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The Internal Revenue Service (IRS) needs to make improvements in the classification, prioritization, and inventory assignment processes for the Estate and Gift Tax Return Examination Program, according to an audit report from the Treasury Inspector General for Tax Administration (TIGTA).

TIGTA found that IRS estate and gift tax examiners do not always follow estate and gift tax return examination case documentation and timeframe guidelines and that the impact of the Estate and Gift Tax Program's compliance efforts is uncertain.

Federal estate tax is a tax on the right to transfer property at death. The Federal gift

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and closed for that fiscal year. TIGTA initiated this audit to determine whether the IRS in its Estate and Gift Tax Program is effectively processing and selecting estate and gift tax returns for examination and to determine the overall compliance impact of the program.

TIGTA's review found that there is minimal IRS operational guidance for estate and gift tax return examination case classification, prioritization, and examination case inventory assignment processes. In addition, TIGTA auditors found that some classification documentation sheets, when filled out by classifiers, are difficult to read or are incomplete; that only one employee is responsible for prioritizing cases selected for examination during classification sessions and assigning these cases to the field for examination; and that risks are present due to a lack of documented managerial reviews over the processes. TIGTA also found that examination case documentation guidelines were not followed in 18 (47 percent) of 38 randomly sampled estate tax examinations, and in 17 (46 percent) of 37 randomly sampled gift tax examinations.

"Taxpayers must be treated fairly and consistently," said J. Russell George, Treasury Inspector General for Tax Administration. "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," he added.

TIGTA made several recommendations to improve the examination of estate and gift tax returns, including the creation of a readable document for classifying cases; revisions to the IRM; strengthening of internal controls; and development of guidance on the circumstances in which it is advisable 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 corrective actions.

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