald Hodge, Assistant Deputy Commissioner Compliance Integration, Large Business and International Division.

Attachment

Attachment

RECOMMENDATION 1:
The Commissioner, Large Business and International Division should develop quantitative metrics to evaluate the effectiveness of the CAP program. These metrics should include a comparison to traditional post-filing examinations and cost-benefit analyses addressing proposed changes and adjustments and alternative cost savings compared to the costs of operating the program.

CORRECTIVE ACTION:
The IRS agrees with this recommendation. The LB&I Division will implement a new reporting function designed to collect essential data on CAP cases. As part of this initiative, the LB&I Division will conduct comparative analyses between CAP cases and traditional post-filing examinations. This comparison aims to assess the overall effectiveness of the CAP program.

Additionally, the LB&I Division will review and determine the relevance of other potential metrics that could further contribute to evaluating the program's effectiveness.

RESPONSIBLE OFFICIAL:
Assistant Deputy Commissioner Compliance Integration.

IMPLEMENTATION DATE:
September 30, 2027

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:
The Commissioner, Large Business and International Division, should reevaluate assessing a user fee for participation in the CAP program.

CORRECTIVE ACTION:
The IRS disagrees with this recommendation. CAP participation provides no “special benefit” as defined in OMB Circular A-25. CAP replaces, rather than supplements, a traditional post-filing examination and is available to all eligible taxpayers meeting defined criteria.

RESPONSIBLE OFFICIAL:
N/A

IMPLEMENTATION DATE:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 3:
The Commissioner, Large Business and International Division, should assess the root cause(s) for the high rate of partial acceptance letters and delayed case closures and develop strategies to increase the percentage of CAP cases closed within 60 days of the return filing date.

CORRECTIVE ACTION:
The IRS agrees with this recommendation. The LB&I Division will conduct a root cause analysis and develop a strategy to help mitigate case closures exceeding 60 days.

RESPONSIBLE OFFICIAL:
Assistant Deputy Commissioner Compliance Integration.

IMPLEMENTATION DATE:
January 31, 2028

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:
The Commissioner, Large Business and International Division, should implement a tracking system to monitor whether fully disclosed issues are resolved within the 90-day time frame goal.

CORRECTIVE ACTION:
The IRS agrees with this recommendation. The LB&I Division will utilize recent enhancements to case management systems and implement new reports. The CAP Program Team will train the CAP Team Account Coordinators to populate the necessary date fields.

RESPONSIBLE OFFICIAL:
Assistant Deputy Commissioner Compliance Integration.

IMPLEMENTATION DATE:
September 30, 2027

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

Appendix III

Glossary of Terms

Term	Definition
Book-to-Tax Reconciliation	The process of comparing a company's financial statement income to its taxable income. The differences exist because of the difference in financial accounting rules and tax laws.
Cycle Time	Computed from the original examination start cycle until final closing.
Emerging Issue	Any tax issue that is or may be of strategic importance to the IRS.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year.
Form 10-K	An annual report submitted to the U.S. Securities and Exchange Commission that provides a comprehensive overview of the company's business and financial conditions and includes audited financial statements.
Information Management System	An application used primarily by the LB&I Division for case tracking and case management.
Memorandum of Understanding	A document established between two or more parties to define their respective responsibilities in accomplishing a particular goal or mission.
Miscellaneous Direct Examination Time	Time used to support compliance activities.
No-Change Letter	A letter provided to taxpayers when the examination results in no adjustments or there are adjustments that result in no additional liability.
Revenue Agent (LB&I)	A revenue agent working in the Large Business and International Division, individually or as a team member, conducts independent examinations and related investigations of cases involving the most complex tax returns filed by large businesses, corporations, and organizations. These taxpayers include those with extensive subsidiaries, diversified activities, and national or international scope and operations. A revenue agent applies an expert knowledge of the Internal Revenue Code, revenue rulings, court decisions, and agency policies, regulations, and practices to determine the correct tax liability.
Risking Template	A case review tool used to evaluate calculations, identify issues, and document findings consistently.
Tax Certainty	The ability for the IRS and taxpayers to determine tax obligations with clarity and finality.
Tax Year	The calendar year or fiscal annual accounting period for keeping records and reporting income and expenses.

Appendix IV

Abbreviations

CAP	Compliance Assurance Process
FTE	Full-time Equivalent
IRS	Internal Revenue Service
LB&I	Large Business and International Division
TY	Tax Year

To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at
TIGTACommunications@tigta.treas.gov.

Information you provide is confidential, and you may remain anonymous.