

IRS Delivers: Large Corporate Taxpayers Can Bid Adieu to AOFs and Welcome Better Access to ADR Programs

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IRS Announces Sweeping Overhaul to Phase Out AOF IDR Process and Expand Accelerated Resolution Options

On July 25, 2025, the Internal Revenue Service (IRS or Service) released an Interim Guidance Memorandum dated July 23, 2025 (the IGM) that i) eliminates the Acknowledgement of Facts (AOF) Information Document Requests (IDR) from Large Business & International Division (LB&I) examinations, ii) provides updates on the changes to the Fast Track Settlements (FTS) pilot program, and iii) clarifies the applicability of Accelerated Issue Resolution (AIR) to Large Corporate Compliance (LCC) cases. These changes are responsive to recommendations made by the Internal Revenue Service Advisory Council (IRSAC) in its November 2024 Public Report regarding ways to streamline the LB&I Examination Process (LEP) by, among other things, evaluating the need for the AOF IDR; and the May 2023 GAO Report regarding ways the IRS can better manage its alternative dispute resolution programs to maximize benefits.

The three modifications to the IRS's existing policies and practices will be implemented in 2025 and 2026, as described in more detail below, with the elimination of the AOF IDR process after a transition period in effect until December 31, 2025. In particular, the AOF process is elective as of July 23, 2025 through December 31, 2025. During that time, the AOF process will be offered to taxpayers as an option to accept or decline. The AOF process will be eliminated in 2026.

The IGM explains that LB&I will be making these modifications to existing policies and practices to further LB&I's "customer-driven, effective and efficient examination resolutions," and that the changes will improve issue resolution consistency and reduce examination timelines. Taken as a whole, these changes will significantly affect both the examination process and the administrative dispute resolution process for large corporate taxpayers.

THE ROLE OF THE AOF IDR PROCESS IN IRS EXAMINATIONS

The process of developing an agreed set of facts has long been a standard step in IRS examinations of large corporate taxpayers, with the goal being to establish a clear factual foundation for potential unagreed issues. While similar practices existed informally, the AOF IDR became a required component of IRS procedures when the LB&I Division officially adopted it in 2016 through Publication 5125, which introduced LEP and provided corresponding updates to the Internal Revenue Manual (IRM 4.46.4). The 2016 introduction of LEP marked the formalization and

widespread implementation of the AOF IDR, and LEP was further updated in 2018 consistent with the goals of voluntary compliance and effective, efficient, fair, and transparent examinations.

The adoption of the AOF IDR process into the examination process reflected the IRS's goals of encouraging openness and cooperation between exam teams and taxpayers. The Service reasoned that agreement on key facts early in the audit process would minimize disagreements, support a more collaborative resolution of tax issues, and conserve resources for both the IRS and taxpayers. At the time, the adoption of the AOF IDR process was one component of a more comprehensive IRS audit strategy to shift to an issue-based approach to examinations. Since its adoption, the AOF IDR process has served as the mechanism to ensure that all relevant facts are mutually agreed upon before the issuance of a Notice of Proposed Adjustment (NOPA), the first formal document issued by the IRS outlining proposed changes to a taxpayer's tax liability resulting from an examination.

Despite the intended benefits, concerns have been raised that, rather than increasing efficiency and conserving resources, the AOF IDR process added unnecessary time and expense to the examination process and prolonged the examination timeline, all without providing commensurate value. The IRS's decision to eliminate the AOF IDR process suggests the internal recognition that it has not consistently achieved its stated objectives of early issue resolution and minimizing disagreements.

UPDATES TO ALTERNATIVE DISPUTE RESOLUTION PROGRAMS

On July 27, 2023, the IRS invited public input on how to improve certain post-filing ADR programs currently offered to taxpayers. On April 24, 2024, after receiving input from the taxpayer community, the IRS Independent Office of Appeals announced the formation of a new Alternative Dispute Resolution Program Management Office. The office was formed to collaborate with the IRS Business Operating Divisions to help taxpayers resolve tax disputes earlier and more efficiently. As described below, the IGM incorporates prior public reports and suggestions from the public.

Applicability of AIR to LCC Cases Confirmed

In addition to ending the AOF IDR process, the IGM clarifies and expands the applicability of the Accelerated Issue Resolution program, which is designed to accelerate the resolution of the same or similar issues arising in an examination of an LB&I taxpayer for one or more tax periods. Under the AIR program, a taxpayer may submit an AIR agreement relating to one or more specific issues arising from the audit for one or more taxable periods ending before the date of the agreement, which effectively functions as a legally binding closing agreement.

The IGM notes that authority for using AIR is set forth in Rev. Proc. 94-67, which used a legacy term, Coordinated Examination Program (CEP). The IGM cites this reference to the outdated term as a source of confusion regarding the availability of AIR and a possible reason for suppressed use within the field. Accordingly, the IGM clarifies the applicability of AIR to LCC cases as the successor to CEP, reinforcing that LCC cases should continue to be viewed as an appropriate work stream for AIR. In clarifying the appropriate scope of applicability, the Service notes in the IGM that the broad availability of AIR should serve to expedite tax certainty, reduce both IRS and taxpayer burden, and streamline the audit process by avoiding repetitive examinations of identical issues across multiple years.

Denial of Fast Track Revisited

Finally, the IGM introduces procedural enhancements to the FTS program implementing more vigorous review of FTS denials in order encourage broader use. The FTS program is an ADR process designed to expedite the resolution of tax disputes by allowing taxpayers and exam teams to resolve unagreed issues with the assistance of an IRS Appeals official, who acts as a neutral mediator. Either party may propose a basis for settlement, and the mediator will assist the parties to resolve the issue through a mediated settlement that properly takes into account the hazards of litigation. The mediator may also propose a settlement structure. Once the agreement falls within an acceptable range as determined by the mediator, the IRS Appeals official will accept the settlement in a closing agreement. If the parties do not agree to settlement terms, no closing agreement is executed, and the taxpayer retains its rights to the traditional Appeals process. The FTS process is intended to be completed quickly (often within 60 to 120 days) and is nonbinding (absent a closing agreement), nonprecedential, and confidential.

The IRS now requires additional internal review and executive-level approval before IRS Exam may deny a taxpayer's request to participate in the FTS program. The IGM follows interim guidance issued in February 2025, which provided that i) FTS can now be applied to one or more issues in a case (previously an entire case was ineligible where a taxpayer had one or more issues ineligible for FTS) and ii) FTS denial requires written concurrence from an LB&I Director of Field Operations, verbal explanations to taxpayers, and notification to the LB&I Fast Track mailbox. The IGM supersedes this February guidance, not only incorporating these prior changes but also introducing additional updates.

Under the updated procedures, any proposed denial of a taxpayer's request for FTS must first complete the additional layers of internal review and obtain executive concurrence before the taxpayer is notified. Specifically, all senior directors must inform the LB&I deputy commissioner of a proposed denial, and if the issue is managed by different area directors, coordination between those directors is required.

The IRS's recent changes are designed to make FTS more accessible, promote early resolution of unagreed issues, and ensure that denials are well justified and transparent.

WHAT THIS MEANS FOR TAXPAYERS

Taxpayers may still elect to use the AOF process until December 31, 2025, but it will no longer be mandatory or standard practice. With the elimination of the AOF process, taxpayers can expect a potentially more streamlined examination experience as compared to the prior process requiring formal AOFs. Taxpayers currently under examination, or those who anticipate future IRS audits, should be aware of this change and consider how it may impact their approach to factual development and issue resolution.

Relatedly, taxpayers should be aware of the potential to achieve a more efficient examination process through the expanded use of AIR and greater access to FTS. Given that these changes are new to IRS Exam teams as well, timely and effective communication, along with active collaboration, remain key drivers to realizing the benefits of these changes.

For further information or to discuss how these changes may affect your organization, please contact any member of the Tax Controversy group at [Winston & Strawn LLP](#).

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