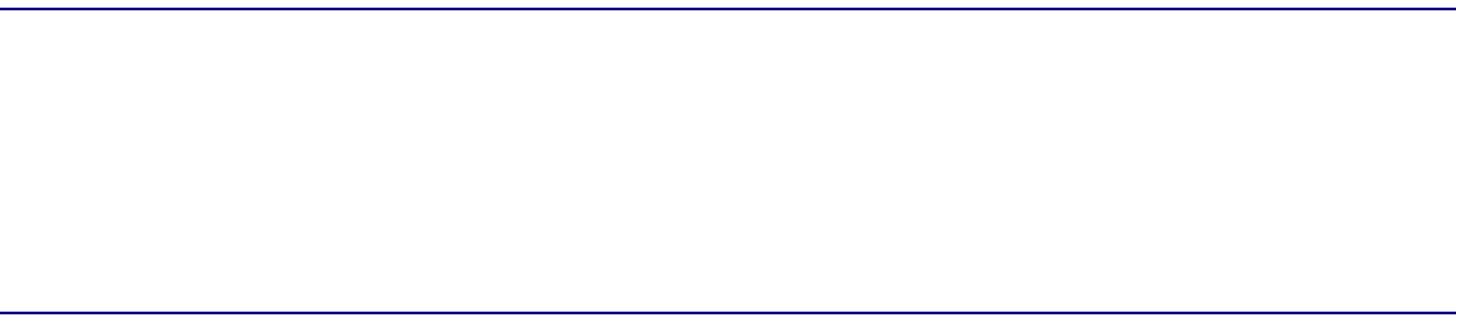

April 1997

TAX ADMINISTRATION

Factors Affecting Results from Audits of Large Corporations





General Government Division

B-261745

April 17, 1997

The Honorable Margaret Milner Richardson
Commissioner of Internal Revenue

Dear Ms. Richardson:

This report focuses on the second phase of our work on the Internal Revenue Service's (IRS) program to audit the tax returns of about 45,000 large corporations that are not in the Coordinated Examination Program (CEP)—IRS' program to audit the returns from the largest and most complex corporations.¹ In the first phase, in a comparison of data from fiscal years 1988 and 1994, we found that IRS had invested additional time in these audits of large corporations but revenue agents recommended fewer additional taxes per audit hour.² For these years, IRS ultimately assessed 27 percent of the recommended taxes against these corporations.³

This assessment rate and these audit results raise issues about the productivity of such audits. Initiated under our basic legislative authority, this review identified factors that contributed to the assessment rate and audit results.

Background

For audit purposes, IRS splits large corporations (those reporting \$10 million or more in gross assets) into two groups. Of the 46,700 large corporations in 1994, IRS placed about 1,700 corporations, usually exceeding \$250 million in assets, into CEP. IRS audits the large corporations not in CEP (hereafter referred to as "large corporations") under the Examination Division's general program.⁴ The Examination Division audits tax returns to determine whether taxpayers paid the correct amount of tax.

As discussed later in detail, IRS audit staff are to take various steps before auditing a return. First, the staff must classify and select a return for audit. IRS classifies returns to highlight tax issues (e.g., income, deductions,

¹We identified factors affecting CEP audits and appeals in an earlier report. See *Tax Administration: Compliance Measures and Audits of Large Corporations Need Improvement* ([GAO/GGD-94-70](#), Sept. 1, 1994).

²*Tax Administration: Audit Trends and Taxes Assessed on Large Corporations* ([GAO/GGD-96-6](#), Oct. 13, 1995).

³The assessment rate includes the amount of recommended taxes that the large corporations agreed to pay at the end of the audit as well as those amounts sustained after any appeal.

⁴In fiscal year 1994, IRS audited about 10,400, or 24 percent, of the large corporations.

credits) that should be audited. Then, an IRS revenue agent is to plan how to audit such issues and collect information from the large corporation, as needed. If the corporation does not provide all requested information in a reasonable period without a valid excuse, IRS may issue a legal summons to compel the taxpayer to comply. The Department of Justice works with IRS to enforce the summons in court.

For each audit issue, if the revenue agent views this information as insufficient support for the position taken on the return, the agent is to recommend adjustments to the return and compute a corrected tax liability. On the other hand, if the information supports the return filed by the large corporation, the agent is to recommend no tax change. The revenue agent presents the audit results to the large corporation officials, who may either agree or disagree. If the large corporation agrees, any additional tax that the revenue agent recommended becomes assessed. If the large corporation disagrees, it may file a protest with IRS' Office of Appeals, which is tasked with settling tax disputes without litigation on the basis of what is fair to the government and the taxpayer.

An appeals officer is to evaluate the relative strengths of the government's and taxpayer's positions by reviewing the facts, including additional information provided by the taxpayer, pertinent court decisions, and the results of informal conferences with the taxpayer. To settle a tax dispute, an appeals officer can consider the hazards of litigation.⁵ The officer is then to negotiate mutual concessions in an attempt to arrive at a settlement. If a case is settled, any additional tax is assessed and the appeals officer is to prepare an Appeals case memorandum, or written summary, of how the case was handled. The summary is to include the issues raised; pertinent facts; applicable regulations, rulings, and court decisions; and the merits and hazards of litigation of each side. If a case is not settled, Appeals is required to issue a notice of deficiency and the taxpayer has 90 days to file a petition with the Tax Court. Even after a case is docketed in court, IRS District Counsel, by itself or by reengaging Appeals, may attempt to settle the case prior to trial.

IRS data showed that in fiscal year 1992, Examination sent 2,235 large corporate cases to Appeals. As of late fiscal year 1995, Appeals had settled about 1,800 of those cases. Of those not settled by Appeals, three were settled by District Counsel, two were settled by trial, and the remainder were still open in Appeals.

⁵Hazards of litigation include the probability of a taxpayer prevailing in court.

Results in Brief

IRS is investing more in audits of large corporations and getting less in return. IRS invested 25 percent more hours in audits of large corporations during 1994 than it did in 1988. Yet it recommended 23 percent less additional tax per hour and doubled the rate at which it closed audits with no tax changes (i.e., no-change rate). During this 7-year period, IRS assessed 27 percent of the additional taxes revenue agents recommended. Our analysis of questionnaire responses and interviews of officials from across IRS identified at least four factors that had a negative effect on both the audit results and the assessment rate.

First, the complexity and vagueness of the tax code caused legitimate differences in interpretation between IRS and corporations over the correct tax liability. This complexity and vagueness made it difficult for IRS revenue agents to find the necessary evidence to clearly support any additional recommended taxes without investing a lot of audit hours. Such recommended taxes, lacking clear evidence, were less likely to survive the Appeals process and be assessed. Also, complex and vague tax laws increased the tax burden on large corporations by increasing their uncertainty about what actions they had to take to comply with the tax code.

Second, Examination and Appeals used different performance measures. Examination focused on the amount of additional taxes recommended and time spent to do the audit and Appeals focused on whether they settled tax disputes without litigation and the time spent to do so. This difference in measures resulted in a lower assessment rate. Revenue agents may recommend as much tax as possible in some cases without developing sufficient evidence, particularly with vague and complex tax laws. Appeals officers may settle some disputes without litigation even when the recommended taxes have some justifiable basis under the tax laws.

Third, revenue agents had difficulty developing sufficient support to recommend tax changes that could survive an appeal due to various aspects in the audit process. These revenue agents worked alone on complex audits without much assistance from district counsel or their group managers, who tended to be responsible for managing all types of audits—not just large corporate audits. Further, audit staff had a limited basis on which to classify and select returns that had the most audit potential. Unlike the approaches for selecting other corporate returns, IRS' approach for these large corporate returns gave a great deal of discretion to audit staff. However, the staff had little information on previously audited corporations or industry issues to serve as guideposts. Finally, the

agents had difficulty obtaining information in a timely manner from large corporations. In sum, all of these aspects can contribute to a reduction in the amount of taxes recommended per audit hour and, with the possible exception of the problems in selecting returns, can affect the assessment rate.

Fourth, Appeals usually did not share with Examination information that could be used to educate revenue agents. Appeals' staff shared new information submitted by large corporations in less than half of our sample cases because of the time pressures to settle cases or their uncertainty in defining "significant." Appeals is required to share only significant new information with Examination. Without the new information, revenue agents have a harder time understanding the rationale(s) Appeals used in resolving a dispute. Even if Appeals did share information, revenue agents did not always have time to review the new information due to time pressures to do other audits. Further, although Appeals usually shared the final settlement on disputed issues, Examination management often did not distribute those results to the revenue agents. Such feedback can help agents decide whether and how to audit similar issues in the future with better support for any recommended taxes.

Objectives, Scope, and Methodology

Our objective was to determine what factors affected the results of auditing large corporations as well as the amount of additional taxes recommended in these audits that are ultimately assessed. To accomplish our objective, we used two methodologies. First, we sent questionnaires to IRS revenue agents, IRS appeals officers, and corporate taxpayers associated with a nationally representative sample of audits in which a large corporation agreed with the additional recommended taxes at the end of either the audit or appeals processes during fiscal year 1994.⁶ To focus on larger audits, we restricted this questionnaire study to the universe of large corporate audits with \$75,000 or more in recommended additional taxes and concentrated about one-third of the sample in a stratum with recommended taxes of \$1 million or more. Our sample of 500 included about \$2.3 billion of the \$2.6 billion in recommended additional taxes and \$648 million of the \$810 million in taxes assessed from the 1,266 large corporate audits in our universe. Appendix I provides a detailed description of our sample selection methodology.

⁶We chose fiscal year 1994 because it was the most recent year for which data were available on such closed audits.

We also sent a more general questionnaire to IRS group managers because, being responsible for many types of audits, they were not as likely as the above respondents to recall information about specific audits of large corporations. We randomly sampled group managers nationwide who had large corporate audits in their inventories as of August 1995. Questionnaire results for revenue agents, group managers, and appeals officers are presented in appendices II through IV, respectively. Because the questionnaires were sent to a sample rather than all members of their respective universes, all of the sample results are subject to sampling error. Unless otherwise noted, all estimates presented in this report have a 95 percent confidence interval of less than plus or minus 10 percent. Questionnaire results for the large corporations are not included because of a low response rate that did not allow us to develop estimates.

Second, we obtained input from various IRS staff. We visited IRS' National Office, its 4 regional offices, and 7 of its 33 district and appeals offices to interview key officials. During the design phase of our review, we visited three additional districts and two additional appeals offices. In the National Office, we contacted officials in the Examination Division, National Appeals Office, and the Strategic Planning Division. In conjunction with our site visits, we interviewed selected Appeals, District Counsel, and Examination officials to obtain their views. Appendix V lists all locations visited and the officials interviewed at each location. In addition, we asked the Examination Chiefs in all 33 IRS district offices nationwide and Appeals Chiefs in all 33 appeals offices nationwide to give us their written comments on certain factors related to these large corporate audits. We received responses from 31 (94 percent) of the Examination Chiefs and 30 (91 percent) of the Appeals Chiefs. Their views are incorporated throughout this report.

We obtained oral comments on a draft of our report from IRS and the Tax Executives Institute (TEI).⁷ We discuss such comments and our evaluation of them at the end of this letter. Overall, we conducted our work at IRS' National Office, 4 regional offices, 10 of the 33 district offices, and 9 of the 33 appeals offices. In addition, we used questionnaires received from all of IRS' 33 district offices. We also asked Examination Chiefs and Appeals Chiefs nationwide to give us their comments on factors related to these large corporate audits. We did our work from May 1995 to November 1996 in accordance with generally accepted government auditing standards.

⁷TEI represents about 3,600 of the largest corporations, including most CEP corporations.

Recent Statistics Raise Issues About Audits of Large Corporations

Our 1995 report on large corporate audit trends provided statistics on IRS audits of large corporations between fiscal years 1988 and 1994. These statistics covered the audit results and assessment rate over this 7-year period. Neither we nor IRS knows what the assessment rate should be, but these statistics indicate that IRS has been investing a lot of time and money recommending additional taxes that do not get assessed.

For example, in a comparison of data for 1988 and 1994, we found that IRS invested more resources in large corporate audits but recommended less additional tax per hour. IRS spent 25 percent more hours and audited only 3 percent more returns. Even so, the amount of taxes recommended (in constant dollars) dropped 23 percent per audit hour and 7 percent per audited return. In addition, IRS' no-change rate doubled from 8 percent to 16 percent.

Further, for the 7-year period, we computed that IRS assessed, on average, 27 percent of the additional taxes that IRS revenue agents recommended in these audits. The assessment rate includes the amount of recommended taxes that the large corporations agreed to pay at the end of the audit as well as those amounts sustained after any appeal. Over the 7 years, large corporations appealed between 66 and 85 percent of the additional taxes recommended and agreed to pay the rest. Since 1990, corporate taxpayers have been appealing a lower percentage of the recommended taxes and agreeing to a higher percentage.

Factors Affecting Assessment Rate and Audit Results

We identified four factors that affected the assessment rate and/or audit results, such as the lower recommended taxes per audit hour in 1994 compared to 1988. Although the exact impact is unknown, each factor can affect both the rate and results. For example, three of the four factors—complex tax laws, conflicting performance measures between Examination and Appeals, and limited coordination between these two IRS functions—can produce a lower assessment rate.

As for lower audit results, the three factors can each have a different impact. Complex laws cause IRS' audits to be very time consuming, which can lower the amount of recommended taxes per hour. Although Examination's performance measures would encourage higher amounts of recommended tax, Appeals measures would not be as likely to affect the audit results. Limited coordination between Appeals and Examination was unlikely to affect the audit results being disputed by corporations because the audits had already been done. On the other hand, future audit results

on similar tax issues were likely to be reduced when revenue agents did not receive feedback on which disputed issues were conceded and why; such knowledge could enhance future audits.

The fourth factor entailed a number of aspects of an audit that could reduce the taxes recommended per audit hour or the assessment rate. Because revenue agents generally worked alone without much assistance from counsel or their management, they needed more time to develop enough support to recommend taxes that could be assessed after an appeal. These agents also did not have a sufficient basis for selecting corporate tax returns with potential for significant tax changes. Generally, audits of returns with low potential were more likely to result in recommendations for little or no tax change and were less likely to be appealed. Thus, these audits would generally have little effect on the assessment rate. However, when a revenue agent tried to recommend taxes without sufficient support, such recommended taxes would not likely be sustained in Appeals, and the assessment rate would be lower. The following sections discuss each of these four factors in more detail.

Tax Law Complicates IRS' Audits of Large Corporations

IRS and large corporate taxpayers can have legitimate differences over how tax laws should be interpreted. We found that complex, ambiguous laws have created opportunities for both large corporations and IRS to interpret the tax laws differently. This discretion, in turn, increased the likelihood of tax disputes. Without clear tax laws, resolution of these disputes can get complicated and can ultimately depend on the negotiating skills of the IRS and corporate representatives. Because the corporate representatives have usually prevailed in Appeals or the courts, recommended additional taxes have tended not to be assessed.

We have previously reported that the federal tax laws are complex, difficult to understand, and in some cases indecipherable.⁸ Some of the large corporate officials who responded to our survey indicated that a major reason for disputing recommended taxes was revenue agents' interpretation of tax laws. We estimate that revenue agents judged that about 86 percent of the corporate tax disputes were due to different interpretations of the tax laws.⁹ Appeals officers in our universe cited the

⁸Tax System Burden: Tax Compliance Burden Faced by Business Taxpayers ([GAO/T-GGD-95-42](#), Dec. 9, 1994).

⁹Because the revenue agent and appeals officer questionnaires pertain to a sample of tax returns, rather than to all returns, all results are subject to sampling error. Unless otherwise noted, all estimates presented in this report have a 95 percent confidence interval of less than plus or minus 10 percent.

hazards of litigation as the primary reason for resolving these interpretive differences in favor of the corporations for an estimated 56 percent of the additional taxes being appealed.¹⁰ The National Director of Appeals told us in a letter that these audits often raise issues involving substantial doubt or variances of opinion because these issues are complex and not definitively answered by litigation.

The complex tax laws also affected IRS' ability to conduct audits, according to 21 of the 33 Examination Chiefs and 27 of the 33 Appeals Chiefs nationwide. Such complexity, in combination with the broad scope of the tax laws, made it difficult for IRS to ensure that its revenue agents stayed current in their tax law knowledge and for large corporations to comply with the tax laws.

Our interviews of Examination, Appeals, and Counsel officials at the national and field levels showed a consistent belief that IRS' system created little risk for corporations in appealing the recommended taxes. In a letter to us, the National Director of Appeals wrote:

"Taxpayers are aware of the difficulty of determining with exactness the liability that they have. They are also aware that the courts cannot resolve all disputes arising out of the audit process. Therefore, the Service must pursue the administrative resolution of these cases whenever possible. The fact that the Service is highly motivated to resolve cases without litigation means that compromises on difficult and controversial issues will take place. Knowing this, taxpayers naturally take advantage of the process to dispute those issues on which some doubt exists."

To help resolve problems with tax law complexity and recurring issues in CEP audits, our 1994 report recommended that IRS should more strongly propose changes to the tax laws.¹¹ IRS agreed and has established a work group to evaluate ways to implement this recommendation. To the extent that IRS is successful in getting Congress to simplify the various complex tax issues, large corporations are likely to benefit as well as IRS.

Differing Measures in Examination and Appeals May Have Reduced the Assessment Rate

IRS' overall mission is to collect the proper amount of taxes in a manner that is efficient and fair and promotes public confidence. The Examination and Appeals functions also have important missions that should contribute to IRS' overall mission. Revenue agents are charged with protecting the government's interest in receiving the proper amount of tax. They are

¹⁰The 95 percent confidence interval (plus or minus 32 percent) ranges from 24 to 86 percent.

¹¹GAO/GGD-94-70, Sept. 1, 1994.

instructed to make their audit recommendations without deviating from IRS' legal positions or considering the hazards of litigation (i.e., the chance of losing in court). On the other hand, appeals officers are charged with resolving tax controversies without litigation to the extent possible while being fair and impartial to both the government and the taxpayer. They are instructed to consider the hazards of litigation and may concede the recommended taxes in part or in whole on that basis.

Performance measures typically move a function toward desired ends within a mission. In doing so, the performance measures within the two functions reflect their respective missions and may not encourage the functions to work together effectively to accomplish IRS' overall mission. For example, Examination has traditionally focused on measuring the amount of additional taxes recommended per audit and per audit hour. On the other hand, Appeals has focused on measuring the number of tax disputes settled as quickly as possible without litigation. These different measures have the potential to lead to a lower assessment rate. The audit measures may encourage revenue agents to propose tax adjustments regardless of whether they can be sustained on appeal and discourage agents from fully developing issues because of time pressures to close the audits. Appeals' measures may encourage appeals officers to settle more cases in less time even when some of the recommended taxes have a justifiable basis under vague or complex tax laws. As a result, a high proportion of recommended taxes may not be assessed, but Examination could claim success for recommending high amounts of taxes and Appeals could claim success for settling the case without litigation.

In our 1994 CEP report, we reported a similar situation for CEP audits and recommended that IRS add an IRS-wide measure, such as the collection rate, to the functional measures. Although IRS disagreed with this recommendation when commenting on a draft of the CEP report, IRS officials subsequently told us they plan to implement such an IRS-wide measure in some form during fiscal year 1998. Such a measure could similarly be applied to various types of audits, including audits of other large corporations.

An IRS-wide measure such as the collection and/or assessment rate could encourage IRS functions to work together to accomplish IRS' overall mission of collecting the proper amount of tax. National Office Examination and Appeals officials expressed concerns about possible unintended effects from creating such a measure. For example, they said an overall IRS measure such as the assessment rate could encourage

revenue agents to avoid raising difficult audit issues or appeals officers to settle disputes just to drive up the assessment rate. However, this measure of the tax outcomes also would be likely to encourage revenue agents to more fully develop audit issues that could be sustained if appealed.¹² As discussed later, such a measure also could encourage appeals officers to coordinate with Examination while still remaining impartial and independent in settling tax disputes.

As measures are emphasized over time, they become ingrained, making changes very difficult. At every location we visited, we heard about the driving force of existing measures from Examination or Appeals officials and the difficulty of changing or adding to them. These officials noted that as new measures are introduced, the culture of the organization will resist change and cling to the past.

Many Examination and Appeals managers we contacted also expressed concerns over using an assessment rate as a measure for the large corporate program. In part, they pointed to impurities in IRS' databases that do not allow them to separate audit actions from nonaudit actions, such as claims or net operating losses. IRS has been developing a new database to help identify these problems and their impacts on the revenue collected due to audits and other enforcement efforts.

One case in our sample epitomizes the concerns about the assessment rate being skewed by nonaudit actions. In this case, the revenue agent recommended several hundred million dollars in additional taxes. Appeals sustained 100 percent of the issues and the taxes recommended by the revenue agent. However, the large corporation submitted additional information as well as a net operating loss and other claims during the Appeals process. Appeals accepted and approved these losses and claims. The losses and claims almost completely offset the additional taxes recommended by the revenue agent. As a result, about 1 percent of the recommended taxes was assessed. Until the databases account for them, nonaudit actions that are considered during the Appeals process will continue to overstate or understate the rate at which taxes recommended in audits get assessed.

On the other hand, of the 40 regional and district officials we interviewed, 14 told us they supported using the assessment rate. One Appeals Chief told us "The measurement standards would be more appropriately based

¹²Given Examination's mission and the complex tax laws, revenue agents still will raise some issues that are unlikely to be sustained upon appeal.

on dollars ultimately assessed and collected.” In addition, at least one official from each function—Appeals, Counsel, and Examination—in the four regions told us that both Examination and Appeals should be accountable for the assessment rate. Further, 7 of 33 Chiefs of Examination said they already used a cross-functional measure, such as the amount of additional taxes recommended that gets assessed, as an additional way to evaluate audit effectiveness.

Audit Circumstances Hindered Revenue Agents From Developing Recommended Taxes That Could Be Sustained

Revenue Agents’ Corporate Audit Experience and Training Limited

Audits of these large corporations can be complex and technical but are generally done by a single revenue agent. Although they worked alone, these revenue agents received little assistance from district counsel or their group managers. Also, IRS’ approach for classifying and selecting these large corporate returns did not help ensure that revenue agents spent their audit time on the most noncompliant returns. Finally, the agents had difficulty obtaining information from the large corporations. In combination, these circumstances made it difficult for revenue agents to recommend taxes that had enough support to be assessed without investing a lot of time.

IRS officials said the level of large corporate auditing experience for revenue agents was not as high as they would like it to be. For the large corporations in our study, the average return was audited by a single revenue agent with about 8.5 years of corporate auditing experience.¹³ IRS has lost about 1,800 experienced revenue agents over the past 3 years. IRS National Office Examination officials as well as regional and district officials interviewed noted that if IRS continues to lose its senior revenue agents without being able to replace them, corporate audits will become less productive.¹⁴ Furthermore, these agents could not easily develop corporate expertise because they generally conducted many other types of audits, such as those of partnerships and individuals.

Given the level of experience of these revenue agents and the complexity of the tax law, training in corporate income tax practices and the tax laws is important. In this regard, the revenue agents in an estimated 38 percent of the audits in our study population believed that they needed, but had

¹³For comparison, CEP revenue agents averaged about 18 years of corporate auditing experience. Unlike revenue agents conducting large corporate audits, CEP revenue agents also tended to continually audit CEP corporations. Further, CEP revenue agents were assisted by other revenue agents and specialists, including counsel. An on-site team coordinator directed the work of the agents and reported to a CEP case manager, who usually oversaw several audits.

¹⁴According to a National Office official, IRS compliance staffing, including revenue agents, is expected to decrease further during fiscal year 1997.

not received, training that would have improved their ability to conduct their audits. A common need cited was for more industry-related training. Further, 25 of the 33 Examination Chiefs nationwide indicated that additional training in specific industries would enhance audits of complex, technical issues. A regional task force cited a need for additional training so revenue agents could become more proficient in recognizing and developing corporate issues.¹⁵ In February 1997, National Office Examination officials told us they were developing a specific course that will be used to train all revenue agents assigned to large corporate audits. To help guide revenue agents doing large corporate audits, they also planned to have audit criteria and procedures in place by the end of calendar year 1998.

However, six Examination Chiefs pointed out the difficulty in providing additional training when training funds have been diverted to other areas because of budget limitations. For example, one Examination Chief told us that for fiscal year 1996 the training budget was cut so severely that Examination could not conduct continuing professional education for revenue agents.¹⁶ National Office Examination officials told us during November 1996 that IRS added \$10 million to fiscal year 1997 training funds across IRS, of which Examination received \$1.4 million. According to one of the officials, these funds should help Examination provide most, but not all, of the basic continuing professional education training to its revenue agents. Moreover, this official said funding for training is unlikely to improve for fiscal year 1998 under the current budget environment.

Limited Counsel and Managerial Assistance

Working alone on these corporate audits, revenue agents may need assistance in planning and developing their audits. However, we found that revenue agents usually did not request assistance from district counsel or their group managers on planning and doing the audits.

Revenue agents for most of the 1,266 audits in our study population said they did not request any legal assistance on matters of tax law or overall issue development. We estimate that revenue agents reported requesting assistance from the Office of District Counsel for about 14 percent of the audits, and from the Office of Chief Counsel for about 8 percent of the audits. However, for an estimated 55 percent of those audits in which revenue agents requested assistance, they judged that such assistance had a positive or very positive effect on their ability to obtain the taxpayers'

¹⁵The Western Region Corporate Results Task Force Report, dated March 1995.

¹⁶The purpose of continuing professional education is to provide revenue agents with the current knowledge and skills needed to successfully conduct audits.

agreement.¹⁷ Appeals officers consulted with district counsel during resolution of an estimated 20 percent of the most significant issues raised by revenue agents. For about half of these consultations, the appeals officers indicated that District Counsel helped them to resolve the disputes to a great or very great extent.

Our interviews with district office officials identified a major reason for infrequent requests for legal assistance. These officials were concerned about revenue agents and appeals officers not receiving the assistance in a timely manner. Counsel officials in the four districts we visited acknowledged that responding to requests for formal legal assistance can be time-consuming. However, these officials told us they could help improve the effectiveness of the large corporation audits by assisting the revenue agent in developing audit issues and obtaining requested information. They believed that such involvement could be justified and helpful. In February 1997, National Office Examination officials told us that Counsel involvement in CEP cases is working well and support looking for ways to increase Counsel's involvement in the large corporate cases. However, Counsel officials cautioned that increased involvement would have to be on a selective and informal basis due to staffing constraints.¹⁸

Less than half of the revenue agents in our universe indicated their group managers were involved in identifying audit issues, discussing complex audit issues, obtaining information from the taxpayer, or resolving disputed issues. In well over half of those audits in which revenue agents indicated their managers were involved, the revenue agents indicated that such involvement helped them. For example, we estimated that in 207 of the audits in our population, revenue agents indicated that their group managers were involved in obtaining requested information from taxpayers; in an estimated 83 percent of those audits, the revenue agents viewed such involvement as either very positive or somewhat positive.

Examination officials and the regional task force report provided insights on why managers were not more frequently involved in agents' audits. For example, they said most group managers did not have sufficient experience or time to substantially assist revenue agents. Examination officials from the districts we visited told us that group managers were responsible for many revenue agents and other auditors who audit a range of tax entities, from individual returns through complex corporate returns,

¹⁷The 95 percent confidence interval (plus or minus 15 percent) ranges from 40 to 70 percent.

¹⁸District Counsel officials said they can provide informal assistance more quickly at a lower cost compared to formal assistance. They did not provide data on the differences.

that involve different tax rules and issues. Officials said that group managers tended to focus their attention on newer staff and administrative duties. They said that as a result, revenue agents were left to conduct these corporate audits with minimal managerial involvement, and group managers lost the opportunity to develop their corporate audit experience.

Both the Examination officials and the regional task force report concluded that these large corporate audits were more effective when group managers with corporate audit experience were actively involved. For example, 20 of the Examination Chiefs nationwide indicated that group manager involvement was crucial to the success of these audits.

To increase managerial involvement and audit effectiveness, four districts we visited had recently created groups of existing revenue agents that specialized in large corporate audits. Managers with extensive corporate auditing experience led these groups to help their agents get assistance in selecting, planning, and doing audits. District officials believed that these groups, although fairly new, have improved the effectiveness of large corporate audits because, in part, of the focus and assistance of group managers.

IRS' National Office has not yet issued any uniform guidance on how to measure the success of these groups. Accordingly, not all districts were consistently measuring the impacts; some were focusing on different audit results (e.g., recommended taxes per hour versus no-change rate). National Office Examination officials told us that they would like to learn more about the impacts of these specialized groups across the districts that had created them.

In evaluating these groups, it is important to recognize that some districts may not have enough corporate workload or revenue agents to justify these specialized groups. That is, such districts may wish to maintain flexibility in using revenue agents on other than large corporate audits. At least one Examination Chief was concerned about the potential impacts on audit results in the short term. Even so, officials in these districts believed that these specialized groups will ultimately yield better large corporate audit results, cancelling out any initial decline in the results. And, if the districts who were experimenting with such groups maintain a similar level of investment in large corporate audits, shifting the agents into specialized groups would not necessarily increase IRS' costs or reduce resources for other types of audits.

Inconsistent Approach Among Districts for Selecting Corporate Returns for Audit

Compared to CEP tax returns, the approach for selecting these large corporate returns was more subjective and varied. To determine which large corporations to select for CEP, IRS scores corporate tax returns on specific criteria, such as corporate structure, assets, and income. IRS does not have a consistent approach or criteria for classifying and selecting tax returns for large corporations not in CEP. The approach and criteria varied by district.

In general, revenue agents and/or their group managers selected the returns to audit, depending on the IRS district. Many districts charged revenue agents with both classifying and selecting issues for audit, and some districts had other auditors do the initial selection and classification. Some districts relied on service center staff to classify large corporate returns, using criteria provided by that district, or subjectively without using any such criteria before sending the selected returns to the district.

In sum, our analysis of questionnaire responses and our interviews with IRS officials showed that the IRS staff doing the selection and classification had to ultimately rely on their experience and judgment about audit potential. They had limited criteria and little information on (1) any previous audits of the large corporation or (2) overall large corporate audit results by issue and industry to guide their decisions. Some of these staff may be sufficiently experienced to find returns that would be productive to audit. However, the audit results in fiscal year 1994 showed that more returns were audited without any recommended tax changes or with lower amounts of recommended tax per audit hour than in fiscal year 1988.

National Office Examination officials have expressed similar concerns about their selection and classification system for large corporate audits. They established a task force to develop a more structured system, but budget constraints have stalled the task force's efforts. In lieu of the task force, the National Office is testing the benefits of providing additional information on a corporation, such as Securities and Exchange Commission (SEC) reports, to the revenue agent reviewing the corporate return. Examination is also testing potential improvements to the classification system; none of the tests are far enough along to have useable results. Selected IRS districts are testing classification of returns by market segment.¹⁹

Also, IRS is developing the Examination Operational Automated Database in an attempt to capture audit results by issue and industry. Examination

¹⁹A market segment is a specific group of taxpayers that share certain characteristics and behaviors.

officials believe that this database could be used to enhance any selection and classification system by providing feedback on tax issues (e.g., unreported gross receipts, overstated travel expenses) by industry (e.g., manufacturing, wholesale trade) that have proven to be productive to audit. That is, IRS could identify issues and industries in which audits generated more recommended taxes per audit hour. By tracking such audit results, Examination officials believed that this database will be particularly helpful in classifying audit issues. These officials said IRS already had most of the necessary hardware and software. They estimated that enhancements in fiscal year 1997 would cost about \$320,000 and that administrative costs would average a staff year per district. This system is being tested in two IRS districts and is expected to be operational by the end of calendar year 1998.

Further, IRS officials from some districts with groups specializing in audits of large corporations told us such groups have helped improve the return selection and classification processes at these districts. These groups can improve not only the selection process but ultimately the productivity of these corporate audits. For example, in one district, an Examination official told us that while the overall percentage of audits closed with no additional tax recommended was about 10 percent, the rate within the specialized group was only about 3 percent.²⁰ Such audits can result in ineffective use of IRS' as well as the corporations' resources.

Difficulty in Obtaining Information to Support Tax Recommendations

During audits, revenue agents may question items on the return, such as income, deductions, or credits. If a corporation cannot provide adequate information as support, the revenue agent may adjust the items, which usually results in additional taxes being recommended. Both the revenue agents and large corporations contributed to problems in obtaining such information. Not having the information hindered IRS' ability to do effective audits and support tax recommendations.

Appeals and Counsel officials in all four districts we visited told us that revenue agents do not always have adequate information to support recommended taxes. Taxpayers provided information to Appeals that had not been provided to the revenue agents in an estimated 53 percent of the disputed audits.²¹ Appeals officers for some of the audits noted that

²⁰As discussed earlier, the nationwide no-change rate doubled (not decreased) between fiscal years 1988 and 1994.

²¹Because large corporations can appeal numerous issues, our questionnaire focused on the three disputed issues involving the highest amounts of recommended adjustments. In these instances taxpayers may have provided Appeals new information on at least one of the top three dollar issues.

revenue agents had provided insufficient information to justify their development of an audit position. For example, appeals officers for an estimated 27 percent of the disputed audits indicated that not all of the top three dollar issues had been fully developed by the revenue agents during the audit.

Examination and Appeals officials told us that some corporate taxpayers did not always provide requested information in a timely manner, if at all. Corporations can have difficulty providing information when IRS' requests are vague, for old data, or made late in the audit. On the other hand, corporations have little incentive to provide all information, particularly if it will lead revenue agents to make adjustments or to audit other areas on the tax return. IRS officials we interviewed believed that problems in obtaining all the information needed to support tax recommendations were becoming more prevalent.

Examination, Appeals, and Counsel officials said agents should ensure that they have adequate information to support tax recommendations. They also expressed the opinion that the recently formed specialized groups can increase managerial and counsel involvement in helping revenue agents obtain the information needed to support their recommended taxes. They noted that these group managers, when involved, were usually able to help agents obtain requested information from taxpayers.

Counsel officials told us that their involvement, including the discussion and issuance of summons when needed, could help secure information. They noted that revenue agents need to make information requests early in the audit so that the summons process, if needed, can begin as soon as possible, enhancing its effectiveness. IRS generally uses a summons as a last resort, meaning IRS has tried all other administrative means of obtaining requested information. Although used infrequently, a summons can prompt large corporations to provide the requested information. If it does, the investment in time and money can prove to be worthwhile compared to spending time awaiting information that may not be received.

Coordination Between Appeals and Examination Was Limited

During the appeals process for large corporate audits, coordination between Appeals and Examination was limited. Appeals generally did not share with Examination new information from large corporations. Sharing this information would give revenue agents the opportunity to review it and provide their comments to Appeals before the settlement. After the

final settlement, Examination did not always distribute Appeals' summary of that settlement to its revenue agents. Our work showed that such limited coordination resulted from insufficient requirements and incentives to coordinate. Although Appeals' independence in settling tax disputes is critical, limited coordination between the two functions can hinder IRS' efforts to reach a balanced settlement as well as to improve future audits.

Appeals officers for an estimated 25 percent of the disputed audits indicated they had no interaction with revenue agents while resolving the disputed tax issues. Appeals and Examination officials have acknowledged such limited coordination overall. An Appeals task force draft report cited Examination's concerns about the current Appeals process not providing Examination with an opportunity to present its views on key issues prior to resolution.²² Knowing that large corporations usually have unlimited access to the appeals officer to discuss the dispute, Examination officials said limited involvement and coordination with Appeals creates the appearance that the government's interest is not fairly represented and that the Appeals process is not balanced.

This appearance of bias can be aggravated when an appeals officer does not share with Examination staff new information provided by large corporations. Appeals officers for an estimated 53 percent of the disputed audits in our study population indicated that large corporations provided additional factual information for at least one of the top three dollar issues. However, the appeals officers asked Examination to review the new information in 139, or an estimated 43 percent, of those disputed audits in which corporations provided new information.²³ Revenue agents reported a similar lack of coordination. They indicated that Appeals asked them about new information in only an estimated 17 percent of all disputed audits. Neither we nor IRS knows whether the appeals officers should have shared the new information in these cases. Our CEP work indicated that CEP corporations are more likely to win more disputes when they provide information to Appeals that Examination has not had the opportunity to review.

In addition, Examination officials told us that Appeals seldom shared the proposed settlement with Examination so that revenue agents could have one last look at how the dispute was to be settled and whether any new information played a part. National Office Examination officials told us in

²²Proposed Procedure for Settlement of CEP Cases in Appeals (Western Region).

²³The 95 percent confidence interval (plus or minus 14 percent) ranges from 29 to 57 percent.

February 1997 that they do not believe it is realistic for Appeals to share proposed settlements in every case. However, Examination wanted the opportunity to review and discuss new information submitted after the audit closed.

Two reasons help explain this limited sharing with Examination staff. First, although IRS does require appeals officers to share significant new information with Examination, it left the definition of "significant" to the discretion of each appeals officer, recognizing that sharing all new information would not be realistic. Given the uncertainty over this requirement, Appeals could not ensure that the significant information had been shared. Without a definition of significant and without adequate controls to ensure that all significant new information is shared, neither we nor IRS knew whether the appeals officers involved with our study population had met the requirement for sharing significant new information. Also, IRS did not require Appeals to share its proposed settlements with Examination.

Second, the limited sharing partially resulted from the differing roles and incentives driving the work of Examination and Appeals. Appeals Chiefs we interviewed said they encourage appeals officers to involve the revenue agents in reviewing new information but advised their appeals officers to be conscious of the time and costs to do so. That is, if the appeals officers believe they can review the information in a shorter period of time than a revenue agent can, the appeals officers should most likely do it. Our interviews with Examination officials also indicated that many revenue agents have little incentive to spend time reviewing new information on a case that Examination has already closed. Further, both Appeals and Examination officials at the National Office said that sharing all new information would be unnecessary and too time-consuming. In February 1997, these Appeals officials told us they believed much of the new information submitted by taxpayers was not significant.

Regardless, sharing significant new information, especially that relating to issues that may not be sustained, would help IRS to maintain its designed separation of duties—revenue agents could audit the new information and appeals officers could focus on settling the entire dispute. To help meet this end, our 1994 CEP report recommended that IRS improve controls to ensure that Appeals provides CEP teams an opportunity to comment on proposed settlements. IRS disagreed at the time, but Appeals subsequently proposed a procedure to promote better communication with Examination and better settlement of key issues in CEP cases. Under that

proposal, Examination could identify five key issues in a case nearing settlement and Appeals would not settle the key issues until it had considered feedback from Examination. This way, Examination would have the opportunity to review the proposed settlement and advise Appeals of any significant facts, laws, or other factors that may need further consideration. According to many Examination and Appeals officials we interviewed in the districts, allowing Examination to provide this input could add balance to the appeals process without adversely affecting Appeals' independence. The proposed procedure also could help ensure that Appeals provides Examination with significant new information that taxpayers submit and an opportunity to comment just prior to settling a case.

Recognizing that taking these steps could involve some additional time, both Examination and Appeals officials told us during our field visits in early 1996 that the steps were worth taking. However, in November 1996, National Office Appeals officials told us that IRS had recently decided not to implement testing of this proposed procedure because of concerns by both Appeals officials and large corporations that such a procedure could impede Appeals' ability to independently settle tax disputes. However, these Appeals officials said that Appeals' independence would not necessarily have to suffer under this proposal.

Regarding final settlements, Appeals has a procedure for sending a copy of the final written summary to Examination, but Examination has no process in place to ensure that this feedback reaches the appropriate revenue agent. Revenue agents indicated that they received the written summary in an estimated 61 percent of the disputed audits. Examination officials and revenue agents told us that this summary can provide insights on why a recommended tax adjustment was or was not sustained on appeal. For example, the summary typically discusses the reasons for settling the disputes, such as hazards of litigation.²⁴ Without knowledge of significant facts or laws followed in the settlement, the revenue agents lose an opportunity to learn about the types of tax issues involved in the case and the support needed to sustain future tax disputes.

In summary, Appeals attempts to provide large corporations with a review of their tax disputes that is independent of Examination or other IRS functions before these corporations decide whether to litigate. However,

²⁴Appeals is studying the effectiveness of the written summary and whether it can be shorter. One Appeals official told us about concerns with reducing the discussion of important settlement considerations. Any reduction could also reduce insights that revenue agents garner from the summaries.

both Examination and Appeals officials told us that increased coordination and communication could help to improve their working relationship and to correct the appearance of imbalances during appeals without reducing the independence. To illustrate this point, a Regional Chief Compliance Officer told us about the need for more balance whenever large corporations withhold information during the audit but provide that information to Appeals. Examination Chiefs told us more interaction would afford an opportunity for their agents to better explain their recommended taxes as well as any difficulties they may have had in obtaining information to support their recommendations.

Conclusions

Our analysis of questionnaire responses and interviews with IRS officials identified at least four factors that contributed to the low assessment rate or decline in audit results for 1988 to 1994. First, complex tax laws impeded revenue agents' efforts to determine the correct tax liability and appeals officers' efforts to fairly settle tax disputes. Second, differing performance measures prompted revenue agents to recommend as much tax as soon as possible and appeals officers to settle tax disputes without litigation as soon as possible. We recommended in our 1994 report that IRS more strongly propose legislative changes to reduce tax law complexity and consider cross-functional measures, such as the collection and/or assessment rate. IRS is taking action on both of these recommendations. We make no new recommendations on these issues because our 1994 recommendations can also apply to audits of other large corporations.

Third, various aspects of the audit process impeded revenue agents' ability to develop recommended taxes that can survive appeals. IRS recognized these aspects but faced constraints in surmounting them. Budget pressures limited the use of team auditing to buttress agents' lack of expertise in auditing large corporations. The broad and complex nature of tax administration complicated efforts to carve out more time for group managers and district counsels to formally assist revenue agents—who often work alone without much assistance. Revenue agents viewed such assistance, whether formal or informal, as helpful in identifying and discussing audit issues, requesting corporate information, and pursuing requests that have not been answered. Further, IRS initiated efforts, such as a task force to study ways to improve return selection and classification, but these efforts stalled due to budget constraints.

Some IRS districts have taken a step that could address many of these problems. They have combined senior revenue agents and managers into

groups that specialize in large corporate audits. Examination officials in districts that created these groups believed that their initial experiences indicated that the groups helped improve return selection and classification, information gathering, and audit productivity. They also believed that the groups allowed managers and agents to share knowledge and assistance in a focused, timely way. However, the districts generally had limited data on the actual impacts of these groups, and IRS' National Office has not provided criteria or oversight to guide the measurement of the impacts. National Office Examination officials said they would like to learn about the impacts of these groups across the districts.

Fourth, the Appeals and Examination functions did not always share information. Unlike CEP teams that have an ongoing audit presence, revenue agents who audit these large corporations move on to other audits. We recognize that sharing all information would not be realistic; however, Appeals could inform Examination officials of any new information that would cause the appealed issues to not be fully sustained. Doing so would help IRS to maintain the intended separation of duties. Examination could have an opportunity to audit the new information and Appeals officers could then focus on their responsibility for settling the entire dispute. After a dispute was settled, Examination did not have a system for regularly sharing Appeals' summaries of the final settlements with revenue agents. Knowing about the final settlement could help agents to learn about and support tax issues that could sustain appeals. For any form of enhanced sharing, maintaining Appeals' independence would be paramount.

In recommending improvements, we tried to recognize the costs and constraints to IRS. Most of our recommendations will entail limited costs. For example, providing more specific, objective guidance and criteria on return selection need not be an expensive proposition, particularly if the new database on audit results helps to identify the types of large corporations and tax issues that have proven productive to audit. The use of more informal legal assistance would create some costs, but that assistance could be provided more quickly and at less cost than formal assistance. Further, providing more structure and guidance to districts on evaluating the impacts of the specialized audit groups should not cost much and could provide big dividends if IRS had more certainty about the impacts of these groups on the productivity of large corporate audits. Appeals' sharing of significant new information with Examination could add some time to resolving the disputes, but that investment should be worthwhile if the revenue agents learn how to do better audits or help to

determine the correct tax liability. Even if some costs increase, the accompanying improvements should help IRS to better invest its limited enforcement funds in trying to ensure that large corporations are paying the correct amount of taxes.

Recommendations

To improve the audits of tax returns filed by large corporations, we recommend that the IRS Commissioner

- provide more specific objective criteria and procedures to guide the selection of large corporate tax returns and classification of tax issues with high audit potential across the districts;
- develop criteria and procedures to guide the evaluation across the districts of the impacts of groups specializing in audits of large corporations;
- encourage District Examination management to work with District Counsel officials on finding cost-effective ways to provide revenue agents with the necessary legal assistance;
- require Appeals to notify Examination of new information received from a large corporation that could cause the appealed issues to not be fully sustained, and require Examination to (1) indicate whether it wishes to review the new information and, if so; (2) review the information and notify Appeals of the results of the review as soon as possible; and
- require Examination management to provide feedback to its revenue agents on the final settlements that Appeals reaches with large corporations.

Agency Comments and Our Evaluation

We obtained comments on a draft of this report in a meeting on February 20, 1997, with IRS officials who represented you. These officials included a representative of the Commissioner's Office of Legislative Affairs, a representative of the Chief of Staff to the Assistant Commissioner of Examination, as well as representatives of the Large Business Examination Programs, and representatives of the National Director of Appeals.

In general, they agreed with our findings and conclusions and provided a few technical comments on specific sections of the draft. We have incorporated these comments, such as on additional training funds for revenue agents, Appeals' discretion to share significant new information, and performance measures, in the sections of the report where appropriate.

As for our five recommendations, IRS agreed to implement four, as discussed below.

- First, IRS officials said they have already started to analyze closed large corporation audits to develop an objective system for better classifying and selecting large corporation returns to audit. IRS plans to begin testing this system in selected districts within each IRS region by the summer of 1997 and to implement it by the end of 1998.
- Second, IRS officials said they plan to develop criteria and procedures to guide the evaluation of the district groups that specialize in audits of large corporations. IRS hopes to finish these actions during 1998.
- Third, IRS officials said they plan to issue an IRS-wide memo by May 1997 to encourage district Examination management to work with District Counsel officials on finding cost-effective ways to provide revenue agents with the necessary legal assistance, including the use of field service advice and technical advice memoranda.
- Fourth, IRS Examination management said it plans to change the Internal Revenue Manual to require that revenue agents be provided with feedback on Appeals' final settlements with large corporations. Because the next series of changes to the Manual will not be done until the end of fiscal year 1997, Examination officials plan to issue a memorandum on this requirement during May 1997.

IRS officials did not agree to implement the fifth recommendation that would require Appeals to share its proposed settlements with Examination so that Examination could see whether the large corporation provided new information that affected the settlement. Examination officials said they want to see significant new information, but requiring Appeals to share all proposed settlements may be too formalized and too strong a process for obtaining the new information.

Appeals officials expressed concern that sharing proposed settlements could create perceptions that Appeals' settlement authority would be subject to an Examination veto. This perception could prompt large corporations to close off Examination's reinvolvement by taking the dispute to court. They also believed that this sharing would add time to the settlement process that usually would be significant and would not change the final settlement. Finally, they believed that reinvolving Examination could produce an adversarial relationship to the extent that appeals officers felt pressured to justify their settlement proposals.

We also asked TEI to provide comments on the same draft report. We met with TEI officials on February 21, 1997, to obtain their comments. They also supported or had no opposition to the same four recommendations that IRS agreed to implement. Although we made no recommendations on these topics, they supported creating an IRS-wide performance measure and more training for revenue agents as well as applying CEP processes to non-CEP audits. Like IRS, they expressed similar concerns with the recommendation on sharing proposed settlements with Examination so that it could see how new information affected the settlements. They also expressed the concern that sharing the proposed settlement may prompt Examination to go beyond the new information and try to re-audit other issues.

In recommending that Appeals share proposed settlements to allow Examination to see whether new information significantly affected the settlement, we did not intend to undercut Appeals' settlement authority or grant Examination veto power over settlements; in fact, our draft report pointed to the importance of retaining Appeals' independence in settling disputes. Thus, we did not envision that the act of sharing would require a highly formalized process or much time in the majority of cases.

Rather, our intent was, and still is, to provide an inducement for appeals officers as well as large corporations to share significant information with Examination. We believed that some control or check was needed to better ensure that Examination had the opportunity to play its appropriate role in reviewing information to determine the correct tax liability and protect the government's revenue. We intended that the requirement to share would provide a control over the appeals officers' use of discretion in judging the need to share new information. We also intended that this requirement would send a signal that large corporations cannot intentionally bypass the audit process by providing new information to appeals officers during negotiations over tax liability.

Our focus on the need for a control stems from responses to our questionnaires and to our interviews with district office officials during 1996. Although Examination officials recognized that communication with Appeals has been improving, Examination officials and staff still pointed to instances in which they did not have a chance to review significant new information that a large corporation had provided to Appeals. In some cases, they noted that they had asked for similar information during the audit.

Even so, we understand the concerns expressed by Appeals and TEI officials about sharing the significant new information through the proposed settlements. We discussed several other ways to address the concerns and still have IRS provide a control over Appeals' sharing of new information with Examination. These discussions prompted us to change our recommendation on how to better ensure that Examination has an opportunity to review the new information. Under our changed recommendation, Appeals would notify Examination as soon as possible after a large corporation provided new information that could cause the disputed issues to not be fully sustained. Upon notification, Examination could choose to do nothing, ask for details, or ask to review the information. Examination and Appeals would need to develop procedures on how much time Examination has to request and review the information, how the information would be shared, how extensive the review would be, and how the results of the review would be communicated to Appeals.

We believe that this option would provide Examination the opportunity to fulfill its intended roles—determine the correct tax liability and protect the government's revenue—while mitigating the concerns raised by Appeals and TEI. As we envision it, this recommendation would not delay or disrupt many final settlements because the information would be shared soon after being received. One exception, of course, would be if the information was significant enough and the review was revealing enough to change the settlement that the appeals officer would have made without Examination's involvement. Even with this exception, settlement authority would still rest with the appeals officers.

This report contains recommendations to you. As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on the recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight not later than 60 days after the date of this letter. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

Copies of this report are being sent to the Chairmen and Ranking Minority Members of the House Committee on Ways and Means and the Senate Committee on Finance, various other congressional committees, the Director of the Office of Management and Budget, the Secretary of the

Treasury, and other interested parties. We also will make it available to others upon request. Major contributors to this report are listed in appendix VI. Please contact me on (202) 512-8633 if you or your staff have any questions about this report.

Sincerely yours,

A handwritten signature in black ink that reads "Lynda D. Willis". The signature is fluid and cursive, with "Lynda" on top and "D. Willis" below it.

Lynda D. Willis
Director, Tax Policy and
Administration Issues

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Abbreviations

AIMS	Audit Information Management System
BMF	Business Master File
CEP	Coordinated Examination Program
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SEC	Securities and Exchange Commission
TEI	Tax Executives Institute

Sampling and Data Analysis Methodology

This appendix describes how we identified our universe of large corporate audits closed agreed in Examination or Appeals during fiscal year 1994 and our sampling methodology. In addition, it discusses our methodology for developing and administering questionnaires to IRS audit and Appeals staff and taxpayers for our sample.

Sample Selection Methodology

In order to send questionnaires to IRS audit and Appeals staff and taxpayers, we identified a universe of corporate taxpayers related to corporate audits closed agreed in Examination or Appeals during fiscal year 1994. We chose fiscal year 1994 for two reasons. First, it provided us with the most recent cases closed agreed in Examination or Appeals. Second, IRS revenue agents and appeals officers and taxpayers would be more likely to recall specific case information on the most recent closed cases.

Our computer analysis of IRS' databases identified a total population of 1,266 audits closed in fiscal year 1994 with \$75,000 or more in additional taxes recommended. Table I.1 shows the division of the 1,266 audits by additional taxes recommended.

Table I.1: Corporate Audits Closed Agreed in Examination or Appeals During Fiscal Year 1994 With \$75,000 or More in Additional Taxes Recommended

Range of additional taxes recommended on returns	Number of audits	Percent of total	Dollars recommended (in millions)	Percent of total	Dollars assessed (in millions)
\$3 million and more	117	9	\$1,961.5	76	\$459.5
\$1 million to \$2,999,999	194	15	343.0	13	162.1
\$300,000 to \$999,999	334	26	188.9	7	118.7
\$75,000 to \$299,999	621	49	96.9	4	69.5
Totals	1,266	100	\$2,590.4	100	\$809.8

Source: GAO analysis using IRS data.

We determined that a survey of the revenue agents, appeals officers, and taxpayers associated with a nationally representative, stratified random sample of 500 audits would be sufficient to accomplish our objective. The sample is divided into six strata based on the assessment rate and the amount of additional taxes recommended. Since those audits with the greatest amount of dollars recommended have the most affect on the assessment rate, the sample includes a relatively large number of the

larger dollar cases. We included in our sample all of the 117 audits with \$3 million or more in additional taxes recommended; 133 of those audits with between \$1,000,000 and \$2,999,999 in additional taxes recommended; 120 of those audits with between \$300,000 and \$999,999 in additional taxes recommended; and 130 of those audits with between \$75,000 and \$299,999 in additional taxes recommended.

The 500 cases in our sample accounted for \$2.3 billion, or 88 percent, of the total \$2.6 billion in additional taxes recommended in our population. Similarly, the \$648 million in additional taxes recommended that were assessed accounted for 80 percent of the total \$810 million assessed from the corporate audits shown in table I.1. In the study analyses, the sample selections have been properly weighted to represent the total population of 1,266 audits with \$2.6 million in recommended additional taxes.

Because group managers are responsible for a large number of audits of different entities, not just corporations, we sampled these managers without respect to their involvement in any particular audit. To do this we asked the 63 district offices to identify all group managers having large corporate audits in their inventories as of August 1995.²⁵ The districts identified 555 group managers meeting this criterion. From this universe we randomly selected a sample of at least a third of the group managers at each of the 63 district offices. This resulted in a total sample of 215 group managers. In our analyses, the 215 sample selections have been properly weighted to represent the total population of 555 group managers.

Questionnaire Methodology

We developed four mail-out questionnaires to obtain the views of IRS revenue agents, appeals officers, group managers, and corporate taxpayers on the factors affecting the audit and appeals processes, such as obtaining needed information, the effect of the tax laws, and the interaction between Appeals, Counsel, and Examination staff involved with these audits.

We pretested the questionnaires on several separate occasions for technical accuracy. We tested the revenue agent and group manager questionnaire in the Baltimore, Chicago, and St. Louis District Offices; the appeals officer questionnaire in the Baltimore and St. Louis Appeals Offices; and the taxpayer questionnaire in the St. Louis District Office. In addition to these pretests, we asked National Office Examination and Appeals officials to review, for technical accuracy, all questionnaires for

²⁵In August 1995, IRS was organized with 63 district offices nationwide. However, those 63 district offices were consolidated into 33 districts as of October 1995.

IRS staff. We asked the Tax Executives Institute (TEI) officials to review the taxpayer questionnaire for technical accuracy. From comments received from both IRS and TEI, we made changes to the questionnaires as appropriate.

In August 1995, we sent letters to IRS' 33 district offices requesting the names and addresses of the revenue agents responsible for the 500 corporate audits in our sample. We also requested the districts to provide us the names and addresses of their group managers who had corporate income tax audits in their inventories as of that date. In addition, we requested from the National Appeals Office the names and addresses of the appeals officers who considered any tax disputes involving any of our sample cases.

We initially mailed revenue agent and group manager questionnaires in October 1995. We subsequently sent follow-up questionnaires in November 1995. We initially mailed the appeals officer questionnaires in November 1995 and sent follow-up questionnaires in December 1995. We initially mailed the taxpayer questionnaires in January 1995 with follow-up questionnaires sent in February 1996. Table I.2 shows the response rate and disposition of initial sample selection by type of questionnaire.

Appendix I
Sampling and Data Analysis Methodology

Table I.2: Response Rate and Disposition of Initial Sample Selection by Type of Questionnaire

	Revenue agent	Appeals officer	Group manager	Taxpayer
Initial sample size	500	500	215	500
Ineligible sample selections	0	199 ^a	20 ^b	3 ^c
Eligible sample selections	500	301	195	497
Questionnaires not completed	174	161	28	333
No response	97 ^d	21 ^e	21	333
Recipient no longer available ^f	64	21	7	0
IRS could not locate individual associated with case	13	119	0	0
Questionnaires received	326	140	167	164
Response rate ^g	65%	47%	86%	33%

^aIncluded 196 audits in which the taxpayers did not exercise their appeal rights; two audits in which the taxpayers exercised their right to appeal, but Appeals subsequently returned the case to Examination, where it was ultimately settled; and one audit that was still open in Appeals.

^bManagers were not responsible for any large corporate audits.

^cTaxpayers involved in ongoing disputes with IRS.

^dIncluded one audit in which the revenue agent could not remember the case well enough to complete the questionnaire.

^eIncluded three audits in which the appeals officers did not complete the questionnaire because they lacked support records.

^fIncluded individuals who had retired prior to receiving the questionnaire, transferred to another agency, or had died.

^gComputed response rate by dividing the number of questionnaires received by the eligible sample selection.

Questionnaire results for the revenue agent, group manager, and appeals officer questionnaires are presented in appendixes II, III, and IV respectively. Results from the taxpayer questionnaire are not presented in this report nor are they used in the report because of the low response rate to the questionnaire.

Sampling Errors for Key Estimates Used in the Report

Because the survey results come from samples, all results are estimates that are subject to sampling errors. We calculated sampling errors for all of the survey results presented in this report. These sampling errors measure the extent to which samples of these sizes and structure can be expected to differ from their total populations. Each of the sample

estimates is surrounded by a 95 percent confidence interval. This interval indicates that we are 95-percent confident that the results for the total population fall within this interval.

In addition to the reported sampling errors, the practical difficulties of conducting any survey may introduce other types of errors, commonly referred to as nonsampling errors. For example, differences in how a particular question is interpreted, in the sources of information that are available to respondents, or in the types of people who do not respond can introduce unwanted variability into the survey results. We included steps in our audit for the purpose of minimizing such nonsampling errors. For example, we carefully pretested the questionnaires and made follow-up mailings to people who did not initially respond.

Revenue Agent Questionnaire Results

U.S. General Accounting Office

IRS' Audits of Large Corporations - Revenue Agent Questionnaire

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Case ID - 1 (1-7)

INTRODUCTION

The U.S. General Accounting Office (GAO), an agency of Congress, is conducting a study of IRS' audits of corporations with assets of \$10 million or more (activity codes 219 to 225). The scope of our review does not include corporate returns in the Corporate Examination Program (CEP). The overall objective of our study is to determine what factors affect the rate at which taxes recommended by revenue agents on these corporate returns get assessed. We are surveying a random sample of revenue agents who worked on corporate audits closed agreed in either Exam or Appeals during fiscal year 1994.

You have been selected to complete this questionnaire due to your involvement with the corporate returns for the tax years indicated at the bottom of this page. Because of your work on this case, your response to this questionnaire will help us to identify the factors that affected these audits, both positively and negatively. We cannot develop meaningful information without your frank and honest answers to the questions.

GAO will safeguard the privacy of your responses to this questionnaire. They will be combined with those of other respondents and will be reported only in summary form. The control number is included only to aid us in our follow-up efforts. We will not identify specific taxpayer information in our report.

This questionnaire should take about 1 hour to complete. If you have any questions concerning any part of this survey, please call Mr. Kirk Boyer at (913) 384-7570.

Please return the completed questionnaire in the enclosed pre-addressed envelope within 2 weeks from the time you receive it. In the event the envelope is misplaced, the return address is:

U.S. General Accounting Office
Kansas City Regional Office
Attn: Mr. Kirk Boyer
5799 Broadmoor - Suite 600
Mission, Kansas 66202

Thank you for your assistance.

Case Information:

After completing the questionnaire, please remove the case information sticker before returning your completed questionnaire.

Appendix II Revenue Agent Questionnaire Results

I. RESPONDENT INFORMATION

Please provide us your current work telephone number to assist us if we need to clarify a response:

(_____) _____ - _____

Were you assigned to audit the corporate tax returns shown on page 1?

1. Yes →Please continue with question 1.
2. No →STOP: Do not continue if you were not involved in the audit. Please return the questionnaire in the enclosed envelope.

1. Approximately how many corporate income tax returns (activity codes 219 to 225) have you audited in the last 12 months? (ENTER A NUMBER.)

Mean = 6.7 Number of corporate tax returns

N=314

2. Please answer the following as it applied to you at the time the audit shown on page 1 began: (ENTER "00" IF NONE OR UNDER 6 MONTHS.)

(10-19)

- a. Total number of years of IRS experience in the Examination Division 17.3 Years N=1,266
- b. Number of years as a revenue agent .. 16.3 Years N=1,266
- c. Number of years auditing corporations with assets of \$10 million or more (activity codes 219 to 225) that are not in CEP 6.8 Years N=1,247
- d. Number of years auditing CEP corporations 1.8 Years N-1,217
- e. Total number of years of non-IRS experience in accounting or auditing .. 1.9 Years N=1,253

3. What grade level were you when you began this audit? (ENTER A NUMBER.)

GS - _____

(20-21)
GS-11 5.2% GS-13 64.2% N=1,262
GS-12 30.3% Other 0.3%

4. Which of the following best describes the type of group you were assigned to when you worked on this audit? (CHECK ONE BOX.)

(22)

- 75.7% Non-specialized General Program group
10.0% Specialized General Program group targeted toward large corporate tax returns
8.0% CEP group
6.3% Other (Specify) _____
N=1,253

Appendix II
Revenue Agent Questionnaire Results

5. Within 1 year before this audit began, did you receive the following training in corporate audit procedures or issues? If you have received any of the following training, indicate to what extent, if at all, the training improved your ability to conduct this audit?

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND PART OF THE QUESTION. IF YOU ANSWER "NO" TO THE FIRST PART, GO TO THE NEXT LINE.)

(23-34)

	Did you receive the following training in that year?		If you received any of the following training, to what extent, if at all, did it improve your ability to conduct this audit?					
	Yes (1)	No (2)	Very great extent (3)	Great extent (4)	Moderate extent (5)	Some extent (6)	Little extent (7)	No extent (8)
a. Advanced corporate training or equivalent of Phase 5 N=1,258	14.3%	85.7%	7.8% N=180	15.7%	44.0%	22.6%	7.4%	2.4%
b. Corporate training or equivalent of Phase 4 N=1,248	12.6%	87.4%	7.7% N=157	30.5%	43.1%	8.2%	10.6%	0.0%
c. IRS training (3 days or more) related to this taxpayer's primary industry (including industry specialization program (ISP) training) N=1,255	4.1%	95.9%	17.6% N=52	36.7%	38.9%	6.8%	0.0%	0.0%
d. Non-IRS training or seminars on any issues related to the taxpayer's industry N=1,255	2.4%	97.6%	15.8% N=31	36.4%	42.9%	4.9%	0.0%	0.0%
e. Training on developing complex technical and/or legal issues N=1,228	15.4%	84.6%	4.6% N=184	15.9%	53.2%	15.5%	8.5%	2.3%
f. Other (Specify) N=415 <hr/> <hr/>	40.7%	59.3%	22.2% N=169	10.3%	33.4%	16.8%	17.4%	0.0%

6. Was there any other training that you had not received that you felt you needed to improve your ability to conduct this audit?
(CHECK ONE BOX.)

(35-36)

37.8% Yes → Please describe the training needed:

62.2% No
N=1,224

Appendix II Revenue Agent Questionnaire Results

II. GENERAL CASE INFORMATION

7. Which of the following best describes how this corporate tax return was selected for audit? (CHECK ONE BOX.) (37)

13.7% I selected it because it was classified with the greatest audit potential among the corporate tax returns available

10.8% I selected it for some other reason (Specify) _____

57.9% My manager assigned it to me

17.7% Other (Specify) _____

N=1,239

8. Overall, how satisfied or dissatisfied were you with the following factors related to the audit shown on page 1 of this questionnaire? (CHECK ONE BOX IN EACH ROW. DO NOT CHECK IN THE SHADED AREA.) (38-43)

	Very satisfied (1)	Generally satisfied (2)	Neither satisfied nor dissatisfied (3)	Generally dissatisfied (4)	Very dissatisfied (5)	Not Applicable (6)
a. Your experience in auditing these corporations N=1,258	28.9%	47.8%	17.3%	4.5%	1.5%	
b. Your knowledge of tax laws, rules and regulations N=1,258	33.0%	53.8%	10.1%	3.1%	0.0%	
c. Your knowledge of the taxpayer's industry N=1,258	11.9%	31.8%	38.3%	15.4%	2.5%	
d. Any out-of-district audit assistance or support audit N=1,265	4.1%	8.7%	10.7%	2.7%	1.6%	72.2%
e. Extent to which other IRS staff (including specialists) adequately developed the issues N=1,258	12.2%	18.6%	12.4%	5.6%	3.5%	47.8%
f. Other (Specify) N=314 _____	9.6%	4.2%	2.6%	6.8%	7.5%	69.3%

Appendix II
Revenue Agent Questionnaire Results

9. Did you do any of the following related to this taxpayer's primary industry during this audit? If yes, please indicate to what extent these resources helped you develop complex or technical industry issues.
 (CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND PART. IF YOU ANSWER "NO" OR "DON'T KNOW" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(44-57)

	Did you do any of the following?			If yes, to what extent did your use of these resources help you develop complex or technical industry issues?					
	Yes (1)	No (2)	Don't Know (3)	Very great extent (4)	Great extent (5)	Moderate extent (6)	Some extent (7)	Little extent (8)	No extent (9)
a. Contacted the industry coordinator to discuss any issue related to this taxpayers primary industry N=1,248	21.3%	76.0%	2.7%	17.4% N=266	35.0%	24.0%	12.4%	3.7%	7.4%
b. Obtained a position paper on an issue N=1,252	24.9%	73.2%	2.0%	31.8% N=291	29.0%	24.8%	8.8%	0.0%	5.6%
c. Contacted the market segment coordinator to discuss any issue N=1,229	9.5%	87.5%	3.0%	11.8% N=108	27.0%	26.9%	16.5%	7.6%	10.2%
d. Obtained the market segment audit guide N=1,222	13.2%	84.8%	1.9%	15.3% N=143	30.2%	25.9%	14.7%	7.9%	5.9%
e. Reviewed a District Office memorandum discussing an issue related to this N=1,219 taxpayer's primary industry	14.8%	80.8%	4.3%	9.2% N=166	43.9%	20.0%	20.3%	4.7%	2.0%
f. Contacted revenue agents in other districts on specialized industries/issues N=1,245	17.9%	80.8%	1.4%	24.5% N=211	46.3%	15.4%	9.4%	1.6%	2.9%
g. Other (Specify) <hr/> N=309	44.6%	50.8%	4.6%	29.6% N=121	39.9%	14.6%	5.5%	7.0%	3.5%

10. Did you reduce the additional taxes recommended from this audit because of net operating losses (NOLs) or credit carrybacks? (CHECK ONE BOX.)

(58)

15.0% Yes → Continue to question 11.

72.5% No

Skip to question 12.

12.5% Don't know
N=1,259

11. If there was an NOL or credit carryback to your primary tax year audited, how was the carryback brought to your attention? (CHECK ALL THAT APPLY.)

(59-63)

56 Form 1120X

104 Application for tentative refund (Form 1139)

11 Informal claim by the taxpayer during the audit

18 Your review of audit results from another tax year

52 Other (Specify) _____

Appendix II Revenue Agent Questionnaire Results

III. STAFFING RESOURCES

12. In all, how many revenue agents (excluding specialists) worked on the audit shown on page 1 of this questionnaire? (ENTER A NUMBER.) (64)

_____ Number of revenue agents
1 82.0% 4 0.7%
2 13.4% 5 0.1% N=1,263
3 3.5% Oth 0.4%

13. In your opinion, were additional revenue agents needed during this audit? (CHECK ONE BOX.) (65)

8.4% Yes → Continue with question 14.

91.6% No → Skip to question 16.

N=1,266

14. If additional revenue agent(s) were needed, to what extent, if at all, did not having their services negatively affect the results of this audit? (CHECK ONE BOX.) (66-67)

1.7% Very great extent

22.8% Great extent

28.8% Moderate extent

34.7% Some extent

10.7% Little extent

1.4% No extent

N=106

Please explain how it negatively impacted these audits.

15. Which of the following best describes the reason that additional revenue agents did not work on this audit? (CHECK ONE BOX.) (68)

21.5% Additional revenue agents were not requested

12.8% Revenue agents were not available when the audit began

18.2% Revenue agents were available but temporarily diverted to other activities/collateral duties during the course of the audit

15.3% Request(s) for additional revenue agents to be assigned was denied

3.3% Request(s) for additional revenue agents to be assigned was granted, but the staff was (were) assigned later than needed

29.0% Other (Specify) _____

N=101

IV. USE OF LEGAL ASSISTANCE RESOURCES

16. Were any of the following types of legal assistance requested to assist you on matters of tax law or overall issue development during the audit shown on page 1 of this questionnaire? (CHECK ALL THAT APPLY.) (69-72)

171 District Counsel assistance

99 National office Chief Counsel verbal advice

32 National office Chief Counsel written technical advice

1,010 No legal assistance requested → Skip to question 18.

Appendix II
Revenue Agent Questionnaire Results

17. Please indicate below what type of legal assistance you received. For each type of legal assistance you received, indicate (1) whether it was provided in a timely manner and (2) if it positively or negatively affected Exam's ability to obtain agreement with the taxpayer.

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE NEXT PARTS. IF YOU ANSWER "NO" OR "DON'T KNOW" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(73-82)

	Was the legal assistance received? (1)	If yes, was it provided to you in a timely manner? (2)	How did this assistance affect Exam's ability to obtain the taxpayer's agreement on these issues? (3)	
			Very positively 33.3% Positively 41.0% Neither positively nor negatively 0.0% Negatively 2.1% Very negatively 2.2% Don't know N=158	Very positively 33.5% Positively 41.4% Neither positively nor negatively 0.0% Negatively 1.8% Very negatively 7.8% Don't know N=82
a. District counsel assistance	96.4% Yes → 1.0% No 2.5% Don't know 0.0% Not applicable N=169	88.8% Yes 6.0% No 5.2% Don't know 0.0% Not applicable N=163	21.4% Very positively 33.3% Positively 41.0% Neither positively nor negatively 0.0% Negatively 2.1% Very negatively 2.2% Don't know N=158	
b. National office Chief Counsel verbal assistance	98.2% Yes → 1.8% No 0.0% Don't know 0.0% Not applicable N=99	98.2% Yes 0.0% No 1.8% Don't know 0.0% Not applicable N=96	15.4% Very positively 33.5% Positively 41.4% Neither positively nor negatively 0.0% Negatively 1.8% Very negatively 7.8% Don't know N=82	
c. National office Chief Counsel written technical assistance	86.8% Yes → 13.2% No 0.0% Don't know 0.0% Not applicable N=32	66.2% Yes 33.8% No 0.0% Don't know 0.0% Not applicable N=28	27.0% Very positively 21.4% Positively 30.2% Neither positively nor negatively 0.0% Negatively 21.4% Very negatively 0.0% Don't know N=28	

If you were not satisfied with the timeliness of any legal assistance or you did not receive it, please explain why?

V. USE OF SPECIALIST RESOURCES

18. Were the services of specialists needed to help you develop any of the issues for this audit? (CHECK ONE BOX.)

(83)

42.5%	Yes →	Continue with question 19.
55.0%	No	} Skip to question 23.
2.5%	Don't know	

N=1,260

19. Were the services of specialists obtained when you believed they were needed to help you develop the issues for this audit? (CHECK ONE BOX.)

(84)

81.7%	All of the needed specialists were obtained when needed → Skip to question 21.
14.1%	Some but not all of the needed specialists were obtained when needed → Continue with question 20
4.2%	None of the needed specialists were obtained when needed → Continue with question 20. N=535

Appendix II
Revenue Agent Questionnaire Results

20. For those specialist(s) that you needed but did not obtain, please identify (1) the specialist(s) that was not obtained, (2) the primary reason why you were not able to obtain them, and (3) the affect of not having this specialist on your ability to obtain the taxpayer's agreement on proposed adjustments. To answer the second column, refer to the reason codes below the matrix
 (IDENTIFY THE TYPE OF SPECIALIST. FOR EACH ONE IDENTIFIED, CHECK TWO BOXES IN EACH ROW.
 ATTACH AN ADDITIONAL SHEET IF MORE THAN THREE SPECIALISTS WERE NEEDED.)

(85-93)

What type of specialist(s) was needed but not obtained? (1)	Primary reason why the needed specialist(s) were not obtained? <i>(Codes are listed below.)</i> (2)	In your opinion, how did not having the specialist(s) affect your ability to obtain the taxpayer's agreement on these issues? (3)
30.4 % Issue/Industry 26.3% Engineer 14.5% CAS 10.7% International 5.7% Employee Plans 4.4% Valuation 2.3% Economist 5.7% Other N=75	A. 16.0% B. 40.2% C. 0.0% D. 0.0% E. 37.6% F. 6.2% N=69	9.9% Very positively 16.3% Positively 40.1% Neither positively nor negatively 3.8% Negatively 0.0% Very negatively 23.9% Don't know N=67
50.0% CAS 50.0% Issue/Industry N=13	A. 100% B. 0.0% C. 0.0% D. 0.0% E. 0.0% F. 0.0% N=13	50.0% Very positively 0.0% Positively 0.0% Neither positively nor negatively 0.0% Negatively 0.0% Very negatively 50.0% Don't know N=13
N=0	A. 0.0% B. 0.0% C. 0.0% D. 0.0% E. 0.0% F. 0.0%	0.0% Very positively 0.0% Positively 0.0% Neither positively nor negatively 0.0% Negatively 0.0% Very negatively 0.0% Don't know

REASON CODES DEFINING WHY SPECIALIST(S) WAS NOT OBTAINED:

- A. The district did not have the needed specialist(s) on staff
- B. Request was not met/denied because of other priority work
- C. There was not enough time remaining in the audit
- D. Request not met because of non-exam time reasons such as leave, training, collateral duties.
- E. Other (Specify) _____
- F. Don't know

If you did not obtain any of the needed specialists, please skip to question 22.

Appendix II
Revenue Agent Questionnaire Results

- Repeat ID - 2 (1-7)
21. For the specialist(s) that assisted you during this audit, please identify (1) the type of specialist(s) that assisted you, (2) whether they provided you timely assistance, and (3) the affect their assistance had on your ability to obtain agreement with the taxpayer. (IDENTIFY THE TYPE OF SPECIALIST. FOR EACH ONE IDENTIFIED, CHECK TWO BOXES IN EACH ROW.) (8-16)

What type of specialist(s) assisted you? (1)	Did the specialist(s) provide you timely assistance? (2)	How did the services of the specialist(s) affect Exam's ability to obtain the taxpayer's agreement on these issues? (3)		
		Very positively	Positively	Neither positively nor negatively
36.3% Engineer 31.8% International 11.2% Issue/Industry 10.3% CAS 3.3% Valuation 1.4% Economist 5.5% Other N=488	89.9% Yes 9.1% No 1.0% Don't know N=488	24.8% 29.0% 32.2%	Very positively Positively Neither positively nor negatively	
		7.1% 5.1% 1.8%	Negatively Very negatively Don't know N=483	
38.3% Engineer 33.5% CAS 10.9% Employee plan 6.7% Issue/Industry 4.4% International 2.5% Economist 3.6% Other N=138	89.0% Yes 11.0% No 0.0% Don't know N=138	25.9% 22.8% 29.8%	Very positively Positively Neither positively nor negatively	
		4.8% 9.0% 7.8%	Negatively Very negatively Don't know N=133	
27.7% Issue/Industry 24.0% International 15.6% CAS 8.4% Engineer 8.4% Valuation 16.0% Other N=21	84.4% Yes 15.6% No 0.0% Don't know N=21	32.7% 14.4% 45.7%	Very positively Positively Neither positively nor negatively	
		7.2% 0.0% 0.0%	Negatively Very negatively Don't know N=21	

22. Was the specialist's manager involved in this audit? (CHECK ONE BOX.)

(17-19)

36.2% Yes →

How satisfied or dissatisfied were you with the specialist(s) manager's involvement, or lack of involvement,

51.9% No → on this audit? (CHECK ONE BOX.)

19.0% Very satisfied

32.5% Satisfied

35.1% Neither satisfied nor dissatisfied

10.3% Dissatisfied

3.0% Very dissatisfied
N=350

If you were dissatisfied with the specialist(s) manager's involvement, please explain why.

11.9% Don't know
N=509

Appendix II
Revenue Agent Questionnaire Results

VI. YOUR MANAGER'S INVOLVEMENT IN AUDITS

23. Was your manager involved in the following on the audit shown on page 1 of this questionnaire? In your opinion, how did his/her involvement, or lack of involvement, positively or negatively affect the effectiveness of this audit? (CHECK TWO BOXES IN EACH ROW.)

(20-37)

	Was your manager involved in the following aspects of this audit?		How did his/her involvement, or lack of involvement, affect the effectiveness of this audit?					
	Yes (1)	No (2)	Very positively (3)	Somewhat positively (4)	Neither positively nor negatively (5)	Somewhat negatively (6)	Very negatively (7)	
a. Selecting this corporate tax return for audit N=1,243	55.0%	45.0%	20.0% N=964	8.0%	70.4%	1.4%	0.2%	
b. Identifying or selecting issues for audit N=1,245	8.5%	91.5%	13.0% N=784	5.8%	79.9%	1.3%	0.0%	
c. Requesting out-of-district audit work or assistance N=1,198	3.3%	96.7%	7.0% N=700	1.8%	89.1%	1.1%	1.0%	
d. Requesting specialists N=1217	17.1%	82.9%	13.2% N=785	9.3%	75.6%	1.0%	0.8%	
e. Meeting with the taxpayer to obtain requested information N=1,249	16.6%	83.4%	15.4% N=787	12.1%	70.3%	1.7%	0.4%	
f. Discussing complex or technical issues with you N=1,252	45.6%	54.4%	23.8% N=942	26.5%	46.3%	2.3%	1.1%	
g. Reviewing proposed adjustments N=1,252	58.3%	41.7%	21.8% N=1005	26.5%	48.9%	1.6%	1.2%	
h. Resolving disputed issues with the taxpayer N=1,228	28.6%	71.4%	22.7% N=863	8.8%	64.4%	3.1%	1.1%	
i. Preparing written response to the taxpayer's protest N=1,189	6.1%	93.9%	11.1% N=709	2.2%	85.1%	1.2%	0.5%	

Appendix II
Revenue Agent Questionnaire Results

VII. OTHER AUDIT RESOURCES

24. In your opinion, did you receive adequate resources in the following areas? If not, please indicate to what extent, if at all, the lack of these resources negatively affected your ability to develop all identified issues.

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWERED "NO" IN THE FIRST PART, THEN ANSWER THE SECOND PART. IF YOU ANSWER "YES" OR "NOT NEEDED" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(38-53)

	Were the following resources adequate?			<u>If no</u> , to what extent, if at all, did the lack of resource(s) negatively affect your ability to develop identified issues?					
	Yes (1)	No (2)	Not needed (3)	Very great extent (4)	Great extent (5)	Moderate extent (6)	Some extent (7)	Little extent (8)	No extent (9)
a. Travel funds for local travel N=1,260	92.2%	1.0%	6.8%	0.0% N=13	0.0%	48.2%	0.0%	25.9%	25.9%
b. Travel funds for out-of-district audit work N=1,252	6.9%	3.7%	89.4%	14.3% N=34	9.6%	19.1%	5.2%	5.2%	46.7%
c. Out-of-district assistance or support audit N=1,226	12.3%	3.6%	84.1%	5.2% N=34	29.7%	12.7%	0.0%	0.0%	52.3%
d. Computer equipment N=1,251	66.8%	13.8%	19.3%	6.4% N=156	22.0%	35.0%	14.1%	4.3%	18.3%
e. Computer software N=1,247	56.0%	20.9%	23.2%	6.2% N=239	20.5%	36.2%	8.4%	12.7%	16.1%
f. Research materials N=1,254	72.4%	19.8%	7.8%	8.6% N=226	37.9%	36.4%	8.6%	5.6%	2.9%
g. Audit aides N=1,244	17.0%	14.5%	68.5%	2.8% N=170	15.6%	36.7%	21.1%	7.9%	15.9%
f. Other (Specify) N=309	1.6%	5.6%	92.7%	0.0% N=17	27.0%	73.0%	0.0%	0.0%	0.0%

VIII. INFORMATION REQUESTED FROM THE TAXPAYERS

25. Which of the following did you use in obtaining information from the taxpayer or the taxpayer's representative (i.e., power of attorney)? (CHECK ALL THAT APPLY.)

(54-59)

- 1,234 Issued written information requests to the taxpayer or the taxpayer's representative
- 983 Verbally requested information from the taxpayer or the taxpayer's representative
- 249 Discussed obtaining third-party information with the taxpayer or the taxpayer's representative
- 70 Discussed a summons with the taxpayer or the taxpayer's representative
- 31 Issued a summons to the taxpayer or the taxpayer's representative
- 55 Other (Specify) _____

Appendix II
Revenue Agent Questionnaire Results

26. Regarding the information you requested from the taxpayer or his/her representative for this audit, how satisfied or dissatisfied were you with the following? (CHECK ONE BOX IN EACH ROW. DO NOT CHECK IN THE SHADED AREA.) (60-66)

	Very satisfied (1)	Generally satisfied (2)	Neither satisfied nor dissatisfied (3)	Generally dissatisfied (4)	Very dissatisfied (5)	Not Applicable (6)
a. That the information requested was obtainable by the taxpayer N=1,245	43.0%	44.7%	6.6%	4.4%	1.7%	0.0%
b. The timeliness of the taxpayer's responses N=1,247	31.8%	39.6%	9.6%	13.1%	5.9%	
c. The completeness of the information provided by the taxpayer N=1,247	26.8%	46.8%	10.8%	10.4%	5.2%	
d. The relevance of the information provided by the taxpayer N=1,245	30.3%	54.6%	9.8%	4.1%	1.2%	
e. The overall cooperation of the taxpayer to provide information N=1,245	42.3%	40.5%	7.3%	5.1%	4.8%	
f. The overall cooperation of the taxpayer's representative(s) to provide information N=1,239	23.2%	37.4%	11.0%	4.3%	4.1%	20.1%

If you were not satisfied with any of the above, please explain why.

27. Did you receive all of the information you requested from the taxpayer before the case closed out of Exam? (CHECK ONE BOX.) (67-68)

84.5% Yes

13.4% No → If no, did the missing information prevent you from proposing certain adjustments? (CHECK ONE BOX.)

9.9% Yes

75.1% No

15.0% Don't know
N=168

2.1% Don't know
N=1,254

Appendix II Revenue Agent Questionnaire Results

IX. CASE CLOSURE INFORMATION

28. How satisfied or dissatisfied were you with the length of time it took to complete this audit? (CHECK ONE BOX.)

(69-70)

17.5% Very satisfied

46.0% Generally satisfied

18.7% Neither satisfied nor dissatisfied

14.3% Generally dissatisfied

3.5% Very dissatisfied

N=1,250

Please explain your dissatisfaction.

29. If the audit closed later than you expected, which of the following reasons best describes why this audit closed out after the expected completion date? (CHECK ONE BOX.)

(71)

51.8% Not applicable (the audit was completed in a timely manner)

0.5% IRS delays in beginning audit

3.8% IRS staff/specialists not available when needed

2.5% Taxpayer or taxpayer representative not available

17.4% Taxpayer delays in responding to information requests

8.4% Exam work took longer than anticipated

15.5% Other (Specify) _____
N=1,119

30. How satisfied or dissatisfied were you with Exam's emphasis on attempting to obtain more agreements with taxpayers on proposed adjustments at the lowest level? (CHECK ONE BOX.)

(72-73)

34.0% Very satisfied

34.3% Generally satisfied

26.0% Neither satisfied nor dissatisfied

4.2% Generally dissatisfied

1.6% Very dissatisfied
N=1,239

Please explain your dissatisfaction.

31. In your opinion, how did the overall outcome of this audit for this taxpayer affect their compliance with the tax laws since this audit? (CHECK ONE BOX.)

(74)

34.5% Taxpayer became more compliant

21.1% Taxpayer did not change their compliance behavior

1.8% Taxpayer became less compliant

42.7% No basis to judge
N=1,240

Appendix II
Revenue Agent Questionnaire Results

32. Taking into consideration IRS' corporate audit environment and your district's policies and procedures at the time of this audit, to what extent, if at all, were you able to sufficiently do the following on this audit? (CHECK ONE BOX IN EACH ROW.)

(75-83)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Identify balance sheet and Schedule M issues N=1,236	36.5%	44.0%	13.9%	5.3%	0.3%	0.0%
b. Probe for unallowable expenses N=1,238	27.7%	43.1%	24.1%	2.6%	1.2%	1.3%
c. Examine corporate tax returns in this taxpayer's industry N=1,207	11.6%	16.7%	20.9%	6.7%	9.7%	34.5%
d. Examine corporation's books and records N=1,233	34.5%	44.8%	15.6%	3.2%	1.5%	0.4%
e. Develop complex or technical issues N=1,245	33.7%	40.8%	19.3%	4.1%	2.2%	0.0%
f. Adequately communicate your position on issues in written reports (e.g., RAR or written response to taxpayer's protest) N=1,238	36.3%	49.5%	11.7%	1.6%	0.7%	0.1%
g. Compute the corporate tax liability N=1,250	36.9%	48.9%	9.4%	3.2%	0.7%	0.9%
h. Other (Specify) N=79 _____	27.5%	10.6%	10.6%	0.0%	16.8%	34.6%

Please comment on factors that you believe adversely affect your ability to do the above items. If the policies and/or procedures have changed, briefly discuss the change(s) and its affect. (ATTACH ADDITIONAL SHEETS IF NECESSARY.)

Appendix II Revenue Agent Questionnaire Results

X. TAXPAYER'S PROTEST OF ADDITIONAL TAXES RECOMMENDED BY EXAM

33. After this audit closed from Exam, did Appeals consider any disputed tax issues? (CHECK ONE BOX.)

(84)

- 34.6% Yes, as a result of the taxpayer's protest → Continue with question 34.
1.9% Yes, as a result of a statutory 90-day letter
56.4% No
7.1% Don't know → Skip to question 42.
N=1,251

34. Was a written response to the taxpayer's protest provided to Appeals? (CHECK ONE BOX.)

(85)

- 74.3% Yes
12.1% No
12.1% Don't know
1.5% Not applicable (no protest filed)
N=451

35. For any disputed issues from this audit, did the following factor(s) cause the taxpayer to disagree? (CHECK ONE BOX IN EACH ROW.)

(86-91)

	Yes (1)	No (2)	Don't know (3)
a. The interpretation of the law N=438	86.4%	8.1%	5.5%
b. The facts of the case N=401	35.0%	54.9%	10.1%
c. The Appeals settlement on a prior case for this taxpayer N=393	8.7%	61.2%	30.0%
d. The Appeals settlement for a different taxpayer N=394	15.0%	47.3%	37.7%
e. Other (Specify) N=100 _____	60.2%	10.7%	29.1%
f. Other (Specify) N=44 _____	11.4%	24.1%	64.5%

36. In order to consider the relevant facts in this case, did you discuss the disputed issues with Appeals? (CHECK ONE BOX.)

(92)

- 59.2% Yes
33.1% No N=448
7.6% Don't know

Appendix II
Revenue Agent Questionnaire Results

37. Did Appeals ask you about any of the following: (CHECK ONE BOX IN EACH ROW.)

(93-98)

		Yes (1)	No (2)	Don't remember (3)
a.	The facts relevant to the disputed issue(s) N=448	49.0%	39.9%	11.0%
b.	Your legal position on the disputed issue(s) N=444	41.8%	47.4%	10.7%
c.	Records provided to Appeals by the taxpayer N=443	17.1%	68.0%	15.0%
d.	Information in the unagreed report, 90-day letter, or the written response to the protest N=440	36.3%	47.5%	16.2%
e.	Alternative positions proposed by the taxpayer during appeal N=443	16.4%	64.2%	19.4%
f.	Other (Specify) N=75	45.6%	38.3%	16.2%

38. How, if at all, did you learn about Appeals final resolution of disputed issues from this audit? To what extent, if at all, did this feedback help you understand how Appeals resolved the disputed issues?

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND PART. IF YOU ANSWER "NO" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(8-17)

	Did you learn about Appeals final resolution in the following ways?	If yes, to what extent, if at all, did this feedback on Appeals final resolution help you understand how Appeals resolved the disputed issues?							
		Yes (1)	No (2)	Very great extent (3)	Great extent (4)	Moderate extent (5)	Some extent (6)	Little extent (7)	No extent (8)
a.	Exam contacted Appeals to obtain the final resolution N=385	10.8%	89.2%	25.3% N=33	0.0%	15.3%	5.3%	15.3%	38.8%
b.	Appeals provided Exam the Appeals Case Memorandum or supporting statement N=405	61.0%	39.0%	22.2% N=218	33.1%	20.7%	10.7%	1.6%	11.7%
c.	Appeals contacted Exam after they resolved the disputed issues N=376	20.5%	79.5%	18.3% N=70	34.9%	24.9%	14.4%	5.0%	2.5%
d.	The taxpayer told Exam N=366	6.5%	93.5%	91.5% N=20	0.0%	0.0%	8.5%	0.0%	0.0%
e.	Other (Specify) N=78	69.3%	30.7%	42.3% N=38	0.0%	0.0%	15.9%	0.0%	41.8%

If you did not receive any feedback on Appeals' final resolution of this audit, please skip to question 42

Appendix II
Revenue Agent Questionnaire Results

39. Based on Appeals' resolution of disputed issues in this case, to what extent, if at all, were potential issues (a) dropped on your cases in-process or (b) not raised on future audits you were assigned? (CHECK ONE BOX IN EACH ROW.) (18-19)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Potential issues dropped on cases in-process N=367	3.1%	8.6%	6.0%	7.4%	7.8%	67.2%
b. Issues not raised on future audits N=372	6.0%	10.0%	5.7%	13.8%	7.2%	57.3%

40. In general, in your opinion, to what extent, if at all, does Appeals final resolution of disputed issues cause Exam to alter the way it develops similar issues on future audits of either the same taxpayer or different taxpayers? (CHECK ONE BOX IN EACH ROW.) (20-21)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Similar issues on future audits for the same taxpayer N=369	25.6%	35.5%	10.5%	10.0%	4.4%	14.1%
b. Similar issues for different taxpayers N=374	14.5%	30.6%	19.5%	13.9%	5.2%	16.3%

41. Taking everything into consideration, what is your opinion on the quality of Appeals' overall resolution of disputed issues on these corporate income tax returns? (CHECK ONE BOX.) (22-23)

9.1% Excellent

25.2% Good

32.4% Adequate

18.4% Poor

14.9% Very poor
N=361

If you believe the quality of Appeals' resolutions are poor or very poor, please explain your response.

Appendix II
Revenue Agent Questionnaire Results

VII. GENERAL QUESTIONS AND COMMENTS

42. In your opinion, how positively or negatively do each of the following factors affect the amount of additional taxes recommended by revenue agents that are ultimately assessed? (CHECK ONE BOX IN EACH ROW.)

(24-30)

	Very positively (1)	Somewhat positively (2)	Neither positively nor negatively (3)	Somewhat negatively (4)	Very negatively (5)	Don't know (6)
a. The revenue agent's workload N=1,257	13.0%	13.1%	39.7%	28.2%	3.5%	2.5%
b. The revenue agent's group/case manager's workload N=1,257	7.2%	7.6%	60.8%	15.9%	0.8%	7.7%
c. The revenue agent's skills and knowledge N=1,253	57.9%	25.6%	7.1%	7.0%	1.6%	0.9%
d. The complexity of the tax laws N=1,250	16.3%	21.6%	14.4%	33.3%	12.9%	1.5%
e. Appeals resolution of disputed issues from a prior audit of this taxpayer N=1,214	8.6%	8.2%	23.2%	20.5%	14.2%	25.3%
f. Appeals resolution of disputed issues from a different taxpayer N=1,217	3.8%	10.7%	24.4%	26.5%	13.2%	21.4%
g. Other (Specify) N=174	15.6%	2.7%	18.7%	2.8%	21.2%	39.0%

43. In your opinion, to what extent, if at all, do audits of large corporations unreasonably burden those taxpayers selected for audit? (CHECK ONE BOX.)

(31)

0.3% To a very great extent

2.5% To a great extent

27.1% To a moderate extent

34.9% To some extent

35.2% To a little or no extent
N=1,255

Appendix II

Revenue Agent Questionnaire Results

44. Please use the space below to provide any additional comments about this case or IRS' audit and appeals processes for these large corporate taxpayers. You may attach additional sheets if necessary.

(32)

Thank you for your assistance. Please return the questionnaire in the pre-addressed envelope.

Group Manager Questionnaire Results

<p style="text-align: center;">U.S. General Accounting Office</p> <p style="text-align: center;">IRS' Audits of Large Corporations - Group/Case Manager Questionnaire</p> <p style="text-align: right;">_____</p> <p style="text-align: right;">Case ID - 1 (1-7)</p> <p>INTRODUCTION</p> <p>The U.S. General Accounting Office (GAO), an agency of Congress, is conducting a study of IRS' audits of corporations with assets of \$10 million or more (activity codes 219 to 225). <u>The scope of our review does not include corporate returns in the Corporate Examination Program (CEP).</u> The overall objective of our study is to determine what factors affect the rate at which taxes recommended by revenue agents on these corporate returns get assessed. We are surveying a random sample of group or case managers who are currently responsible for these large corporate audits.</p> <p>You have been selected to complete this questionnaire due to your involvement with these audits of large corporations. Your response to this questionnaire will help us to identify the factors that affect these audits, both positively and negatively. We cannot develop meaningful information without your frank and honest answers to the questions.</p> <p>GAO will safeguard the privacy of your responses to this questionnaire. They will be combined with those of other respondents and will be reported only in summary form. The control number is included only to aid us in our follow-up efforts.</p> <p>This questionnaire should take about 45 minutes to complete. If you have any questions concerning any part of this survey, please call Mr. Kirk Boyer at (913) 384-7570.</p> <p>Please return the completed questionnaire in the enclosed pre-addressed envelope within 2 weeks from the time you receive it. In the event the envelope is misplaced, the return address is:</p> <p style="margin-left: 40px;">U.S. General Accounting Office Kansas City Regional Office Attn: Mr. Kirk Boyer 5799 Broadmoor - Suite 600 Mission, Kansas 66202</p> <p>Thank you for your assistance.</p>	<p>I. RESPONDENT INFORMATION</p> <p>Please provide us your current work telephone number to assist us if we need to clarify a response:</p> <p>(_____) _____</p> <p>Do you currently have corporate income tax returns (activity codes 219 to 225) in your inventory?</p> <p>1. <input type="checkbox"/> Yes → Please continue with the questions.</p> <p>2. <input type="checkbox"/> No → STOP: Do not continue if you do not currently have these corporate tax returns in your inventory. Please return the questionnaire in the enclosed envelope.</p> <p>1. Please answer the following as it applies to you : (ENTER "00" IF NONE OR UNDER 6 MONTHS.) (8-17)</p> <p>a. Total number of years of IRS experience in the Examination Division 20.8 Years N=506</p> <p>b. Number of years auditing corporations with assets of \$10 million or more (activity codes 219 to 225) that are not in CEP 5.5 Years N=506</p> <p>c. Number of years as a group manager over these corporate audits (activity codes 219 to 225) that are not in CEP 7.5 Years N=506</p> <p>d. Number of years auditing CEP corporations 2.2 Years N=503</p> <p>e. Total number of years of non-IRS experience in accounting or auditing 1.5 Years N=500</p>
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Appendix III
Group Manager Questionnaire Results

2. Which of the following best describes the type of group you currently manage? (CHECK ONE BOX.) (18)

67.1% Non-specialized General Program group (i.e., a mixture of revenue agent grades and/or office auditors)
 4.8% Specialized General Program group targeted toward large corporate audits
 14.4% CEP group
 13.8% Other (Specify) _____
 N=503

3. How many corporate income tax returns (activity codes 219 to 225) do you currently have in your inventory? (ENTER NUMBER.) (19-21)

28.7 Number of corporate income tax returns
 N=464

**II. FACTORS RELATED TO AUDITS
 OF LARGE CORPORATIONS**

4. To what extent, if at all, are you currently involved in the following on audits of large corporations? (CHECK ONE BOX IN EACH ROW.) (22-33)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Selecting corporate returns to audit N=503	12.6%	27.5%	22.2%	16.2%	14.4%	7.2%
b. Identifying or selecting issues for audit N=506	3.0%	13.1%	36.3%	20.2%	19.0%	8.3%
c. Requesting out-of-district audit work or assistance N=497	3.0%	8.5%	9.1%	20.6%	23.6%	35.2%
d. Requesting specialists N=503	6.0%	21.0%	21.0%	31.1%	14.4%	6.6%
e. Discussing complex or technical issues with the revenue agent N=506	17.9%	33.3%	31.0%	15.5%	1.8%	0.6%
f. Improving the taxpayer's timeliness and/or completeness in responding to information requests N=506	11.3%	22.6%	32.7%	16.1%	13.1%	4.2%
g. Reviewing proposed adjustments N=506	13.7%	42.3%	26.8%	10.7%	4.2%	2.4%
h. Discussing proposed adjustments with the taxpayer during interim meetings N=503	7.2%	15.0%	31.1%	20.4%	18.0%	8.4%
i. Discussing proposed adjustments with the taxpayer at the closing conference N=497	11.5%	25.5%	29.1%	21.2%	7.3%	5.5%
j. Discussing unagreed issues with the revenue agent N=503	25.7%	42.5%	22.8%	7.8%	0.6%	0.6%
k. Developing an unagreed case (such as the agent's report, statutory notice letter, or written response to the taxpayer's protest) N=503	6.0%	19.8%	26.9%	15.0%	22.2%	10.2%
l. Discussing unagreed issues with Appeals N=503	3.6%	10.8%	19.8%	18.0%	25.7%	22.2%

Appendix III
Group Manager Questionnaire Results

5. Overall, how satisfied or dissatisfied are you with the following factors related to large corporate audits? (CHECK ONE BOX IN EACH ROW.)

(34-44)

	Very satisfied (1)	Generally satisfied (2)	Neither satisfied nor dissatisfied (3)	Generally dissatisfied (4)	Very dissatisfied (5)
a. Length of these audits N=506	4.2%	45.2%	20.2%	26.8%	3.6%
b. Thoroughness of these audits N=506	12.5%	66.7%	15.5%	4.8%	0.6%
c. Any out-of-district audit work or assistance N=473	0.0%	19.7%	63.7%	12.7%	3.8%
d. Extent to which other IRS staff (including specialists) <u>adequately</u> developed the issues N=500	3.6%	56.6%	25.3%	13.3%	1.2%
e. Timeliness of taxpayers' responses to information requests N=506	1.2%	38.1%	22.6%	36.3%	1.8%
f. Cooperation of taxpayers to provide information N=506	1.2%	45.8%	26.8%	24.4%	1.8%
g. Cooperation of taxpayers' representatives to provide information N=506	0.6%	43.5%	20.2%	32.7%	3.0%
h. Overall level of cooperation of taxpayers N=506	1.8%	51.2%	26.2%	19.0%	1.8%
i. Overall level of cooperation of taxpayers' representatives N=506	0.6%	44.0%	26.2%	27.4%	1.8%
k. Corporate taxpayers' compliance with the tax laws N=503	0.0%	41.9%	37.7%	19.8%	0.6%
l. Other (Specify) _____	N=15	0.0%	0.0%	20.0%	40.0%

Appendix III
Group Manager Questionnaire Results

**III. RESOURCES USED TO AUDIT
LARGE CORPORATIONS**

6. How often, if at all, do you or your revenue agents do any of the following during these corporate audits? (CHECK ONE BOX IN EACH ROW.)

(45-51)

	90-100% of the time (1)	60-89% of the time (2)	40-59% of the time (3)	10- 39% of the time (4)	Less than 10% of the time (5)
a. Contact the industry coordinator or specialist to discuss any issue related to this taxpayers primary industry N=500	20.5%	27.1%	22.9%	17.5%	12.0%
b. Obtain a position paper on an issue N=500	16.9%	12.0%	13.9%	30.1%	27.1%
c. Contact the market segment coordinator to discuss any issue N=497	9.1%	18.8%	19.4%	30.3%	22.4%
d. Obtain or review the market segment audit guide N=494	17.7%	22.0%	14.6%	25.0%	20.7%
e. Review a District Office memorandum discussing an issue related to this taxpayer's primary industry N=500	14.5%	16.3%	18.7%	25.9%	24.7%
f. Contact revenue agents or group managers in other districts on specialized industries/issues N=500	9.0%	17.5%	18.7%	28.3%	26.5%
g. Other (Specify) N=18	16.7%	33.3%	33.3%	0.0%	16.7%

Appendix III
Group Manager Questionnaire Results

7. Consider the revenue agents you assign to these large corporate audits. How satisfied or dissatisfied are you with their ability to audit large corporations in each of the following areas? (CHECK ONE BOX IN EACH ROW.) (52-62)

	Very satisfied (1)	Generally satisfied (2)	Neither satisfied nor dissatisfied (3)	Generally dissatisfied (4)	Very dissatisfied (5)
a. Identifying income issues N=503	35.9%	49.7%	10.2%	3.6%	0.6%
b. Probing for unallowable expenses N=500	42.8%	51.2%	4.2%	1.2%	0.6%
c. Applying the tax laws to corporate tax returns N=503	46.7%	44.9%	5.4%	2.4%	0.6%
d. Examining corporate tax returns in various industries N=503	32.9%	50.9%	13.8%	1.8%	0.6%
e. Examining the corporation's books and records N=503	40.1%	49.7%	7.8%	1.8%	0.6%
f. Developing complex or technical issues N=503	37.7%	47.9%	9.6%	3.6%	1.2%
g. Determining when to request the services of a specialist N=500	41.0%	42.2%	16.3%	0.0%	0.6%
h. Determining when to request legal assistance from District Counsel or national office N=503	28.7%	47.3%	21.6%	1.8%	0.6%
i. Securing taxpayer agreement on audit issues N=503	30.5%	54.5%	12.0%	2.4%	0.6%
j. Computing corporate tax liability N=500	53.0%	43.4%	3.0%	0.0%	0.6%
k. Other (Specify) N=18	16.7%	0.0%	33.3%	33.3%	16.7%

Appendix III
Group Manager Questionnaire Results

8. In your opinion, to what extent, if at all, do the revenue agents conducting these audits receive adequate resources in the following areas? (CHECK ONE BOX IN EACH ROW.) (63-70)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Travel funds for local travel N=506	36.3%	42.9%	14.3%	5.4%	1.2%	0.0%
b. Travel funds for out-of-district audit work N=491	7.4%	6.7%	16.6%	17.8%	22.7%	28.8%
c. Out-of-district assistance or support audit N=488	1.9%	7.4%	22.2%	28.4%	23.5%	16.7%
d. Computer equipment N=503	3.6%	28.1%	32.3%	25.1%	9.6%	1.2%
e. Computer software N=506	3.0%	21.4%	28.6%	23.2%	22.6%	1.2%
f. Research materials N=506	4.8%	30.4%	33.9%	21.4%	8.3%	1.2%
g. Audit aides N=506	1.8%	11.3%	20.2%	15.5%	20.2%	31.0%
f. Other (Specify) N=15	20.0%	0.0%	0.0%	0.0%	40.0%	40.0%

9. When revenue agents are assigned corporate income tax returns to audit, do you consider each revenue agents' financial interests to determine if any potential conflicts of interest exist? (CHECK ONE BOX.) (71-72)

55.9% Yes → Please explain how you are made aware of the revenue agents' financial interests.

44.1% No

N=485

Appendix III
Group Manager Questionnaire Results

10. How often, if at all, are any of the following types of assistance used during these large corporate audits? (CHECK ONE BOX IN EACH ROW.)

(73-84)

	90-100% of the time (1)	60-89% of the time (2)	40-59% of the time (3)	10-39% of the time (4)	Less than 10% of the time (5)
Legal assistance:					
a. District Counsel assistance N=506	7.1%	17.9%	11.9%	28.6%	34.5%
b. National office technical advice N=506	0.6%	7.7%	12.5%	23.8%	55.4%
c. National office Chief Counsel assistance other than technical advice N=503	0.6%	6.0%	8.4%	20.4%	64.7%
Specialist assistance:					
d. Computer audit specialist N=503	22.8%	20.4%	16.2%	18.0%	22.8%
e. Engineer N=503	15.6%	22.8%	28.1%	26.9%	6.6%
f. International examiner N=506	12.5%	23.2%	21.4%	23.2%	19.6%
g. Economist N=506	1.2%	4.2%	13.1%	19.0%	62.5%
h. Financial products specialists N=500	5.4%	6.6%	10.8%	17.5%	59.6%
i. Other (Specify) N=54	0.0%	16.7%	5.6%	16.7%	61.1%
Other assistance:					
j. Additional revenue agents N=482	5.6%	11.3%	13.8%	24.4%	45.0%
k. Discussions with Appeals while the audit is open N=497	0.0%	4.2%	7.9%	27.3%	60.6%

If you checked box 4 or 5 (10-39% or Less than 10%) anywhere in the above matrix, please explain your response.

Appendix III
Group Manager Questionnaire Results

11. In your opinion, does the use of IRS specialists positively or negatively affect Exam's ability to obtain the taxpayer's agreement on large corporate audit issues? (CHECK ONE BOX.)

(85)

9.6% Very positively

50.0% Somewhat positively

31.3% Neither positively nor negatively

7.8% Somewhat negatively

1.2% Very negatively

N=500

12. In your opinion, to what extent, if at all, does assistance from each of the following improve the development of issues in these large corporate audits? (CHECK ONE BOX IN EACH ROW.)

(86-96)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little or no extent (5)	No basis to judge (6)
Legal assistance:						
a. District Counsel assistance N=506	11.9%	31.5%	25.0%	11.9%	7.7%	11.9%
b. National office technical advice N=506	7.1%	28.0%	19.0%	19.0%	8.3%	18.5%
c. National office Chief Counsel assistance other than technical advice N=506	6.0%	18.5%	19.0%	16.1%	11.9%	28.6%
Specialist assistance:						
d. Computer audit specialist N=503	7.2%	26.9%	29.3%	18.0%	9.0%	9.6%
e. Engineer N=503	6.6%	38.3%	31.7%	15.6%	4.8%	3.0%
f. International examiner N=503	7.8%	40.1%	25.1%	11.4%	5.4%	10.2%
g. Economist N=500	3.0%	15.1%	18.1%	15.1%	10.8%	38.0%
h. Financial products specialists N=503	4.8%	16.8%	17.4%	10.8%	7.2%	43.1%
i. Other (Specify) N=48	12.5%	6.3%	12.5%	0.0%	6.3%	62.5%
Other assistance:						
j. Additional revenue agents N=497	6.1%	24.2%	21.8%	16.4%	11.5%	20.0%
k. Discussions with Appeals while the audit is open N=506	3.0%	10.1%	20.8%	20.2%	18.5%	27.4%

Appendix III Group Manager Questionnaire Results

IV. CASE CLOSURE INFORMATION

13. During the past 12 months, how often, if at all, were potential issues dropped by your revenue agents in these audits of large corporations because these taxpayers did not provide all of the requested information? (CHECK ONE BOX.) (97)

- 0.0% 90-100% of the time
2.4% 60-89% of the time
0.6% 40-59% of the time
12.0% 10-39% of the time
85.0% Less than 10% of the time

N=503

14 How satisfied or dissatisfied are you with Exam's emphasis on attempting to obtain more agreements with the taxpayers on proposed adjustments at the Exam level? (CHECK ONE BOX.) (98-99)

- 29.3% Very satisfied
37.7% Generally satisfied
25.7% Neither satisfied nor dissatisfied
6.6% Generally dissatisfied →
0.6% Very dissatisfied →

Please explain your dissatisfaction:

N=503

Repeat ID - 2 (1-7)

15. How often, if at all, do these large corporate taxpayers provide Exam a written protest of additional taxes recommended by revenue agents? (CHECK ONE BOX.) (8)

- 50.0% 90-100% of the time
19.3% 60-89% of the time
12.7% 40-59% of the time
13.9% 10-39% of the time
4.2% Less than 10% of the time

N=500

Appendix III **Group Manager Questionnaire Results**

16. How often, if at all, does your district conduct post-audit critiques on these large corporate audits to determine if the audit standards were met? (CHECK ONE BOX.) (9)

- 8.4% 90-100% of the time
6.5% 60-89% of the time
7.7% 40-59% of the time
21.3% 10-39% of the time
56.1% Less than 10% of the time

N=467

V. EXAM'S INTERACTION WITH APPEALS

17. In cases where taxpayers provide new information to Appeals, how often, if at all, does Appeals request Exam to review and verify this information? (CHECK ONE BOX.) (10-11)

- 17.3% 90-100% of the time
20.2% 60-89% of the time
10.1% 40-59% of the time
13.7% 10-39% of the time
10.1% Less than 10% of the time

28.6% Do not know
- If Appeals returns cases 40% or more of the time, how often, has Exam requested this or similar information from the taxpayers but had not received it? (CHECK ONE BOX.)
- 44.7% 90-100% of the time
30.3% 60-89% of the time
9.2% 40-59% of the time
0.0% 10-39% of the time

2.6% Less than 10% of the time

N=506

13.2% Do not know

N=229

18. When Exam receives a written protest, how often, if at all, do you or your revenue agents provide a written response to the taxpayer's protest to Appeals in these large corporate cases? (CHECK ONE BOX.) (12)

- 48.8% 90-100% of the time
19.3% 60-89% of the time
8.4% 40-59% of the time
7.8% 10-39% of the time
15.7% Less than 10% of the time

N=500

Appendix III
Group Manager Questionnaire Results

19. How often, if at all, do you or your revenue agents discuss the following with Appeals? (CHECK ONE BOX IN EACH ROW.)

(13-18)

	90-100% of the time (1)	60-89% of the time (2)	40-59% of the time (3)	10-39% of the time (4)	Less than 10% of the time (5)	No basis to judge (6)
a. The facts relevant to the protest N=506	11.3%	10.7%	9.5%	18.5%	26.8%	23.2%
b. Legal position cited by the revenue agent N=506	8.9%	10.1%	8.3%	21.4%	27.4%	23.8%
c. Records provided to Appeals by the taxpayer N=503	10.2%	9.0%	10.2%	17.4%	25.1%	28.1%
d. Information in the unagreed report (i.e., RAR) or the written response to the protest N=506	10.7%	10.1%	10.7%	16.7%	28.0%	23.8%
e. Alternative positions considered by Appeals to resolve disputed issues N=506	6.5%	8.9%	6.5%	17.9%	28.6%	31.5%
f. Other (Specify) N=48	12.5%	0.0%	0.0%	6.3%	0.0%	81.2%

Appendix III
Group Manager Questionnaire Results

20. How often, if at all, do you receive the following feedback on Appeals' final resolution of disputed issues from these audits? To what extent, if at all, does this feedback help you or the revenue agent understand how Appeals resolved the disputed issues? (CHECK TWO BOXES IN EACH ROW.)

(19-28)

Feedback by...	How often, if at all, do you obtain the following feedback on Appeals' final resolution of disputed issues?					To what extent, if at all, did these types of feedback on Appeals final resolution help Exam understand how Appeals resolved the disputed issues?					
	90-100% of the time (1)	60-89% of the time (2)	40-59% of the time (3)	10-39% of the time (4)	Less than 10% of the time (5)	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little or no extent (5)	Not applicable (6)
a. Exam contacting Appeals to obtain the final resolution N=485	4.3%	7.5%	9.9%	16.8%	61.5%	3.8% N=470	16.7%	16.0%	16.0%	21.2%	26.3%
b. Appeals providing Exam the Appeals Case Memorandum or supporting statement N=482	27.5%	21.9%	13.7%	14.4%	22.5%	7.0% N=476	22.8%	26.6%	20.9%	15.8%	7.0%
c. The Appeals officer contacting Exam after they resolved the disputed issues N=482	3.1%	5.6%	5.6%	13.8%	71.9%	5.7% N=476	16.5%	15.2%	11.4%	22.2%	29.1%
d. The taxpayer telling Exam of the final resolution N=482	1.9%	3.8%	5.0%	16.3%	73.1%	0.6% N=476	5.1%	8.2%	13.9%	31.6%	40.5%
e. Other (Specify) N=12 _____	0.0%	0.0%	0.0%	0.0%	100%	0.0% N=12	0.0%	0.0%	25.0%	25.0%	50.0%

**VI. APPEALS RESOLUTION
OF DISPUTED ISSUES**

21. In your opinion, does Appeals' resolution of disputed issues for these large corporate audits positively or negatively affect the following: (CHECK ONE BOX IN EACH ROW.)

(29-31)

	Very positively (1)	Somewhat positively (2)	Neither positively nor negatively (3)	Somewhat negatively (4)	Very negatively (5)	No basis to judge (6)
a. Level of cooperation between Exam and Appeals N=491	2.5%	11.0%	30.1%	35.6%	9.8%	11.0%
b. Level of cooperation between Exam and the taxpayer N=491	1.2%	9.8%	26.4%	36.8%	16.0%	9.8%
c. Level of taxpayer compliance N=491	1.2%	8.6%	18.4%	38.0%	20.9%	12.9%

Appendix III
Group Manager Questionnaire Results

22. Based on Appeals' resolution of disputed issues, to what extent, if at all, are potential issues dropped on cases in-process or not raised on future audits? (CHECK ONE BOX IN EACH ROW.) (32-33)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Potential issues dropped on cases in-process N=494	5.5%	20.7%	22.0%	26.8%	13.4%	11.6%
b. Issues not raised on future audits N=497	9.7%	26.1%	21.2%	20.6%	12.7%	9.7%

23. In your opinion, to what extent, if at all, does Appeals' final resolution of disputed issues cause Exam to alter the way it develops similar issues on future audits of either the same taxpayer or different taxpayers? (CHECK ONE BOX IN EACH ROW.) (34-35)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Similar issues on future audits for the same taxpayer N=497	14.5%	32.7%	25.5%	17.0%	5.5%	4.8%
b. Similar issues for different taxpayers N=497	8.5%	26.1%	32.1%	19.4%	9.1%	4.8%

24. In your opinion, to what extent, if at all, was Appeals' consideration of this case fair and impartial to both the government and the taxpayer? (CHECK ONE BOX IN EACH ROW.) (36-37)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Fair and impartial to the taxpayer N=476	12.7%	31.6%	33.5%	12.7%	4.4%	5.1%
b. Fair and impartial to the government N=476	1.9%	10.8%	32.9%	27.8%	19.6%	7.0%

Appendix III Group Manager Questionnaire Results

25. Taking everything into consideration, what is your opinion on the quality of Appeals' overall resolution of disputed issues on these corporate income tax returns? (CHECK ONE BOX.) (38-39)

0.6% Excellent

17.4% Good

59.0% Adequate

18.0% Poor

5.0% Very poor

N=485

If you believe the quality of Appeals' resolutions are **poor or very poor**, please explain your response.

VII. GENERAL QUESTIONS AND ANY DISTRICT OFFICE CHANGES

26. In your opinion, how positively or negatively do each of the following factors affect the amount of those additional taxes recommended by revenue agents that are ultimately assessed? (CHECK ONE BOX IN EACH ROW.) (40-46)

	Very positively (1)	Somewhat positively (2)	Neither positively nor negatively (3)	Somewhat negatively (4)	Very negatively (5)	Don't know (6)
a. Your workload N=500	1.2%	10.2%	58.4%	19.3%	5.4%	5.4%
b. Revenue agent's workload N=497	3.6%	17.6%	50.3%	21.8%	1.8%	4.8%
c. Revenue agent's skills and knowledge N=503	41.9%	32.3%	7.2%	12.0%	4.2%	2.4%
d. Complexity of the tax laws N=500	9.6%	14.5%	17.5%	40.4%	15.1%	3.0%
e. Appeals resolution of disputed issues from a prior audit of this taxpayer N=500	4.2%	7.8%	21.7%	39.8%	16.9%	9.6%
f. Appeals resolution of disputed issues from a different taxpayer N=500	1.8%	6.6%	36.1%	35.5%	5.4%	14.5%
g. Other (Specify) N=18	0.0%	0.0%	16.7%	0.0%	16.7%	66.7%

Appendix III
Group Manager Questionnaire Results

27. In your opinion, to what extent, if at all, do audits of large corporations unreasonably burden those taxpayers selected for audit? (CHECK ONE BOX.) (47)

- 0.6% Very great extent
4.8% Great extent
29.9% Moderate extent
36.5% Some extent
28.1% Little or no extent

N=503

28. Have you or your district modified any audit procedure for these large corporate cases due to IRS national office's task force teams reviewing corporate workload identification and/or compliance strategies? (CHECK ONE BOX.) (48)

- 13.7% Yes
38.1% No
48.2% Don't know

N=506

Appendix III
Group Manager Questionnaire Results

29. Please indicate if your district has implemented or plans changes to its policies or procedures for any of the following. If yes, briefly describe each change and the impact you believe these changes will have on the amount of dollars recommended in Exam. (CHECK ONE BOX IN COLUMN 1 IN EACH ROW. IF YOU ANSWER THE FIRST PART "YES" THEN ANSWER THE REMAINING PARTS OF THE QUESTION.)

(49-81)

Has your district implemented the following or does it plan to in the future? (1)	If yes, what impact will this change have on the amount of dollars recommended by revenue agents? (2)	Please use this space to describe the change(s). (Attach additional pages if necessary.) (3)
a. Method for selecting returns for audit 54.7% Yes → 45.3% No N=479	68.6% Positive impact 3.5% No impact 2.3% Negative impact 25.6% Don't know N=259	
b. Assigning more revenue agents to these audits 26.8% Yes → 73.2% No N=473	75.6% Positive impact 2.4% No impact 4.9% Negative impact 17.1% Don't know N=123	
c. Having revenue agents specialize in an industry 82.1% Yes → 17.9% No N=488	66.9% Positive impact 7.7% No impact 1.5% Negative impact 23.8% Don't know N=391	
d. Placing all revenue agents for these audits in one group 27.3% Yes → 72.7% No N=485	69.0% Positive impact 2.4% No impact 2.4% Negative impact 26.2% Don't know N=126	
e. Requesting or using legal assistance or technical advice 41.7% Yes → 58.3% No N=470	78.0% Positive impact 6.8% No impact 3.4% Negative impact 11.9% Don't know N=178	
f. Involving specialists in more of these audits 41.6% Yes → 58.4% No N=464	74.2% Positive impact 4.8% No impact 3.2% Negative impact 17.7% Don't know N=187	
g. Issuing summons for information 36.9% Yes → 63.1% No N=473	66.0% Positive impact 5.7% No impact 5.7% Negative impact 22.6% Don't know N=160	
h. Securing agreement with corporate taxpayers on proposed audit adjustments 46.1% Yes → 53.2% No N=470	80.6% Positive impact 11.1% No impact 0.9% Negative impact 8.3% Don't know N=217	
i. Increasing management involvement 55.6% Yes → 44.4% No N=482	72.1% Positive impact 14.0% No impact 2.3% Negative impact 11.6% Don't know N=259	
j. Submitting proposals to clarify vague and complex tax laws 17.2% Yes → 82.8% No N=455	56.0% Positive impact 12.0% No impact 0.9% Negative impact 32.0% Don't know N=75	
k. Other (Specify) _____	33.3% Positive impact 0.0% No impact 33.3% Negative impact 33.3% Don't know N=9	

Appendix III

Group Manager Questionnaire Results

30. Please use the space below to provide any additional comments about this case or IRS' audit and appeals processes for these large corporate taxpayers. You may attach additional sheets if necessary. (82)

Thank you for your assistance. Please return the questionnaire in the pre-addressed envelop.

Appeals Officer Questionnaire Results

U.S. General Accounting Office

IRS' Audits of Large Corporations - Appeals Officer Questionnaire

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Case ID - 1 (1-7)

INTRODUCTION

The U.S. General Accounting Office (GAO), an agency of Congress, is conducting a study of IRS' audits of corporations with assets of \$10 million or more (activity codes 219 to 225). The scope of our review does not include corporate returns in the Corporate Examination Program (CEP). The overall objective of our study is to determine what factors affect the rate at which taxes recommended by revenue agents on these corporate returns get assessed. We are surveying a random sample of appeals officers who considered corporate income tax disputes closed from Appeals during fiscal year 1994.

You have been selected to complete this questionnaire due to your involvement with the corporate returns for the tax years indicated at the bottom of this page. Because of your work on this case, your response to this questionnaire will help us to identify the factors that affected these audits, both positively and negatively. We cannot develop meaningful information without your frank and honest answers to the questions.

GAO will safeguard the privacy of your responses to this questionnaire. They will be combined with those of other respondents and will be reported only in summary form. The control number is included only to aid us in our follow-up efforts. We will not identify specific taxpayer information in our report.

This questionnaire should take about 1 hour to complete. If you have any questions concerning any part of this survey, please call Mr. Kirk Boyer at (913) 384-7570.

Please return the completed questionnaire in the enclosed pre-addressed envelope within 2 weeks from the time you receive it. In the event the envelope is misplaced, the return address is:

U.S. General Accounting Office
Kansas City Regional Office
Attn: Mr. Kirk Boyer
5799 Broadmoor - Suite 600
Mission, Kansas 66202

Thank you for your assistance.

Case Information:

After completing the questionnaire, please remove the case information sticker before returning your completed questionnaire.

Appendix IV **Appeals Officer Questionnaire Results**

I. RESPONDENT INFORMATION

Please provide us your current work telephone number to assist us if we need to clarify a response:

(_____) _____

Were you assigned to resolve the disputes on the corporate tax returns shown on page 1?

1. Yes → Please continue with the questions.
2. No → **STOP: Do not continue if you were not involved in resolving the disputes on these corporate tax returns. Please return the questionnaire in the enclosed envelope.**

1. Please answer the following as it applied to you at the time you were assigned to the work unit shown on page 1: (ENTER "00" IF NONE OR UNDER 6 MONTHS.)

(8-21)

Years reported are means

- a. Total number of years of IRS experience 22.9 Years N=630
- b. Total number of years of IRS experience in Appeals 12.5 Years N=630
1. Number of years as an Appeals Officer 12.3 Years N=630
2. Number of years as an Appeals Officer resolving deficiency disputes over \$10 million 5.2 Years N=621
3. Number of years as a Team Chief 0.2 Years N=547
- c. Total number of years as a revenue agent 9.2 Years N=618
- d. Total number of years in other government or private industry position(s) related to tax/auditing 2.5 Years N=510

(Specify the position(s) you've held under d above) _____

2. What grade level were you at the time you were assigned to this work unit? (ENTER NUMBER.)

(22-23)

GS - 13	9.6%
GS - 14	86.1%
GS - 15	3.3%
GS - 16	1.0%

N=623

Appendix IV
Appeals Officer Questionnaire Results

3. Did you receive the following formal training prior to being assigned the work unit shown on page 1 of this questionnaire? If yes, indicate to what extent, if at all, the training improved your ability to resolve the taxpayer's disputed issues?
 (CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND PART OF THE QUESTION. IF YOU ANSWER "NO" TO THE FIRST PART, GO TO THE NEXT LINE.)⁽⁴⁰⁻⁴¹⁾

	Did you receive the following training prior to being assigned?	If yes, to what extent, if at all, did it improve your ability to resolve the taxpayer's disputed issues?					
		Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Advanced corporate training or equivalent of Phase 5 N=613	81.9% Yes → 18.1% No	N=502 2.5%	25.5%	36.3%	16.9%	8.6%	10.3%
b. Corporate training or equivalent of Phase 4 N=618	92.7% Yes → 7.3% No	N=573 1.1%	25.4%	35.0%	24.0%	8.7%	5.8%
c. Appeals officer training N=618	97.7% Yes → 2.3% No	N=603 7.9%	30.0%	31.5%	21.7%	6.7%	2.2%
d. Training on resolving complex technical and/or legal issues N=627	48.9% Yes → 51.1% No	N=303 7.0%	31.3%	38.2%	14.5%	1.1%	8.0%
e. IRS training (3 days or more) related to this taxpayer's primary industry (including industry specialization program (ISP) training) N=630	5.6% Yes → 94.4% No	N=35 21.3%	18.4%	43.8%	9.2%	7.3%	0.0%
f. Non-IRS training or seminars on any issues related to this taxpayer's primary industry N=630	10.6% Yes → 89.4% No	N=62 4.2%	41.4%	54.4%	0.0%	0.0%	0.0%
g. Topical training provided by Appeals, Exam, and/or Counsel relevant to this corporate taxpayer N=626	25.0% Yes → 75.0% No	N=157 5.6%	26.3%	38.3%	29.8%	0.0%	0.0%
h. Other (Specify) N=277	12.8% Yes → 87.2% No	N=36 9.2%	43.1%	21.2%	26.5%	0.0%	0.0%

4. Was there any training that you had not received before you were assigned to this corporate work unit that you believe you needed to improve your ability to resolve the taxpayer's disputed issues? (CHECK ONE.)⁽⁴⁰⁻⁴¹⁾

14.6% Yes → Please describe the training needed.

N=624 _____

85.4% No

Appendix IV Appeals Officer Questionnaire Results

III. TOP THREE DOLLAR ISSUES PROTESTED BY THE TAXPAYER

You will need the Appeals Case Memorandum to
complete this section.

5. For the corporate entity shown on page 1 of this questionnaire, how many issues were protested by the taxpayer?
(ENTER NUMBER.)

(42-43)

Number of protested issues Mean = 4.9
N=568

6. Did this return have any related entities? If yes, please indicate the type(s) of related entities and the tax years associated with each type.

(CHECK ONE BOX. IF YOU ANSWER "YES", THEN COMPLETE THE REMAINING PARTS. IF YOU ANSWER "NO", GO TO THE NEXT QUESTION.)

(44-62)

26.9% Yes → → →

Type of related entities
(e.g., *S corp, partnership, individual, etc.*)

Tax years for
each type

32.2% Form 1120C

1.

31.1% Form 1040C

2.

16.2% Form 1120

3.

8.4% Form 1065

4.

6.2% Form 1120S

5.

5.8% Other

6.

N=151

73.1% No

N=560

Appendix IV
Appeals Officer Questionnaire Results

7. Please provide the following information on the top three dollar adjustments to income or credit protested by the taxpayer for the entity shown on page 1 of this questionnaire.

	Issue #1 (Largest dollar adjustment)	Issue #2 (Second largest dollar adjustment)	Issue #3 (Third largest dollar adjustment)
a. Identify the issue as shown on the ACM	(63)	(64)	(65)
b. Identify the applicable IRC section	(66)	(67)	(68)
c. Exam's Adjustment was to:	(69) 97.0% Taxable income 1.4% Credit 1.6% Other N=606	(70) 83.3% Taxable income 9.8% Credit 6.9% Other N=408	(71) 89.4% Taxable income 3.7% Credit 7.0% Other N=295
d. Adjustment per Exam	(72-80) Mean = \$6,383,953 N=630	(81-89) Mean = \$5,519,661 N=403	(90-98) Mean = \$2,699,566 N=297
e. Final adjustment per Appeals	Repeat ID ÷ 2 (8-16) \$2,360,910 N=563	(17-25) \$2,440,946 N=407	(26-34) \$906,316 N=293
f. Basis for Adjustment <i>(Check all that apply.)</i>	(35-41) 430 Legal interpretation 58 Unsupported deductions 129 Valuation 130 Allocation 5 Whipsaw 93 Timing 137 Other (Specify)	(42-48) 249 Legal interpretation 59 Unsupported deductions 56 Valuation 67 Allocation 0 Whipsaw 69 Timing 72 Other (Specify)	(49-55) 169 Legal interpretation 46 Unsupported deductions 47 Valuation 39 Allocation 0 Whipsaw 29 Timing 47 Other (Specify)
g. Dispute between Exam and taxpayer involved: <i>(Check all that apply.)</i>	(56-60) 460 Disagreement over interpretation of law 387 Disagreement over facts/evidence 6 Appeals settlement on prior tax years 3 Appeals settlement of same issue on a different taxpayer 73 Pending litigation of same issue for a different taxpayer	(61-65) 269 Disagreement over interpretation of law 266 Disagreement over facts/evidence 9 Appeals settlement on prior tax years 0 Appeals settlement of same issue on a different taxpayer 8 Pending litigation of same issue for a different taxpayer	(66-70) 183 Disagreement over interpretation of law 200 Disagreement over facts/evidence 6 Appeals settlement on prior tax years 0 Appeals settlement of same issue on a different taxpayer 0 Pending litigation of same issue for a different taxpayer

Appendix IV
Appeals Officer Questionnaire Results

Questions 8 through 24 relate specifically to the three top dollar adjustments
to income or credit you identified in question 7.

8. Please identify the reason code(s) (from those listed below) which best describe your basis for resolving these issues.
(ENTER THE LETTER CORRESPONDING TO THE REASON IN THE APPROPRIATE BOX.)

(71-76)

Please note: In many cases, a single reason will be adequate. However, you may select two codes if necessary, to adequately describe the action taken on these issues. If more than one reason code is selected, please list them in the order of impact on the resolution of these issues.

	Issue #1	Issue #2	Issue #3
Reason Code # 1 <i>(Highest Impact)</i>	_____	_____	_____
Reason Code #2 <i>(2nd Highest Impact)</i>	_____	_____	_____

Reason Code #1			Reason Code #2		
Issue 1	Issue 2	Issue 3	Reason Codes As Follows	Issue 1	Issue 2
13.3%	18.1%	30.2%	A= Appeals/Counsel fully sustains the issue	0.0%	0.0%
0.6%	1.2%	0.8%	B= Continuing issue - followed prior cycle settlement	0.0%	1.5%
7.2%	9.8%	7.4%	C= New facts/evidence obtained and evaluated by Appeals/Counsel	8.9%	18.7%
5.0%	3.7%	1.9%	D= New facts/evidence obtained and evaluated by Exam	1.6%	1.2%
30.9%	30.2%	30.8%	E= Hazards - Facts/evidence are open to judgement	18.1%	20.3%
9.7%	5.8%	0.0%	F = Hazards - Conflict between Service position and case law	4.7%	6.9%
29.1%	24.0%	23.1%	G= Hazards - Application or interpretation of law	24.6%	29.3%
0.6%	0.8%	1.9%	H= Offsetting considerations	13.7%	15.5%
0.0%	1.4%	0.0%	I = Changes in law	13.5%	3.8%
0.0%	1.2%	0.0%	J = Whipsaw	0.0%	0.0%
1.8%	3.2%	3.8%	K= Technical error	4.8%	0.0%
1.9%	0.6%	0.0%	L= Tax Court decision	10.0%	2.9%
N=573	N=416	N=305		N=355	N=215
					N=127

9. If you did not fully sustain any of these top three dollar issues, did you document your position in the written summary (i.e., Appeals Case Memorandum)? (CHECK ONE BOX FOR EACH ISSUE.) (77-79)

	Issue #1	Issue #2	Issue #3
Did you document your position in the written summary?	N=566 87.4% Yes 12.6% No 0.0% Not applicable (fully sustained)	N=401 88.1% Yes 2.0% No 9.8% Not applicable (fully sustained)	N=297 74.0% Yes 2.2% No 23.8% Not applicable (fully sustained)

Appendix IV Appeals Officer Questionnaire Results

IV.EXAM'S DEVELOPMENT OF THE TOP THREE DOLLAR ISSUES

10. Were all of the top three dollar issues you listed in question 8 fully developed when the case was transferred to Appeals? (CHECK ONE.)

(80)

73.1% Yes → Skip to question 13.

26.9% No → Continue with question 11.
N=601

11. For the issue(s) that were not fully developed, did you request that Exam further develop the issue(s) before you attempted to resolve the taxpayer's dispute? (CHECK ONE.)

(81-82)

50.6% Yes → Continue with question 12.

49.4% No → Please explain below and then skip to question 13.
N=155

If you did not request Exam to further develop the issue(s), please explain why.

12. For the issue(s) you requested Exam to further develop, did they (1) provide you the requested feedback, (2) provide it to you in a timely manner, and (3) did it help you resolve the disputed issues?

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE REMAINING PARTS. IF YOU ANSWER "NO" TO THE FIRST PART, THEN GO TO THE NEXT ISSUE.)

(83-91)

	Did Exam provide you the feedback you requested? (1)	If yes, was the feedback provided to you in a timely manner? (2)	Was the feedback helpful in resolving the disputed issue? (3)
Issue #1	75.2% Yes 0.0% No N=79 24.8% Not applicable (Issue fully developed)	95.6% Yes 4.4% No N=59	95.6% Yes 4.4% No N=59
Issue #2	74.6% Yes 4.5% No N=57 20.9% Not applicable (Issue fully developed)	93.9% Yes 6.1% No N=43	100% Yes 0.0% No N=43

Appendix IV
Appeals Officer Questionnaire Results

Issue #3	65.7% Yes N=42 34.3% Not applicable (Issue fully developed)	90.7% Yes 9.3% No N=28	100% Yes 0.0% No N=28
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13. Did Exam use an IRS specialist(s) or outside consultant(s) to develop any of these three issues? (CHECK ONE BOX.)

(92)

31.8% Yes → Continue with question 14.

68.2% No → Skip to question 16.
N=596

Repeat ID - 3 (1-7)

14. Identify the specialist(s) or outside consultant(s) that Exam used to develop any of these three issues.
(IDENTIFY THE SPECIALIST OR OUTSIDE CONSULTANT. FOR EACH ONE IDENTIFIED, CHECK TWO BOXES IN EACH ROW.)

(8-17)

Type of IRS specialist or outside consultant used	Identify the related issue.	To what extent, if at all, did the use of their services help you resolve the disputed issues?					
		Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
Engineer International Valuation Issue/Industry	62.4% 7.3% 6.5% 6.0% N=189	77.9% Issue #1 13.2% Issue #2 7.5% Issue #3 N=189	N=189 14.5%	22.3%	28.0%	10.9%	8.8% 15.5%
Engineer Issue/Industry Valuation Economist	65.5% 19.4% 10.5% 4.6% N=56	14.7% Issue #1 56.1% Issue #2 24.5% Issue #3 N=56	N=34 9.7%	24.4%	26.0%	39.8%	0.0% 0.0%
International Issue/Industry Valuation Economist	45.3% 19.6% 19.6% 15.6% N=17	19.6% Issue #1 29.7% Issue #2 50.7% Issue #3 N=17	N=8 38.6%	0.0%	30.7%	30.7%	0.0% 0.0%

15. Did you consult with any of the specialist(s) and/or outside consultant(s) listed above while you were considering the disputed issues? (CHECK ONE BOX.)

(18-19)

60.3% Yes

39.7% No → Please describe why you did not consult with them.

N=189

Appendix IV
Appeals Officer Questionnaire Results

16. In your opinion, did Exam need, but not obtain, an IRS specialist or outside consultant to develop any of these three top dollar issues? If yes, please identify the type of IRS specialist(s) or outside consultant(s) that Exam needed, but did not obtain, for each issue.
 (CHECK ONE BOX IN EACH ROW. IF "YES", IDENTIFY THE ISSUE AND THE NEEDED SPECIALIST OR OUTSIDE CONSULTANT.)

(20-28)

Did Exam need but not obtain an IRS specialist or outside consultant?	Identify the related issue	Identify the type of IRS specialist or outside consultant needed but not obtained.
9.7% Yes 90.3% No N=575	80.9% Issue #1 4.9% Issue #2 9.3% Issue #3 N=53	Economist 30.9% Engineer 24.6% Valuation 20.4% Issue/Industry 14.8%
1.8% Yes 98.2% No N=506	100% Issue #2 N=9	International 35.8% Issue/Industry 35.8% Other 28.4%
2.4% Yes 97.6% No N=470	100% Issue #3 N=11	Engineer 43.2% Issue/Industry 28.4% Other 28.4%

17. For each of the top three dollar issues identified, did Exam obtain technical advice to develop the issue? If yes, please indicate to what extent, if at all, the technical advice helped you resolve the taxpayer's disputed issues.

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN CHECK ONE BOX IN THE SECOND PART. IF YOU ANSWER "NO" OR "DON'T KNOW" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(29-34)

	Did Exam obtain technical advice?	<u>If yes</u> , to what extent, if at all, did it help you resolve the taxpayer's disputed issues?					
		Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
Issue #1 N=577	4.7% Yes → 89.6% No 5.7% Don't know	N=27 0.0%	59.7%	0.0%	30.8%	0.0%	9.5%
Issue #2 N=406	3.0% Yes → 96.4% No 0.6% Don't know	N=12 0.0%	0.0%	51.2%	48.8%	0.0%	0.0%
Issue #3 N=323	2.7% Yes → 97.3% No 0.0% Don't know	N=9 0.0%	70.3%	0.0%	29.7%	0.0%	0.0%

Appendix IV
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18. For those issue(s) that Exam did not obtain technical advice, do you believe Exam should have obtained technical advice from the national office? (CHECK ONE BOX FOR EACH ISSUE.)

(35-37)

Should Exam have obtained technical advice from the national office?	
Issue #1 N=580	6.3% Yes 91.2% No 2.5% Not applicable (Technical advice used)
Issue #2 N=409	2.6% Yes 94.4% No 2.9% Not applicable (Technical advice used)
Issue #3 N=314	2.1% Yes 95.2% No 2.8% Not applicable (Technical advice used)

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V. ADDITIONAL INFORMATION PROVIDED BY THE TAXPAYER FOR THE TOP THREE DOLLAR ISSUES

19. For any of the top three dollar issues you identified, did the taxpayer provide additional factual information or documentation to Appeals to support its protest on the issue? (CHECK ONE.) (38)

53.1% Yes → Continue with question 20.

46.9% No → Skip to question 22.
N=586

20. For those issues that the taxpayer provided additional factual information, did you request that Exam review or verify the accuracy of the information? (CHECK ONE.) (39-40)

43.2% Yes → Continue with question 21.

56.8% No → Please explain below and then skip to question 22.
N=303

21. For those issues that you requested Exam to verify additional information, did Exam (1) provide you the requested feedback, (2) provide the feedback to you in a timely manner, and (3) was the feedback helpful in resolving the taxpayer's disputed issues? (CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE REMAINING PARTS. IF YOU ANSWER "NO" OR "NOT APPLICABLE" TO THE FIRST PART, THEN GO TO THE NEXT LINE.) (41-49)

	Did Exam provide you the feedback you requested? (1)	If yes, did Exam provide the feedback to you in a timely manner? (2)	Did this feedback help you in resolving the disputed issue? (3)
Issue #1 N=119	86.5% Yes → 0.0% No 13.5% Not applicable	N=103 100% Yes 0.0% No	N=103 97.5% Yes 2.5% No
Issue #2 N=81	46.4% Yes → 7.6% No 46.0% Not applicable	N=38 100% Yes 0.0% No	N=38 100% Yes 0.0% No
Issue #3 N=60	35.1% Yes → 10.2% No 54.7% Not applicable	N=21 100% Yes 0.0% No	N=21 100% Yes 0.0% No

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V. APPEALS PROCESSING OF THE TOP THREE DOLLAR ISSUES

22. Were any of the top three dollar issues disputed by this taxpayer recurring (i.e., the same issue) from previously audited tax returns? If yes, please explain what you did, if anything, to resolve the recurring issue(s).

(CHECK ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN COMPLETE THE SECOND PART. IF YOU ANSWER "NO" OR "DON'T KNOW" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(50-55)

	Was this a recurring issue? (1)	If yes, what did you do, if anything, to resolve these recurring issues? (2)
Issue #1 N=601	4.9% Yes → 86.3% No 8.8% Don't know	
Issue #2 N=424	4.1% Yes → 81.3% No 14.5% Don't know	
Issue #3 N=322	1.0% Yes → 86.6% No 12.4% Don't know	

23. Did you discuss any of the top three dollar issues (either formally or informally) with District Counsel? If yes, did this discussion positively or negatively affect your ability to resolve the taxpayer's disputed issues?

(CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND QUESTION. IF YOU ANSWER "NO" OR "NOT NECESSARY" TO THE FIRST PART, THEN GO TO THE NEXT LINE.)

(56-61)

	Did you discuss this issue with District Counsel? (1)	If yes, to what extent, if at all, did it help you resolve the taxpayer's disputed issues? (2)
Issue #1	27.0% Yes → 67.0% No 6.0% Not necessary N=579	19.7% Very great extent 28.3% Great extent 26.1% Moderate extent 8.2% Some extent 8.9% Little extent 8.9% No extent N=151
Issue #2	16.9% Yes → 76.9% No 6.2% Not necessary N=405	16.5% Very great extent 31.5% Great extent 30.2% Moderate extent 9.5% Some extent 3.8% Little extent 8.5% No extent N=69
Issue #3	11.7% Yes → 79.5% No 8.9% Not necessary N=312	0.0% Very great extent 29.7% Great extent 14.2% Moderate extent 49.0% Some extent 0.0% Little extent 7.1% No extent N=36

24. Were any of the top three dollar issues referred to Counsel for litigation? (CHECK ONE BOX FOR EACH ISSUE.)

(62-64)

Issue #1 N=598 14.0% Yes 86.0% No	Issue #2 N=421 4.2% Yes 95.8% No	Issue #3 N=322 100% Yes 0.0% No
---	--	---

Appendix IV Appeals Officer Questionnaire Results

VII. GENERAL QUESTIONS RELATING TO THESE TAX RETURNS

Please consider the entire case (not just the three issues you identified previously) as you answer the remaining questions.

25. Did Exam provide you with a written response to the taxpayer's protest? (CHECK ONE.)

(65)

43.5% Yes → Continue with question 26.

14.8% No

Skip to question 28.

41.7% Don't know

N=611

26. To what extent, if at all, did this written response help you resolve the taxpayer's disputed issues? (CHECK ONE.)

(66-67)

4.5% Very great extent

19.6% Great extent

30.4% Moderate extent

23.4% Some extent

11.8% Little extent

10.2% No extent

N=266

Please explain your response.

27. Did you discuss (e.g., telephone calls, meetings, etc.) the written response with Exam? (CHECK ONE.)

(68-69)

71.7% Yes → To what extent, if at all, did this discussion help you resolve the taxpayer's disputed issues? (CHECK ONE.)

9.1% Very great extent

20.7% Great extent

N=248

32.3% Moderate extent

25.5% Some extent

6.6% Little extent

5.7% No extent

N=173

28.3% No

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28. Were you satisfied or dissatisfied with the level of cooperation between you and Exam? (CHECK ONE.)

(70)

- 26.6% Very satisfied
 - 31.8% Generally satisfied
 - 16.1% Neither satisfied nor dissatisfied
 - 0.9% Generally dissatisfied
 - 0.4% Very dissatisfied
-
- 24.2% Not applicable (No interaction with Exam)
N=607

29. Did the taxpayer use any of the following specialist(s) or representative(s) to assist them with the resolution of the disputed issues? (CHECK ONE BOX IN EACH ROW.)

(71-76)

Position	Yes (1)	No (2)	Don't know (3)
a. CPA firm N=539	75.7%	17.6%	6.7%
b. Attorney N=482	62.9%	18.0%	19.1%
c. Engineer N=377	5.4%	61.8%	32.7%
d. Economist N=369	5.5%	61.9%	32.5%
e. Appraiser N=393	16.2%	55.6%	28.3%
f. Other (Specify)			

30. Overall, how satisfied or dissatisfied were you with the following concerning the taxpayer? (CHECK ONE BOX IN EACH ROW.)

(77-80)

	Very satisfied (1)	Generally satisfied (2)	Neither satisfied nor dissatisfied (3)	Somewhat dissatisfied (4)	Very dissatisfied (5)	No basis to judge (6)
a. Overall attitude/cooperation of the taxpayer N=607	32.7%	48.5%	9.5%	5.9%	0.0%	3.4%
b. The timeliness of taxpayer's responses to information requests N=607	28.4%	47.4%	9.2%	10.3%	1.0%	3.7%
c. The completeness of information provided by the taxpayer N=604	26.1%	49.0%	15.5%	7.2%	0.5%	1.7%
d. The relevance of the information provided by the taxpayer N=604	29.4%	49.9%	16.0%	2.1%	1.0%	1.7%

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Appeals Officer Questionnaire Results

31. Did the taxpayer file any of the following while this case was in Appeals' jurisdiction? If yes, did you refer these to Exam? (CHECK AT LEAST ONE BOX IN EACH ROW. IF YOU ANSWER "YES" TO THE FIRST PART, THEN ANSWER THE SECOND QUESTION. IF YOU ANSWER "NO" TO THE FIRST PART, GO TO THE NEXT LINE.) (81-86)

	Did the taxpayer file any of the following while this case was in Appeals' jurisdiction? (1)	If yes, did you refer these to Exam? (2)
a. File a claim for a refund	3.0% Yes → 97% No N=601	82.1% Yes 17.9% No N=18
b. Raise an affirmative issue	12.9% Yes → 87.1% No N=607	31.5% Yes 68.5% No N=78
c. File a request for a tentative refund (e.g., NOL carryback)	2.1% Yes → 97.9% No N=593	25.8% Yes 74.2% No N=13

Continue with question 32 if you checked "Yes" to any box above.

If the taxpayer did not file a claim for a refund, raise an affirmative issue, or file a request for tentative refund, skip to question 34.

32. How much did you increase or decrease the taxable income or credits because of the claim(s), affirmative issue(s), or requests(s) for tentative refund identified in the previous question?
(CHECK THE APPROPRIATE INCREASE OR DECREASE BOX AND ENTER THE APPROPRIATE AMOUNT.
IF NONE, DO NOT CHECK A BOX AND ENTER "00".)

Taxable income 0.0% Increased 100% Decreased byMean = \$23,445,831
 N=66
Credits 100% Increased 0.0% Decreased byMean = \$18,753
 N=6

(87-96)

33. Were any of the above the result of a carryback from a subsequently filed return? (CHECK ONE.) (18)

33.9% Yes

66.1% No
N=91

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34.Was this work unit assigned to an Appeals Team Chief? (CHECK ONE.) (19)

3.8% Yes → Skip to question 37.
 96.2% No → Continue with question 35.
 N=614

35.To what extent, if at all, did the associate chief participate in resolving these disputed issues by (1) meeting with the taxpayer, and (2) providing you guidance, advice, or other assistance.? (CHECK ONE BOX IN EACH ROW.) (20-22)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Associate chief meeting with the taxpayer N=583	0.4%	2.7%	0.0%	1.1%	3.5%	92.3%
b. Associate chief providing you guidance, advice, or other assistance N=588	0.8%	3.8%	9.1%	7.2%	8.9%	70.2%

Please explain your response.

36.To what extent, if at all, did the associate chief's participating in the following ways improve your ability to resolve these disputed returns? (CHECK ONE BOX IN EACH ROW. IF ASSOCIATE CHIEF DID NOT PARTICIPATE, CHECK "NOT APPLICABLE".) (23-25)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)	Not applicable (7)
a. Associate chief's meetings with the taxpayer N=582	0.0%	2.3%	0.0%	1.5%	1.6%	3.8%	90.9%
b. Associate chief's providing you guidance, advice, or other assistance N=582	0.0%	3.1%	6.8%	9.4%	5.2%	3.0%	72.5%

Please explain your response.

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37. How did you inform Exam, if at all, of the final resolution of the disputed issues? (CHECK ALL THAT APPLY.) (26-29)

- 218 Discussed the final resolution with Exam
- 535 Sent the Appeals Case Memorandum to Exam
- 82 Other (Specify) _____
- 20 No feedback provided to Exam

38. Considering the overall case, did the following positively or negatively affect your ability to resolve the taxpayer's disputed issues for the case shown on page 1 of this questionnaire? (CHECK ONE BOX IN EACH ROW.) (30-35)

	Very positively (1)	Positively (2)	Neither positively nor negatively (3)	Negatively (4)	Very negatively (5)	Not applicable (6)
a. Exam's documentation of audit issues N=581	13.1%	53.4%	26.6%	4.3%	1.1%	1.5%
b. Exam's factual development of the issues N=581	13.1%	56.3%	21.3%	6.6%	1.1%	1.5%
c. Exam's development of the legal positions for the issues N=581	12.6%	36.5%	40.1%	5.3%	1.7%	3.8%
d. IRS specialist assistance in developing audit issues N=594	10.9%	12.5%	12.7%	2.8%	0.0%	61.2%
e. Legal assistance from District Counsel or national office used to develop the issues N=589	15.6%	17.5%	7.8%	0.0%	0.0%	59.0%
f. Other (Specify) N=243	14.6%	0.0%	2.7%	0.0%	0.0%	82.7%

39. Were you satisfied or dissatisfied with the length of time it took to resolve the taxpayer's disputed issues? (CHECK ONE) (36-37)

- 14.9% Very satisfied
- 57.8% Generally satisfied
- 20.9% Neither satisfied nor dissatisfied
- 5.4% Generally dissatisfied
- 1.0% Very dissatisfied

If dissatisfied, please explain.

N=614

Appendix IV **Appeals Officer Questionnaire Results**

40. In your opinion, to what extent, if at all, did the Appeals' final resolution of these disputed issues influence the way Appeals will consider (a) recurring issues for this taxpayer, and (b) similar issues for different taxpayers? (CHECK ONE BOX IN EACH ROW.)

(38-40)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Recurring issues for this taxpayer N=594	16.0%	23.9%	7.2%	5.4%	10.2%	37.2%
b. Similar issues for different taxpayers N=596	5.6%	15.1%	10.7%	6.8%	8.7%	53.1%

Please explain your response.

41. In your opinion, to what extent, if at all, was Appeals' dispute resolution processing of this case fair and impartial to both the taxpayer and the government? (CHECK ONE BOX IN EACH ROW.)

(41-42)

	Very great extent (1)	Great extent (2)	Moderate extent (3)	Some extent (4)	Little extent (5)	No extent (6)
a. Fair and impartial to the taxpayer N=601	41.1%	51.4%	4.0%	0.0%	0.0%	3.5%
b. Fair and impartial to the government N=601	40.3%	50.3%	5.4%	0.5%	0.0%	3.5%

Appendix IV Appeals Officer Questionnaire Results

VI. GENERAL

42. Taking everything into consideration, what is your opinion on the quality of Exam's overall development of the issues on this case? (CHECK ONE BOX.)

(43-44)

14.0% Excellent

53.4% Good

22.9% Adequate

9.2% Poor

0.5% Very poor

N=607

If you believe the quality of Exam's issue development is **poor or very poor**, please explain your response.

43. In your opinion, to what extent, if at all, did the dispute resolution process for large corporations unreasonably burden this taxpayer selected for audit? (CHECK ONE BOX.)

(45)

0.5% Very great extent

0.4% Great extent

9.5% Moderate extent

14.2% Some extent

75.3% Little or no extent

N=598

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Appeals Officer Questionnaire Results

44. Please use the space below to provide any additional comments about this case or IRS' audit and appeals processes for these large corporate taxpayers. You may attach additional sheets if necessary. (46)

(46)

Thank you for your assistance.

Please remove the yellow case information sticker from page 1 and return the questionnaire in the pre-addressed return envelope.

Offices Visited and Officials Interviewed

This appendix describes the various IRS offices we visited and the officials we interviewed. In addition, it discusses the scope of our requests to selected officials for written comments on factors related to large corporate audits. Included in this appendix is table V.1, which shows the offices we visited and officials we interviewed.

In addition to the questionnaires, we interviewed numerous IRS National Office, regional, district office, and Appeals officials to obtain their views on the factors that affected the amount of additional taxes recommended by revenue agents that were ultimately assessed. At the National Office we interviewed the Executive Director, Corporate Audits Section; the National Director, Strategic Planning Division; the National Director of Appeals; and selected members of their staffs. At each of IRS' four regional offices we interviewed the Regional Compliance Chief, Regional Counsel, and the Assistant Regional Director for Appeals. In addition, we visited 10 of IRS' 33 district offices and 9 appeals offices. Table V.1 shows the district offices and appeals offices we visited and the titles of the individuals we interviewed.

Table V.1: District and Appeals Offices Visited and Officials Interviewed

Offices visited	District Director	Chief of Examination	Examination Branch Chiefs	District Counsel	Chief of Appeals
Atlanta, Georgia	✓	✓	✓	✓	✓
Baltimore, Maryland			✓		✓
Chicago, Illinois		✓	✓		✓
Dallas, Texas	✓	✓	✓	✓	✓
Hartford, Connecticut	✓	✓			✓
Manhattan, New York	✓	✓	✓	✓	✓
Oklahoma City, Oklahoma	✓	✓			✓
San Francisco, California	✓	✓	✓	✓	✓
San Jose, California	✓	✓			✓
St. Louis, Missouri	✓	✓	✓		
Totals	8	9	7	4	9

Further, we also asked Examination Chiefs in all 33 IRS district offices nationwide and Appeals Chiefs in all 33 appeals offices nationwide to give us their comments on certain factors related to these large corporate audits. We received written responses from 31 of the Examination Chiefs and 30 of the Appeals Chiefs. Their views are incorporated throughout this report where appropriate.

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