



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, DC 20224

SMALL BUSINESS / SELF-EMPLOYED DIVISION

April 2, 2014

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MEMORANDUM FOR DIRECTORS, EXAMINATION AREA OPERATIONS
DIRECTORS, W&I CAMPUS COMPLIANCE
DIRECTORS, SBSE CAMPUS COMPLIANCE

FROM: Brad Bouton */s/ Brad Bouton*
Director, Examination Policy

SUBJECT: Reissued Interim Guidance Regarding Adding Standard
Paragraph Explanations

The purpose of this memo is to reissue IG Memorandum SBSE-04-0413-028 dated April 4, 2013 regarding standard paragraphs that explain adjustments to Self Employment Tax Deduction and added five new paragraphs for the Filer Bridge Program. Please ensure this information is distributed to all affected employees within your organization.

Based on tax law changes, Standard Paragraphs #8240 and #8241, Self Employment Tax Deduction, have been added. These are for use by all functions to explain adjustments to self employment tax for years ending after December 31, 2010. They read as follows:

Standard Paragraph #8240 - Self Employment Tax Deduction

Your self-employment tax for the 2011 tax year has changed as a result of adjustments made to your net earnings from self-employment as shown in this report. The self-employment tax deduction has been adjusted based on the recomputed amount of tax as follows:

If the recomputed self-employment tax is \$14,204.40 or less, the deduction is 57.51% of the recomputed self-employment tax. If the recomputed self-employment tax is more than \$14,204.40, the deduction is 50% of the recomputed self-employment tax plus \$1,067.00.

Standard Paragraph #8241 - Self Employment Tax Deduction

Your self-employment tax for the 2012 tax year has changed as a result of adjustments made to your net earnings from self-employment as shown in this report. The self-employment tax deduction has been adjusted based on the recomputed amount of tax as follows:

If the recomputed self-employment tax is \$14,643.30 or less, the deduction is 57.51% of the recomputed self-employment tax. If the recomputed self-employment tax is more than \$14,643.30, the deduction is 50% of the recomputed self-employment tax plus \$1,100.00.

Standard Paragraphs 8501 through 8505 Filer Bridge Program Standard Explanations are for **use by W&I Campus – Filer Bridge Program only**. See Attachment.

This guidance will be incorporated into IRM 4.10.10, *Standard Paragraphs and Explanation of Adjustments*, no later than April 3, 2015.

If you have any additional questions, you may contact me or have a member of your staff contact Cathy Demetra, Program Manager, Examination Policy, Examination General Processes.

Attachment (1)

Distribution:

www.irs.gov

Standard Paragraph #8501 – Mortgage Interest Verification

We cannot allow the mortgage interest credit and/or deduction as shown on your return. Please submit the following documentation for the mortgage interest claimed:

- Copies of mortgage interest statements, equity credit lines/loans and mortgage contracts, and amortization schedules for loans outstanding.
- Copies of cancelled checks, receipts, or other evidence of payments made for the year in question.

Standard Paragraph #8502 – Schedule A Itemized Deductions for Taxes

We have disallowed the Schedule A itemized deduction for taxes shown on your return. Please send the following documentation for any item claimed:

- Copies of real estate tax bills, personal property tax bills, and documentation for any other tax you are claiming.
- Copies of cancelled checks, receipts, or other evidence of payment of tax for the year in question.

The supporting documents for each item must be complete enough for us to make a determination. Please provide a brief description for each deduction indicated and cross reference the supporting documentation to the expense it supports. Send photocopies of all documents used for verification. PLEASE DO NOT SEND ORIGINALS.

Standard Paragraph #8503 – Child and Dependent Care Credit

We have disallowed the amount claimed on your return for child and dependent care credit. To verify that you are eligible to claim the child and dependent care credit, please send us copies of the following items:

- a) Documents to show the amounts you paid for child and dependent care during the year being examined such as receipts, cancelled checks, account statements, or letters from child or dependent care providers showing the providers' names, addresses, social security numbers (SSNs) or employer identification numbers (EINs), and the dates care was provided;
- b) Documents to show where you resided for the entire year such as a rental lease, mortgage documents, property tax statements and utility bills;
- c) Proof that each dependent for which the credit was claimed lived with you for more than half the year, such as a rental lease, school records, official mail, health care provider or medical insurance records with the dependent's name and your address,

- d) If you claimed the credit for a dependent who was age 13 or over or for your spouse, send us a doctor's note or state certification verifying the dependent or spouse is not capable of caring for himself or herself;
- e) If you are legally separated or divorced and claimed the credit for a child in your custody for whom you released the dependency exemption to the noncustodial spouse, send us the divorce decree or separation agreement awarding you primary physical custody of the child; and
- f) If you were married and filed a separate return from your spouse and lived apart from your spouse for the last six months of the year, send us proof that your spouse was not a member of your household for the last six months of the year and proof that you paid for more than half of your household upkeep expenses such as receipts or cancelled checks for rent or mortgage payments.

Note: For a dependent who reached age 13 during the year, unless the dependent was incapable of self-care, count only the amount you paid for care provided while the dependent was under age 13.

Standard Paragraph #8504 – Alimony Deduction

We have disallowed the deduction claimed on your return for alimony paid.

1. **Identify the alimony recipient(s):** Complete the information below concerning the person(s) to whom you paid alimony. Note: If there were multiple recipients, please provide additional spousal information on an attachment.

Name: _____

Social Security Number: _____

Address: _____

2. **The divorce or separation instrument(s):** Send us a complete signed and dated copy of all of the following legal documents that apply. Your documentation must show that you were required to pay alimony, the amount ordered to be paid, and the name and signature of both parties. You must include all pages and all revisions or amendments of each instrument.
 - a) A decree of divorce or separate maintenance and any written instrument incident to that decree,
 - b) A written separation agreement, and
 - c) A decree or any court order requiring support or maintenance of a spouse, including a temporary or interlocutory decree.
3. **Proof of alimony payment(s):** Send us copies of cancelled checks,

money orders or similar proof of alimony you paid. If an indirect form of payment was used such as automated debit from your bank account or wages, the documentation of payment should identify the recipient by name or docket number of the divorce or separation instrument. If the name or docket number is not listed on your indirect form of payment, you must also provide documentation which establishes the recipient of your payment.

Please include the following additional information if applicable:

If the divorce or separation instrument required...	Then provide...
Payment of child support	<p>Copies of cancelled checks or other proof of child support payments made to either the custodial parent or a state family services agency.</p> <p><i>Note:</i> If you paid less than the total amount required for alimony and child support, the payments apply first to child support and then to alimony.</p>
Payments to third parties for the housing costs of your spouse or former spouse	<p>Proof of payment as well as copies of records verifying the nature of expenses paid such as rent, utilities or similar expenses.</p> <p><i>Note:</i> You must also provide a deed to establish home ownership when documenting mortgage (principal and interest), real estate tax and home insurance payments.</p>
Life insurance coverage for your spouse or former spouse	<p>Records of payment for insurance premiums and verification of the policy owner.</p> <p><i>Note:</i> Your spouse must be the policy owner, not the beneficiary.</p>
Payment of your spouse's medical expenses	Copies of cancelled checks, bills and receipts for medical and dental expenses you paid including premium statements for health insurance coverage if applicable.
Payment of your spouse's education expenses	Copies of registration records, billing statements and cancelled checks or other proof you paid the expenses.
Third party payments toward the purchase of your spouse's personal property such as a car, boat, etc.	Records documenting ownership of the property, the amount of the expense and the amount you paid.
A division of your pension or other employee savings account	<p>Proof of any direct payments you made and a complete copy of your retiree or annuity statement showing all distributions from the plan.</p> <p><i>Note:</i> The statement must identify an alternate payee under a</p>

If the divorce or separation instrument required...	Then provide...
	qualified domestic relations order (QDRO) by name or social security number if payments were made to your spouse by the plan administrator.

Standard Paragraph #8505 – Schedule A-Itemized Deduction-Charitable Contribution Carryover from Prior Year

We have disallowed the Schedule A itemized deduction for charitable contribution-carryover from a prior year shown on your return. You are only able to claim carryover charitable contributions that you were not able to deduct in the prior year because they exceeded your adjusted-gross-income limits. Please provide documentation to verify the amount claimed as charitable contribution carryover. Also provide a worksheet showing the computation of your charitable contribution carryover including a breakdown of the type of property given and the charitable organization.