



## Tiered Issues

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Impacted IRM 4.51.5, 4.51.6

MEMORANDUM All LB&I Employees  
FOR:  
FROM: Heather C. Maloy /s/ Heather C. Maloy  
Commissioner, Large Business & International Division  
SUBJECT: Tiered Issues

### Background

Since 2006, LB&I has used the Tiered Issue Process to set exam priorities and address certain corporate tax issues that it believed posed challenges to compliance. The tiered issue process was initially developed, in part, as a way for then LMSB to combat tax shelters that the IRS viewed as abusive. In fact, several of the initial tiered issues dealt with listed transactions. The tiered issue process ensured consistency of treatment and uniform disposition of these and other types of cases.

As part of LB&I's efforts to continually improve, we undertook a review of LB&I's Tiered Issue Process. Our review determined that, while the Tiered Issue Process may have been well suited for the audit of tax shelter type issues, going forward LB&I needs a different approach to manage compliance priorities and provide guidance to examiners. This new approach should:

- Provide LB&I examiners clear and timely guidance on how to address issues;
- Promote collaboration among LB&I employees;
- Increase accountability and transparency in the resolution of issues; and
- Enable robust lines of communication with taxpayers.

As a result of our review, LB&I will no longer manage issues through the Tiered Issue Process.

In place of the Tiered Issue Process, LB&I is developing a knowledge management network (currently being piloted) through the use of Issue Practice Groups ("IPGs") for domestic issues and International Practice Networks ("IPNs") for international issues. IPGs and IPNs are designed to provide examination teams the technical advice they need to manage their cases efficiently, consistently and with a high degree of technical proficiency. IPGs and IPNs are designed to foster effective collaboration and the sharing of knowledge and expertise across LB&I and Chief Counsel. LB&I views the IPGs and IPNs as a better mechanism than the Tiered Issue Process for balancing the need for consistency with the recognition that there is no "one size fits all" approach to examining and resolving issues.

The IPGs and IPNs reflect the fact that no one LB&I employee has all the answers. IPGs and IPNs are a resource for examiners, managers and executives to use during audits and in managing our compliance priorities. Agents are encouraged to consult IPGs or IPNs, especially when they encounter issues with which they are not familiar or when dealing with complex technical issues. Frontline Managers, Territory Managers, DFOs and Directors are also encouraged to consult IPGs and IPNs when reviewing cases and considering the proper treatment of issues under their supervision. In every case we audit, we must put forward the best and most current legal positions available on behalf of the United States Government and we must do so consistently across the organization. To reach these results, IPGs and IPNs are the best tools available to LB&I and should

be utilized widely throughout the organization.

Although this LB&I Directive signals a change in how we approach our work, our goal remains the same: To continue to produce high quality work but with an increased emphasis on cooperation and collaboration among all parties involved in the examination process.

### **Change in Status**

Effective with the issuance of this LB&I Directive, all Tier I, II and III issues are no longer tiered. These issues should be risk-assessed and examined in the same manner as any other issue in an audit. All prior Industry Director Directives ("IDDs") relevant to these issues are withdrawn and should no longer be consulted or followed. To the extent any of the IDD's included guidance or tools relevant to risking an issue, the guidance or tools will be made available through the IPG and IPN community websites. References to tiered issues in other IRS Administrative Guidance, such as the IRM, Coordinated Issue Papers, or Industry Guides, are no longer valid. After a thorough review, such Administrative Guidance will be updated accordingly.

Examiners with questions should consult the relevant IPG, IPN or technical materials available on the LB&I website.

This LB&I Directive does not affect the issuance of the mandatory information document request ("IDR") on abusive tax shelters. That IDR is currently being reviewed as part of the exam re-engineering process.

### **Contacts**

The IPGs and IPNs for these respective issues will provide guidance and support to examiners on the identification and development of these issues.

This LB&I Directive is not an official pronouncement of law and cannot be used, cited or relied upon as such.

cc: Division Counsel, LB&I  
Chief, Appeals