Announcement and Report Concerning Pre-Filing Agreements

Announcement 2004–59

Introduction

This Announcement is issued pursuant to the Conference Report to H.R. 4577 (Pub. L. 106–554), *The Community Renewal Tax Relief Act of 2000*, which requires that the Secretary of the Treasury make publicly available an annual report relating to the Pre-Filing Agreement ("PFA") program operations for the preceding calendar year. The Conference Report states that the report is to include: (1) the number of pre-filing agreements completed, (2) the number of applications received, (3) the number of applications withdrawn, (4) the types of issues which are resolved by completed agreements, (5) whether the program is being utilized by taxpayers who were previously subject to audit, (6) the average length of time required to complete an agreement, (7) the number, if any, and subject of technical advice and Chief Counsel advice memoranda issued to address issues arising in connection with any pre-filing agreement, (8) any model agreements, and (9) any other information the Secretary deems appropriate. This is the fourth annual report. It provides information concerning activity under the permanent PFA program (Rev. Proc. 2001–22, 2001–1 C.B. 745), during calendar year 2003.

Background

The Large and Mid-Size Business Division ("LMSB") within the Internal Revenue Service serves corporations and partnerships with assets greater than $10 million. In 2003, approximately 150,000 corporations and partnerships filed returns reporting assets in this range. The returns filed by these taxpayers present a wide variety of complex issues. The largest of these taxpayers deal with the IRS on a continuous basis.

One of LMSB's strategic initiatives is issue management. Through effective issue management, LMSB seeks to resolve issues of tax controversy on a more current basis. This includes, but is not limited to, increasing the efficiency of the examination process and seeking alternative issue resolution tools. The Pre-Filing Agreement program was designed to support LMSB's issue management strategy. LMSB believes the Pre-Filing Agreement program reduces taxpayer burden and makes more effective use of IRS resources by resolving or eliminating tax controversy before the tax return is filed.

The PFA program is designed to permit a taxpayer to resolve, before the filing of a return, the treatment of an issue that otherwise would likely be disputed in a post-filing examination. The PFA program is intended to produce agreement on factual issues and apply settled legal principles to those facts. A PFA is a specific matter closing agreement under § 7121 of the Internal Revenue Code and resolves the subject of the PFA for a specified taxable period. Execution of a PFA that resolves issues prior to filing permits taxpayers to avoid costs, burdens and delays that are frequently incident to post-filing examination disputes between taxpayers and the IRS.

PFA Program

As a result of the success of a pilot program, the IRS established a permanent PFA Program with the issuance of Rev. Proc. 2001–22. Although many of the procedures remained the same, there were some significant changes, including:

1. All taxpayers, both Coordinated Issue and Industry cases, within the jurisdiction of LMSB are eligible to participate;
2. More issues are considered appropriate;
3. There are fewer excludible circumstances;
4. Certain international issues are now considered appropriate; and
5. A user fee was implemented for those taxpayers accepted into the program.

PFA Process

The PFA process is managed and conducted by LMSB Industry Directors and field staff, with support from the Office of Pre-Filing and Technical Guidance in LMSB Headquarters. The PFA Program Manager receives all applications and, with the assistance of the Technical Advisors and the Office of Chief Counsel, ensures that the issues presented are appropriate for inclusion in the PFA program.

The Industry Director with jurisdiction over the taxpayer makes the final decision whether to accept a taxpayer's request for participation in the PFA program. The criteria for selecting a request include:

a. The suitability of the issue presented by the taxpayer;

b. The direct or indirect impact of a PFA upon other years, issues, taxpayers, or related cases;

c. The availability of IRS resources;

d. The ability and willingness of the taxpayer to dedicate sufficient resources to the process;

e. The likelihood that the PFA may result in contrary positions with respect to an item or transaction ("whipsaw"); and

f. The probability of completing the examination of the issue and entering into a PFA by the target date.

For the cases selected, a mandatory orientation session for the examination team and the taxpayer is conducted. Subsequently, the taxpayer and examination team convene a joint planning meeting to reach agreement on a proposed timeframe, to identify and arrange for IRS access to relevant records and testimony, and to define the potential scope and nature of the PFA.

The examination team conducts the factual determination and issue development consistent with IRS auditing standards. Based upon an examination of the issue, the Team Manager prepares a PFA recommendation for the Industry Director. The Industry Director's decision to execute a PFA Closing Agreement is based on the

Team Manager's recommendation and discussions with the PFA Program Manager, Chief Counsel attorneys, appropriate Technical Advisors and the taxpayer. Following Chief Counsel review to ensure that the proposed PFA conforms with guidance provided in Rev. Proc. 68–16 (regarding closing agreements), the Industry Director could execute a PFA if he or she determines that:

a. Entering into the PFA is consistent with the goals of the PFA program as stated in Rev. Proc. 2001–22;

b. The resolution in the PFA reflects settled legal principles and correctly applies those principles (or positions authorized under Delegation Order Nos. 4–24 or 4–25) to facts found by the examination team; and

c. There appears to be an advantage in having the issue(s) permanently and conclusively closed for the taxable period covered by the PFA, or that the taxpayer shows good and sufficient reasons for desiring a closing agreement and that the United States would sustain no disadvantage through consummation of such an agreement (see § 301.7121–1(a) of the Procedure and Administration Regulations).

Program Oversight

A designated PFA Program Manager assigned to the Office of Pre-Filing and Technical Guidance in LMSB Headquarters provides oversight for the PFA program. The PFA Program Manager provides assistance to taxpayers, Industry Directors and Team Managers throughout the process.

Pre-Filing Agreement Program Accomplishments

Statistical Overview of PFA Program — Calendar Year 2003

The table below reflects activity concerning those PFA requests which were received in calendar year 2002 or prior and carried over into calendar year 2003.

Overview of PFA Applications Received Prior to Calendar Year 2003	**Totals**
Applications Pending Acceptance/Rejection on January 1, 2003	3
Applications In-Process on January 1, 2003	20
Applications Rejected in 2003	0
Applications Withdrawn in 2003	6
Applications for Which There Were Closing Agreements in 2003	9
Applications Pending Acceptance/Rejection on December 31, 2003	0
Applications In-Process on December 31, 2003	8

The table below reflects the status of PFA requests received in calendar year 2003.

Overview of PFA Applications Received in Calendar Year 2003	**Totals**
Applications Received in 2003	42
Applications Accepted in 2003	29
Applications Rejected in 2003	5
Applications Withdrawn before Acceptance/Rejection in 2003	1
Applications Withdrawn after Acceptance in 2003	1
Applications for Which There Were Closing Agreements in 2003	9
Applications Pending Acceptance/Rejection on December 31, 2003	7
Applications in-Process on December 31, 2003	19

Description of Applications Received in Calendar Year 2003

The 42 applications that were received for the PFA program in calendar year 2003 came from taxpayers in each LMSB industry segment and involved a variety of issues as provided in the tables below.

Number of Requests Received and Accepted by Industry Segment

Industry Segment	***Received***	***Accepted***
Financial Services (FS)	4	2
Retailers, Food, Pharmaceuticals & Healthcare (RFP&H)	13	10
Natural Resources & Construction (NR&C)	6	3
Communications, Technology & Media (CT&M)	10	7
Heavy Manufacturing & Transportation (HM&T)	9	7
Total	42	29

Types of Issues Received

Issue	**Received**
Utilization of Net Operating Loss	2
Fair Market Value of Donated Intangibles	6
Gain or Loss on Sale of Stock	1
Research and Experimental Credit	10
Automatic Waiver of Reconsolidation	1
Corporate Restructuring	1
Sale of Assets — Ordinary vs. Capital Loss	2
Worthless Securities and Bad Debts	5
Start-up Costs and Operating Expenses	1
Inventory Write Down	1
Real Property Contribution	2
Method of Accounting for Delay Rental Payments — Capital vs. Expense	1
Fair Market Value of Stock Contributed to Pension Plan	1
Asset Class Life	1
Conversion of C Corp to S Corp — Fair Market Value of Stock	1
Synthetic Fuel Credit	1
Computation of Original Issue Discount	1
Sale vs. Lease Treatment	1
Section 481 Adjustment — Change in Method of Accounting	1
Transfer Pricing — Allocation to Home Office	1
Fair Market Value of Shares Exchanged	1
Total	42

Reasons Why Applications Received in Calendar Year 2003 Were Not Accepted

Five of the applications received in 2003 were not considered appropriate for the PFA program.

Reasons for Non-acceptance	Applications
Not Well-Settled Law	3
Interrelated Transactions	1
Issue Not Suitable or Ineligible	1
Total	5

Taxpayer Withdrawals (4)

In accordance with procedures set forth in Section 8 of Rev. Proc. 2001–22, 4 taxpayers withdrew from the PFA process — three after their requests had been accepted and one prior to acceptance. Due to tax legislation enacted in 2003 regarding dividends, one taxpayer withdrew its PFA request regarding a conversion from a C corporation to a partnership. Another case concerning the fair market value of a qualified conservation contribution was withdrawn because the taxpayer could not reach an agreement as to fair market value. In another case, regarding the accounting method to be used for qualified research expenses, the taxpayer could not reach an agreement regarding the appropriate project accounting methodology to be used. In another case, concerning the research and experimental credit, after an initial informal meeting with the examination team, the taxpayer determined that its facts were not appropriate and withdrew its PFA request before the Industry Director made a decision to accept the request.

IRS Withdrawal (2)

The Service withdrew from the PFA process in two cases. In one case, the existence of an open regulations project within the Office of Chief Counsel relating to IRC § 4271 indicated that the legal issue to be addressed by the PFA was not well settled. In another case, the taxpayer and the Service could not agree to the facts regarding products held for sale that were subject to excise taxes.

Mutual Withdrawal (2)

The Service and the taxpayer mutually agreed to terminate the PFA process in 2 cases. In the first instance, the taxpayer and the Service were unable to agree on the methodology for computing the net operating loss carryover relating to stock acquisitions. In the other case, the taxpayer and the Service were unable to reach an agreement regarding the fair market value of contributed patents and intellectual property.

PFAs Executed (18)

Eighteen PFAs were completed in calendar year 2003, resulting in the execution of closing agreements.

The Office of Chief Counsel provided advice to the examination teams and assisted in the drafting and review of the PFA closing agreements. No Technical Advice or Chief Counsel Advice Memoranda were issued for issues addressed in the PFA process. The executed PFAs involved the following issues:

PFAs Executed by Issue

Year Application Received	Issue	Number
2001	Fair Market Value of Assets for Purposes of determining Built-in Gain	1
2002 2003	Fair Market Value of Donated Intangibles	1 2
2002 2003	Amount of Qualified Research Expenditure and Credit	2 1
2002	Fair Market Value of Assets Exchanged for Stock in a Tax-Free Exchange Pursuant to a Plan of Reorganization	2
2002	Deductibility of Fees Incurred in connection with a Reorganization	1
2002	Bad Debt Deduction for Intercompany Advances	1
2002	Abandonment Losses	1
2003	Utilization of Net Operating Loss	2
2003	Gain or Loss on Sale of Stock	1
2003	Start-up costs and Operating Expenses	1
2003	Worthless Securities and Bad Debts	1
2003	Fair Market Value of Stock Contributed to Pension Plan	1
	Total	18

Fair Market Value of Assets for Purposes of Determining Built-in Gain

The taxpayer requested a factual determination regarding the fair market value of the taxpayer's assets for purposes of computing built-in gain pursuant to IRC § 1374. Prior to the taxpayer's election to be treated as a small business corporation under IRC § 1362, the taxpayer was taxed as a C corporation. IRC § 1374 imposes a tax on an S corporation that has a net recognized built-in gain during the recognition period. A closing agreement was executed specifying the fair market value of the property identified in the agreement.

Donation of Intangibles (3)

In each of these unrelated cases, the taxpayers sought an agreement as to the fair market value of certain patented technology donated to qualified organizations. In each of the cases, a closing agreement was executed specifying the fair market value of the property contributed.

Amount of Qualified Research Expenditure and Credit (3)

Three taxpayers requested an agreement regarding the proper amount, if any, of qualified research expenses and the research credit under IRC § 41 as well as the amount of experimental expenditures under IRC § 174. Closing agreements were executed with all three taxpayers. The closing agreements did not address the methodology to be used for subsequent years.

Fair Market Value of Assets Exchanged for Stock in a Tax-Free Exchange (2)

The taxpayer requested agreements concerning two separate transactions intended to qualify as tax-free transfers of assets and stock under IRC § 351. A closing agreement was executed for each transaction that specified the taxable status of each transfer and the fair market value of the transferred stock and assets.

Deductibility of Fees Incurred in connection with a Reorganization

The taxpayer requested an agreement regarding the tax treatment of fees and other expenditures incurred in connection with the following transactions: (1) an acquisition of stock in a reverse triangular merger; (2) an acquisition of separately acquired businesses for cash; and (3) a disposition of a portion of the acquired businesses in response to antitrust concerns. A closing agreement was executed specifying the nature and treatment of the fees and expenditures and whether such costs were currently deductible under IRC § 162, amortizable under IRC § 195 or capitalized under IRC § 263.

Bad Debt Deduction for Intercompany Advances

The taxpayer requested an agreement concerning whether certain advances made to the taxpayer's wholly owned foreign subsidiary and treated as loans were worthless during the taxable year. A closing agreement was executed specifying the amount of *bona fide* indebtedness and the amount considered a bad debt and allowable under IRC § 166.

Abandonment Losses

The taxpayer requested an agreement regarding the existence, amount and deductibility under IRC § 165 of abandonment losses incurred. A closing agreement was executed specifying the amount of abandonment loss.

Utilization of Net Operating Loss (2)

The taxpayer requested an agreement concerning the potential application of IRC § 382 with respect to prior-year net operating loss carryforwards in the case of an ownership change of greater than 50 percent occurring over a three-year period. A closing agreement was executed specifying that an ownership change did not occur and that the taxpayer was not subject to the limitation. In an unrelated request, the taxpayer requested an agreement regarding the number of ownership changes. A closing agreement was executed specifying the number of ownership changes.

Gain or Loss on Sale of Stock

The taxpayer requested an agreement concerning the tax consequences of the sale of the taxpayer's entire interest in a foreign subsidiary for cash along with a discharge of various liabilities. A closing agreement was executed specifying the amount of the capital loss under IRC § 165 and the amount of ordinary and necessary business expense deductible under IRC § 162.

Start-up Costs and Operating Expenses

The taxpayer requested an agreement regarding the proper treatment of start-up costs and operating expenses. A closing agreement was executed specifying the amounts amortizable under IRC §§ 195 and 709, the amounts depreciable under IRC § 167 and the amounts deductible under IRC § 162.

Worthless Securities and Bad Debts

The taxpayer, the parent of a consolidated group, requested an agreement regarding amounts deductible as ordinary losses on the worthlessness of stock and notes in its foreign subsidiary. A closing agreement was executed specifying that the stock and notes of the subsidiary were worthless, the amount of loss on the stock deductible under IRC § 165 and the amount of bad debt expense deductible under IRC § 166.

Fair Market Value of Stock Contributed to Pension Plan

A taxpayer requested an agreement regarding the fair market value and deductibility of stock contributed to pension plans administered by the taxpayer. A closing agreement was executed specifying the value to be used for purposes of IRC §§ 162 and 404.

Closing Agreements

A *pro forma* or model agreement does not exist for a PFA Closing Agreement. A PFA represents a specific matter closing agreement under § 7121. The closing agreements entered into under this program were prepared with assistance from the Office of Chief Counsel and conform to the guidance provided in Rev. Proc. 68–16.

PFA Program Utilization

The PFA Program is available to all taxpayers under the jurisdiction of LMSB.

During calendar year 2003, 42 taxpayers submitted PFA requests. These taxpayers included both Coordinated Industry Case (CIC) taxpayers that are typically subject to examination on a continuing basis and Industry Case (IC) taxpayers that are subject to examination on a less frequent basis. Of the 42 requests, 34 were from CIC taxpayers and eight were from IC taxpayers. Of the 18 cases that resulted in closing agreements during calendar year 2003, 13 were with CIC taxpayers and five were with IC taxpayers.

Processing Statistics

The average elapsed time to resolve the 18 cases that resulted in closing agreements in calendar year 2003 (the applications for which were received in 2001, 2002 and 2003) was 299.4 days.

Average Processing Time for Eighteen Closing Agreements Executed in 2003	Range (Elapsed Days)	Average (Elapsed Days)
Phase I — Application Screening Process	26–116	59.1
Phase II — PFA Evaluation Process	41–716	240.3
Total Time to Close a PFA Case	100–808	299.4

Phase I — Application Screening Process

Phase I is the screening process to determine if an application is appropriate for inclusion in the PFA program. This screening process includes obtaining comments from various LMSB functions and Chief Counsel, the review of these comments and the acceptance or rejection of an application by the Industry Director. Of the 42 applications received during the calendar year 2003, 34 applications completed the Phase I Application Screening Process. Of these 34 applications, the average time from the date an application was received by the IRS until the Industry Director rendered a decision to accept or reject an application was 65.8 days. For the 18 cases that resulted in closing agreements in 2003, the average time for completing the Phase I process was 59.1 days.

Phase II — PFA Evaluation Process

The second (and final) phase in the PFA program process is the evaluation phase. This phase begins when the Industry Director accepts an application into the PFA program and ends when a PFA closing agreement is executed or the process terminates as a result of a withdrawal. The average elapsed time during the Phase II Evaluation Process for the 18 cases that resulted in closing agreements in calendar year 2003 was 240.3 days.

Program Evaluation

The PFA Program Manager ensures that an evaluation of all of the PFA program cases, based on feedback from LMSB employees and taxpayer participants, is solicited. As a part of this program evaluation, LMSB and taxpayer participants were asked to provide the direct examination time expended to complete the PFA and an estimate of the direct examination time it would have taken to resolve the issue in a post-filing context. The table below indicates the results for those that provided a response.

Cumulative Hours (Executed PFAs)	Taxpayer (Hours)	LMSB (Hours)
Actual Hours Expended — PFA Process	19,655	14,881
Estimated Hours Required To Be Expended — Post-Filing Process	37,755	21,298
Time Savings — Actual PFA Process vs. Estimated Post-Filing	18,100	6,417
Percentage Savings — Actual PFA Process vs. Estimated Post-Filing (Average)	47.9%	30.1%
Estimated Time Savings Percentage Range	(20%)–66.7%	10.2%–66.7%

Comparative Analysis — Processing Statistics

The average total time to conclude the 18 cases that resulted in closing agreements in calendar year 2003 was 299.4 days. The range was from 100 to 808 days. Illustrated below are the average elapsed time (in days) processing statistics for the 11 cases that resulted in closing agreements under the pilot program, the seven cases that resulted in closing agreements in calendar year 2001, the 12 cases that resulted in closing agreements in calendar year 2002 and the 18 cases that resulted in closing agreements in calendar year 2003.

Average Processing Time for PFAs (Days)	Overall Pilot (11 cases)	Program CY 2001 (7 cases)	Program CY 2002 (12 cases)	Program CY 2003 (18 cases)
Phase I — Application Screening Process	38.3	46.6	52.8	59.1
Phase II — PFA Evaluation Process	242.2	126.1	182.6	240.3
Total Time to Complete a PFA	280.5	172.7	235.4	299.4

The increased processing time for 2003 can be attributed to the greater degree of complexity of the issues and the time necessary to develop the factual background. Generally, the more complex and fact intensive the issue is, the greater the time necessary to complete the process.

Taxpayer Satisfaction Survey

An additional aspect of the evaluation process is soliciting responses from taxpayers regarding satisfaction with the PFA process in a questionnaire. Responses to the questionnaire were received from 14 of the 18 taxpayers who executed closing agreements for calendar year 2003. These responses were converted to mathematical equivalents based on the level of satisfaction, were arrayed and a mean average to each question was calculated. The responses received are summarized below.

1 Overall level of satisfaction with the PFA process.

	Very Dissatisfied	Dissatisfied	Neither	Satisfied	Very Satisfied	Does Not Apply
Count	0	0	0	6	8	0
Percent	0.00%	0.00%	0.00%	42.86%	57.14%	0.00%

Mean Average: **4.57**

2 Likelihood of taxpayer recommending the PFA Process to others.

	Very Unlikely	Unlikely	Perhaps	Likely	Very Likely	Does not Apply
Count	0	0	0	5	9	0
Percent	0.00%	0.00%	0.00%	35.71%	64.29%	0.00%

Mean Average: **4.64**

3 The PFA process was clearly communicated during the orientation session.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply
Count	0	0	0	7	7	0
Percent	0.00%	0.00%	0.00%	50.00%	50.00%	0.00%

Mean Average: **4.50**

4 During the orientation session, questions regarding the PFA process were completely addressed.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	0	0	0	6	8	0
Percent	0.00%	0.00%	0.00%	42.86%	57.14%	0.00%

Mean Average: **4.57**

5 The PFA audit plan was developed with input from both the IRS and the taxpayer.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	0	2	2	4	6	0
Percent	0.00%	14.29%	14.29%	28.57%	42.86%	0.00%

Mean Average: **4.00**

6 The IRS requests for information were relevant to resolve the PFA issue.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	0	0	0	6	8	0
Percent	0.00%	0.00%	0.00%	42.86%	57.14%	0.00%

Mean Average: **4.57**

7 The time taken by the IRS to review information during the entire "Factual Development" stage of the PFA process was appropriate.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	0	1	0	7	6	0
Percent	0.00%	7.14%	0.00%	50.00%	42.86%	0.00%

Mean Average: **4.29**

8 The time taken by the IRS to complete the "Closing Agreement" stage of the PFA process was appropriate.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	1	3	3	3	4	0
Percent	7.14%	21.43%	21.43%	21.43%	28.57%	0.00%

Mean Average: **3.43**

9 IRS team members were accessible during the process to resolve the PFA issue.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	Does Not Apply Nor Known
Count	0	0	0	2	12	0
Percent	0.00%	0.00%	0.00%	14.29%	85.71%	0.00%

Mean Average: **4.86**

10 The total number of staff days or hours actually expended as compared to the expected staff days or hours.

	Significantly More	More	About the Same	Less	Significantly Less	Does Not Apply Nor Known
Count	0	1	3	4	6	0
Percent	0.00%	7.14%	21.43%	28.57%	42.86%	0.00%

Mean Average: **4.07**

11 The total elapsed time to complete the PFA process as compared to the expected time to complete the process.

	Significantly More	More	About the Same	Less	Significantly Less	Does Not Apply Nor Known
Count	0	2	1	3	8	0
Percent	0.00%	14.29%	7.14%	21.43%	57.14%	0.00%

Mean Average: **4.21**

12 The spirit of cooperation between IRS and the company as a result of the PFA process.

	Significantly Less	Less	About the Same	Improved	Significantly Improved	Does Not Apply Nor Known
Count	0	0	3	9	2	0
Percent	0.00%	0.00%	21.43%	64.29%	14.29%	0.00%

Mean Average: **3.93**

13 The ability to reach agreement at the lowest (managerial) level.

	Significantly Less	Less	About the Same	Greater	Significantly Greater	Does Not Apply Nor Known
Count	0	1	2	7	4	0
Percent	0.00%	7.14%	14.29%	50.00%	28.57%	0.00%

Mean Average: **4.00**

14 The ease of effort in reaching agreement as compared to the expected ease on post-filing.

	Significantly Less	Less	About the Same	Greater	Significantly Greater	Does Not Apply Nor Known
Count	0	0	3	7	4	0
Percent	0.00%	0.00%	21.43%	50.00%	28.57%	0.00%

Mean Average: **4.07**

15 Monetary costs incurred to resolve the issue compared to expected cost to resolve issues through the post-filing process.

	Significantly More	More	About the Same	Less	Significantly Less	Does Not Apply Nor Known
Count	0	0	6	4	4	0
Percent	0.00%	0.00%	42.86%	28.57%	28.57%	0.00%

Mean Average: **3.86**

16 The ability to present an accurate tax return for financial statement purposes as a result of the pre-filing process.

	Significantly Less	Less	About the Same	Improved	Significantly Improved	Does Not Apply Nor Known
Count	0	0	3	4	7	0
Percent	0.00%	0.00%	21.43%	28.57%	50.00%	0.00%

Mean Average: **4.29**

Pre-Filing Agreement Program Summary

Overall, the PFA program is meeting the LMSB strategic program objectives as provided in its issue management strategic initiative. The following benchmarks reflect the overall progress of the PFA Program:

- The increasing number of issues resolved through the PFA Program, which has grown steadily since the program became fully operational;

- The high degree of overall satisfaction of taxpayers participating in the PFA Program and the likelihood that those participants would recommend this process to other taxpayers.

Although the number of cases resolved in the PFA Program increased in 2003, the total processing time has also increased, particularly in the Phase II PFA Evaluation Process. This trend, which is due in part to the increasing complexity of issues presented by taxpayers for PFA consideration, has continued since the PFA Program became fully operational in 2001. LMSB is assessing how it might reduce the total amount of time elapsed during the PFA process and improve the efficacy of the PFA process in general.

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