

HAVE YOU SEEN CLIFFSNOTES FOR THE IRS? KNOW WHAT TO EXPECT DURING YOUR NEXT AUDIT

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Readers of a certain age may remember *CliffsNotes*, a lifeline for students who may not have read every book for English class. CliffsNotes were marketed as a study aid for students struggling with *Macbeth*, *War & Peace*, or *a Tale of Two Cities*. Occasionally, students would rely on the yellow-and-black books as salvation while studying for an English test.^{1,2}

Did you know the IRS publishes its own version of CliffsNotes?

One hidden gem on the IRS website – and yes, there are quite a few – is the [IRS' Practice Units](#) from the Large Business & International ("LB&I") group. These Practice Units (CliffsNotes for the IRS) complement the IRS' Internal Revenue Manuals, serving as both job aids and training materials for IRS auditors. For many tax issues, Practice Units serve as an overlooked roadmap for IRS audits.

KBKG SERVICES

- Research & Development Tax Credit
- Cost Segregation
- Repair vs. Capitalization Review
- Fixed Asset Review
- 45L Credits for Energy Efficient Residential Developments
- 179D Incentive for Energy Efficient Commercial Buildings
- Transfer Pricing
- IC-DISC
- Employee Retention Tax Credits

By reviewing Practice Units, taxpayers and advisors have a tool for anticipating IRS' audit techniques for expensive tax issues. For example:

- What issues should be explored during an audit?
- What information should be requested from a company?
- What code sections are relevant?
- How should data be analyzed?
- What questions should be asked during audit interviews?

While the IRS emphasizes that Practice Units are not official pronouncements of law, the roadmaps can reduce the number of surprises once an issue is raised during an audit. Companies should consider reviewing Practice Units as an additional resource to identify potential tax audit risks for tax planning purposes.

What issues are covered?

The IRS has published over 240 Practice Units since 2014. Many international tax issues are Practice Units considering the large dollars at stake and complexity of multinational company tax issues. However, Practice Units also include S-Corps (partnership interest), 263A (inventory and capitalized costs), and Research and Development Tax Credits.³

These pdf documents are not for the faint of heart, and many may find the documents as complicated as reading Moby Dick. That being said, the Practice Unit for High-Value Services charged to US subsidiaries is indicative of the strategies employed by the IRS.⁴ For example:

- Issue introduction – How do companies shift profits through high-value cross-border services charges?
- Summary of issues and tax return disclosures to review
- Audit Process Overview – including how taxable income should be adjusted
- Relevant Internal Revenue Manuals⁵
- Indexes of resources, including code sections and related training guides



What about those IRS CliffsNotes?

Unlike CliffsNotes for Literature, Practice Units are free and readily available for the next IRS audit. While Practice Units do not limit an auditor in examining issues, these readily available documents provide the insider's guide to tax audits. With these study guides, companies are better placed to pass the next tax audit test.

To learn more about how [Alex](#) utilizes Practice Units and many other time-tested strategies for defending [transfer pricing](#) issues, [schedule a meeting with him here](#).

Sources

¹ [CliffsNotes](#) debuted in 1958, apparently still thriving in the internet age.

² The author wishes to emphasize that he read every required book for his English classes, most of the time.

³ <https://www.irs.gov/businesses/corporations/practice-units>

⁴ https://www.irs.gov/pub/int_practice_units/isi_t_06_05_02.pdf

⁵ <https://www.irs.gov/irm>

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Alex Martin is Principal and [Transfer Pricing](#) Practice leader at KBKG, operating from Michigan. He has 24 years of full-time transfer pricing experience working in Washington, D.C.; Melbourne, Australia; and Detroit, Michigan over the course of his career. Alex has assisted companies in many industries addressing transfer pricing issues on a US and global basis. [» Full Bio](#)