



## IRS faulted on scrutiny of estate and gift tax returns

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Published September 28 2017, 5:09pm EDT

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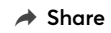
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The Internal Revenue Service needs to fix problems with its examination of estate and gift tax returns, according to a new report.

The [report](#), from the Treasury Inspector General for Tax Administration, uncovered problems in the classification, prioritization and inventory assignment processes for the IRS's Estate and Gift Tax Return Examination Program. TIGTA found the IRS's estate and gift tax examiners don't always follow the guidelines or timelines recommended in the documentation for estate and gift tax return examination cases. The impact of the program's compliance efforts is uncertain.

After taxpayers file tax returns with estate or gift transfers and the IRS processes them, the IRS selects some of them and assigns them for further examination if the filing requirements haven't been met or if it finds other issues. The IRS estimated that over \$1 billion of tax should be assessed for estate and gift tax returns that were examined and closed for fiscal year 2016.



Treasury Inspector General J. Russell George addressing a House subcommittee

Bloomberg News

Taxpayers can be treated inconsistently if estate and gift tax returns aren't properly assigned to IRS personnel or properly examined. TIGTA found minimal IRS operational guidance for estate and gift tax return examination case classification, prioritization and examination case inventory assignment processes. On top of that, TIGTA auditors found that some classification documentation sheets, when filled out by classifiers, are hard to read or are incomplete. Only one employee is responsible for prioritizing cases selected for examination during classification sessions and assigning them to the field for examination. The lack of documented managerial reviews over the processes presents risks. TIGTA also found that examination case documentation guidelines were not

followed in 18 of 38 randomly sampled estate tax examinations (that is, 47 percent), and in 17 of 37 randomly sampled gift tax examinations (or 46 percent).

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"Taxpayers must be treated fairly and consistently," said TIGTA Inspector General J. Russell George in a statement. "The IRS must effectively process, select, and assign estate and gift tax return cases for examination and identify the overall compliance impact of the program."

TIGTA made several recommendations in the report to improve the examination of estate and gift tax returns, including creating a more readable document for classifying cases. TIGTA also suggested the IRS revise the Internal Revenue Manual, strengthen its internal controls, and develop guidance on when it's OK to propose and issue inconsistent notices of tax return case deficiency in estate and gift tax examinations. IRS management agreed with all of TIGTA's recommendations and plans to take actions to fix them.

"The E&G Tax Program has a history of focusing on taking proper and timely case actions including the formation, last year, of a team to improve the quality standards of the cases," wrote Mary Beth Murphy, commissioner of the IRS's Small Business/Self-Employed Division, in response to the report. "That effort resulted in improvements in timeliness and case documentation."



### Michael Cohn

Michael Cohn, editor-in-chief of AccountingToday.com, has been covering business and technology for a variety of publications since 1985.



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