



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

APR 20 2011

Patricia A. Thompson
Chair, Tax Executive Committee
American Institute of Certified Public Accountants (AICPA)
1455 Pennsylvania Avenue, NW
Tenth Floor
Washington, DC 20004-1081

Dear Ms. Thompson:

I am responding to your letter dated March 29, 2011. You wrote about our requests for accounting software files from small business taxpayers under examination. AICPA members are concerned the files contain data from periods not under examination as well as data that they consider personal, confidential and beyond the scope of the audit.

In response to feedback received from business owners and practitioners, IRS has begun accepting taxpayer accounting records in electronic format. The general concept of requesting taxpayer books and records has not changed; however, with the changing financial practices of businesses moving more towards technology, IRS practices must follow suit.

Similar to paper records, it is important an exact copy of the original electronic data file be provided to the examiner and not an altered version. Only an exact copy of the original file includes the unaltered metadata which allows examiners to properly consider the integrity and veracity of the electronic files through use of such means as reports generated by the software program that may help to identify deleted or altered entries. For example, the original data file may provide the date a transaction was originally created, dates of subsequent changes, what changes were made, and the username of the person who entered or changed that transaction. This type of information is directly relevant to the evaluation of the taxpayer's internal controls.

We agree the best and most satisfactory way to resolve the concerns expressed in your letter may be improvements to the file backup process by the various software manufacturers, but this may not happen in the short run. In the alternative, many of your concerns may be alleviated by the following suggestions:

- Suggest to your members that their clients' electronic data files be backed up annually at the end of each tax year. This action will allow the business to provide a backup file created immediately after the close of the audit year(s). In the event of an audit, this backup process will lessen the amount of data provided to the IRS.
- While condensed data is not acceptable for the tax year(s) under audit, client electronic data files may be condensed for dates prior to the year(s) under audit. This is acceptable as long as the condensed data does not include transactions created or changed for time periods under audit, or for transactions from prior years that have an effect on the years under audit. However, if the scope of an audit is expanded, the IRS may request another backup file that was created prior to the date the company file was condensed or request a copy of the archive file that was created during the condensing process. If the client does not have a complete understanding of the software's condensing feature, please contact the software provider for additional guidance before using.

The security and privacy of return information, which would include information about a taxpayer's customers and any other information that was obtained by IRS during the course of a tax compliance examination, is a matter of utmost importance to IRS. Such information is subject to the IRC section 6103 restrictions on disclosure, which requires IRS to treat return information as confidential and places limitations on the disclosure of return information. You can find additional information about our use of electronic accounting records on our website at www.irs.gov. New information will be posted as it becomes available.

I appreciate the input the AICPA has provided IRS regarding the roll-out of this program and look forward to a continued dialog on this and other areas of importance. Please feel free to contact Duane Gillen, Director, Exam Policy, at 202-283-0701 for any further dialog.

Sincerely



Christopher Wagner