

BOOKKEEPING TIPS

The twice monthly e-letter
for professional bookkeepers

The American Institute of Professional Bookkeepers

VOLUME 2: Issue 27

What each kind of IRS ruling means (and how to get one for your company or client)

As a professional bookkeeper, you have read federal rules or regulations that cite an IRS “Revenue Ruling,” “Private Letter Ruling” or other decision as the source.

But each of these sources represents a different level of authority and should be relied on in a different way. How can you help your employer or clients understand each kind of decision? More importantly, how can you help your company or client request the right kind of ruling from the IRS?

Here are the answers:

Revenue Ruling. A written statement of the IRS’s position on the application of tax law to a set of facts or its interpretation of a tax issue. Revenue rulings are issued by the IRS’s national office and published in its Internal Revenue Bulletin.

Typically issued in response to a request, but only if the IRS believes the ruling will be a valuable guide to a significant number of taxpayers and IRS personnel. Also issued in response to industry group inquiries or to communicate IRS agreement or disagreement with a Tax Court decision.

You can rely on a revenue ruling for a transaction that involves the same facts and circumstances described in the ruling.

Determination Letter. Issued by the IRS district office that has jurisdiction over the taxpayer’s return. It reflects the IRS interpretation of how an established area in tax law should be applied to that taxpayer’s completed transaction or existing condition.

Request a determination letter if your company wants a ruling on a question “specifically answered by a statute, tax treaty, or regulation or by a conclusion stated in a revenue ruling opinion, or court decision published in the Internal Revenue Bulletin.” [Rev. Proc. 94-1, Sec. 6, 1994-1 IRB 21]

Letter Ruling (or Private Letter Ruling). Often referred to as a “private letter ruling,” it is written by the IRS national office. A letter ruling interprets the tax law for new, unsettled, complicated or controversial situations. It may be issued for proposed or completed transactions. It is requested when tax professionals

conclude that the tax treatment of a transaction is uncertain in light of established IRS rules, statutes, regulations or court decisions.

Opinion letter. Expresses an IRS auditor's opinion about the findings of an audit.

Example: In 20X5, an IRS auditor reviews your employment records, determines that a class of workers are independent contractors, and says so in an opinion letter. In 20X6, an auditor reviews your records, says that the same group of individuals are employees and that your firm owes 3 years' back employment taxes plus penalties and interest. You can cite the first auditor's opinion letter to show that you have been in compliance with IRS findings.

Key point: If you are audited, you can (and maybe should) request an opinion letter from the IRS auditor. They rarely give them unless you ask.

Information Letter. Provides general statements of well-defined law without applying the law to a specific situation. Issued in response to requests by taxpayers, or by congressional representatives or their constituents. Advisory only. They are not binding on the IRS.

To obtain procedures for letter rulings, determination letters and information letters for 2006, visit the IRS Web site and type in the Search box, "Rev. Proc. 2006-1."

BOOKKEEPING TIPS is a weekly e-letter published by The American Institute of Professional Bookkeepers (AIPB), Suite 500, 6001 Montrose Road, Rockville, MD 20852. Tel.: 800-622-0121, Fax: 800-541-0066, email: info@aipb.org.

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