

## **Alert | Tax Controversy and Litigation**



**August 2025**

### **IRS Issues Interim Guidance to Improve Large Business & International Examination Process**

On July 23, 2025, the Internal Revenue Service (IRS or the Service)'s Large Business & International Division (LB&I) issued "Interim Guidance on Reinforcing the Customer Focused, High Efficiency LB&I Examination Process," which contains three modifications to existing IRS policies and procedures in large corporate cases. The stated purpose of the modifications is to create a more efficient and current examination posture that advances both taxpayer service and more effective tax administration. These modifications are largely effective Aug. 1, 2025, with additional changes being implemented in 2026.

This guidance comes on the heels of another recent **piece of guidance** for LB&I taxpayers implementing changes to the Pre-Filing Agreement (PFA) program to expand the use of PFAs in reaching early resolution. Together, these two pieces of guidance signal the Service's refocus on efficiency and resolving LB&I cases.

#### **1. Elimination of Acknowledgement of Facts Process With a Transition Period**

Under prior procedures, at the conclusion of an LB&I examination of an issue, the audit team issued an Acknowledgement of Facts Information Document Request, or AOF IDR. The purpose of the AOF IDR was to ensure that all relevant facts necessary to arrive at an accurate tax determination were identified and considered before the IRS issued Form 5701, Notice of Proposed Adjustment. For potentially unagreed issues, the issue team was required to solicit an AOF by attaching a draft Form 886-A, Explanation of Items, to the AOF IDR to request the taxpayer's concurrence with the facts as the IRS

presented. In response to the AOF IDR, taxpayers could acknowledge their agreement with the facts, state their disagreement with specific facts documented in the draft Form 886-A, or identify facts that were omitted.

When the AOF process was originally launched, the underlying theory was that by having an agreed and complete set of relevant facts in advance of proceeding to the IRS Independent Office of Appeals (Appeals), the Appeals process would proceed more smoothly and efficiently. Taxpayers and tax practitioners, however, often voiced frustration with the AOF process for being slow, difficult, and resource-intensive while adding little value to the overall process. In practice, it was often challenging to reach consensus on an agreed set of facts, resulting in either two separate sets of facts forwarded to Appeals, or a statement that the taxpayer and LB&I had been unable to agree on a set of facts.

Beginning Jan. 1, 2026, the AOF process will be eliminated. Between Aug. 1, 2025, and Dec. 31, 2025, LB&I will continue to offer the AOF process as an option for taxpayers currently under examination or for audits that begin during the transition period.

## **2. Applicability of Accelerated Issue Resolution to Large Corporate Compliance Cases**

Accelerated Issue Resolution (AIR) is an alternative dispute resolution (ADR) tool for Large Corporate Compliance (LCC) taxpayers seeking certainty on an issue in a current audit cycle, which continues into later, not yet examined tax years. The AIR process applies the resolution of that issue to all taxable years containing the issue, up to the most recently filed tax year. Certainty is achieved using an AIR agreement, a closing agreement between the IRS and the taxpayer that binds both parties to the agreed resolution. Revenue Procedure 94-67 governs the AIR process that was originally conceived for taxpayers' use in the Coordinated Examination Program. As that program no longer exists, the interim guidance clarifies that LCC taxpayers are eligible for AIR, as LCC is a successor program.

AIR agreements may be an effective tool for achieving currency and certainty on a thoroughly examined, resolved, and recurring issue by rolling forward the agreed resolution to later years.

## **3. Coordination of Fast Track Settlement Denials and Consideration of Applicable Laws**

Fast Track Settlement (FTS) is a voluntary mediation program that may help taxpayers resolve disputes more quickly than proceeding to traditional Appeals. In FTS, a specially trained Appeals mediator facilitates settlement discussions between the taxpayer and the examination team. FTS is generally available for all cases (although not all issues) within LB&I's jurisdiction. Acceptance into FTS requires LB&I's approval.

In February 2025, LB&I announced pilot program changes to FTS to facilitate broader use of the program. Under the pilot, LB&I's denial of an FTS application requires written concurrence from the director of field operations (DFO), a verbal explanation to the taxpayer, and a notification to the LB&I Fast Track mailbox. Under the Service's new interim guidance, all senior directors must apprise the LB&I deputy commissioner of a proposed FTS denial before informing the taxpayer. Additionally, if the FTS issue under consideration is owned by an issue manager different than the case manager, then the respective area DFOs must coordinate with each other regarding a proposed FTS denial before informing the taxpayer.

## A Word About Pre-Filing Agreements

As mentioned above, in June 2025, the Service issued new guidance expanding the PFA program and encouraging LB&I taxpayers to use the process. A PFA allows an LB&I taxpayer the opportunity to “volunteer” for an examination of an issue and the proposed position to be taken with respect to that issue on a tax return that has not yet been filed. If the taxpayer and LB&I can agree on the position, the parties enter into a PFA, which is a form of closing agreement, binding both the taxpayer and the government. Thus, a PFA may be a helpful tool for achieving early certainty on an issue, obviating the need for a financial reserve. In addition, a PFA may be used in conjunction with an AIR agreement to provide certainty on a large number of years containing the same issue. For more details on the PFA process, see Revenue Procedure 2016-30.

The IRS provides several tools for early resolution of tax issues, and taxpayers should consider whether any or all of them make sense for their specific tax situation.

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