The (R)Evolution of Large Business Compliance Efforts at the IRS

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In this article, the authors review the history of the IRS Large Business and International Division and explore recent developments that may affect its future compliance efforts.

The views expressed herein are the authors' and do not necessarily represent those of Baker McKenzie.

With so much change at the IRS, what can large businesses expect from the IRS's tax compliance efforts? One normally must look to the past for clues about the future. However, the unprecedented rate of change this year makes predictions harder than ever before.

The IRS's large business compliance efforts are generally driven by resource considerations, taxpayers' tax planning, changes in the law, and directives from Treasury teams and commissioners. However, the size, influence, and global nature of large businesses mean that the IRS Large Business and International Division's work does not happen in a vacuum. External factors heavily influence the specific details of execution and implementation of LB&I's initiatives. For example, large businesses operate in a global environment, which requires the IRS to consider factors outside of the United States when implementing domestic policies.[1] The IRS also works with extensive domestic oversight from Congress, the Government Accountability Office, the Treasury Inspector General for Tax Administration, and others. LB&I navigates large

[1]When enforcing domestic tax laws on large multinational companies, the IRS has historically considered the impacts of other countries' domestic laws as well as the concurrent work of international bodies like the OECD and the U.N. to regulate international tax and trade.

businesses' ability to assert influence among representative contacts and lobbying functions. All these internal and external factors play a role in understanding the past and predicting what is to come. This article explores the history, current practices, and possible future direction of the IRS's large business compliance efforts.

Recent Past

Ten years ago, LB&I focused on its structure and establishing a centralized approach for workload selection. Two main goals underscored these focuses — to maximize available compliance resources and to develop the specialization necessary to address the increasingly complex technical issues presented in the large business filing population.

In 2016, LB&I underwent a major reorganization after considering how best to service large business taxpayers and facilitate specialization, particularly on international issues. The 2016 reorganization saw the establishment of multiple internationally focused practice areas. The two most relevant for large business compliance purposes were the cross-border activities practice area and the treaty and transfer pricing operations practice area. The creation of these two practice areas reflected a deliberate effort to separate transfer pricing work from other international corporate work. While many would view these as related from a technical and large business perspective, this separation made good sense for large business compliance at the time. LB&I believed that non-section 482 international issues were not getting enough attention relative to the tax planning issues presented in the filing population because those planning issues could not compete with transfer pricing from a materiality standpoint. At the same time, the transfer pricing inventory was overextended in relation to the specialized resources available (that is, economists and expert witnesses). As a result, LB&I prioritized increasing its experience and expertise regarding non-section 482 issues.

As part of its efforts to establish a more centralized workload selection approach, LB&I announced the rollout of its first campaigns in January 2017.[2] LB&I identified campaign issues using tax return data and feedback from IRS compliance employees and tax professionals. The goal of the campaigns was to strategically deploy resources to address high-risk issues and improve audit selection. LB&I identified and launched 13 campaigns as part of its initial announcement, including issues related to microcaptive insurance, repatriation, and related party transactions, among others. As time went on, LB&I added additional campaigns addressing syndicated conservation easement transactions and foreign base company sales income (manufacturing branch rules), among others. When individual campaigns began to wrap up, LB&I reviewed the results and captured the lessons learned. The IRS also launched the large corporate compliance program, which replaced the coordinated industry case program.[3] While the coordinated industry case program involved continuous audits of the largest and most complex corporations, the large corporate compliance campaign was intended to mark a shift to more focused enforcement efforts.

To better manage its workload and resource constraints, the IRS recalibrated its compliance assurance process. CAP is a voluntary cooperative compliance program, originally launched as a pilot in 2005 and made permanent in 2011, that allows large corporate taxpayers to work with LB&I to identify and resolve issues before the filing of a tax return. CAP seeks to reduce the taxpayer's burden through the contemporaneous exchange of information about completed events and transactions affecting tax liability rather than through the traditional examination process.[4] In 2018 the IRS announced several changes to CAP, including requirements that applicants provide a preliminary list of material issues for the year, and, if applicable, specify transfer pricing issues and research credit information when responding to a research credit questionnaire and the material intercompany

[2] IRS, "The IRS Large Business and International Division (LB&I) Announces the Approval of 13 Additional Compliance Campaigns" (Jan. 31, 2017).

[3] IR-2019-95 (May 16, 2019).

[4] *See* Internal Revenue Manual 4.51.8.

transaction template.[5] Both the research credit questionnaire and the material intercompany transaction template are tools for risk assessment used in the selection or deselection of potential audit issues. Further, CAP teams also began referring taxpayers to the advance pricing and mutual agreement program for advance pricing agreements to remove selected transfer pricing issues from audit and facilitate taxpayers' ability to remain eligible for CAP.

During this same period, the APMA program underwent organizational changes of its own to align with the rest of the LB&I organization structure and to improve internal processes and procedures. With the updating of the APA revenue procedure in 2015, APMA attempted to front-load APA requests to streamline the APA process. APMA also began using frameworks and benchmark sets to streamline its negotiations of similarly situated issues with treaty partners, resulting in improved case cycle times and more consistent results. A successful example of this was the Qualified Maquiladora Approach Agreement reached with Mexico, which prevented double taxation on contract manufacturing functions performed by maquiladoras.[6]

Following a TIGTA audit critical of how transfer pricing audits were being executed, the IRS updated its transfer pricing examination process and procedures. In August 2018, the IRS released the Transfer Pricing Examination Process (TPEP), Publication 5300, modeling it on the LB&I examination process, Publication 5125.[7] The TPEP is a guide to audit steps, best practices, and resources to assist with transfer pricing examinations. Consistent with the LB&I examination process, the TPEP framework contains three phases: planning, execution, and resolution. The TPEP encourages collaboration with APMA and provides that an acknowledgment of the facts should be issued for all transfer pricing issues, whether potentially agreed or not.

During this period, the IRS was also changing its approach to research credit examinations. In the wake of IRS-favorable results in research credit cases like *Little Sandy Coal Co. Inc.*,[8] research credit examinations had an enhanced focus on business components and the experimentation process. This led the IRS to increasingly propose complete disallowance of otherwise qualified research expenses from research credit eligibility under section 41. At the same time, disputes arose about substantiation, including taxpayers' use of statistical sampling to substantiate their claims. In response, taxpayers began raising concerns, elevating troubling case results, and calling for updated guidance.

Against this backdrop, the Tax Cuts and Jobs Act was passed in 2017, having a notable impact on LB&I's focus in the years following enactment. With certain TCJA provisions effective almost immediately, LB&I had to devote significant domestic and international subject matter expert resources to implementation. Only a few years later in 2020, Treasury Secretary Steven Mnuchin directed the IRS to examine 8 percent of all taxpayers earning more than $10 million of adjusted gross income. Around that same time, IRS Commissioner Charles Rettig directed the enforcement divisions to examine all syndicated conservation easement transactions. These directives further redirected resources away from large corporate compliance to focus on these issues.

In April 2022, LB&I issued interim guidance updating its application of the codified economic substance doctrine (ESD) and related penalties.[9] Historically, LB&I required executive approval to assert ESD penalties under sections 6662(b)(6) and 6662(i). This update brought ESD penalty procedures more in line with the application and approval of other penalties and reflected LB&I's broader effort to respond to criticism from the TIGTA and other stakeholders for not using this

[5] *See* IR-2018-174 (Aug. 27, 2018).

[6] IRS, "Renewal of the Qualified Maquiladora Approach Agreement" (Sept. 18, 2024).

[7] *See* Publication 5300, "Transfer Pricing Examination Process" (Aug. 2018).

[8] *Little Sandy Coal Co. Inc. v. Commissioner*, 62 F.4th 287 (7th Cir. 2023).

[9] LB&I-04-0422-0014, "Interim Guidance Memorandum on Economic Substance Doctrine and Related Penalties" (Apr. 22, 2022).

and other enforcement provisions provided by Congress.[10] After this change, application of the doctrine began to increase, and it was sometimes raised at the very end of the examination.

The resource outlook shifted dramatically during the Biden administration when the IRS received increased funding from the Inflation Reduction Act. In LB&I, this led to the mass hiring and training of new employees as well as a commitment to re-energize large corporate compliance efforts. The funding also provided new resources to improve issue resolution and tax certainty options for large businesses.

As part of its goal to improve the compliance experience for large business taxpayers, LB&I increased its requests for stakeholder feedback. LB&I solicited feedback from external stakeholders on tax forms, audit processes and procedures, and tax certainty. For example, in December 2024, LB&I solicited feedback on the draft instructions for Form 6765, "Credit for Increasing Research Activities." In particular, LB&I sought input about the section G reporting for controlled groups, the Accounting Standards Codification 730 Directive, and the section G business component detail and statistical sampling.[11] The feedback period has been extended through March 31, 2026, because section G of Form 6765 is currently optional but will take effect beginning in tax year 2026. LB&I also solicited feedback on its existing issue resolution programs with a request for input to improve and expand options for large businesses.

The IRS transformation also increased the focus on passthrough and global high-wealth compliance efforts.[12] To this end, in June 2024, IRS chief counsel issued guidance to address the inappropriate use of partnership rules to inflate the basis of the underlying assets without causing any meaningful change to the economics of their business. The guidance included three parts:

1. a notice announcing two sets of planned regulations that would address the tax treatment of basis adjustments from certain covered transactions;[13]
2. proposed regulations identifying certain basis-shifting transactions by partnerships as reportable transactions of interest;[14] and
3. a revenue ruling notifying taxpayers and advisers using partnerships that engage in three variations of these transactions that the IRS will apply the codified ESD to challenge inappropriate basis adjustments and other aspects of these transactions.[15]

Around that time, the IRS consolidated its personnel performing partnership exams into one practice area in LB&I.

Present

We come now to the present. This year brought a new administration, seven commissioners or acting commissioners since January, a first-ever IRS CEO, turnover at all leadership levels, workforce reductions (referred to as "workforce reshaping"), new tax legislation, and the clawback and use of the last IRA funds.[16] All of this looms heavily on IRS employees. As of June 2025, the IRS had lost over a quarter of its workforce, which included a 20 percent decrease in LB&I staff.[17] This decrease included many experienced and knowledgeable employees, leaving significant gaps in institutional knowledge and know-how. Further, nearly half of the IRS workforce was furloughed during the longest government shutdown in history.[18] Beyond the IRS's obvious concern of too few people with too heavy caseloads, the workforce reduction created a variety of other challenges for

[10] *See* TIGTA, "Few Accuracy-Related Penalties Are Proposed in Large Business Examinations, and They Are Generally Not Sustained on Appeal," Report No. 2019-30-036 (May 31, 2019) (discussing accuracy-related penalties, including penalties related to codified ESD and failure to report ESD transactions under section 6662(b)(6) and section 6662(i), respectively).

[11] IR-2024-313 (Dec. 20, 2024).

[12] For at least 10 years prior to the transformation efforts, TIGTA, the GAO, and other stakeholders called for the IRS to expand its coverage of passthrough entities. The 2024 Internal Revenue Service Data Book shows that only 0.3 to 0.1 percent of total filed partnership returns were examined during the years 2013 through 2021. IRS, "SOI Tax Stats — IRS Date Book" (last reviewed May 29, 2025).

[13] *See* Notice 2024-54, 2024-28 IRB 24.

[14] *See* Certain Partnership Related-Party Basis Adjustment Transactions as Transactions of Interest, 89 F.R. 51476-51491 (June 18, 2024).

[15] *See* Rev. Rul. 2024-14, 2024-28 IRB 1.

[16] *See* Sarah C. G. Christopherson, "IRS Enforcement Boost Was Supposed to Last 10 Years. Congress Killed It in Under Three," Institute on Taxation and Economic Policy (Sept. 16, 2025).

[17] IR-2025-71 (June 25, 2025).

[18] René Marsh and Taml Luhby, "IRS Furloughs Nearly Half Its Staff Amid Shutdown, Prompting Chaos and Confusion," CNN, Oct. 9, 2025.

large business compliance, such as abrupt changes in audit teams causing monthslong delays to get new agents and team members on board and up to speed, a lack of expertise in certain complex tax provisions, and general delays.

In June and July 2025, LB&I announced several changes to its procedures and programs to effectuate its goal of improving tax certainty. These changes seek to address various issues throughout the life cycle of a tax dispute, including prefiling, audit, and resolution. LB&I announced improvements to the prefiling agreement (PFA) program, including new instructions, enhanced guidelines for applicability, and increased transparency regarding program statistics.[19] The PFA guidance in Rev. Proc. 2016-30, 2016-21 IRB 981, is on the 2025-2026 priority guidance plan.

The CAP "bridge plus" phase became permanent starting with the 2025 CAP year.[20] The bridge plus phase is for taxpayers whose risk of noncompliance does not warrant the continual use of LB&I examination resources. The bridge plus timeline is shorter than CAP and is based on a risk assessment approach. If no compliance risks are identified through the process, the taxpayer will be instructed to file a return and will be issued the appropriate acceptance letter. Bridge plus provides a further avenue to improve efficiency in compliance.

On July 23, LB&I issued interim guidance titled "Reinforcing the Customer Focused, High Efficiency LB&I Examination Process."[21] The interim guidance made several changes to the Internal Revenue Manual. The interim guidance provided for the elimination of the acknowledgment of the facts process during examination, an update to the fast-track settlement pilot program, and a clarification of the applicability of accelerated issue resolution agreements. These changes sought to streamline the audit process and provide alternative and more expedient dispute resolutions.

In response to taxpayers' concerns regarding the research credit, LB&I engaged with chief counsel to discuss the implications of *Little Sandy Coal* and other cases as well as the use of statistical sampling. LB&I is working to improve its examination approach by reviewing cases in process, reassessing the manner of choosing which research credit issues to examine, and reevaluating research credit PFA submissions.

In the meantime, the ESD appeared across a broad range of large case examinations. The IRS has asserted the ESD in cases involving transfer pricing, stock redemptions involving related corporations, captive insurance, and basis shifting. Courts have started to address the ESD, and more decisions are on the way.[22]

Future

What comes next for large business compliance efforts? Because of the reduction of the LB&I workforce, both in terms of numbers and experience, it is safe to assume there will be a continued focus on inventory management. This means continuing efforts to bring examination cycles up to date and carefully choosing what returns and issues to examine going forward based on compliance priorities and resources available. LB&I will likely continue efforts to refine its return selection models and improve its ability to find material risks of noncompliance within the filing population. While the IRA funding allowed LB&I to select some corporate returns for examinations that it had not audited in years, if ever, that may not be the case going forward. Moreover, the lessons learned from completed campaigns and the necessity to be efficient going forward suggest that new campaigns will be rare, if any are announced at all.[23]

Given its recent commitments to tax certainty, coupled with resource constraints and

[19] IR-2025-69 (June 17, 2025).

[20] *See* IRS, "Compliance Assurance Process" (last updated Aug. 22, 2025).

[21] LB&I-04-0725-0008, "Interim Guidance on Reinforcing the Customer Focused, High Efficiency LB&I Examination Process" (July 23, 2025).

[22] *See, e.g.*, *Liberty Global Inc. v. United States*, No. 1:20-cv-03501 (D. Colo. Oct. 31, 2023) (pending appeal in the Tenth Circuit); *Perrigo Co. v. United States*, No. 1:17-cv-00737 (W.D. Mich. Sept. 25, 2025); *Patel v. Commissioner*, 165 T.C. No. 10 (2025).

[23] LB&I announced new campaigns in 2024, including the sports industry losses campaign, the business aircraft campaign, and the deferred legal fees campaign.

developments in the global environment, it is a good bet that LB&I will continue to prioritize its dispute prevention and resolution tools, including the use of APAs, PFAs, fast-track settlements, and CAP. These programs and tools are a way to drive compliance more efficiently and meet the needs of large business taxpayers who wish to achieve certainty. This also aligns with the Forum on Tax Administration's expansion of the tax certainty agenda. These tools should be maintained because they enable businesses to understand the tax consequences of their investments and activities and make long-term decisions about investment and job creation, providing value to large businesses operating in a global environment.

It is safe to assume that the demand for APAs will remain high as more countries increase their audit activities, especially those related to transfer pricing issues. In addition to increased global compliance, tariff issues now contribute to rising uncertainty. Over the past few years, APMA has been able to make significant process improvements by working with other competent authorities to streamline analysis of common transactions — leading to improved timelines to reach agreement. Further, rule simplification tools like amount B[24] offer the potential for much more predictability. But to date, there has not been much interest in amount B outside the United States. The question is whether APMA and its competent authority partners will be able to keep up with APA demand. Historically, APMA has been fully staffed, but the current posture of the IRS presents future uncertainty.

It is harder to predict whether the use of PFAs and fast-track settlements will increase substantially. Demand will depend on the successful use of these tools over the next 12 to 18 months. While LB&I leadership is prioritizing expanded use of these tools, ultimate success depends on buy-in from the LB&I workforce, its advisers in chief counsel, and taxpayers' willingness to use them. Internal and external feedback and data capture will be needed to fully evaluate the benefits for voluntary compliance and tax administration, which will, in turn, influence their long-term availability.

LB&I's recent efforts to reassess the selection and audit approach to the research credit, coupled with a renewed understanding and acceptance of the use of statistical sampling, should help redirect and improve compliance efforts. In addition, improvements to the PFA process for research credit issues will provide benefits to a broad range of companies seeking earlier certainty regarding their research credit claims. But LB&I's efforts alone will not be enough. Success depends in large part on Treasury and chief counsel to issue sensible guidance following *Little Sandy Coal*. At present, there is nothing on the priority guidance plan. Litigation may help to highlight the need for guidance.

An open question remains about the future and the focus of partnership compliance and basis shifting. Of the three guidance items identified earlier, only one remains: the revenue ruling that puts taxpayers on notice that the IRS will apply the codified ESD to challenge inappropriate basis adjustments.[25] The future of enforcement in the passthroughs area is uncertain, but litigation is certain and will shape what comes next.

Meanwhile, the future application of the ESD and other antiabuse provisions remains to be seen. Court decisions will inform the tax community and the IRS whether and in what circumstances these alternative arguments will be effective. In a recent transfer pricing case, *Perrigo Co.*, a Sixth Circuit district court determined that Perrigo Co.'s transactions with its foreign subsidiary had economic substance and were carried out for legitimate business purposes beyond tax planning considerations.[26] The Tax Court also largely rebuked the IRS's position

[24] Amount B is a simplified and streamlined approach to the application of the arm's-length principle to baseline marketing and distribution activities and is a part of the negotiated package of pillar 1 of the "Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy." To date, the United States may be the only inclusive framework country to formally adopt amount B. *See* OECD, "Consolidated Report on Amount B: Inclusive Framework on BEPS" (Feb. 24, 2025).

[25] The deregulation and burden reduction section of the 2025-2026 priority guidance plan includes "guidance removing section 1.6011-18 regarding identification of partnership related-party basis adjustment transactions as transactions of interest. Notice announcing intention to publish proposed regulations published on May 5, 2025, as Notice 2025-23."

[26] *Perrigo Co.*, No. 1:17-cv-00737.

regarding the relevance threshold required under section 7701(o) in the *Patel* case.[27] In *Patel* the Tax Court disagreed with the District of Colorado's opinion in *Liberty Global*, which held that section 7701(o) has no relevancy requirement and is currently pending appeal in the Tenth Circuit.[28] However, the Tax Court's application of the relevancy requirement in *Patel* has created some open questions as to appropriate relevancy inquiry in the absence of past case law discussing the transactions at issue.[29] Possible administrative outcomes could include the reinstatement of the executive approvals that were removed in April 2022 or the promulgation of rules around the timing of when ESD can be asserted during an examination.

As already mentioned, every new Treasury team and commissioner has an impact on compliance priorities and resources. Ten months into the Trump administration, there are no nominees for the IRS's two most influential positions, commissioner and chief counsel. Moreover, a significant portion of IRS leadership consists of newly appointed officials, none of whom come from a civil tax compliance or technical tax background. Additionally, there is no clearly articulated plan for modernizing IRS IT systems or using artificial intelligence. Almost immediately upon taking the helm, the Trump administration sent software engineers from the Department of Government Efficiency to the IRS, but to date there are no clearly articulated plans that would affect large businesses. Nor have any plans been shared externally about the future use of AI to automate tax administration. For large business taxpayers, a modern case management system and online account capabilities are key to making examinations more efficient and modernizing business' compliance experience.

Internationally, work continues on pillar 2 and implementation of the G7's U.S. side-by-side agreement. The many open issues and questions present an enormous amount of uncertainty for large business leaders. Meanwhile, pillar 1 is sitting on the shelf somewhere at the OECD. Setting aside the many significant policy issues and concerns presented by pillar 1, the dispute prevention and resolution process designed for amount A would overwhelm the U.S. competent authority unless the IRS is given sufficient time, funding, and hiring authority for future implementation. If pillar 1 ever does come off the shelf, one should anticipate negative impacts on existing competent authority work.

Conclusion

While the shifting landscape of large business compliance has given rise to significant uncertainties for both taxpayers and the IRS, opportunities remain to explore alternative dispute resolution and to seek more efficient ways of working. Recent history teaches us that LB&I is no stranger to change, and only time will reveal how it will respond to its current marching orders and those to come. LB&I has been and continues to be asked to do more with less. But just as diamonds are formed under pressure, perhaps efforts to streamline and efficiently resolve compliance issues will result in better outcomes for both taxpayers and the government. ■

[27] *Patel*, 165 T.C. No. 10.

[28] *Liberty Global Inc.*, No. 1:20-cv-03501.

[29] *See Patel*, 165 T.C. No. 10, at *21-22 (finding ESD relevant to captive insurance cases because previous case law had applied ESD to similar subject matter).