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IRS Accepts Taxpayer Accounting Records in Electronic Format for Small Business/Self-employed Examinations

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Business owners and tax professionals have been advocating the IRS begin accepting taxpayer accounting records in electronic format instead of continuing to use traditional paper books and records for audits. The IRS Small Business/Self-Employed Examination Division is responding to those wishes expressed in tax practitioner focus group interviews conducted at the 2008 Nationwide Tax Forums and from other stakeholders.

The IRS has recently completed electronic accounting software training for revenue agents. Approximately 1,100 agents were trained and all revenue agents are now being encouraged to request and accept taxpayers' electronic accounting software files, as appropriate. Electronic files should be provided on a CD, DVD, or flash/jump drive to ensure security of the files. E-mail should not be used to transmit the electronic records.

Obtaining the taxpayer's accounting records in electronic format provides significant advantages:

- Reduces taxpayer burden because taxpayers don't have to print records stored electronically.
- Provides a complete set of the taxpayer's accounting records, decreasing the number of items included in the initial document request and follow-up requests.
- Increases efficiency of the revenue agent's analysis and testing of the books and records.

The legal authority for requesting taxpayer's electronic accounting software files is based on [IRC Section 6001](#), [Regulation 1.6001-1\(a\) and -1\(e\)](#) (PDF), Revenue Ruling 71-20 and [Revenue Procedure 98-25](#). Proc. 98-25 does not prevent or exempt a taxpayer from providing electronic records, if such records exist.

Electronic information management has become the standard in business and will now be used to enhance the examination process. The ability to conduct audits using these software options will be available on an increasing basis as revenue agents begin to work with the new software. It is anticipated that this new audit tool will increase the speed and efficiency of field examinations, reduce taxpayer burden, and be a positive development for taxpayers, their representatives and the IRS.

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