

The IRS' New Large Corporate Compliance Program Targets Noncompliance Risks for Examination

On May 16, 2019, the Large Business and International (LB&I) Division of the IRS unveiled the Large Corporate Compliance (LCC) program.¹ The LCC uses data analytics to automatically target the largest and most complex corporate taxpayers having the most compliance risks for examination. The LCC is part of a larger push toward “portfolio management”—ensuring that the IRS’s limited resources are spent on tax returns with the highest compliance risk.²

The LCC program replaces the Coordinated Industry Case (CIC) program and makes two main changes. First, the LCC program automates the manual work to identify the large case population under the CIC program. Second, the LCC program draws from a nationwide pool of taxpayers, whereas the CIC involved localized analysis.³ The IRS believes that the LCC program will result in a “more objective determination of the taxpayers that should be part of the population” and “further improves LB&I’s ability to efficiently focus its resources on noncompliance.”⁴

The LCC program first applies algorithmic objective “pointing criteria” to all filed LB&I form 1120s to determine the LCC population.⁵ Pointing criteria include gross assets, gross receipts, operating entities, total foreign assets, total related transactions, foreign tax, and multiple industry status.⁶ The LCC program then uses data analytics to bucket corporations based on noncompliance risk, allowing the IRS to focus its audits on taxpayers with the highest risk of noncompliance.⁷ After computer programs identify returns presenting a degree of risk warranting examination under the LCC program, a case manager and relevant personnel will determine what issues exist on the returns, as well as whether and how to approach an LCC audit.⁸

LCC procedures will take effect beginning with the 2017 tax year. However, cases initiated under the CIC program will be completed and closed as CIC cases.⁹ While the IRS has implemented some LCC-specific guidance in the Internal Revenue Manual (IRM) already, it intends to update the provisions of the IRM describing CIC procedures and has instructed employees to treat all IRM references to the CIC program to also

¹ IRS News Release, IR-2019-95, *LB&I Announces Large Corporate Compliance Program* (May 16, 2019), available at <https://www.irs.gov/newsroom/lbi-announces-large-corporate-compliance-program> (last visited on June 24, 2019).

² *Id.* IRS Publication 5319, Rev. 2-2019, *FY 2019 Focus Guide*, available at https://www.irs.gov/pub/irs-utl/FY19_LBI_Focus_Guide.pdf (last visited on June 25, 2019).

³ IRS News Release, IR-2019-95, *LB&I Announces Large Corporate Compliance Program* (May 16, 2019), available at <https://www.irs.gov/newsroom/lbi-announces-large-corporate-compliance-program> (last visited on June 24, 2019); Internal Revenue Manual 4.50.2.2.2(2).

⁴ *Id.*

⁵ Amanda Athanasiou, *New U.S. Corporate Compliance Program Closer to Becoming Reality*, TAX NOTES (May 9, 2019) available at <https://www.taxnotes.com/tax-notes-today-federal/corporate-taxation/new-us-corporate-compliance-program-closer-becoming-reality/2019/05/10/29h14> (last visited on June 24, 2019); Internal Revenue Manual 4.50.2.2.2.

⁶ Internal Revenue Manual 4.50.2.5.

⁷ Athanasiou, *supra* at n.5.

⁸ Memorandum from Douglas O’Donnell, Commissioner, Large Business and International Division to Employees, (May 21, 2019), available at <https://www.irs.gov/pub/foia/ig/spder/lbi-04-0419-004.pdf> (last visited on June 25, 2019).

⁹ *Id.*

refer to the LCC program in the meantime.¹⁰ The IRS also noted that Revenue Procedure 94-69 (allowing for the avoidance of penalties through disclosure) will continue to apply to the CIC and LCC programs, although it is currently under review.¹¹

¹⁰ *Id.*

¹¹ *Id.*