



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
Washington, DC 20224

SMALL BUSINESS / SELF-EMPLOYED DIVISION

December 19, 2014

Control Number: SBSE-04-1214-0067  
Expiration: December 19, 2016  
Impacted IRM: IRM 4.10.10

MEMORANDUM FOR DIRECTOR, FIELD EXAMINATION  
DIRECTOR, CAMPUS EXAM AND AUR  
DIRECTOR, REFUNDABLE CREDITS EXAM OPERATIONS

FROM: Joseph L. Wilson */s/ Joseph L. Wilson*  
Director, Field, Campus Exam and AUR Policy

SUBJECT: Interim Guidance Revising and Adding Standard Paragraph  
Explanations

The purpose of this interim guidance memorandum is to revise one standard paragraph and add four new standard paragraphs, which can be used immediately. Please ensure this information is distributed to all affected employees within your organization.

The following standard paragraph for frozen refunds has been revised as follows:

**Standard Paragraph # 9938 - *Frozen Refund - Overpayment or Balance due***

A portion or all of your overpayment is being withheld pending the outcome of this examination. If at the conclusion of the examination a deficiency in tax is determined, the overpayment will be applied to the tax deficiency. If the overpayment is less than the deficiency in tax, you will be sent a separate bill for the balance due, including any applicable interest and penalties. Any remaining overpayment will be refunded to you if there are no other taxes or other outstanding legally enforceable debts owed.

Three new standard paragraphs are for use by **all functions**. A new standard paragraph for Schedule E passive activity losses and two new American Opportunity Credit standard paragraphs have been added. These paragraphs are as follows and are shown in the attachment:

- 5015 – Non passive income limit - \$25,000 – Modified AGI phase-out

- 7537 – American Opportunity Credit (Exceeds 4 tax years)
- 7538 – American Opportunity Credit (No documentation)

In addition, one new standard paragraph for the Shared Responsibility Payment **for use by Campus Exam, AUR and Refundable Credits Exam Operations functions only**, has been added as shown in the attachment:

- 8701 – Shared Responsibility Payment (SRP)(For W&I Campus Compliance and SBSE Campus Examination use only)

These new standard paragraphs will be incorporated into the next release of the Report Generation Software (RGS). Prior to the RGS update, examiners can insert these paragraphs using the [custom paragraph](#) feature in RGS.

This guidance will be incorporated into IRM 4.10.10, *Standard Paragraphs and Explanation of Adjustments*, by December 16, 2016.

If you have questions, please contact me or a member of your staff may contact Cathy Demetra, Program Manager, Exam Policy, Field Exam, General Processes.

Attachment (1)

Distribution:

[www.IRS.gov](http://www.IRS.gov)

**Attachment – New Standard Paragraphs**  
**SBSE-04-1214-0067**

**All Functions**

**Standard Paragraph #5015 - Non passive income limit - \$25,000 – Modified AGI phase-out**

Active participants in real property rental real estate activities are allowed to offset up to \$25,000 (\$12,500 if married filing separate) of non-passive income with the net losses from all rental activities, subject to phase-out. To qualify for the \$25,000 offset against wages and portfolio income, you must actively participate, own at least 10 percent and not be a limited partner. The \$25,000 exception is phased out at the rate of \$.50 for every dollar of modified AGI over \$100,000. Based on the calculation of your modified adjusted gross income, you are subject to the phase-out and the amount of your passive activity loss has been limited as shown on this report.

**Standard Paragraph #7537 - American Opportunity Credit (Exceeds 4 tax years)**

We have disallowed the amounts you claimed for the American Opportunity Credit. Our records indicate that this credit was granted for this student on four prior tax returns. This credit is available ONLY for the first four years of postsecondary education, and it is available ONLY for four years per eligible student. Any year for which the student received the Hope Scholarship Credit also counts towards the four year maximum for the American Opportunity Credit.

**Standard Paragraph #7538 - American Opportunity Credit (No documentation)**

We have disallowed the American Opportunity Credit you claimed because we have not received documentation to verify eligibility for this credit.

**Campus Exam, AUR, and Refundable Credits Exam Operations**

**Standard Paragraph #8701 - Shared Responsibility Payment (SRP) (For W&I Campus Compliance and SBSE Campus Exam use only)**

The Shared Responsibility Payment (SRP) you reported on your tax return may be adjusted pending the outcome of our examination. Please provide us with a copy of the worksheet that was used to compute the amount of the SRP entered on your tax return. This information is needed to recalculate the SRP based on adjustments to income or family size made during the examination process. If we do not receive the requested information, we will use the information available to compute and assess the adjusted SRP amount.