



TaxNewsFlash

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IRS provides FAQs on “Bridge phase” under Compliance Assurance Process (CAP)

The IRS released a set of “frequently asked questions” (FAQs) regarding the “Bridge phase” under the Compliance Assurance Process (CAP)—a program that resolves issues of corporate taxpayers in “real time” prior to the filing of their tax returns.

CAP requires a contemporaneous exchange of information related to a taxpayer’s proposed return positions and the completed events and transactions that may affect its federal tax liability. With successful conclusion of CAP, there is “an acceptable level of assurance regarding the accuracy of the taxpayer’s filed tax return” in a way that “substantially shorten[s] the length of the post filing examination.”

Read the Bridge phase [FAQs](#), last updated September 16, 2020 (full text of the FAQs provided below).

1. What is the criteria a taxpayer must meet to qualify for the Bridge phase?

The Bridge phase is reserved for taxpayers whose risk of noncompliance does not support the continued use of LB&I compliance resources. Generally, these are taxpayers who have completed at least one complete Compliance Maintenance phase (or at least one complete CAP phase when in the best interest of sound tax administration), have few, if any, material issues, are expected to receive a Full Acceptance Letter in their most recent CAP program phase, and continue to satisfy the CAP eligibility and suitability requirements.

2. What happens during the Bridge phase?

During the Bridge phase, the IRS will not accept any disclosures, conduct any reviews, or provide any assurances. If there are specific issues a Taxpayer wants the IRS to consider, they may submit a request for a pre-filing agreement for these issues provided that they meet the requirements for a pre-filing agreement.

3. Can a Bridge year be opened for examination?

Our intent is not to open a Bridge year for examination. However, there may be some limited circumstances where a Bridge year could be opened for examination. The items listed below may require consideration but do not automatically necessitate an examination:

- *Any evidence of fraud, malfeasance, collusion, concealment or misrepresentation of a material fact*
- *Any new material issue not previously reviewed*
- *Any material changes to a previously reviewed issue*
- *Any material issue that was reserved for or reported on Schedule UTP during the Bridge year*
- *Any material Campaign issue*
- *Any clear arithmetic error or material error based on an established service position*
- *Any claim for refund that exceeds the Joint Committee on Taxation threshold*
- *Any other circumstances where a failure to open an examination would not be the interest of tax administration*

4. How many consecutive years can a taxpayer be in Bridge?

The number of consecutive years a taxpayer can be in the Bridge phase is generally limited to two years. So, a taxpayer that has been in the Bridge phase for two consecutive years will ordinarily be in the CAP or Compliance Maintenance phase for the subsequent year (assuming they are accepted into the program for this year).

5. Is a taxpayer removed from the CAP program during the Bridge phase year?

No. A Taxpayer in the Bridge phase remains part of the CAP program for the Bridge phase year and will be considered as a returning CAP Taxpayer if applying for CAP for the subsequent year.

6. Is a Bridge phase taxpayer required to sign the CAP MOU?

Yes. Since the Bridge phase is just another phase of the CAP program, the taxpayer is required to sign the CAP MOU. However, not all sections of the CAP MOU are applicable to the Bridge phase. The CAP MOU states that while in the Bridge phase, the IRS will not accept any disclosures, will not conduct any reviews and will not provide any letters of assurance. Therefore, section D(2) – Issue Disclosures, section D(3) – Materiality Thresholds and Identifying Issues for Review, section D(4) – Communications between the Taxpayer and IRS, section E – Issue Resolution Agreements, section F – Conclusion and Post-filing review, and any other sections of the MOU that relate to a CAP or CM phase review are not applicable to Bridge years.

7. The CAP MOU says when in the Bridge phase, the taxpayer is expected to exhibit the same level of compliance they would in the CAP or CM phases. What does this mean?

Compliance in this statement refers to tax compliance. Taxpayers are expected to exhibit the same level of tax compliance when filing their tax return as they would if they were in the CAP or CM phase. Filed Bridge year tax returns may be reviewed and could, in limited circumstances, be opened for examination – see FAQ 3.

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