

GAO Highlights

Highlights of [GAO-13-662](#), a report to congressional requesters

Why GAO Did This Study

IRS audits of the tax returns filed by large corporations take four years, on average, to complete. Additional years can be spent in appeals. This is costly to IRS and creates years of uncertainty about a large corporation's actual tax liability. In response, IRS developed CAP in 2005. Under this process, IRS and taxpayers agree on how to report tax issues before the return is filed: compliant and cooperative taxpayers can get a streamlined IRS review of their tax return in a phase called Compliance Maintenance. GAO was asked to assess this process. In this report, GAO (1) describes the goals and potential benefits of the process, (2) assesses IRS's efforts to determine whether these goals are met, (3) assesses IRS's readiness to move more taxpayers into Compliance Maintenance, and (4) describes IRS's efforts to coordinate the process with its existing compliance processes. GAO reviewed IRS documentation and data, interviewed IRS officials and corporate tax experts, and held focus groups with tax executives of large corporations and with IRS audit staff.

What GAO Recommends

GAO recommends that IRS evaluate the process, develop measures and targets for the goals, consistently capture data to track goal progress, track resolution of tax issues and resource savings, develop a plan to expand Compliance Maintenance, and verify that audit staff understand attempts to clarify related guidance. In written comments, IRS agreed with our recommendations.

View [GAO-13-662](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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CORPORATE TAX COMPLIANCE

IRS Should Determine Whether Its Streamlined Corporate Audit Process Is Meeting Its Goals

What GAO Found

Officials GAO interviewed inside and outside of the Internal Revenue Service (IRS) generally agreed on the potential major benefits of the Compliance Assurance Process (CAP) to taxpayers and IRS as reflected in its goals. These goals include saving IRS time and resources to use for other audits while ensuring compliance, and reducing taxpayer burden while increasing certainty on tax amounts now owed.

Contrary to its guidelines, IRS has not evaluated whether the goals are being achieved or the process should be expanded. IRS officials told GAO that IRS will start developing an evaluation plan in 2013, but did not provide dates for when an evaluation would be completed. IRS cannot show the extent to which the goals are being met for two reasons.

- Some goals do not have measures and none have targets. Although developing measures and setting targets for goals (such as ensuring taxpayer compliance) can be difficult, not doing so limits IRS's ability to determine whether the process is working as intended.
- IRS does not have consistent and complete data for CAP. Inconsistent data make some analyses difficult to do. For instance, the average annual staff hours spent auditing a return could not be analyzed because the code to track staff time charges sometimes included non-CAP time charges. Incomplete data did not allow IRS to track progress for some goals. While IRS audit teams document tax issues in case files, IRS does not compile the data to track issue resolution. As a result, IRS cannot readily determine whether audit teams are resolving issues uniformly or identifying emerging tax compliance issues. Similarly, IRS does not have a system to track resource savings. Without a system, IRS cannot know the amount of saved resources or plan for their reallocation.

IRS has been moving taxpayers into Compliance Maintenance without documenting a plan to ensure, among other things, that IRS has the capacity to assimilate these taxpayers in an expedited fashion, as intended. In addition, IRS audit staff had concerns about guidance on moving taxpayers in and out of this phase. IRS clarified the guidance in May 2013, but has not verified whether the audit staff understand it. Without verification, IRS does not have reasonable assurance that the audit staff understand which taxpayers are right for Compliance Maintenance and when it would be appropriate to remove them.

IRS is addressing difficulties in coordinating CAP with other compliance processes. Difficulties include resolving some complex tax issues within the expedited time frames, and ensuring that all IRS specialists who assist audit teams understand the process. It is too early to tell whether IRS's efforts will work.