On behalf of the American Institute of CPAs (AICPA), we are writing in response to the Internal Revenue Service (IRS or “Service”) statement and request for comment on the draft changes to the Schedule UTP (Form 1120), Uncertain Tax Position Statement, and the Schedule UTP Instructions for 2022 Tax Year (processing year 2023) (dated 10/11/22, updated 10/19/22). We are providing to the IRS recommendations for improvements to the 2022 Draft Schedule UTP (Form 1120), and draft instructions. Our recommendations will simplify filing for taxpayers and practitioners and will reduce the administrative burden on IRS as well.

Our comments set forth below focus on the following concerns and recommendations regarding the draft Schedule UTP:

1. Effective date of draft Schedule UTP

   - IRS should reconsider amending Schedule UTP in light of the significant burden the draft Schedule UTP places on taxpayers and practitioners.

   - If IRS believes amending Schedule UTP is the best way to proceed, IRS should delay the implementation of any changes to Schedule UTP to make it contemporaneous to the applicable tax year rather than retroactive. Delayed implementation would also allow for changes to be implemented under the newly appointed IRS Commissioner, which is appropriate given the potentially dramatic taxpayer implications associated with the proposed changes to Schedule UTP.

2. Requirement to disclose contrary authorities

   - IRS should eliminate the requirement to affirmatively disclose contrary authorities because the requirement is not supported by current law or IRS policy.

   - If IRS does not eliminate the requirement to affirmatively disclose contrary authorities:

     ○ The change should be implemented by regulation.
IRS should exclude court decisions from the definition list of authorities required to be cited for purposes of contrary authority on the draft Schedule UTP, as they create unnecessary complexity and disparity among taxpayers based on their respective locations. If the above recommendation is not adopted, significant additional guidance should be provided to address jurisdiction matters and cases with negative citation history.

IRS should provide more guidance regarding the definition of a contrary authority for purposes of Schedule UTP and exclude taxpayer-specific IRS guidance such as private letter rulings (PLRs), technical advice memorandum (TAMs), chief counsel advice (CCAs), and field service advice (FSAs), from the definition.

3. Requirement to disclose amount of a UTP

- IRS should eliminate Column (k). As it is presently drafted, determining the incremental dollar amount of an uncertain tax position involves a subjective analysis where the end result should not stand in place of IRS issue development during examination. Clarification as described in various news reports is unnecessary because identification of the line item containing the uncertain tax position is already provided in Column (j).

4. Consider the cost-benefit of revisions before requiring additional information

- Before revising the Schedule UTP, the IRS should consider whether draft Schedule UTP is likely to provide a benefit to tax examiners that sufficiently outweighs the enormous additional compliance burden placed on taxpayers. As part of such an analysis, the IRS should consider whether improvements in examination procedures could be an alternative to increasing burden in an already burdensome return filing environment, such as:
  - Adopting specific measurable actions that focus on injecting more transparency and communication, including risk assessment, into the tax examination process.
  - Providing significant and meaningful training to exam personnel to expand their understanding of the differences and linkages between tax reporting and financial reporting, and to develop procedural safeguards for the examination process.

- If the IRS does revise Schedule UTP, it should develop additional guidance for taxpayers and IRS exam personnel to minimize the potential for disagreements regarding the sufficiency of required information. IRS should also issue published guidance addressing any comments received in response to the request for comment on the draft change, similar to what was done in 2010 in Announcements 2010-75 and 2010-76.
Specific Comments

1. Effective Date of Draft Schedule UTP

Overview


Recommendations

- IRS should reconsider amending Schedule UTP in light of the significant burden the draft Schedule UTP places on taxpayers and practitioners.

- If IRS believes amending Schedule UTP is the best way to proceed, IRS should delay the implementation of any changes to Schedule UTP to make it contemporaneous to the applicable tax year rather than retroactive. Delayed implementation would also allow for changes to be implemented under the newly appointed IRS Commissioner, which is appropriate given the potentially dramatic taxpayer implications associated with the proposed changes to Schedule UTP.

Analysis

IRS has been revising its forms and procedures to require that taxpayers provide more data as part of the return to improve its risk assessment and facilitate use of automated compliance tools. The AICPA is concerned that these efforts are creating a compliance burden for taxpayers and practitioners that is out of proportion to the benefits the IRS is hoping to achieve. The additional requirements added to draft Schedule UTP are an example of this. As drafted, the additional requirements are quite burdensome, especially if such a change is made for 2022.

Draft Schedule UTP adds five new columns that require taxpayers to report four additional categories of information not previously required on Schedule UTP:

1. Any IRS guidance (revenue procedure, revenue ruling, PLR, TAM, notice, CCA, FSA and General Counsel Memorandum (GCM)) or case law otherwise reportable on Form 8275 when a tax position is contrary to a rule;
2. Any Treasury regulations that are contrary to the position taken;

3. The location of the tax position by form or schedule;

4. The location of the tax position by line number; and

5. The dollar “amount of the unrecognized federal tax benefits” for each reserve item.

Though draft Schedule UTP and instructions were announced in October 2022, as drafted, they are intended to apply to the 2022 tax year. Complying with the draft Schedule UTP will take considerable effort and additional guidance. Accordingly, the AICPA believes the intended timing of the changes to Schedule UTP places a significant burden on taxpayers and practitioners.

Before amendments to Schedule UTP are adopted, the IRS should identify the information the IRS believes it needs to identify on tax returns or issues that warrant examination more effectively. That process should begin with a review of the information currently provided, an assessment of its effectiveness in identifying returns for examination, and a determination of what the IRS lacks and how it could be provided with the least burden on taxpayers. The process should also include evaluating whether there are information requirements that should be reduced or eliminated because they neither assist taxpayers in computing their tax liability nor assist the IRS in processing, selecting or examining returns. With respect to Schedule UTP, information that is duplicative or objectively lacking in value should not be required. The AICPA appreciates the efforts of Treasury and the IRS to include additional guidance for existing Schedule UTP requirements such as the concise description of UTPs. However, more guidance for some of the new columns is imperative to enable taxpayers and practitioners to correctly and efficiently complete Schedule UTP.

To that end, the AICPA requests that any changes to Schedule UTP be implemented prospectively not earlier than taxable years beginning after December 31, 2022, and after the Service has had more time to articulate guidance. This delayed implementation date would give taxpayers and practitioners sufficient time to understand and adequately prepare for the new requirements. In addition, this delay would allow for implementation under the newly appointed IRS Commissioner, which is appropriate given the potentially dramatic taxpayer implications associated with the proposed changes.

2. Requirement to Disclose Contrary Authorities

Overview

Column (c) of draft Schedule UTP requires taxpayers to report any Revenue Procedure, Revenue Ruling, PLR, TAM, Notice, court decision, CCA, FSA, or GCM that is contrary to the tax position.
Recommendations

- IRS should eliminate the requirement to affirmatively disclose contrary authorities because the requirement is not supported by current law or IRS policy.

- If IRS does not eliminate the requirement to affirmatively disclose contrary authorities:
  
  ○ The change should be implemented by regulation.

  ○ IRS should exclude court decisions from the definition list of authorities required to be cited for purposes of contrary authority on the draft Schedule UTP, as they create unnecessary complexity and disparity among taxpayers based on their respective locations.

  ○ If the above recommendation is not adopted, significant additional guidance should be provided to address jurisdiction matters and cases with negative citation history.

  ○ IRS should provide more guidance regarding the definition of a contrary authority for purposes of Schedule UTP and exclude taxpayer-specific IRS guidance such as PLRs, TAMs, CCAs, and FSAs, from the definition.

Analysis

An affirmative disclosure requirement should be implemented by regulation.

The AICPA is concerned that the affirmative disclosure of contrary authorities required to be cited in draft Schedule UTP creates new substantive duties and exposes taxpayers to penalties for noncompliance, which effectively creates a substantive (i.e., legislative) rule. Accordingly, a change to the existing Schedule UTP is more appropriately accomplished by regulation. This is consistent with Internal Revenue Code (IRC or “the Code”) section 6011(a), which tasks the IRS with determining “by regulations” how taxpayers are to “make a return or statement” and the information they must provide therein to the IRS (emphasis added). This approach is also consistent with the U.S. Tax Court’s recent holding in Green Valley Investors, LLC, et al. v. Commissioner, in which it was held that an IRS notice that attempted to add a legislative rule was improperly issued, and CCA 202244010, in which IRS Counsel itself indicated that IRS could not create an affirmative obligation by notice.

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1 Unless otherwise indicated, references to a “section” are to a section of the Internal Revenue Code of 1986, as amended (the “Code” or IRC), and references to a “Treas. Reg. §” are to the Treasury regulations promulgated under the Code.

2 159 T.C. No. 5 (Nov. 9, 2022).
The proposed disclosure of contrary authorities is inconsistent with existing statutes, regulations, and established IRS policy.

Affirmative disclosure of contrary authorities as required by draft Schedule UTP effectively requires a taxpayer to disclose its tax position analysis that is not supported by any regulatory requirement. Even section 6662 (accuracy-related penalty), section 6694 (understatement of taxpayer’s liability by tax return preparer), and Circular 230 section 10.34(a) (reasonable basis minimum threshold with disclosure), which include standards for evaluating authorities to consider when a position on a return will be subject to penalty or fail to meet reporting standards, does not require disclosure of specific authorities relied upon or contrary authorities.

The disclosure of a position on Schedule UTP, according to the instructions, qualifies as adequate disclosure for purposes of section 6662 and therefore a taxpayer is not required to attach a Form 8275 or 8275-R for a position disclosed on the Schedule UTP.\(^3\) If the purpose of the changes to the Schedule UTP was to make the disclosure on the Schedule UTP consistent with adequate disclosure on Form 8275 or 8275-R, the disclosure required by the draft Schedule UTP far exceeds the arguable equalization point between it and the Form 8275 series.

In addition, disclosure of the tax position analysis as it relates to estimates of potential tax liabilities for ASC 740 purposes and related documentation in essence amounts to a disclosure of tax accrual workpapers. This is inconsistent with longstanding IRS position on tax accrual workpapers. Historically, the IRS has demonstrated administrative sensitivity and restraint by not routinely seeking tax accrual workpapers for examination purposes. This policy of restraint has been explicitly recognized by the U.S. Supreme Court,\(^4\) acknowledged and reiterated by the IRS,\(^5\) and incorporated into the Internal Revenue Manual.\(^6\) The required disclosure of contrary authorities, and correspondingly, tax position analysis, implements an unexplained change to this IRS policy, which is unwarranted. Further, if the IRS believes its policy regarding tax accrual workpapers should be revised, it should engage the public and request input in the form of public comment and hearings.

The proposed disclosure of authorities on draft Schedule UTP is overly broad and creates risk of inconsistent treatment of similarly situated taxpayers.

The AICPA finds the provided list of authorities required to be cited in draft Schedule UTP to be overly broad and likely to result in confusion. The authoritative sources list includes rulings that are furnished by the IRS National Office in response to requests made by specific taxpayers and/or

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\(^3\) See also Rev. Proc. 2022-39 regarding special procedures for qualified amended returns for certain large taxpayers under examination.


\(^6\) IRM 4.10.20.3.2(1), Service Policy for Requesting Workpapers.
IRS officials. These rulings, including PLRs, TAMs, CCAs and FSAs, are taxpayer-specific as well as redacted, and are only available to taxpayers as a result a Freedom of Information Act (FOIA) request. Most significantly, these rulings cannot be used or cited as precedent pursuant to IRC section 6110(k)(3). CCAs and FSAs are also not authority under Treas. Reg. § 1.6662-4(d)(3)(ii) for purposes of determining a return position for the treatment of an item.

The AICPA is concerned that the inclusion of taxpayer-specific IRS guidance on draft Schedule UTP places taxpayers and practitioners in the untenable position of having to conduct research for “authoritative sources” that are by their very nature not authoritative under the Internal Revenue Code. It would be unfair to require taxpayers and practitioners to spend their limited time and resources performing an exhaustive search for contrary rulings of a type that they are explicitly not allowed to rely upon when taxpayer favorable.

In addition to not being authoritative, rulings such as PLRs, TAMs, CCAs and FSAs are also redacted, which can make their application to specific taxpayer facts more challenging. Pursuant to Tax Analysts v. Internal Revenue Service, the IRS may redact “true return information” from its taxpayer-specific rulings before making the legal analyses available in compliance with FOIA. Unfortunately, facts pertinent to determining the applicability of a given ruling can require redaction, resulting in uncertainty and potential disagreement between taxpayers and the Service. If a taxpayer fails to disclose a ruling that the IRS believes should have been cited, it is unclear under the existing guidance what the repercussions could be.

Determining whether court decisions are “contrary” and applicable can also be problematic. Court decisions address a specific taxpayer’s facts and specific issue before it, and the Service and taxpayers already regularly disagree about the applicability of given authorities during examinations. Unless a taxpayer’s facts are largely identical to the facts presented in a court decision, it can be debatable whether that court decision is contrary to the position taken by the taxpayer or distinguishable from it. Moreover, court decisions can be appealed or eroded by being called into question by subsequent case law. It is unclear if taxpayers would be required to disclose a court decision pending appeal, or a court decision with a history of negative citation by other courts, on draft Schedule UTP.

More significantly, the federal court system is organized into 13 judicial circuits. These courts, which have jurisdiction over appeals from decisions made by the Tax Court, U.S. district courts, and the U.S. Court of Federal Claims, are not bound to follow precedent created by another circuit, which can result in circuit splits. This means a taxpayer in one circuit may have a contrary court decision, while a taxpayer with similar or even identical facts in another circuit may have a taxpayer-favorable court decision. It is unclear whether all taxpayers would be obligated to report the contrary court decision from a different circuit on Schedule UTP, even though that decision is not jurisdictionally applicable to them.

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7 5 U.S.C. § 552. Even after the enactment of FOIA, taxpayers had to litigate to obtain access to the redacted versions of this guidance. See Tax Analysts v. Internal Revenue Service, 117 F.3d 607 (D.C. Cir. 1997).

In addition, citing court cases could result in similarly situated taxpayers having a disparate reporting obligation on Schedule UTP, or potentially being treated differently by the Service because of the manner in which draft Schedule UTP is completed, because of jurisdictional differences on a given tax issue.

Finally, if court cases continue to be required to be cited, clarification is needed regarding the applicability of unfavorable court decisions from a different district or circuit, unfavorable court decisions that have been subsequently called into question and distinguished by other courts in similar cases, and unfavorable court decisions that are presently on appeal.\(^{9}\)

3. **Requirement to Disclose Amount of a UTP**

**Overview**

Draft Schedule UTP Column (k) requires the incremental dollar amount included on the line related to the tax position. This requirement is in addition to the new requirement in Column (j) that taxpayers identify the location of the tax position by line number, and the existing requirement in Column (h) that taxpayers rank their tax positions by size. The Service has since communicated that the intent of this Column (k) is to identify the amount of the line on the return where the UTP relates, not the incremental dollar amount. Draft Schedule UTP has not yet been updated to address this modification.

**Recommendations**

- IRS should eliminate Column (k). As it is presently drafted, determining the incremental dollar amount of an uncertain tax position involves a subjective analysis the end result of which should not stand in place of IRS issue development during examination. Clarification as described in various news reports is unnecessary because identification of the line item containing the uncertain tax position is already provided in Column (j).

**Analysis**

While draft Schedule UTP seeks to leverage existing financial statement reporting data to avoid undue compliance efforts, deviations from financial reporting determinations of UTPs inherent in the proposal will increase taxpayers’ compliance burden. Understanding this result, the IRS has indicated that Column (k) will be amended to require the amount of the line item on the return.\(^{9}\)

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\(^{9}\) Treasury regulations currently provide guidance regarding these types of jurisdictional considerations with respect to substantial authority tax return positions. See Treas. Reg. § 1.6662-4(d)(3)(iv)(B) (“The applicability of court cases to the taxpayer by reason of the taxpayer's residence in a particular jurisdiction is not taken into account in determining whether there is substantial authority for the tax treatment of an item. Notwithstanding the preceding sentence, there is substantial authority for the tax treatment of an item if the treatment is supported by controlling precedent of a United States Court of Appeals to which the taxpayer has a right of appeal with respect to the item.”). This regulation demonstrates the need for guidance in determining the applicability of court cases in evaluating tax return positions. AICPA believes that similar guidance is appropriate in the Schedule UTP context.
Draft Schedule UTP already requires taxpayers to indicate which line item(s) on the return contain uncertain tax positions in Column (j). It is unnecessarily duplicative, and could result in possible typographical errors, to both indicate the line item number and the amount of the line item. In addition, because line items can contain aggregate amounts, Column (k) would be of negligible value.

4. Consider the Cost-Benefit of Revisions Before Requiring Additional Information

Overview

While Schedule UTP can potentially be a useful tool for the IRS at the start of an examination, its value can be diminished if it stands in place of a cooperative and transparent relationship between the Service and taxpayers under examination, or if it is used in place of robust and proper issue development by tax examiners.

Recommendations

- Before revising the Schedule UTP, the IRS should take a pragmatic approach and consider whether draft Schedule UTP is likely to provide a benefit to tax examiners that sufficiently outweighs the enormous additional compliance burden placed on taxpayers and practitioners. As part of such an analysis, the IRS should consider whether improvements in examination procedures could be an alternative to increasing burden in an already burdensome return filing environment, such as:
  - Adopting specific measurable actions that focus on injecting more transparency and communication, including risk assessment, into the tax examination process.
  - Providing significant and meaningful training to exam personnel to expand their understanding of the differences and linkages between tax reporting and financial reporting, and to develop procedural safeguards for the examination process.

- If the IRS does revise Schedule UTP, it should develop additional guidance for taxpayers and practitioners and IRS exam personnel to minimize the potential for disagreements regarding the sufficiency of required information. IRS should also issue published guidance addressing any comments received in response to the request for comment on the draft change, similar to what was done in 2010 in Announcements 2010-75 and 2010-76.

Analysis

The AICPA recognizes the steps the IRS has historically taken to efficiently identify tax returns and specific issues by increasing what is reported and disclosed by taxpayers. It is to the advantage of the IRS, taxpayers, and tax practitioners that the IRS take a pragmatic approach and maintain a dialogue with taxpayers and practitioners, assessing the effectiveness or ineffectiveness of those
measures and the appropriateness of any additional burdens placed on taxpayers. The AICPA believes the IRS and taxpayers and practitioners should strive to balance the compliance burden placed on taxpayers and practitioners with the utility of the information collected. As presently written, the additional requirements on draft Schedule UTP appear to provide only marginally beneficial information for tax examiners, while placing a heavy compliance burden on taxpayers and practitioners.

Taxpayers and practitioners expend significant time and resources complying with an increasingly complex tax code. Similarly, the IRS currently expends extensive time and resources to examine taxpayers.

Given this substantial and shared burden, the AICPA supports measures designed to increase the ability of the IRS and taxpayers and practitioners to obtain tax certainty sooner, to ensure consistency in the application of the tax law, and to make the tax administration process more efficient. These are goals that we believe taxpayers, practitioners, and the IRS all have a mutual interest in working together to achieve.

However, the AICPA is concerned that the current draft Schedule UTP updates will place an undue burden on taxpayers and practitioners, diminish the longstanding IRS “policy of restraint,” erode the relationship and transparency between taxpayers, practitioners, and the IRS, result in additional issues of disagreement, and result in more protracted examinations without robust issue development.

The AICPA notes that the recognition and measurement of UTPs for financial reporting purposes can be highly judgmental and subjective. This subjectivity results from a combination of factors, including complex tax laws, determination of the unit of account under U.S. Generally Accepted Accounting Principles (GAAP) as promulgated by ASC 740, Income Taxes (formerly known as “FIN 48”), and determination of materiality for financial statement reporting.

In the AICPA’s experience, the transparency and efficiency of a tax examination often depends heavily on the relationship between the examination team and the taxpayer. If a relationship is based on mutual trust and respect, taxpayers and tax examiners can communicate more constructively about issues. Absent such a relationship, taxpayers and tax examiners may work more independently of each other, resulting in a more ineffective and inefficient examination with general dissatisfaction by both parties.

The AICPA is concerned that without additional guidance tax examiners may misunderstand the purpose of the information contained on draft Schedule UTP, and tax examiners could use the information as the “starting and ending” point of an audit. This would prevent tax examiners from properly developing issues and would potentially impede the IRS goal of treating taxpayers consistently.

If tax examiners assert adjustments merely because a taxpayer has recorded a reserve for a position, examinations could become less efficient and more protracted. To mitigate this possibility, we
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Mr. William M. Paul  
November 18, 2022  
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strongly encourage the Service to provide training to exam personnel that expands their understanding of the differences and linkages between tax reporting and financial reporting, and IRS should develop procedural safeguards for the examination process. This training will enable exam personnel to better understand the nature of the information received on Schedule UTP and prevent potential inefficiencies caused by ascribing undue significance to certain disclosed items that do not merit such focus. Further, procedural safeguards should be designed to ensure Schedule UTP disclosures do not automatically become proposed adjustments. This approach could be accomplished by requiring tax examiners to fully develop an issue and only propose an adjustment if the IRS has a strong level of confidence that it would prevail on the merits. In the interest of shared transparency, we believe these safeguards should be incorporated in the Internal Revenue Manual and thus be available to the public.

In addition, in 2010, IRS published Announcements 2010-75 and 2010-76, which addressed comments received in response to the initial Schedule UTP proposal as well as expanding its policy of restraint. In response to this request for comments, IRS also should issue published guidance addressing any comments received rather than just addressing in forms and instructions.

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The AICPA is the world’s largest member association representing the CPA profession, with more than 421,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

The AICPA is available to discuss with the IRS these comments and recommendations or answer any questions. Please feel free to contact Regina Clark, Chair, AICPA UTP Task Force, at (571) 519-8531 or Regina.S.Clark@pwc.com; Brianne deSellier, Vice-Chair, AICPA UTP Task Force, at (954) 202-8556 or brianne.desellier@crowe.com; Reema Patel, AICPA Senior Manager – Tax Policy & Advocacy, at (202) 434-9217 or Reema.Patel@aicpa-cima.com; or me at (601) 326-7119 or JanLewis@HaddoxReid.com.

Sincerely,

Jan Lewis, CPA  
Chair, AICPA Tax Executive Committee
cc: The Honorable Lily Batchelder, Assistant Secretary for Tax Policy, Department of the Treasury
   The Honorable Neil MacBride, General Counsel, Department of the Treasury
   Mr. Tom West, Deputy Assistant Secretary for Domestic Tax, Office of Tax Policy, Department of the Treasury
   Mr. Krishna P. Vallabhaneni, Tax Legislative Counsel, Department of the Treasury
   Ms. Drita Tonuzi, Deputy Chief Counsel, Office of Chief Counsel, Operations, Internal Revenue Service
   Ms. Kathy Zuba, Associate Chief Counsel (Procedure & Administration), Internal Revenue Service
   Ms. Nikole Flax, Commissioner, LB&I Division, Internal Revenue Service
   Ms. Holly Paz, Deputy Commissioner, LB&I Division, Internal Revenue Service