

Understanding LB&I “Campaigns”: Large Business and International

Article By:

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On March 3, 2017, KPMG and the ***Internal Revenue Service (IRS)*** held a joint webcast presentation regarding the Large Business & International’s (LB&I) new “Campaign” examination process. The IRS speakers for the presentation were Tina Meaux (Assistant Deputy Commissioner Compliance Integration) and Kathy Robbins, Director (Enterprise Activities Practice Area). On February 1, 2017, we blogged about this new [IRS program](#).

The IRS explained that Campaigns are a fundamental change in the way the IRS will conduct examinations in the future, and are the result of the IRS’s ever-shrinking resources. The Campaigns reflect the LB&I Division’s need to focus on risks, drive compliance objectives, and efficiently and effectively respond with a variety of work streams.

The general principles that guide the Campaign program are:

- Flexible and well-trained work force. Because of funding cuts, the IRS has not been able to hire examiners in recent years. In connection with the Campaigns, the IRS will implement additional training, including “just-in-time” training, to help the IRS react to a dynamic examination environment.
- Better selection of work. The IRS is using data analytics and internal and external feedback to assist in shaping Campaigns.
- Tailored treatment. The IRS is developing an integrated process to identify compliance risks, and identify the work streams needed to address those risks.
- Integrate feedback loop. This is the cornerstone of the Campaign program. The IRS admitted that it cannot implement an effective and efficient process without feedback from both internal and external stakeholders. To be successful the feedback needs to be “just-in-time,” not merely post-audit.

The IRS explained that its initial list of 13 Campaigns is just the beginning. The IRS has to be nimble in its examination process, adapting to an ever-changing landscape. For example, one Campaign

involves an Industry Issue Resolution (IIR). Several taxpayers are involved in the IIR, and the IRS may need to audit them depending on the outcome of the IIR. The IRS will also issue so-called “soft letters” to some taxpayers, in which the IRS identifies the Campaign issue and indicates that the taxpayer’s return appears to include this position. The soft letter will articulate the IRS’s legal position, and ask whether the taxpayer agrees to change its position by amending the return. Soft letters will not be released publically, although they may be attached to a new Practice Units. We have commented extensively on the IRS’s Practice Unit project. Please see our most recent post [here](#).

Potential treatment streams for Campaigns include soft letters, a change in IRS forms, new examination techniques and additional centralized guidance. All of these streams can be used in a particular Campaign.

According to the IRS, Campaigns are different from the Tiered Issue approach previously used by the IRS. Unlike Tiered Issue examinations, there will be a robust feedback loop during the audit to help the process run more smoothly, and adapt to issues and concerns that arise during the audit. Moreover, concerns and issues can be elevated by Exam and external stakeholders. There will be an Execution Lead for each Campaign with “line of site” into all Campaign examinations.

The IRS confirmed that a taxpayer can be the subject of multiple Campaigns during an examination.

If a taxpayer is identified as part of a Campaign, the adjustment will not be automatic. Indeed, the typical examination process will ensue, with factual development.

The IRS will follow the progress and success of the Campaign process using various metrics, including, for example, the number of soft letters that are sent out and the responses thereto. These metrics, however, will not be public as they are part of the information that the IRS will utilize in developing Campaigns.

Chief Counsel’s role in the campaigns is unchanged from the present. Indeed, counsel will continue to provide legal advice and assistance as appropriate. The IRS did confirm that counsel was involved in the development of the Campaigns.

Taxpayers in the CIC and CAP programs will be subject to Campaigns. The IRS confirmed that it is possible for a new Campaign issue to be added late in the audit, but this will only happen after consultation between the exam team and taxpayer, and the issue must be a high risk issue to warrant inclusion.

Exam teams will have subject matter expertise within the IRS with whom they can consult. Taxpayers may interact with these subject matter experts as part of the process.

The IRS will continue to use the protocols identified in Publication 5125. For example, Exam teams can elevate concerns to the point of contact, and the taxpayer is encouraged to use the rules of engagement. The Case Manager will continue to oversee the examination, but taxpayers can have direct contact with Executive Leads regarding Campaign issues.

The IRS is presently working on several other Campaigns, which are expected to be announced in the coming months. The IRS expects that over time, the Campaign process will generate an ever-increasing portion of their audit work.

Practice Point: The new Campaign process marks a change in the direction of IRS examinations. Our clients are seeing the changes on the ground, with Exam teams packing up and closing continuous audits that have persisted for decades. The IRS clearly does not have sufficient resources to examine returns in the same manner that was done over the last 30 years. With limited resources, the new Campaign process may ease the burden on taxpayers of protracted audits mired in the details of the return, while the IRS misses the real compliance risks. Only time will tell whether this new direction bears fruit. Stay tuned!

Part 2 -[Understanding LB&I “Campaigns” – The Second Webinar: Examination Process](#)

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