ALTERNATIVE CONFLICT RESOLUTION PROCEDURES IN THE FRAMEWORK OF THE EXPERIENCE OF THE US TAX CODE

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ALTERNATIVE CONFLICT RESOLUTION PROCEDURES IN THE FRAMEWORK OF THE EXPERIENCE OF THE US TAX CODE

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RESUMEN

Las relaciones tributarias existentes entre el contribuyente y la Administración Tributaria dentro del ordenamiento federal americano están asentadas sobre la base de las llamadas Alternative Dispute Resolution (en lo sucesivo ADR), las cuales constituyen un conjunto de procedimientos que buscan, no sólo dar rapidez y eficacia a las controversias de carácter tributario por medio de una resolución consensuada, sino además ofrecer al contribuyente la oportunidad de alcanzar un acuerdo deseable, así como reducir con ello la lentitud, complejidad y coste económico que supone optar por la vía judicial, a la que se podrá acceder en cualquier momento del procedimiento.

Palabras clave: procedimientos alternativos de resolución de conflictos tributarios; entrevista con el contribuyente; fase de mediación; fase de apelaciones; servicio del defensor del contribuyente.

Indicadores JEL: K23, K49.

ABSTRACT

Existing tax relations between the taxpayer and the Internal Revenue Service within American federal regulations are based on the so-called Alternative Dispute Resolutions (hereafter ADR), a set of procedures that seek not only to lend speed and efficiency to controversies of a fiscal nature by means of a resolution reached by consensus, but also to offer taxpayers the opportunity to reach a desirable agreement,

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and thereby reduce the slowness, complexity and economic cost involved in opting for legal action, to which access may be gained at any point in the proceedings.

**Keywords:** alternative procedures for resolution tax conflict; Interview with the taxpayer; Mediation Phase; Appeal phase; Taxpayer Advocate Service.

**JEL-codes:** K23, K49.

## 1. INTRODUCTION

The sketch we outline in the presentation contained in this section is designed to contemplate the application of the techniques through which taxpayers may reach an agreement with the *Internal Revenue Service* (hereafter IRS), an administrative agency that forms part of the *Department of Treasury*, the mission of which is to “*provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all*”.

## 2. INTERVIEW WITH THE TAXPAYER

With the aim of fulfilling the mission we mentioned above, the IRS begins the examination procedure by means of a prior selection of tax declarations that may contain incorrect quantities.

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2 This section has been drawn up on the basis of US taxation regulations, and the numerous documents the *Internal Revenue Service* offers taxpayers, which can be consulted on the website [http://www.irs.gov](http://www.irs.gov).

3 This mission specifically includes the margin of *Publication 1 SP* dedicated to *Your Rights as a Taxpayer*, in the first part of which some of the most important rights of the American taxpayer are gathered and explained, such as: I. Protection of Your Rights; II. Privacy and Confidentiality; III. Professional and Courteous Service; IV. Representation; V. Payment of Only the Correct Amount of Tax; VI. Help with Unresolved Tax Problems; VII. Appeals and Judicial Review; VIII. Relief From Certain Penalties and Interest. The second part of this publication explains the examinations, appeals, collections and refunds processes. *DEPARTMENT OF TREASURY. INTERNAL REVENUE SERVICE* (2005a): “Your Rights as a Taxpayer”, *Publication 1 SP*.

For ANDRÉS AUCEJO, from the reading of the Charter of the American Taxpayer’s Rights “one can discern the desire to achieve action agreed upon by consensus to resolve the conflicts that arise, seeking a climate of collaboration between taxpayers and the inland revenue service to this end with the aim of dissolving conflicts and not going as far as legal action whenever this can be avoided”. ANDRÉS AUCEJO, E. (2008). *La resolución alternativa de conflictos tributarios en Italia*. Madrid: IEF. Pág. 19.

4 *Publication 556* describes the regulations and procedures the IRS follows in examinations, the rights of appeal of taxpayers both in the IRS and in the Federal Court System, and how to present a claim for
This process of selection or identification of declarations may be carried out either through computer programmes, called *Discriminant Inventory Function System* (or designated by the acronym DIF), by virtue of which taxpayers are catalogued and graded in accordance with the information contained in declarations, studies of examinations performed in the past or in certain areas identified in taxation fulfilment projects; or the selection may be made using information extracted from external sources such as newspapers, individual or public registers, etc., wherein if it is ascertained that the information contained in these media is true and reliable, it may be used to select a declaration for examination.

After making the selection, and when the IRS has verified that the tax declaration contains incorrect quantities, the service will proceed either to send the taxpayer a letter in which, as well as indicating the reasons why the IRS considers the declaration should be altered, the taxpayer will be asked for additional information enabling them to collate or complete the information shown in the declaration; or, by contrast, the taxpayer will be informed that an examination of the declaration will be performed by means of a personal interview.

In reply to the request received by post, the taxpayer may choose to ask for a personal interview with the official in charge of the examination, or may answer it by post providing the IRS with the information required or giving an explanation. On the basis of this second option, the IRS may or may not agree with the taxpayer, and if it disagrees, must explain the reasons why the alteration should be made to the declaration.

If, by contrast, the taxpayer is informed that an examination is to be carried out by means of a personal interview, or if as we saw in the previous paragraph, it is the taxpayer who requests said interview, he or she will have the right to ask that the interview be held in a place and at a time convenient for both parties, and as a result examinations not carried out by post may take place in the home or the workplace of the taxpayer, in the office of the latter’s attorney, accountant or agent, or in an IRS office.
During the examination, taxpayers may represent themselves, or may have the right to a representative\(^5\) or any other person(s) to support their position, as long as these persons are qualified to practice before the IRS, such as for example an attorney, a certified public accountant, or a person enrolled to practice before the IRS. Moreover, taxpayers may “make sound recordings of any meetings with our examination, appeal or collection personnel”\(^6\), but in order to implement this, will have to notify the IRS in writing at least ten days before the date of the meeting.

If, after carrying out the examination, the inspector proposes alterations to the taxpayer’s tax declaration, in justified fashion, the latter may agree with said alterations, in which case he or she will sign the agreement and proceed to pay the additional tax that may be owed, plus the interest for delay.

However, in the event that the taxpayer does not agree with some or all of the determinations proposed by the IRS, he or she may explain his or her position to the supervisor of the person who issued the determination, requesting either a meeting, if the examination was performed in an IRS office; or a telephone conference, if the examination did not take place in an IRS office, but in the home or workplace of the taxpayer, or in the office of his or her attorney, accountant or agent.

If, during this meeting held with the supervisor, both parties reach an agreement, the case will be closed. But if the taxpayer still disagrees with the determinations proposed by the IRS after the meeting or talk with the supervisor, the case will be written up explaining the taxpayer’s position and the IRS’ position.

\(^5\) Representation constitutes a right of the taxpayer included in the Declaration of Taxpayer Rights, specifically in section IV, where under the title of Representation this particular right is included by indicating that “you may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent”. DEPARTMENT OF TREASURY. INTERNAL REVENUE SERVICE (2005a): “Your Rights as…”. op. cit.

We should point out that if the taxpayer wishes his or her representative to represent him or her without being present, he or she must provide the IRS with a duly completed power of attorney before the representative may receive or inspect confidential information. This power of attorney will be filed by means of Form 2448 entitled Power of Attorney and Declaration of Representative, or any other properly written power of attorney or an authorization for this purpose. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns…”. op. cit.

A few weeks after the interview with the examiner from the reviews area or the meeting with said examiner’s supervisor, a letter known as a 30-day letter will be delivered to the taxpayer’s home containing the notification of his or her right to appeal the changes proposed by the IRS within the thirty days after receipt of this letter, along with a copy of the examination report explaining the examiner’s proposed changes, an agreement or waiver form and a copy of Publication 5 which, under the title of “Your Appeal Rights and How to Prepare a Protest If You Don’t Agree”, sums up the multiple rights to appeal taxpayers have, and the different opportunities they have for resolving their differences when they do not agree with an action of the IRS.

After receiving the 30-day letter, in general a triple channel is opened up to taxpayers, enabling them to choose one of the following options:

Firstly, within the period of thirty days from receipt of the letter, taxpayers may inform the IRS that they agree with the changes proposed by returning the agreement form signed by the taxpayer, and proceeding to pay the amount owed plus interest for delay. We should mention, albeit summarily, that in the event that taxpayers are unable to pay the total amount owed, they may request payment by monthly instalments from the IRS. This request must be approved by the IRS. However, the IRS recommends taxpayers consider “less costly alternatives, such as a bank loan”.

The second procedure taxpayers may choose is to notify the IRS within the period of thirty days from receipt of the letter that they are going to exert their right to appeal the case before the IRS’ Appeal Office.

And finally, taxpayers can simply do nothing, so that if they fail to reply to the 30-day letter with one of the solutions expounded, or fail to reach an agreement with the Appeal Office later on, the IRS will send another letter to them, known as a notice of deficiency, or 90-day letter, by virtue of which taxpayers are granted a period of ninety

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7 A letter that would be comparable, in our own tax code, to the proposal of liquidation contained in an “acta con acuerdo”, a settlement document.
days from the date of receipt, or 150 days if the notice is addressed to them outside the United States, to file a petition for review by the United States Tax Court.

3. MEDIATION PHASE

If an agreement is not reached during the administrative negotiations phase, the taxpayer may submit the matter to a third party who will act as mediator and who, through independent and impartial intervention, will help find a solution for the large number of conflicts that arise, or may arise, as a consequence of an inspection or audit, an offer in compromise, trust fund recovery penalties, or other collection actions, as long as the latter are not issues for which there is no legal precedent, where courts have rendered opposing or different decisions in different jurisdictions, Industrial Specialization Program issues or constitutional issues.

This is what is known as Fast Track Mediation (hereafter FTM) in the US tax code, regulated in Publication 3605\textsuperscript{10} with the main goal of helping taxpayers resolve any disputes that have arisen with the IRS, and therefore, for this purpose, the mediator will be in charge of facilitating communication between the taxpayer and the IRS, working with both parties to gather all the necessary information, including the issues involved and the positions of the parties, in order to understand the nature of the dispute so as to try and solve it.

This FTM procedure is initiated at the request of the taxpayer who, on disagreeing with some or all of the audit findings, will request a conference with the supervisor of the person who issued the findings. If, after this conference, an agreement is not reached, both parties sign a form called an Agreement to Mediate, by virtue of which the case will be assigned to an Appeals Officer trained in mediation techniques.

Within a week of signing the agreement to mediate, the assigned mediator will contact the taxpayer to provide a brief explanation of the process to be followed. Generally speaking, it is during this first contact that the date and time for holding the meeting or mediation session is established.

Needless to say, for the mediation session to succeed, those who have the authority to make a decision must be present, that is to say, both the competent representative of the IRS and the taxpayer must attend the session. The latter may represent him or herself or someone else can act as their representative, as long as that person has the proper authorization or power of attorney to act on behalf of the taxpayer and to receive the latter’s confidential information\(^{11}\).

With the aim of helping both parties reach a mutually satisfactory resolution that is consistent with the applicable law, the mediator may conduct both separate discussions with each of the parties and joint discussions with the taxpayer and the IRS representative. The taxpayer may withdraw from the mediation process at any time, and if any issues remain unresolved, will retain all the usual appeal rights intact\(^{12}\).

To conclude, we should emphasise that the advantages offered by FTM include the fact that this is a prompt conflict resolution process, with the presence of a mediator trained to this end, who never imposes a solution on the parties, but rather reaches a consensus in a place that is neutral for both. Other than that indicated above, there will be no need to complete any documentation to request this FTM, as occurs in the consultation process, as we will have the opportunity to see below.

4. APPEAL PHASE

In the Declaration of Taxpayer Rights, which we have already mentioned, and more specifically in its section VII, entitled Appeals and Judicial Review, the taxpayer’s right to make appeals is reflected, as it explicitly indicates that “if you disagree with us about the amount of your tax liability or certain collection actions, you have the right to ask the Appeals Office to review your case”\(^{13}\).

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\(^{11}\) We should remember that for this purpose, Form 2848, Power of Attorney and Declaration of Representative must be used. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2002): “Fast Track Mediation”. op. cit. Likewise, DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns...”. op. cit.

\(^{12}\) As is stated in DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights...”. op. cit.

\(^{13}\) DEPARTMENT OF TREASURY. INTERNAL REVENUE SERVICE (2005b): “Your Rights as...”. op. cit.
This right to appeal is developed in the IRS’ Publication 5 - also mentioned above – which, under the title of Your Appeal Rights and How To Prepare a Protest If You Don’t Agree, lists the indications on how taxpayers can appeal most\footnote{We make this distinction because even though a taxpayer may not agree, the Appeals Office will not consider reasons that do not fall within the scope of the tax laws, and to this end gives as an example moral, religious, political, constitutional, conscientious or similar grounds. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights…” \textit{op. cit.}} of their tax cases before the Local Appeals Office, if they disagree with the findings or changes made by the IRS review officer, because as said publication indicates, the Appeals Office can settle “\textit{most differences within this system without expensive and time-consuming court trials}”\footnote{DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights…” \textit{op. cit.}}

This appeals or review procedure begins by the taxpayer dissatisfied with the changes made to his or her tax declaration sending an application requesting an appeals conference with Appeals Office personnel to review the case. This request may also be accompanied by either a \textit{Small Case Request}\footnote{To request a \textit{Small Case Request}, the taxpayer must send a letter requesting appeals consideration, indicating the changes he or she does not agree with and the reasons why he or she does not agree. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns…” \textit{op. cit.}} if the total amount for any tax period is not more than twenty-five thousand US dollars ($25,000), or a formal written protest\footnote{Taxpayers must file a written protest in all cases related to employee plans and exempt organisations, partnership and S corporation cases and in all other cases the taxpayer does not consider \textit{Small Case Requests}. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns…” \textit{op. cit.}} which must include:

- the name and surname(s) of the taxpayer, and a contact telephone number,
- a statement that the taxpayer wants to appeal the IRS findings to the Appeals Office,
- a copy of the letter showing the changes proposed by the IRS that the taxpayer does not agree with,
- the facts supporting the taxpayer’s position and law or authority on which the taxpayer is relying, and
- the signature of the taxpayer on the written protest, stating that it is true, under the penalties of perjury as follows: “\textit{under the penalties of perjury, I declare...}”
that I examined the facts stated in this protest, including any accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete”\textsuperscript{18}.

After receiving the request, the \textit{Appeals Office} personnel will arrange a conference with the taxpayer at a convenient time and place for both parties to discuss all disputed issues, and try to reach an agreement on some or all of the findings of the examination that gave rise to the disagreement.

These conferences with the \textit{Appeals Office} personnel are usually conducted informally, as said encounter can take place either through correspondence, by telephone or a meeting in person; in principle the taxpayer does not have to be accompanied by a representative in these meetings, since as we pointed out above on mentioning the interview with the taxpayer, the latter is entitled to represent him or herself during the appeals conference. Nevertheless, and as we saw earlier, if taxpayers so desire they may be accompanied by a representative or any other person(s) supporting their position, as long as these persons are qualified to practice before the IRS, this requisite being fulfilled by an attorney, a certified public accountant or an individual enrolled to practice before the IRS\textsuperscript{19}.

In this regard we should also specify that it is important when requesting an appeals conference that both the taxpayer and the representative provide the \textit{Appeals Office} with as much information as they can, as this will help speed up the appeal, which will in turn consequently save the taxpayer both time and money.

\textsuperscript{18} However, if it is the representative who prepares and signs the protest, the text indicated \textit{ut supra} must be replaced by a declaration stating that he or she submitted the protest and accompanying documents, and extending the statement to whether or not he or she knows personally that the facts stated in the protest and accompanying documents are true and correct. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights...”. op. cit.

\textsuperscript{19} Representation is a taxpayer’s right included in the Declaration of Taxpayer Rights, specifically in section IV which, under the title of Representation, includes this particular right, indicating that “you may either represent yourself or, with proper written authorization, have someone else represent you in your place. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent”. DEPARTMENT OF TREASURY. INTERNAL REVENUE SERVICE (2005a): “Your Rights as...”. op. cit.

We should point out that if the taxpayer wishes the representative to represent him or her without being present, he or she must provide the IRS with a duly completed power of attorney before the representative may receive or inspect confidential information. This power of attorney will be filed by means of Form 2448 entitled Power of Attorney and Declaration of Representative, or any other properly written power of attorney or an authorization for this purpose. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns...”. op. cit.
By virtue of the statements made hitherto, we may gather that we are faced with an administrative office dependent on the IRS destined to receive the appeals made by taxpayers when they do not agree with the findings of the former; nevertheless, in spite of being inserted within the same administrative organ, the Appeals Office is a totally independent and separate office from the IRS office that made the decision the taxpayer disagrees with\(^{20}\).

Finally, it is important to remember that if the taxpayer and the Appeals Office do not reach an agreement on some or all of the issues after the appeals conference, or if by contrast, the taxpayer does not wish to appeal the case, as long as certain procedural and jurisdictional requisites\(^{21}\) are satisfied he or she may take the case to the United States Tax Court, the United States Court of Federal Claims, or the United States District Court, all of which are independent judicial bodies and have no connection with the IRS.

5. TAXPAYER ADVOCATE SERVICE

The Taxpayer Advocate Service\(^ {22}\) (hereafter TAS) is constituted under the direction of the National Taxpayer Advocate, as an independent organization within the IRS, there being at least one Local Taxpayer Advocate in every state, with its own office or, failing this, working through the Problem Resolution Offices of the IRS.

This independence of the TAS with regard to the IRS is made clear on two levels: firstly, by demanding by law that every TAS office ensures and maintains independent means of communications from other IRS offices, so that each office will

\(^{20}\) This is explained in Publication 5 when it specifically points out that “the Appeals Office is separate from –and independent of – the IRS Office taking the action you disagree with”. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights...”. op. cit. This assertion is also echoed by the DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns...”. op. cit.

\(^{21}\) Both the functioning of the different Courts, their competences and the different procedural and jurisdictional requisites can be consulted in DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2005b): “Your Appeal Rights...”. op. cit.; or in DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008a): “Examination of Returns...”. op. cit.

\(^{22}\) DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008b). “Taxpayer Advocate Service”. Publication 1546. For more up-to-date information on this service, you may consult the website of the Taxpayer Advocate Service in the IRS portal, specifically at http://www.irs.gov/advocate.
have a separate telephone, fax and postal address from the IRS; but secondly, the obligation to observe discretion and not reveal any of the information the taxpayer has given it to the IRS, or even inform the IRS that the taxpayer has contacted them.

Amongst the functions assumed by the TAS we find those of satisfying the needs of taxpayers, whether they are individuals or legal entities, and of helping them to solve any problems they have with the IRS for free; functions it will fulfil as follows:

- by processing the problems of taxpayers not resolved through normal IRS channels immediately and impartially;
- by identifying and presenting to the IRS any issues that affect taxpayers’ rights, increase the tax burden or create problems for taxpayers; or
- by recommending administrative and legislative changes to Congress through the National Taxpayer Advocate’s Annual Report.

The TAS help procedure begins in cases in which taxpayers have tried to resolve a problem with the IRS and are still experiencing a delay of more than 30 days in resolving their tax issue, if taxpayers have not received a reply by the promised date or are experiencing financial difficulty, caused by the IRS, to the extent that this prevents them from satisfying needs such as housing, transport or food. In these cases, taxpayers may request help from the TAS, as this organization is designed to be “your voice at the IRS”.23

Taxpayers can make their application either by telephone, or by presenting form 911, a “Request for Taxpayer Advocate Service Assistance”24, by fax or post to one of the Local Taxpayer Advocate offices closest to their home, providing the following information:

- name, address, social security number or IRS employee identification number,

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23 Specifically, on the first page of Publication 1546 we can read the slogan “YOUR VOICE AT THE IRS” textually and in capital letters. DEPARTMENT OF TREASURY. INTERNATIONAL REVENUE SERVICE (2008b): “Taxpayer Advocate Service”. op. cit.

- telephone number of the taxpayer, and an indication of what time is best for contacting him or her,
- type of tax declaration and tax period involved, and
- description of the problem, prior solutions chosen and if known, the office or offices the taxpayer communicated with.

After receiving form 911, the taxpayer will be assigned a Taxpayer Advocate who will listen to his or her point of view and work alongside him or her impartially and independently to satisfy his or her worries, and follow the case until it is concluded, by offering periods of time for making decisions, providing information on its progress and advising the taxpayer on how to avoid future tax problems.

To finish this section, we feel it is necessary to reproduce the words expressed by the National Taxpayer Advocate, for whom “the TAS employee’s job is not done when he or she closes out a particular case”, as “Taxpayer Advocate Service employees have, as part of their statutory job description, the responsibility to think systematically about that case.”

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- (2005a). “Your Rights as a Taxpayer”. Publication 1 SP.