LLOYD DOGGETT
25TH DISTRICT, TEXAS

COMMITTEE ON
WAYS AND MEANS

SUBCOMMITTEES ON
HEALTH
SELECT REVENUE
SOCIAL SECURITY

COMMITTEE ON
THE BUDGET

Congress of the United States
House of Representatives

WASHINGTON OFFICE
201 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-4865

TEXAS OFFICE
300 EAST 8TH STREET, SUITE 763
AUSTIN, TX 78701
(512) 916-5921
1-866-916-5921

www.house.gov/doggett/
E-MAIL: LLOYD.DOGGETT@MAIL.HOUSE.GOV

January 23, 2007

Mr. Mark W. Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue NW
Washington, D.C. 20224-0002

Dear Commissioner Everson:

I am writing to express my concerns about the Internal Revenue Service's reported practice of prematurely closing corporate audits without fully investigating their efforts to avoid legal taxes.

As detailed in the *New York Times* on January 12, 2007, large- and mid-sized business auditors for the I.R.S. in multiple states reported being ordered to ignore tax avoidance issues that would prevent the audit from closing by a predetermined date. These disturbing accounts of agents being refused access to I.R.S. experts, to necessary resources, and the time needed to fully complete audits permits corporate respondents to pay only a fraction of the taxes they potentially owe. This "catch and release" policy must end.

The I.R.S. has stated that its practices have increased the amount of corporate taxes paid. However, the employee reports indicate any increase in collections can be explained by an increase in tax avoidance schemes, not the troubling I.R.S. policy of limiting the time and scope of audits. Corporate tax creativity should not be rewarded by donning blinders or looking the other way and closing cases where the facts suggest a broader investigation is required.

The use of performance incentives that reward closing cases in place of enforcing the law and collecting billions in tax avoidance each year is unacceptable and runs counter to the letter and intent of the law.

I request a full report on these disturbing practices and a cessation of short cycle time and limited-scope audit policies that cost the government billions of dollars a year.

Sincerely,

Lloyd Doggett

Lloyd Doggett

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

February 28, 2007

The Honorable Lloyd Doggett
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Doggett:

I am responding to your January 23, 2007, letter about assertions made in a *New York Times* article on the IRS's large corporate audit program. I appreciate your support of our mission to collect the taxes that are due the government from both ordinary citizens and large corporations alike. We have made large corporations and high-income individuals the focus of significant compliance efforts over the past several years.

We took great care in our decision to shorten corporate audit time and increase the number of corporate audits. Our decision arose from a recognition that the corporate enforcement function of the IRS had declined in the years since the IRS Restructuring and Reform Act of 1998. For example, corporate audit coverage had declined by 2003 to less than half its 1997 levels, managers and field staff were sometimes reticent to use enforcement tools, and we were not addressing abusive tax shelters with sufficient vigor.

We have successfully rebalanced the corporate audit program to address these and other concerns. Specifically, we increased the total number of corporate audits by 21 percent from 2001 to 2006, and the number of audits of the nation's largest corporations, those with assets of $250 million or more, by 29 percent. Significantly, corporate tax receipts increased 169 percent from 2003 to 2006. I am enclosing a chart on corporate tax receipts and audit data. We achieved these increases while the size of our workforce that audits these entities has remained flat. This suggests that we have done more than simply ride the wave of economic growth of recent years.

Moreover, we have good reason to conclude that well-designed and well-executed audits of shorter duration can be more effective than traditional, protracted, large-business audits. This is true because we can redeploy savings in examination time earned in one case to other cases, including some cases that might not have otherwise been examined. Targeting key issues, holding employees accountable for disciplined application of their work time, and evaluating the likely outcome of the expenditure of additional time and resources constitute sound practices. Slow-paced audits that can drag on for years do not serve the interest of the government or taxpayers, particularly when they involve compliant taxpayers.

The *Times* article cites accusations by employees that managers directed them to conclude examinations prematurely, at significant cost to the government in lost revenue. In promoting more efficient and swifter resolution of corporate audits, we rely on field managers and auditors to make appropriate choices, including the hard choices that often present themselves when they must decide to bring an audit to conclusion. This certainly includes, where appropriate, bringing an examination to closure more swiftly than might have been the case in the past. It also includes extending examinations in appropriate circumstances beyond the originally anticipated closure date.

We monitor the success of these new audit procedures, in part, by continuously scrutinizing metrics for signs of possible compromises in corporate examination quality. For example, a significant increase in the number of examinations closed that is accompanied by a corresponding decrease in proposed adjustments per return or per hour of examination time, or an increase in the no-change rate (the proportion of cases where we initiated and concluded an exam without any adjustment) will normally result in scrutiny by management and field executives. We also rely on other processes and measures that can point to possible compromises in examination quality, such as quality control scores, employee satisfaction scores, review by a unit independent of the field to ensure that audit quality standards are met, and feedback obtained in business forums, town halls, and one-on-one meetings between managers and direct reports. They share a common purpose in communicating our recognition that examiner judgments, such as extending an examination in appropriate instances until we can more fully work the issues, occupy an important place in the corporate examination process.

I also assure you that we do not agree in advance to limit the scope of corporate audits in a way that "handcuffs" examiners from exploring issues that we may identify during an audit. Our practice is to develop and follow an audit plan to conduct these large-scope examinations. These plans allow us to convey to the taxpayer the expected path and timetable of the audit and our needs in terms of documentation and discussions with their staff. We also identify the issues we anticipate concentrating on. In no event do we fashion the plan in a way that prevents us from pursuing additional issues we may identify as we conduct the audit.

To deter the rewarding of performance incentives for closing cases, the IRS Restructuring and Reform Act of 1998 (RRA 98) prohibits us from using records of tax enforcement results to evaluate employees or to impose or suggest production quotas or goals. It also requires us to evaluate employees using the fair and equitable treatment of taxpayers as a performance standard. We require quarterly certifications from managers that attest to whether we have used Records of Tax Enforcement Results (ROTRs) or production quotas or goals in a prohibited manner. Annually, the Treasury Inspector General for Tax Administration (TIGTA) determines whether we are complying with restrictions on the use of enforcement statistics.

When employees believe internal processes are inadequate to address their concerns, we tell them that they may seek redress from external overseers, such as TIGTA, the General Accountability Office, or other bodies.

I hope this information will bolster your confidence that we are meeting the Congress's expectations, contrary to the tenor of the article. I would be happy to meet with you to discuss this further. Please contact me or call Floyd Williams, Director of Legislative Affairs, at (202) 622-4725 if you would like to schedule a meeting.

Sincerely,

Mark W. Everson

Mark W. Everson

Enclosure

Congressman - I am sorry this response did not come to you sooner, and am glad you raised the subject at the recent Budget Committee hearing. I would be happy to meet with you directly on any follow up questions you may have.

Mark

Corporate Tax Receipts / IRS Audit Data

Corporate Audits (Assets $10 Million - $250 Million)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	% Change FY03-FY06
Returns Audited	5,413	4,694	3,795	5,137	5,970	6,302	66%
Dollars Recommended ($B)	$0.54	$0.63	$0.80	$0.76	$1.42	$1.31	64%
Dollars Rec. per Return ($K)	$99.3	$140.4	$211.8	$147.5	$238.5	$208.6	-2%
Audit Cycle Time (months)	17.0	17.1	18.3	13.6	12.0	10.0	-45%
Audit Staff Years (direct time)	368	353	291	323	375	432	48%

Corporate Audits (Assets over $250 Million)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	% Change FY03-FY06
Returns Audited	3,305	3,749	3,330	4,386	4,859	4,276	28%
Dollars Recommended ($B)	$12.77	$13.67	$12.29	$15.23	$30.14	$25.53	108%
Dollars Rec. per Return ($M)	$3.86	$3.65	$3.69	$3.47	$6.20	$5.97	62%
Audit Cycle Time (months)	31.9	33.2	32.8	29.4	31.2	29.0	-12%
Audit Staff Years (direct time)	1,230	1,260	1,187	1,279	1,237	1,151	-3%

Total Corporate Audits (Assets over $10 Million)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	% Change FY03-FY06
Total Returns Audited	8,718	8,443	7,125	9,523	10,829	10,578	48%
Total Dollars Recommended ($B)	$13.31	$14.30	$13.10	$15.99	$31.56	$26.84	105%
Dollars Rec. per Return ($M)	$1.53	$1.69	$1.84	$1.68	$2.91	$2.54	38%
Audit Cycle Time (months)	23.0	24.4	25.4	21.1	20.9	17.8	-30%
Audit Staff Years (direct time)	1,598	1,613	1,478	1,602	1,612	1,583	7%

Government Receipts ($ Billions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	% Change FY03-FY06
Corporation Income Tax	$151	$148	$132	$189	$278	$354	169%

From 2003 to 2006, Corporate Tax Receipts Increased 169% and More than Doubled as a Percentage of Gross Domestic Product