



Treasury Inspector General for Tax Administration

CHIEF COUNSEL SHOULD ADDRESS QUESTIONS RELATED TO PROPOSED CHANGES IN THE AUTOMATIC CONSENT PROCESS

Issued on June 3, 2008

Highlights

Highlights of Report Number: 2008-10-123 to the Internal Revenue Service Chief Counsel.

IMPACT ON TAXPAYERS

The Office of Chief Counsel (Chief Counsel) is responsible for reviewing a taxpayer's request to change their method of accounting for Federal income tax purposes through its Change in Accounting Method (CAM) program. Although Chief Counsel has initiated and recommended actions to improve the efficiency of the CAM program, questions with the proposed automatic consent process must be addressed to ensure that the changes do not inadvertently affect tax compliance or the Internal Revenue Service's (IRS) ability to effectively administer this law provision. A strong CAM program will enable taxpayers to better understand the requirements for changing to another accounting method and help the IRS apply the tax laws correctly and uniformly.

WHY TIGTA DID THE AUDIT

During Fiscal Year 2007, the Chief Counsel initiated efforts to improve the efficiency of its CAM program, conducted an analysis to identify problems facing the program, and provided recommendations for improvement. The results of this analysis were used to develop and issue Notice 2007-88, which requested public comments regarding the proposal to change the process taxpayers use to obtain the Commissioner's consent for changing their accounting methods. This audit was initiated to provide an assessment of Chief Counsel's proposal to change the consent processes used by taxpayers to request changes to another method of accounting.

WHAT TIGTA FOUND

TIGTA's review of the proposed changes identified questions that Chief Counsel should address before it implements the proposed automatic consent process. Specifically, Chief Counsel should consider the:

- Possibility that the IRS Commissioner's authority to extend the automatic consent process to include non-routine and controversial accounting methods might be questioned. The IRS Commissioner has applied the automatic consent process to the routine and non-controversial accounting methods. However, the proposed automatic consent process intends to expand the automatic consent process to all accounting methods, unless the accounting method the taxpayer wants to adopt is specifically identified as requiring the advance consent process.
- Impact that proposed changes might have on the IRS' ability to ensure taxpayers are compliant with tax laws governing accounting methods. While Notice 2007-88 indicates that automatic consent requests will be reviewed for completeness and permissibility of the accounting method change, Chief Counsel had not developed a detailed plan for reviewing these requests to ensure that taxpayers would not change to accounting methods that are not permissible.
- Impact on the IRS' ability to detect taxpayers who make inappropriate use of the automatic consent process. Chief Counsel indicated an option under consideration may be to shift review responsibilities to the Examination functions in the Operating Divisions. However, shifting this review process could adversely affect the IRS' administration over accounting method changes, particularly if the Examination functions do not have the resources or do not want responsibility for reviewing the requests.

WHAT TIGTA RECOMMENDED

TIGTA provided our observations for Chief Counsel's information and made no recommendations. In their response to the report, Chief Counsel agreed with the observations and conclusions presented.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200810123fr.pdf>.