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**KPMG SURVEY: FINANCIAL EXECUTIVES LACK FORMAL PROCEDURES TO
MANAGE IRS EXAMS, DESPITE FACING INCREASED AUDITS**

NEW YORK, July 28 – Senior financial executives and tax directors say they lack formal policies and procedures to manage the IRS exam process effectively, despite reporting a noticeable uptick in IRS corporate audit activity over 2008 levels, according to a recent survey by KPMG LLP, the audit, tax, and advisory firm.

In the KPMG survey, 40 percent of the more than 270 senior executives and tax directors polled said that their companies did not have a formal policy or procedure in place to manage the IRS exam process, yet 40 percent said their companies were involved with more IRS corporate audit activity such as exams and appeals than two years ago. Nearly half (49 percent) of respondents said the level of their audit involvement was unchanged from 2008.

“As jurisdictions face budget deficits and seek new sources of revenue, companies will find that being unprepared can make the audit process extremely time-consuming and strain resources,” said Sharon Katz-Pearlman, principal-in-charge of KPMG LLP's Tax Controversy Services practice.

High Priority for Companies, Boards

“The increased likelihood of an audit by taxing authorities can be a significant tax risk that should be high on the priority list of tax directors, CFOs, and corporate boards,” Katz-Pearlman said. “Companies of every size should regularly review their accounting methods, tax returns, risk assessments, and the like and develop or review policies and procedures so they are

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ready if they receive an audit notification.”

Although many survey respondents reported that they did not have formal procedures or processes in place to manage the IRS exam process, many do conduct the necessary due diligence related to tax filing reviews. For example, the majority (72 percent) of respondents in the KPMG survey say they proactively review their tax filings to help identify potential issues that might arise during an IRS examination.

“It also is important that companies identify the documents, people, time and resources that might be needed to handle a potential tax audit,” added Katz-Pearlman.

Furthermore, when asked about their processes for handling an IRS exam specifically, 68 percent of the respondents indicated they designate a single point of contact to interact directly with the IRS agent.

“Designating a single point of contact who deals with the tax authority directly during the audit can help smooth the process,” said Katz-Pearlman. “It also is critical to be diligent about providing the exam team with all of the information they need in a timely fashion, which can sometimes be difficult for audits related to transfer pricing and international tax issues. For this reason, developing robust information gathering processes before an audit occurs is important.”

Post-Audit Considerations

“If all issues are not resolved during the examination, there are many options available to resolve the case at a higher level of review,” added Katz-Pearlman. “Therefore, it is critical that companies understand their choices -- appeals, mediation, and early referral to name a few -- and the necessary procedural steps for each of the options.

“Companies also may uncover new insights during the audit process that can help refine their



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information gathering and reporting processes and identify areas of potential concern. They should use these new-found insights to both help enhance future compliance and pave the way for a smoother examination in the next cycle.”

The KPMG survey of more than 270 senior financial executives and tax directors was conducted on June 29 in conjunction with a KPMG TaxWatch event series covering tax controversy issues and trends. For more information, please visit: <http://www.kpmginstitutes.com/taxwatch>.

About KPMG LLP

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The views and opinions expressed in the survey results are based on the responses of the survey participants and do not necessarily represent the views and opinions of KPMG LLP.