

This is Google's [cache](http://www.irs.gov/tax_regs/rra-3412.html) of http://www.irs.gov/tax_regs/rra-3412.html.

Google's cache is the snapshot that we took of the page as we crawled the web.

The page may have changed since that time. Click here for the [current page](#) without highlighting.

Google is not affiliated with the authors of this page nor responsible for its content.

Tax Regs in Plain English

IRS Restructuring and Reform Act of 1998

3412 - Limitation on Financial Status Audit Techniques

[\[Click for Text Only Version \]](#)

Section 3412

A. Provision covered: Section 3412 Limitation on Financial Status Audit Techniques;
(Code § 7602(d))

Section 7602 (relating to examination of books and witnesses) is amended to prohibit use of financial status or economic reality examination techniques to determine the existence of unreported income of any taxpayer unless the Secretary has an indication that there is a likelihood of such unreported income."

B. Background: Under prior law, the Service was authorized to use any reasonable method to determine the amount of federal income tax owed, including the use of financial status and economic reality examination techniques even where there is no indication that all income was not properly reported. Congress believes that financial status and economic reality audit techniques are intrusive, and that use of these techniques should be limited to situations where the Service has a reasonable indication that there is a likelihood of unreported income.

C. Changes: The bill creates a new provision which prohibits the Service from using financial status and economic reality examination techniques to determine the existence of unreported income unless the Service has a reasonable indication that there is a likelihood of unreported income.

D. Impact: The provision will have the most impact on revenue agents. The provision will prohibit the Service from conducting financial status and economic reality audits unless it has a reasonable indication that there is a likelihood of unreported income.

E. Necessary Actions

1. Provide written guidance to explain the circumstances under which financial status and economic reality audits may be conducted. Internal Revenue Manual should be revised to reflect this new provision. Prepare regulations which would, among other things, define when the Service has a "reasonable indication that there is a likelihood of unreported income."
2. Instruct revenue agents and Chief Counsel attorneys on scope and applicability of new provision.

F. Other Special Comments

This provision is likely to generate controversies during audits with taxpayers who question whether the IRS has a reasonable indication of unreported income that would authorize a financial status type audit. Implementation and interpretation of this provision will require close coordination between General Litigation and Field Service Divisions in case development where such controversies arise.

[Questions and Answers](#)

[Tax Stats](#) | [Tax Info For You](#) | [Tax Info For Business](#) | [Electronic Services](#)
[Taxpayer Help & Ed](#) | [Tax Regs In English](#) | [IRS Newsstand](#) | [Forms & Pubs](#)
[What's Hot](#) | [Meet The Commissioner](#) | [Comments & Help](#) | [Site Tree](#)

[Previous]

{Next}

[Home]

[Search]

[Help!]

[Email]

Thursday, 17-Feb-2000 12:32:19 EST