



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.19.3

OCTOBER 25, 2023

## EFFECTIVE DATE

(10-25-2023)

## PURPOSE

- (1) This transmits revised IRM 4.19.3, Liability Determination, IMF Automated Underreporter Program.

## MATERIAL CHANGES

- (1) IRM 4.19.3.2.5(4) note - removed note for dotted line literals
- (2) IRM 4.19.3.2.8(7) - added field for system window
- (3) IRM 4.19.3.2.9(6) - added new (6) for refundable credit for qualified sick, renumbered remainder of subsection
- (4) IRM 4.19.3.4.3.5 - changes title to Correspondence Imaging Inventory (CII), changed CIS to CII throughout subsection
- (5) IRM 4.19.3.5 - removed exception, added new (6) for income comparison, added new note, renumbered remainder of subsection
- (6) IRM 4.19.3.5(12) - new note for Virtual currency is the enactment of the Infrastructure Investment and Jobs Act in November 2021 changed the term to “digital assets” for TY 2022
- (7) IRM 4.19.3.5(14) - moved note to (11)e for clarity
- (8) IRM 4.19.3.5.4(3) - added reference to Pub, removed bullet listing with states
- (9) IRM 4.19.3.5.6(2) - removed prior year Forms 8915 in bullet listing
- (10) IRM 4.19.3.5.9(3)table - removed note for negative entries on line numbers
- (11) IRM 4.19.3.8.2.1(6) - added instructions for system window entries
- (12) IRM 4.19.3.8.5.1 - new (3) for General Welfare Doctrine for SITR, renumbered remainder of subsection
- (13) IRM 4.19.3.8.5.1(4) - added instructions for system window entries
- (14) IRM 4.19.3.8.7.1(2) - new note for selling personal items
- (15) IRM 4.19.3.8.7.1(3)b - removed similar caution, combined Schedule D/Form 8949 to (3)c caution
- (16) IRM 4.19.3.8.10.4(6) a and b - deleted a and b, added new (7), deleted (8) note, renumbered remainder of subsection
- (17) IRM 4.19.3.8.17.1(7) - added new(7) for system entries for SSA/RRB, removed (8) included in new (7), renumbered remainder of subsection
- (18) IRM 4.19.3.8.18.1(3) caution - revised verbiage for clarity, added new (5)e for Red Fuel spill
- (19) IRM 4.19.3.9.3.1(2) - added new b and c for system window entries
- (20) IRM 4.19.3.9.6.1 - new (15), (16), and (17) for system entries for IRA, SEP/KEOGH

- (21) IRM 4.19.3.9.7.3(3) - added new (3) for system window entries
- (22) IRM 4.19.3.9.9 - revised title to add applicable tax years
- (23) IRM 4.19.3.9.10 - revised section to remove reference to Form 8903, removed system window instructions
- (24) IRM 4.19.3.11.1 - added new (2) for system window entries for Schedule A, renumbered remainder of subsection
- (25) IRM 4.19.3.11.3 - revised title to include applicable tax years
- (26) IRM 4.19.3.11.3.1 - revised title to include applicable tax years
- (27) IRM 4.19.3.12(5) - added enter manual QBID amount when appropriate
- (28) IRM 4.19.3.13(5)g - manual entry for system window
- (29) IRM 4.19.3.14.1 - new (6) for system window entries, renumbered remainder of subsection
- (30) IRM 4.19.3.14.2 - (1) - added steps for system window entries, renumbered remainder of subsection
- (31) IRM 4.19.3.14.3 - added new (2) for system window entries
- (32) IRM 4.19.3.15.2(5) - added new (5) to compute or recompute Child Care Credit with Form 2441 and system window entries, renumbered remainder of subsection
- (33) IRM 4.19.3.15.3(3) - added step list for system window entries for Credit for Elderly or Disabled
- (34) IRM 4.19.3.15.4(17) - added alfa list for system window entries
- (35) IRM 4.19.3.15.5(11) - added bullet list for system window entries
- (36) IRM 4.19.3.15.6(4) added (a) to include Schedule, Form and line number
- (37) IRM 4.19.3.15.7(6) - added step list for system window entries
- (38) IRM 4.19.3.15.8(2) - added step list for system window entries, renumbered remainder of subsection
- (39) IRM 4.19.3.16.1(7) - revised and added table for methods to compute SE tax, new (11) for system window entries, renumbered remainder of subsection
- (40) IRM 4.19.3.16.1(11) - new (11) instructions for Form 8919, new (12) for negligence and reasonable cause fields, new (13) for system window entries
- (41) IRM 4.19.3.16.3(8) - added new exception codes, revised from alpha to table,
- (42) IRM 4.19.3.16.6(4) - added new (4) step list for system window entries
- (43) IRM 4.19.3.16.9(7) - added system window entry line numbers
- (44) IRM 4.19.3.16.11(3) - added new (3) for system window entries, renumbered remainder of subsection
- (45) IRM 4.19.3.17.1.1(15) - added step list for system window entries for Withholding, renumbered remainder of subsection
- (46) IRM 4.19.3.17.2(7) new (7) for system window entries, renumbered remainder of subsection
- (47) IRM 4.19.3.17.7 - revised title to include applicable tax year

- (48) IRM 4.19.3.22.1.1.3(1) caution - revised to include appropriate process codes
- (49) IRM 4.19.3.22.1.5 - title was changed to Policy Statement P-21-3
- (50) IRM 4.19.3.22.1.9(6) - added fax information
- (51) IRM 4.19.3.22.1.22(11) - added exception with instructions for P1/P2 if C1/C2 already exists
- (52) IRM 4.19.3.22.2.4(29) - removed table and provided cross reference
- (53) IRM 4.19.3.22.3.2.1(2) - new (2) for system window entries
- (54) IRM 4.19.3.22.3.4(2) - added new (i) for General Welfare Doctrine for SISR
- (55) Exhibit 4.19.3-7 - removed paragraph 222
- (56) Exhibit 4.19.3-18 - removed dotted line literal exhibit
- (57) Changes were made throughout the IRM as follows:
  - Updated forms, form lines, and dates to include TY 2022 and remove TY 2019 dates
  - Updated money amounts to include TY 2022 amounts and remove TY 2019 amounts
  - Updated form line/column numbers to include TY 2022 line numbers and remove TY 2019 line numbers (added tables where appropriate)
  - Revised virtual currency to digital assets (virtual currency)
  - SGN changed to AGN
  - CIS changed to CII
  - Action 61/Policy Statement P-21-3 changed to Policy Statement P-21-3
  - Editorial changes have been made to web-links, legal references and IRM references

#### **EFFECT ON OTHER DOCUMENTS**

This material supersedes IRM 4.19.3, effective 10/06/2022, for Tax Years 2022, 2021 and 2020. The following IRM Procedural Updates are incorporated: IPU 22U1117 (dated 11-23-2022), IPU 23U0312 (dated 02-27-2023), 23U0427 (dated 03-17-2023), 23U0531 (dated 4-24-2023), IPU 23U0680 (dated 06-01-2023), IPU 23U0800 (dated 07-03-2023), IPU 23U0864 (dated 07-31-2023)

#### **AUDIENCE**

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4.19.3

IMF Automated Underreporter Program

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4.19.3.1  
(08-22-2017)  
**Program Scope and Objectives**

- (1) Purpose - This IRM section describes technical procedures for the Small Business/Self Employed (SB/SE), Individual Master File (IMF) Automated Underreporter Program (AUR). Specifically, IRM 4.19.3:
  1. Includes procedures for analysis and comparison of tax returns to third-party information return documents.
  2. Outlines instructions for issuing AUR notices.
  3. Provides guidance for processing taxpayer written and telephone responses.
  4. Includes processes for AUR assessments.
  5. Provides instructions for reconsideration of AUR assessments.
- (2) Audience - These procedures apply to all tax examiners who work in SB/SE IMF AUR.
- (3) Policy Owner - The IMF AUR Program is under Small Business/Self-Employed Operations, Examination, Field and Campus Policy.
- (4) Program Owner - IMF AUR Policy, which is under Examination, Field and Campus Policy, is responsible for providing guidance and procedures to work the IMF AUR Program, for the content of this IRM, and for oversight of the AUR system.

4.19.3.1.1  
(08-22-2017)  
**Background**

- (1) Potential AUR cases are systemically identified through computer matching of tax returns with corresponding Information Returns Master File (IRMF) payer information documents. Cases are selected for inventory in a manner determined to provide overall compliance coverage. Selected cases undergo an in-depth review by a tax examiner to identify underreported and/or over-deducted issues which require further explanation to resolve the discrepancy.

4.19.3.1.2  
(12-14-2020)  
**Authority**

- (1) Chapter 61 of the Internal Revenue Code (Information and Returns), Subchapter A (Records and Returns), Part III (Information Returns), sections 6031 – 6059, contain the requirements for the filing of information returns for income reporting purposes. Rev. Proc. 2005-32 provides authority to treat taxpayer contacts to verify a discrepancy between the taxpayer's tax return and an information return, or between a tax return and information otherwise in the Service's possession as taxpayer contacts and other actions not considered an examination, inspection or reopening.

4.19.3.1.3  
(08-22-2017)  
**Responsibilities**

- (1) The Director, Exam Field and Campus Policy, Small Business/Self Employed, is the executive responsible for the IMF AUR Program.
- (2) The AUR Program Manager, Headquarters Exam Operations, Field and Campus Policy, IMF AUR Policy is responsible for IMF AUR policy and for providing guidance for the AUR Program.

4.19.3.1.4  
(08-22-2017)  
**Program Reports**

- (1) AUR inventory is monitored and managed using a series of specific, detailed reports accessed through the AUR system.
- (2) IDRS reports applicable to AUR cases are accessed and monitored through the use of the Control-D reporting system.

4.19.3.1.5  
(08-22-2017)  
**Terms**

- (1) Terms used in this IRM are listed and defined in Exhibit 4.19.3-2, Glossary.

4.19.3.1.6  
(08-22-2017)  
**Acronyms**

- (1) Acronyms used in this IRM are listed and defined in Exhibit 4.19.3-1, Abbreviations.

4.19.3.1.7  
(09-30-2018)  
**Related Resources**

- (1) Internal Revenue Manuals and publications which may be helpful if in-depth research is needed to resolve unusual technical issues not covered in AUR instructions are listed in IRM 4.19.3.2.3, Related IRMs and Publications.

4.19.3.2  
(09-21-2020)  
**Overview of IMF Automated Underreporter**

- (1) This manual provides instructions for Automated Underreporter (AUR), the automated analysis and processing of potential underreported (U/R) and/or over-deducted (O/D) issues identified through information return (IR) matching.
- (2) AVOID "AUDITING" RETURNS. All returns in the AUR inventory were previously screened for unallowable items and audit potential. They were not selected for action in either event. See IRM 4.19.3.22.1, Taxpayer Responses - Overview.
- (3) Underreporter cases are built from two primary sources:
  - The Individual Master File (IMF) which contains information reported to IRS by taxpayers
  - The Information Returns Master File (IRMF)
- (4) The IMF file contains information reported on:
  - Form 1040, U.S. Individual Income Tax Return
  - Form 1040-SR, U.S. Tax Return for Seniors
- (5) The IRMF information is matched with the IMF information to verify the taxpayer reported all income as required. An AUR case results when computer analysis detects a discrepancy between the two data sources. Information in the IRMF file includes, but is not limited to:
  - Form W-2, Wage and Tax Statement
  - Form 1099-INT, Interest Income
  - Form 1099-DIV, Dividends and Distributions
- (6) The information documents in the Form W-2 series and Form 1099 if tax was withheld should be attached to the tax return when it is filed.
- (7) Taxpayers need not attach information documents in the Form 1099 (unless tax was withheld as noted above), Schedule K-1, Form 1098, and Form 5498 series to the return when it is filed.
- (8) Discrepant cases are then categorized by type (for example, wage, dividend, interest discrepancy) and underreported range (for example, \$200-499.99 tax change). These categories provide a logical system of criteria to select cases from the available inventory.
- (9) After cases are selected from the inventory, they are worked according to procedures in this IRM.
- (10) AUR Operations at seven campuses compile and control selected cases.

- a. Enterprise Computing Center at Martinsburg (ECC-MTB) sends tape information from the IRMF, Return Transaction File (RTF), Taxpayer Information File (TIF), and Payer Agent file. See IRM 4.19.3.6, Payer Agent/Fraud Information, for additional information on the Payer Agent file. This information downloads to the AUR system.

**Note:** Data from the TIF and Payer Agent file is updated weekly.

- b. A computer tape containing Form 4251, Return Charge-Out, data prints on a Campus printer. Each Form 4251 contains a social security number (SSN), tax year, and other case identification information, represented in a bar code and numeric format.
- c. Federal Records Center (FRC) pulls and forwards paper returns to the Campus Files function for routing to Underreporter.
- d. Returns are controlled into the AUR system by scanning the bar code.

**Note:** Electronically Filed Returns/Form 1040/ Form 1040-SR(ELF) are considered virtual cases and are systemically built into screening batches.

- (11) Tax examiners perform an in-depth analysis of each case and determine if the discrepant income or deduction(s) in question are satisfactorily identified or addressed on the tax return. If so, they close the case. If reasonable doubt remains, they send the taxpayer either:

- An AUR Notice, CP 2000 or
- An Initial Contact Letter, CP 2501

**Note:** The system auto generates CP 2501/ CP 2000 Notices for select income categories.

- (12) At times HQ may issue specialized case processing procedures and/or direct a hold in case processing. These directives supersede normal AUR case processing procedures and all case processing time frames are suspended and do not apply.

**Note:** Form 872A, Special Consent to Extend the Time to Assess Tax, must have HQ Policy approval prior to issuance.

- (13) AUR is a self-contained system that displays all necessary information to process a case without accessing other systems. IDRS use should be limited to instances when this IRM directs such research.

- (14) Process codes (PC) are used to provide an audit trail for AUR case processing. Integrated Data Retrieval System (IDRS) reflects PCs as pending actions until they post to the Master File.

- a. PC 0X (except 09) is computer generated to designate how and by which organization the case has been selected. PC 09 establishes an IDRS control base and reflects CP 2000 interest as pending.
- b. PC 20 adjusts Withholding (W/H), Excess Social Security/Railroad Retirement Tax (SSTAX) and Additional Medicare Tax withheld (MCTXW) only. A Letter 2893-C is sent to advise the taxpayer, as outlined in IRM 4.19.3.17.1.2, Withholding - Miscellaneous, IRM 4.19.3.17.2, Social Security Tax/Tier 1 Railroad Retirement Tax, and IRM 4.19.3.17.1.4, Additional Medicare Tax (Withholding Reconciliation).

- c. PC 30 establishes an IDRS control base whenever a CP 2501 is generated.
  - d. PC 55 updates an IDRS control base when a CP 2000 is generated. An amended CP 2000 Notice also updates the existing IDRS control base.
  - e. PC 75 and 77 updates the IDRS control base when a Statutory Notice of Deficiency (A CP 3219A and Form 5564, Notice of Deficiency - Waiver) is issued/generated.
  - f. Other PCs are input during AUR processing. Select **pc lookUp** in the Analysis Menu from the Case Analysis Screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Process Codes (PC).
- (15) Internal process codes (IPC) are codes used in AUR processing and do not post to IDRS. See Exhibit 4.19.3-3, AUR Internal Process Codes.
  - (16) See Exhibit 4.19.3-1, Abbreviations and Exhibit 4.19.3-2, Glossary, for a list of abbreviations and definitions used in AUR processing.
  - (17) See Exhibit 4.19.3-12, Titles of Forms and Schedules, for a complete list of Forms and their titles.

4.19.3.2.1  
(11-01-2021)  
**Taxpayer Advocate  
Service (TAS)**

- (1) Even though the IRS strives to improve its systems and provide better service, some taxpayers still have difficulty in getting solutions to their problems or appropriate responses to their inquiries. The purpose of the Taxpayer Advocate Service (TAS) is to give taxpayers someone to speak for them within the Service - an Advocate. TAS is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe an IRS system or procedure is not working as it should.
- (2) The OAR may include Form 907, Agreement to Extend the Time to Bring Suit. Taxpayers have two years to appeal Letter 105C/ 106C. If Form 907 is filed in response to Letter 105C/106C issued by AUR, it must be signed by the Operations manager or approved delegate.
- (3) Refer taxpayers to the Taxpayer Advocate Service (TAS) (see IRM Part 13, Taxpayer Advocate Service) when the contact meets TAS criteria (see IRM 13.1.7, Taxpayer Advocate Service (TAS) Case Criteria) and you cannot resolve the taxpayer's issue the same day. The definition of "same day" is within 24 hours. "Same day" cases include cases you can completely resolve within 24 hours, as well as cases in which you have taken steps within 24 hours to begin resolving the taxpayer's issues. **Do not refer these cases to TAS unless they meet TAS criteria and the taxpayer asks to be transferred to TAS.** Refer to IRM 13.1.7.5, Same Day Resolution by Operations. When referring cases to TAS, use Form 911, Request for Taxpayer Advocate Service Assistance (and Application for Taxpayer Assistance Order), and forward to TAS. In addition, provide the taxpayer with the number for the National Taxpayer Advocate (NTA) toll-free line, 877-777-4778 or TDY/TDD 800-829-4059 and advise the taxpayer TAS is available if they are not satisfied with the service he or she received.

**Note:** It is important all IRS employees handle cases with the taxpayer's best interest in mind.

4.19.3.2.1.1  
(08-26-2016)

**Taxpayer Rights  
Background and  
Importance of the  
Statutory Notice of  
Deficiency**

- (1) Taxpayers have the right to appeal many IRS decisions in an independent forum. Taxpayers generally have the right to take their cases to court. Taxpayers also have the right to be informed. That is, they are entitled to clear explanations. The right to petition the U.S. Tax Court is a critical entitlement for taxpayers, it is important employees understand and educate taxpayers about the foundation and impact of this right on taxpayers and the IRS.
- (2) A Notice of Deficiency (NOD), also called a Statutory Notice of Deficiency (Stat), SNOD or "90-Day Letter," is the legal notice in which the Commissioner determines the taxpayer's tax deficiency. IRC 6212, IRC 6213, IRC 6214, and IRC 6215 require the IRS issue a Stat before assessing additional income tax, estate tax, gift tax, and certain excise taxes unless the taxpayer agrees to the additional assessment. The Stat is a legal determination that is presumptively correct and consists of the following:
  - a. A letter explaining the purpose of the notice, the amount of the deficiency, and the taxpayer's options.
  - b. A waiver to allow the taxpayer to agree to the additional tax liability.
  - c. A statement showing how the deficiency was computed.
  - d. An explanation of the adjustments.
- (3) The purpose of the Stat is to:
  - a. Ensure the taxpayer is formally notified of the IRS' intention to assess a tax deficiency.
  - b. Inform the taxpayer of the opportunity and right to petition the U.S. Tax Court to dispute the proposed adjustments.
- (4) A Stat is issued for deficiencies of income, estate, or gift tax liabilities as well as for certain excise taxes.
- (5) The Stat must provide the taxpayer with notice of the Commissioner's basis for determining the proposed deficiency.
- (6) IRC 6212 requires the IRS issue this notice to the taxpayer's last known address by certified or registered mail. Once the IRS issues this notice, the taxpayer has 90 days (150 days if the Stat is addressed to a person outside the United States) from the date the Stat is mailed to file a petition in the U.S. Tax court. This 90-day (or 150 day) period is statutory and IRS employees cannot extend it.
- (7) If the taxpayer does not petition the U.S. Tax Court within the 90 days (or 150 days), the IRS is permitted to assess the deficiency, plus any additions to tax, after the 90 days (or 150 days) have passed. Although the IRS does permit reconsideration of examination assessments in some situations, the taxpayer loses significant administrative and judicial avenues to dispute the IRS' decision if they do not file a petition. Therefore, it is critical that IRS employees understand the importance of the Stat and be able to explain its ramifications to taxpayers. The U.S. Tax Court website ([ustaxcourt.gov](http://ustaxcourt.gov)) provides substantial information on the petition process.
- (8) If the taxpayer does petition the U.S. Tax Court within the 90 days (or 150 days), the IRS is prohibited from making the assessment until after the court enters a decision. Once the taxpayer petitions, the IRS will usually send the case to Appeals to try to settle the case prior to the U.S. Tax Court hearing date unless the taxpayer has already been through the IRS' administrative appeal process.



4.19.3.2.2  
(01-27-2015)  
**Statute Awareness  
Program**

- (1) The Statute Awareness Program was created to minimize barred assessments and erroneous abatements. The time involved in the processing of AUR issues, AUR employees must be particularly watchful for conditions that may indicate statute imminent cases.
- (2) If the case is Statute imminent take the appropriate actions to prevent a barred assessment. If the case is identified during a phone call and the case belongs to another site, notify the Site immediately of the imminent statute (in other words, phone call, email, fax statute referral, etc.).
- (3) Although the system generates the Statute Listing on a weekly basis to alert management to statutes in danger of expiring, employees must be personally knowledgeable of the rules that govern the assessment statute expiration date (ASED). These rules are outlined in IRM 25.6, Statute of Limitations.

**Note:** The ASED can be found in the STATUTE EXP DATE field on the Tax Account screen, but the date should be verified.

- (4) Each functional area should ensure an adequate number of “Statute Specialists” are assigned.

4.19.3.2.3  
(01-28-2022)  
**Related IRMs and  
Publications**

- (1) Before disclosing any tax information, you must be sure you are speaking with or faxing information to the taxpayer or authorized representative. See the Taxpayer Authentication guidelines in IRM 4.19.3.22.2.2, Disclosure, for further information.
  - See IRM 4.19.3.22.2.4, Case Specific Inquires, for proper disclosure protocols before leaving messages on a taxpayer’s answering machine or faxing confidential information.
  - See IRM 10.8.1, Information Technology (IT) Security-Policy Guidance for proper disclosure protocols before faxing confidential information to the taxpayer from a Facsimile (FAX), Electronic Facsimile (EFAX), and IRS Internal Enterprise Electronic Facsimile (EFAX) Transmission of Tax Information.
- (2) The following additional IRMs and publications/documents are listed as a convenience when AUR determines in-depth research is required to resolve unusual technical issues not covered in AUR instructions, Form 1040 instructions and various publications. When reference to one of the related IRMs is **required** for AUR processing, the complete IRM reference is stated in this IRM.

**Note:** Technical issues that occur frequently should be brought to the attention of the IRM 4.19.3, Liability Determination - IMF Automated Underreporter Program author for consideration for inclusion in this IRM.

IRM Number	Title
2.3	IDRS Terminal Response
2.4	IDRS Terminal Input
4.13.1	Audit Reconsiderations, Introduction



IRM Number	Title
4.19.2	IMF Automated Underreporter (AUR) Control
4.19.7	IMF Automated Underreporter (AUR) Technical System Procedures
10.5	Privacy and Information Protection
10.5.7	Use of Pseudonyms by IRS Employees
11.3	Disclosure of Official Information
13.1.7	Taxpayer Advocate Service (TAS) Case Criteria
20.1	Penalty Handbook
20.2	Interest
21.1.1	Accounts Management and Compliance Services Overview
21.1.3.18	Taxpayer Advocate Service (TAS) Guidelines
21.4.4	Manual Refunds
21.8.1	IMF International Returns
25.6.1	Statute of Limitations Process and Procedures
Publication 17	Your Federal Income Tax (For Individuals)
Document 6209	IRS Processing Codes and Information

4.19.3.2.4  
(09-01-2003)  
**AUR Security**

- (1) The AUR system design protects both taxpayer data and the individual AUR users. ALL users are responsible for protecting taxpayer information. Users should access ONLY the data needed to perform their duties, and not divulge taxpayer information to any employee who does not have an official "need to know". Users will report infractions to their managers immediately.

4.19.3.2.5  
(10-25-2023)  
**Electronic Filing System**

- (1) Returns are filed electronically by electronic transmitters or from a home computer through a third-party vendor (On-Line Filing). Individual electronic returns are transmitted to Andover (ANSC), Austin (AUSC), Fresno (FSC), Kansas City (KCSC), Philadelphia (PSC) and Memphis (ECC-MEM).
- (2) All electronically transmitted returns are identified by a unique document locator number (DLN). The file location codes (FLC) shown below are for the

electronic filing of individual income tax returns. The second number listed is the rollover FLC used when a site exhausts the regular FLC for a given processing date.

- ANSC - 16; 14
- AUSC - 76; 75; 21 for U.S. Possessions; 20 for International returns
- FSC - 80; 90
- KCSC - 70; 79
- PSC - 30; 32
- ECC-MEM - 72; 64

**Note:** The system will not allow a user to order a transaction code (TC) 150 document with the above FLC codes.

- (3) Information such as loose forms, schedules, and correspondence CANNOT be attached to an ELF return. Do not use an attachment or association form.
- (4) TRDB has a Tab option: "Dotted...". Dotted line literals are only available on tax returns filed via Modernized e-File (MeF). MeF returns can be identified by a DLN Julian Date greater than 400. A TRDB screen, "Dotted..." tab display, with no entries, indicates either:
  1. The return was not filed via MeF (DLN Julian Date less than 400) or
  2. The MeF filed return included no dotted line literals.
- (5) TRDB has a Tab option: "Attach". When the user accesses the "Attach" tab, each statement/attachment the taxpayer electronically filed will be listed. There is no standard list of names/titles for the taxpayer to use so the statement/attachment will be listed by the file name the taxpayer used.
- (6) No change PCs 15, 47, 48, 51, 52, 70, 71, 72, 73, 91, 92 and 93 automatically generate a TC 290-0 for electronically filed returns with a "Y" in the SOURCE DOCUMENT ATTACHED? field in the Assessment window.

**Caution:** If there is no information (loose forms, schedules or correspondence) to be associated with the refile DLN, enter an "N" in the SOURCE DOC field in the Process Code window.

#### 4.19.3.2.6 (09-21-2020) Integrated Automation Technologies (IAT)

- (1) Automated Underreporter employees are mandated to use certain Integrated Automation Technologies (IAT) tools. When an action must be taken on IDRS (unable to complete the action within the AUR system) and an IAT tool is available, AUR employees with access to IAT tools are required to complete the action using the IAT tool. The IAT tools assist the tax examiner with IDRS research and input. See Exhibit 4.19.3-18, Mandated IAT Tools, for a list of mandated IAT tools.

**Note:** See Exhibit 4.19.3-19, Additional IAT Tools Available (Use Not Mandated), for additional IAT tools.

- (2) If an IAT tool is not functioning properly, the case should be worked using IDRS. For more information on each tool see *IAT Website*.

4.19.3.2.7  
(10-06-2022)  
**Tax Cuts and Jobs Act  
(TCJA) enacted  
December 2017**

- (1) The Tax Cuts and Jobs Act (TCJA) enacted December 2017 resulted in major tax reform legislation. TCJA delivered tax relief by reducing the tax rates and increasing the standard deduction. As a result, taxpayers now use only the newly redesigned Form 1040, U.S. Individual Income Tax Return / Form 1040-SR, U.S. Tax Return for Seniors and accompanying Schedules.
- (2) One or more of these schedules may be used depending on the taxpayer's income, credits, taxes or payments. The schedules are:
  - Schedule 1, Additional Income and Adjustments to Income
  - Schedule 2, Additional Taxes
  - Schedule 3, Additional Credits and Payments
- (3) The deduction for personal exemptions for taxpayers, their spouse, or dependents was suspended for TY 2018 to 2025. To offset this change, the standard deduction amounts were increased. See IRM 4.19.3.13, Standard Deduction, for additional information.

**Note:** The standard deduction is based on filing status and if the taxpayer is 65 years or older or blind, and if they can be claimed as a dependent on another return. See IRM 4.19.3.13, Standard Deduction, for additional information.

- (4) TCJA legislation included, but limited to:
  - Changes to the itemized deductions claimed on Schedule A. See IRM 4.19.3.11, Changes to Itemized Deductions, for further information.
  - A non-refundable credit for dependents who do not qualify for the Child Tax Credit (CTC). See IRM 4.19.3.15.4.1, Other Dependent Credit.
  - Investors may elect to defer tax on eligible gains by investing the gains in a Qualified Opportunity Fund (QOF). See IRM 4.19.3.22.3.17, Securities Sales.
  - Student loans discharged due to death or disability are not included in income on loans discharged after December 31, 2017, and before January 1, 2026. See IRM 4.19.3.8.20.1, Cancellation of Debt (DBTCN) Analysis and IRM 4.19.3.22.3.16, Cancellation of Debt (DBTCN), for additional information.
  - Service members serving in the Sinai Peninsula can claim combat zone benefits retroactive to June 2015. See IRM 4.19.3.22.1.11, Combat Zone, for additional information.
  - Qualified Business Income deduction (QBID), also referred to as a IRC 199A deduction. See IRM 4.19.3.12, Qualified Business Income Deduction (QBID) for additional information.
  - A conversion of a traditional IRA to a ROTH IRA, and a rollover from any other eligible retirement plan to a ROTH IRA, cannot be recharacterized as having been made to a traditional IRA. See IRM 4.19.3.8.10.7, IRA Distributions, for additional information.
  - Section 199 DPAD was repealed in its entirety for taxable years beginning after December 31, 2017. However, a transition rule provides that section 199 DPAD passed through from a specified agricultural or horticultural cooperative after December 31, 2017, may be deductible by the patrons in a later taxable year, if the amount relates to a cooperative taxable year beginning before January 1, 2018. See IRM 4.19.3.9.10, Domestic Production Activity Deduction (DPAD).

- (5) Losses from a trade or business of noncorporate taxpayers are limited when the net losses from all trade or business income is more than an inflation-adjusted threshold amount for tax years after 2017 and before 2026. The Coronavirus Aid, Relief and Economic Security Act (CARES Act) repealed limitation for tax years 2018, 2019 and 2020. For tax years 2018 and 2019, taxpayers may need to file an amended return if they filed TY 2018 and/or TY 2019 return(s) applying the limitation.
- (6) The following provisions were extended by Further Consolidated Appropriations Act, 2020 and will expire:
  - Tuition and Fees Deduction (TUTFE). TUTFE will expire December 31, 2020.
  - Exclusion for qualified principal residence indebtedness discharged before January 1, 2021, unless an arrangement that was entered into and evidenced in writing before January 1, 2021. See IRM 4.19.3.8.20.1, Cancellation of Debt (DBTCN) – Analysis, and IRM 4.19.3.22.3.16, Cancellation of Debt (DBTCN), for additional information.

4.19.3.2.8  
(10-25-2023)

**Coronavirus Aid, Relief,  
and Economic Security  
(CARES) Act and  
Coronavirus Response  
and Relief Supplemental  
Appropriations (CRRSA)  
Act of 2021**

- (1) The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021 was signed on December 27, 2020, and The American Rescue Plan (ARP) Act of 2021 was signed on March 11, 2021. The legislations allowed for advance payments of the recovery rebate credit, these payments are referred to as Economic Impact Payments (EIP).
- (2) EIP (CARES = EIP1, CRRSA = EIP2) were issued to most eligible taxpayers in 2020. The amounts were based on the AGI of either TY 2019 or TY 2018 tax return. If, at the time EIP was issued, a tax year 2019 return was not processed, the TY 2018 AGI was used.
- (3) EIP (ARP = EIP3) was issued to most eligible taxpayers between March and December of 2021. The amount was based on the AGI of their TY 2020 tax return. If a TY 2020 tax return was not processed when eligibility and amount of payment were determined, TY 2019 tax information may have been used.
- (4) IRS began issuing EIP1 in April 2020, EIP2 in December 2020 and EIP3 in March 2021. The EIP amounts for each round are as follows:

TY 20 CARES ACT (EIP1)	TY 20 CRRSA Act (EIP2)	TY 21 ARP Act (EIP3)
\$1,200 per individual (\$2,400 for MFJ)	\$600 per individual (\$1,200 for MFJ)	\$1,400 per individual (\$2,800 for MFJ)
\$500 for each qualifying child/dependent under 17 years old	\$600 for each qualifying child/dependent under 17 years old	\$1,400 for each child/dependent under 19 years old

- (5) Economic Impact Payments can be identified on the tax account as:

**Note:** The Recovery Rebate Credit (RRC) can be identified on the tax account screen as TC 766 with Credit Reference Number (CRN) 256.

Transaction Code	Credit Reference Number	Description
TC 766	CRN 338	amount attributable to the primary and secondary taxpayer
TC 766	CRN 257	amount attributable to the children

- (6) If the taxpayer claimed the RRC on their tax return, the IRS may correct the allowable amount of the RRC during original processing. If changes were made to the RRC during original processing, math error codes: 681, 682 and/or 683 may display on the tax account screen.
- (7) During screening phase, no adjustment will be made to the RRC.

**Exception:** If a math error was made during original processing, take the math error code into consideration, enter/verify the appropriate amounts of the RCC, Form 1040, line 30, (TY 2020 and TY 2021) in the RECOVERY REBATE CREDIT field in the NONREFUNDABLE CREDIT window.

- (8) During responses phase: If the taxpayer requests an adjustment to the RRC, advise the taxpayer the request must be submitted on Form 1040-X. Send PARAGRAPH 222, see Exhibit 4.19.3-7, CP PARAGRAPHS. If the taxpayer's response includes a Form 1040-X and is requesting an adjustment to the RRC work AUR issues included on Form 1040-X and then forward the Form 1040-X to AM to process the RRC.

**Note:** Include a statement informing AM that the AUR issues have been addressed.

- (9) The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021 permits penalty-free Coronavirus related distributions from retirement plans up to \$100,000. A coronavirus-related distribution is defined as any distribution from an eligible retirement plan made on or after January 1, 2020, and before December 31, 2020, for:
1. Taxpayer is diagnosed with the coronavirus.
  2. Taxpayer's spouse or dependent is diagnosed with COVID-19, or
  3. Taxpayer experienced adverse financial consequences from being quarantined, furloughed, or laid off from work due to COVID-19.
  4. Taxpayer was unable to work due to childcare due to coronavirus.
  5. Taxpayer had to close or reduce the hours of their business, owned or operated due to coronavirus, or
  6. Taxpayer had a reduction in pay (or self-employment income) due to coronavirus or having a job offer, start date rescinded or delayed due to coronavirus.
- (10) Taxpayer's must meet the above requirements and complete the appropriate Form 8915, Qualified Disaster Retirement Plan Distribution and Repayments Series and report the distribution on Form 1040/1040-SR lines 4b or 5b.

4.19.3.2.9  
(10-25-2023)  
**Families First  
Coronavirus Response  
Act (FFCRA)**

- (1) The Families First Coronavirus Response Act (FFCRA), enacted in March 2020 provides small and midsize employers refundable tax credits that reimburse them, dollar for dollar, for the cost of providing paid sick and family leave related to COVID-19. The FFCRA extends to self-employed individuals equivalent refundable tax credits against net income tax. The COVID-related Tax Relief Act of 2020 extended the period during which eligible self-employed individuals may claim tax credits to leave taken through March 31, 2021.

**Note:** For TY 2021, taxpayers may claim similar tax credits for leave taken from April 1, 2021 through September 30, 2021.

- (2) Self-employed individuals are eligible to receive qualified sick leave wages or qualified family leave wages under the Emergency Paid Sick Leave Act (EPSLA) or the Emergency Family and Medical Leave Expansion Act (Expanded FMLA).
- (3) For TY 2020 and subsequent, eligible self-employed individuals are allowed an income tax credit equal to their “qualified sick leave equivalent amount” or “qualified family leave equivalent amount” for leave taken for reasons under the EPSLA or the Expanded FMLA. The credits are taken on Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals.
- (4) Taxpayers will complete Form 7202, Part I (TY 2020), Part I January 1, 2021 through March 31, 2021 or Part III, April 1, 2021, through September 30, 2021 (TY 2021) to claim Credit for Sick Leave and enter the amount on Form 1040/1040-SR Schedule 3, line 12b (TY 2020), line 13b ( for leave taken before April 1, 2021) or 13h ( for leave taken after March 31,2021) (TY 2021) if:
- Taxpayer was subject to a federal, state, or local quarantine or isolation order related to COVID-19.
  - Taxpayer was advised by a health care provider to self-quarantine due to concerns related to COVID-19.
  - Taxpayer was experiencing symptoms of COVID-19 and seeking a medical diagnosis.
  - Taxpayer was caring for an individual who was subject to a federal, state, or local quarantine or isolation order related to COVID-19.
  - Taxpayer was caring for an individual who was advised by a health care provider to self-quarantine due to concerns related to COVID-19.
  - Taxpayer was caring for a son or daughter because the school or place of care for that child was closed or the childcare provider for that child was unavailable due to COVID-19 precautions.
- (5) Taxpayers will complete Form 7202, Part II (TY 2020), Part II, January 1, 2021 through March 31, 2021, or Part IV, April 1, 2021 through September 30, 2021 (TY 2021) to claim Credit for Family Leave and enter the amount on Form 1040/1040-SR Schedule 3, line 12b (TY 2020), line 13b (for leave taken before April 1, 2021) or 13h (for leave taken after March 31, 2021) (TY 2021) if:
- Taxpayer was unable to perform services as a self-employed individual because of certain coronavirus-related care the taxpayer provided to a son or daughter whose school or place of care was closed or whose childcare provider was unavailable for reasons related to COVID-19. And, for leave taken from April 1, 2021 through September 30, 2021, for all reasons which a taxpayer could have claimed the credit for sick leave.



**Note:** The taxpayer may meet the requirements for both credits but can only count the day once and only use one or the other.

- (6) For TY 2022, taxpayers can claim a refundable credit for qualified sick and family leave for wages paid in TY 2022. Taxpayers will complete Schedule H, Part I to claim credit for leave taken before April 1, 2021 or on Form 1040/1040-SR, Schedule 3, line 13b or line 13h for leave taken after March 31, 2021 and before October 1, 2021.
- (7) Enter/verify the appropriate amounts from Form 1040/1040-SR, Schedule 3, line 13b in the REFUNDABLE CREDITS portion of the Other Credit window of the drop-down menu in Return Value.

**Note:** IRS provided alternatives for this form to be included with an e-filed return. Some software providers allow the forms to be attached as a PDF file and others as a statement attached to the return. Accept attached statements in lieu of Form 7202 if they include reporting information similar to the actual form.

4.19.3.2.10  
(10-06-2022)  
**The American Rescue  
Plan (ARP) Act of 2021**

- (1) The American Rescue Plan (ARP) Act excludes from federal income tax the first \$10,200 of unemployment benefits received in TY 2020 if the modified adjusted income is less than \$150,000. The threshold of \$150,000 applies to all filing statuses. The tax relief extends to both taxpayers who received benefits through federal unemployment programs as well as those who received traditional benefits through their state unemployment insurance fund. See IRM 4.19.3.8.16.1, Unemployment Compensation - Analysis for further information.
- (2) The American Rescue Plan (ARP) ACT of 2021, enacted on March 11, 2021, suspended the repayment of excess advanced premium tax credit (APTC) amounts for TY 2020. See IRM 4.19.3.16.10, Excess Advance Premium Tax Credit (EAPTC) for further information.
  - If the taxpayer has already filed their TY 2020 tax return and had excess APTC, they do not need to file an amended tax return.
  - The IRS will reduce the excess APTC repayment to zero with no further action needed by the taxpayer.
  - The taxpayer will be reimbursed by the IRS for the excess Advance Premium Tax Credit they paid on their TY 2020 return.
- (3) The American Rescue Plan (ARP) Act of 2021 was signed on March 11, 2021. The legislation allowed for advance payments of the recovery rebate credit, these payments are referred to as Economic Impact Payments (EIP3). The EIP was based on the taxpayer 2020 tax year information. See IRM 4.19.3.2.8, Coronavirus Aid Relief, and Economic Security (CARES) Act and Coronavirus Response Relief Supplemental Appropriations (CRRS) Act of 2021, for further information.
- (4) ARP legislation was amended to extend the tax credits for paid sick and family leave for wages paid. Taxpayers can now claim credit from April 1, 2021 through September 30, 2021. See IRM 4.19.3.2.9, Families First Coronavirus Response Act for further information.

- (5) Section 9611 of the American Rescue Plan Act (ARP) increases the Child Tax Credit (CTC) for tax year 2021 and authorizes qualified individuals to receive periodic advance payments (in equal amounts) of up to 50% of the refundable portion of the Additional Child Tax Credit (AdvCTC). See IRM 4.19.3.15.4, Child Tax Credit, for further information.
- (6) Beginning TY 2021, the American Rescue Plan (ARP) Act of 2021 expanded the Child Tax Credit as a fully refundable credit. Taxpayers must submit a completed Schedule 8812, Credits for Qualifying Children and Other Dependents. See IRM 4.19.3.17.5, Refundable Child Tax Credit, for further information.
- (7) The American Rescue Plan 2021 Act (ARP) Section 9631, enacted on March 11, 2021 amended the Child and Dependent Care Credit (CDCC), making it fully refundable for TY 2021 and increasing the maximum percentage rate to 50 percent. See IRM 4.19.3.17.5, Refundable Child and Dependent Care Credit, for further instructions.
- (8) The ARP allows employers to amend dependent care plans to allow the taxpayer unused amounts in a subsequent year. Unused amounts are added to the maximum amount of Dependent Care Benefits (DCB) allowed for 2021. See IRM 4.19.3.8.2.1, Dependent Care Benefits, for further information.

4.19.3.3  
(09-01-2009)  
**Controlling Work**

- (1) Underreporter cases to be analyzed by AUR tax examiners are assembled into batches, which are then divided into work units. See Exhibit 4.19.3-5, Batch Types. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures for the following windows used to control cases:
  - Assign Work Unit window
  - Release Work Unit window
  - Transfer Work Unit window
  - Accept Transfer window
  - Assign Case window
  - Release Batch window
  - Transfer Case window
  - Request Case window
  - Universal Work window

4.19.3.3.1  
(07-22-2015)  
**Viewing Cases**

- (1) Each user may have clearance to view any case on the system. This function is necessary for any user answering taxpayer phone inquiries.
- (2) To view any case, take the following actions:
  1. Select the appropriate Tax Year from the AUR Year menu.
  2. Select **reView** from the AUR Main menu.
  3. Select **View case** from the Review menu.
  4. Input the SSN to be viewed.
  5. Click on the PHONE CONTACT field if viewing the case due to a taxpayer phone contact. The AUR program will extract telephone contact data based on this entry.
- (3) The only entries that can be updated on the cases are:
  - Telephone number and contact hours on the Tax Account screen
  - Case notes on the Case Note window



- Update address
- Update third-party contact
- Update power of attorney (POA)
- Action Required (Universal case) box

**Note:** Any other changes will not be saved to the database.

- TDC Upload box

- (4) The Print menu option may be accessed when the user selects View Case from the Review menu.

4.19.3.3.2  
(09-24-2021)  
**Lost Cases**

- (1) When an SSN is assigned to a batch, and the corresponding paper return is missing, the case is considered a “lost case”.

**Caution:** Do not confuse “lost cases” with “lost responses”. See IRM 4.19.3.22.1.1.2, Lost Responses, for additional information.

- (2) When a lost case is identified:

1. Select the Process Code window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Process Code Menu.
2. Input IPC LC (Lost Case), Screening phase only.

**Caution:** If the work unit contains both copies of Form 4251, it is not a lost case. Input IPC “0A” (Return Request).

3. The AUR system moves the SSN to Batch Type (BT) 98XXX (immediately).

- (3) If the missing case is an ELF return, see IRM 4.19.3.2.5, Electronic Filing System.

**Note:** The system will not allow a user to input IPC LC when the case is a Virtual return. If there is no TRDB information for a case, see your Lead.

- (4) Some cases are found to be missing after the work unit has been released by the tax examiner and is being disassembled by the Control Function. The Control Function notates “Lost Case” on a case transfer sheet and routes the case transfer sheet to the Lead. The Lead contacts the tax examiner who released the case.

- a. If the case is found, the tax examiner accepts and reworks the case on the system.
- b. If the case is not found, the tax examiner accepts and attempts to rework the case on the system, using a substitute Form 4251. If the case file contents are necessary to work the case, input IPC LC on the Process Code window and discard the case history/transfer sheet.

**Note:** In an effort to eliminate unnecessary paper inventory, substitute charge outs should only be printed if absolutely necessary.

4.19.3.3.3  
(10-04-2010)  
**Wrong Pulls in  
Screening (WP)**

- (1) If the original tax return DLN and the Form 4251 DLN do not match:
  1. Leave the Form 4251 attached to the return.
  2. Input IPC "WP" and notate "WP" on the Form 4251.
  3. Leave the return in the work unit.

The return is sent to FRC after the batch is disassembled.
- (2) If the DLNs match, but the taxpayer's name is different, close the case with PC 29.
- (3) If the tax return is for the incorrect tax year (the DLNs match, but the TY is different), close the case with PC 29 and route the return to be processed to the correct tax year.

4.19.3.3.4  
(09-01-2009)  
**Case History**

- (1) The Case History screen is used to determine the location or status of a particular case. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Viewing Cases. If the case is:
  - a. Assigned to your unit, select the Unit Case History window from the Case Analysis menu.
  - b. Assigned anywhere on the AUR system, select the Case History window (Analysis) using the Review option on the Main menu.

4.19.3.3.5  
(10-06-2022)  
**Archived Cases**

- (1) For TY 2013 and subsequent years, access the case data using View Case in the appropriate tax year on the system.
- (2) For TY 2012 and prior, if information on the case is needed, the case must be ordered from files.

4.19.3.4  
(09-01-2003)  
**Case Information**

- (1) Each AUR case contains information for one tax account.

4.19.3.4.1  
(09-21-2020)  
**Underreporter Cases**

- (1) A case where a paper Form 1040/1040-SR was filed should have the tax return present in the case file. If the Form 4251 is batched without an original tax return, order the TC 150 return on the Tax Account screen.
 

**Note:** A Form 4251 is not generated for Virtual returns. Tax examiners may notate the applicable PC/IPC next to the corresponding SSN on the work unit listing for Virtual returns.
- (2) Some cases may have an amended return, Form 1040-X, Amended U.S. Individual Income Tax Return, attached to the original individual tax return.
  - a. If the amended return was not processed, include it in the resolution of the case. Leave the amended return attached to the original return when the case is closed.
  - b. If the amended return was processed, consider it in the AUR case resolution and refile separately when the case is closed.
- (3) All cases have online data which displays in a series of screens. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures, for more information.

- (4) An action trail **MUST** be made part of the case data whenever significant actions are taken. For example, when a case is closed in screening because the discrepant income has been determined to be reported somewhere other than where income would be normally reported, or an oral statement is accepted to revise a notice or close a case no change, use either the IR Note window or the Case Note window to document actions or leave an appropriate action trail. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Case Notes and Information Return Notes.

**Exception:** At times HQ may direct closure of a case or cases with one of the HQ Identified Program Problem closing process codes. Case notes are not required on these cases.

**Caution:** Do not include personally identifiable information (PII) in IR notes or case notes.

**Note:** IR notes and Case notes are part of the official case file and may be viewed by the taxpayer.

- (5) Form 4251 is attached to a return when it is pulled from the files at the Federal Records Center.

**Note:** Virtual returns will have an individual work unit listing rather than a Form 4251.

- a. Form 4251 **MUST** remain with the paper return when the case is closed.
- b. Notate the applicable PCs and IPCs on Form 4251.
- c. Keep the Form 4251 in the front of the case file with the bar code visible.

4.19.3.4.2  
(11-01-2021)  
**Case Analysis Screen**

- (1) The Case Analysis screen is the main screen used by tax examiners for the analysis of AUR cases. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Case Analysis Overview.
- (2) Certain Transaction Codes, Freeze Codes, or Indicators may require research, referral, or other specific actions. When these conditions are present, the Message window displays on the Case Analysis screen when the SSN of the case is entered. If this message window is displayed, review the information on the Tax Account screen to determine the appropriate action to take.
- (3) Within the Case Analysis screen various windows are displayed, depending upon the issues involved on an individual case. You must work certain windows in the proper order if two or more of them are present. The thirteen windows and their proper sequence are:
1. Misc Adjust/Sch C Exp
  2. FICA Tax
  3. SST on Tips
  4. SE Tax
  5. SEP/SIMPLE

**Note:** HSA/AMSA Contribution/Deduction. Although there is no HSA/AMSA window, this income type must be worked in the proper order. See IRM 4.19.3.9.2, Health Savings Account (HSA) or Archer Medical Savings Account (AMSA) Deduction.

6. SSA/RRB
7. IRA (CONTR)
8. Savings Bond Exclusion
9. EPAB
10. Student Loan Interest Deduction (SLID)
11. Tuition and Fees (TY 2020 and prior)
12. Domestic Production Activity Deduction (TY 2019 and prior)
13. 5329 Premature Distribution Tax window

**Example:** The SE Tax window has been worked. Subsequently, the SST on Tips window is worked. The system displays a warning message describing the proper sequence. You must access the SE Tax window again to complete the proper sequence before going to the Return Value screen.

#### 4.19.3.4.3 (06-28-2021)

##### Tax Account Screen

- (1) The Tax Account screen displays posted information from the taxpayer's Master File account. It contains the name and address, Date of Birth (DOB) for both primary and secondary taxpayers, return amounts, transactions, and other current data (including Reason Codes (RC)). The data is downloaded to the AUR system from ECC-MTB. The taxpayer's phone number and hours of contact can be entered. This screen is used to order a return if the related adjustment has posted to the account. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Tax Account Screen.
- (2) Compare the Adjusted Gross Income (AGI) and Taxable Income (TXI) on the return with the AGI/TXI on the Tax Account screen. A mismatch could be due to a taxpayer and/or processing error. The AUR Function is responsible for issuing a CP 2000 to correct these types of errors.

**Note:** If the processing error resulted in an erroneous refund, see IRM 4.19.3.5.13, Erroneous Refunds, for further information.

- (3) If the AGI on the return and the AGI on the Tax Account screen do not match, the taxpayer/processing error may be found on page 1 of the return.
  - a. The system displays the AGI as determined from the Master File.
  - b. Verify the AGI on the Tax Account screen.
  - c. If appropriate, use the MISC ADJUSTMENT/SCHEDULE C EXPENSE window to account for the discrepancy. See IRM 4.19.3.5.9, Miscellaneous.

**Exception:** If the taxpayer's AGI/TXI return amounts were correct, a processing error changed the AGI/TXI, and the taxpayer did not receive a Math Error Notice because the change was below tolerance, correct the AGI (by entering the taxpayer's original amount in the AGI window). Leave a case note explaining the action taken.

- (4) If the Tax Account screen displays an asterisk in the NEW TRANS field, a new TC has been added since the case was last analyzed. When an asterisk displays:
  1. Review the TC to determine if any action is required.
  2. Click on the asterisk and press ENTER to indicate the TC has been considered while working the case.

**Note:** The system automatically totals TC 640 payments and displays a prompt: "Should amount be entered in Return Value Screen?".

- (5) If the Tax Account screen displays the Indicator KITA (Killed in Terrorist Action) or HSTG (Hostage in Terrorist Action) in the KITA IND field, or if the system displays the message "KITA/HSTG indicator present, close case", use PC 18 to close the case.

**Note:** Because taxpayer contact has not been made, no further actions are needed.

- (6) If the Tax Account screen displays the indicator PDT (Potentially Dangerous Taxpayer), follow normal procedures and exercise caution when speaking to the taxpayer. When warranted, promptly report any assaults, threats, harassment, or forcible interference incurred during, or related to, the performance of official AUR duties to management and the local Treasury Inspector General for Tax Administration (TIGTA) office.
- (7) If the Tax Account screen displays the indicator CAU (Caution Upon Contact), the taxpayer has previously threatened physical harm, threatened suicide; filed or threatened to file a frivolous lien or a frivolous civil or criminal legal action against an IRS employee, a former employee, a contractor, or an immediate family member of an IRS employee, a former employee, or contractor. Follow normal procedures and exercise caution when speaking to the taxpayer.
- (8) When warranted, promptly report any new instances, see (7) above, using Form 13090, Caution Indicator Referral Report, and provide a copy of the completed form to management. Ensure the form contains:
  - The facts necessary to explain the incident, describing the exact words, and if applicable, body language or gestures made by the taxpayer,
  - The Taxpayer's Social Security Number or Employer Identification Number, and
  - A minimal amount of tax information and only what is necessary to establish a nexus to tax administration.

**Note:** See IRS Source, *Emergency and Safety*, or *Office of Employee Protection (OEP)*, for additional information.

#### 4.19.3.4.3.1 (12-14-2020)

#### Power of Attorney (POA)

- (1) A POA is on file when an indicator is displayed in the Centralized Authorization File (CAF) Indicator field. The indicator is either alpha or numeric. See Document 6209, IRS Processing Codes and Information, for the applicable POA indicators. A TC may also be present.
  - TC 960 is a CAF Indicator (POA on file)
  - TC 961 reverses the CAF Indicator (POA revoked)
- (2) Prior to the issuance of a CP 2000/ CP 2501 or Recomputation Notice, the CAF is automatically researched for the valid POA's name and address.
- (3) If issuing a notice, and there is a valid POA on file:
  - a. A copy of the notice is automatically created for the POA. (If there are multiple POAs, the notice is only created for the first two POAs authorized to receive notices per the CAF.)

- b. PARAGRAPH 178 automatically generates on the CP 2000/ CP 2501 and Recomputation Notice to inform the taxpayer a copy is being sent to the POA. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (4) If an original POA is found attached to the tax return (not detached during processing), see IRM 4.19.3.22.1.22, Letters From a Third-Party and Authorization From a Valid Power of Attorney (POA), and IRM 21.3.7, Processing Third-Party Authorizations onto Centralized Authorization File (CAF), for instructions on determining validity.
- (5) Disregard invalid POAs. See IRM 4.19.3.22.1.22, Letters From a Third-Party and Authorization From a Valid Power of Attorney (POA).
- (6) If a POA is “valid”:

**Note:** CAF will only accept the Form 2848 with a revision date of October 2011 or later.

- 1. Make a photocopy for the AUR case file.
- 2. Forward the original to the CAF Unit for processing.
- 3. Input the POA information on the Update Address window (POA). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information.

**Note:** A foreign address requires a period (“.”) in the first position of the State field.

4.19.3.4.3.2  
(04-23-2023)  
**Freeze Codes**

- (1) If certain freeze codes are present on the tax module, a message window displays on the Case Analysis screen when the SSN of the case is entered. Access the Tax Account screen to determine the proper action.
- (2) If there is a **Freeze Code “-A”**, the case is worked by AUR. See IRM 4.19.3.4.3.3, Transaction Codes Reflecting Tax Liability, for further instructions.
- (3) A **Freeze Code “-C”** on the account indicates the taxpayer was involved in a military operation in a designated combat zone and may be entitled to special tax treatment.
  - a. The -C freeze remains on the taxpayer’s account even after the taxpayer is no longer in the combat zone. If a case has a -C freeze present additional research is necessary to determine the taxpayer’s combat zone status.
  - b. During screening if you receive the message: “12/31/9999 date is present, possible combat zone - See IRM 4.19.3.22.1.11, Combat Zone”, close the case using PC 15.

Research IDRS CC IMFOLE for the Combat Indicator.

If the Combat Indicator is	Then
1	The taxpayer is still serving in a combat zone. Close the case using PC 15.

If the Combat Indicator is	Then
2	<p>The taxpayer is no longer serving in a combat zone. Manual Interest computation may be required for the notice to generate. During screening, continue processing.</p> <p><b>Note:</b> During screening, if the case requires manual interest, it will reject and be built to batch type 61. Case will be closed PC 27, only if the case is in BT 61.</p>

- (4) **Freeze Code “-E”** (TC 810 - code “4”) indicates the case is currently being reviewed by the Frivolous Return Program (FRP). Refer the case to the FRP coordinator who will provide instructions to either continue processing or to transfer case. If FRP wants the case transferred, use PC 13. Leave a detailed case note of determination.
- (5) **Freeze code “F-”** (TC 971 - action code (AC) 089) freezes the entire account and most adjustments will unpost. Refer the case to the FRP coordinator who will provide instructions to either continue processing or to transfer case. If FRP wants the case transferred, use PC 13.

**Caution:** Identity theft cases with a F- freeze should be referred after the taxpayer has provided the Form 14039 and/or police or law enforcement incident report for identity theft.

- (6) **Freeze Code “G-”** indicates there is a TC 270/271, TC 500 or TC 780 on the account. The system alerts the tax examiner when Freeze Code “G-” is present, see the table below for the appropriate action to take.

If	And	Then
The Freeze Code “G-” is due to TC 270/271	The case is in screening phase	<p>Continue processing.</p> <p><b>Note:</b> If the case requires manual interest, it will reject and be built to batch type 61. Case will be closed PC 27, only if the case is in BT 61.</p>
The Freeze Code “G-” is due to TC 270/271	The case is in CP 2501 or CP 2000 phase	Continue processing.
The Freeze Code “G-” is due to TC 270/271	The case is in Stat phase	Continue processing.



If	And	Then
The Freeze Code "G-" is due to TC 500	The case is in screening phase	Research IDRS CC IMFOLE for the Combat Indicator. <ul style="list-style-type: none"> <li>If the Combat Indicator is 1, close the case with PC 15.</li> <li>If the Combat Indicator is 2, continue processing.</li> </ul> <b>Note:</b> If the case requires manual interest, it will reject and be built to batch type 61. Case will be closed PC 27, only if the case is in BT 61.
The Freeze Code "G-" is due to TC 500	The case is in response phase	Research IDRS CC IMFOLE for the Combat Indicator. <ul style="list-style-type: none"> <li>Close all Combat Indicator 1 cases with a proposed tax increase with PC 15 and issue Letter 1802-C.</li> </ul>
The Freeze Code "G-" is due to TC 780	The case is in screening through Stat phase	See IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes.

(7) If a **Freeze Code "-I"** is present on Tax Account screen, see the table below:

If case is in	And	Then
Screening phase	"-I" is present	Continue processing. <b>Note:</b> If the case requires manual interest, it will reject and be built to batch type 61. Case will be closed PC 27, only if the case is in BT 61.
CP 2501 phase		Close case with PC 51.
CP 2501 phase		Continue processing.
CP 2000 phase		Continue processing.
CP 2000 phase		Continue processing, see IRM 4.19.3.21.1, No Response BT 84.
CP 2000 phase		Close case with PC 73, IRM 4.19.3.21.1, No Response BT 84.
Stat phase	"-I" is present	Continue processing.

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If case is in	And	Then	
Stat phase		Continue Processing. See IRM 4.19.3.21.1, No Response BT 84.	# # #
Stat Phase		Close case with PC 93. See IRM 4.19.3.21.1, No Response BT 84.	# # #

- (8) If a Manual Interest computation is required, and the tax examiner attempts to input Process Code (PC) 55, 57, 59, or 95 or Internal Process Code (IPC) RN or SR, the system alerts the tax examiner that IPC MI is required. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for additional information.
- (9) A **Freeze Code “L-”** identifies an Innocent Spouse claim (Form 8857, Request for Innocent Spouse Relief) has been filed and is set by input of TC 971 AC 065. During the Response phase, refer to IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases, for more information.
- (10) Freeze Code **“-L”** (Audit Indicators TC 420 or 424, not reversed by TC 421) indicates the return is currently being requested or audited by Exam. **During case analysis** (screening phase), research IDRS CC TXMODA for a pending TC 421 that will reverse the “L” freeze. **If there is a reversal**, continue normal processing.
- (11) **If there is No reversal**, research IDRS CC AMDISA for the CURRENT-STATUS-CD/DATE field. The CURRENT-STATUS-CD/DATE field determines case action as follows:
- If the AMDISA CURRENT-STATUS-CD/DATE field is “33” or “34” the case is controlled by the Tax Equity and Fiscal Responsibility Act (TEFRA) function. Continue normal processing. Do not use the Exam transfer PCs to close TEFRA cases.
  - If the AMDISA CURRENT-STATUS-CD/DATE field is “06” or “08” Awaiting Classification, the cases have not yet been screened for possible selection for examination. Do not use the Exam transfer PC’s to close the case, continue normal processing.
  - If the AMDISA CURRENT-STATUS-CD/DATE field is “10”, use the primary business code (PBC), secondary business code (SBC) and employee group code (EGC) to locate the correct Exam contact by accessing the EXAM Employee Group Code (EGC) Contacts, under the Who/Where Tab on SERP, then select Employee Group Code (EGC) Listing Contacts.
  - If Exam wants the case, use either PC 11 or 12 as appropriate to transfer the case to Exam. If Exam does not want the case, continue with normal processing.
- Note:** To determine if the case is a Field or Campus audit see *SERP 6209 IRM Supplements*.
- If the conditions in a-c above are not met, input PC 13 (Case Analysis phase) to transfer the case to Exam.

- (12) If the **Freeze Code “-L”** open TC 420/424 is **present after an AUR notice has been issued**, take the following actions:

1. Research IDRS CC AMDISA to determine the primary business code (PBC), secondary business code (SBC) and employee group code (EGC).
2. Use the PBC, SBC and EGC information from AMDISA to locate the correct Exam contact by accessing one of the following websites:

If	Then
PBC is 301-309:	Access: <a href="http://mysbse.web.irs.gov/exam/mis/contacts/empgroupcode/default.aspx">http://mysbse.web.irs.gov/exam/mis/contacts/empgroupcode/default.aspx</a>
PBC is other than 301-309:	EXAM Employee Group Code (EGC) Contacts, under the Who/Where Tab on SERP.

3. If the case is in CP 2501 or CP 2000 phase and Exam wants the case, input PC 38 (CP 2501) or PC 64 (CP 2000). Prepare Form 3210, including the appropriate Exam contact information, and leave it with the case.
4. If the case is in Statutory Notice phase and Exam wants the case, see (12) below.
5. If Exam does not want the case, leave a case note and continue normal processing. If an assessment is needed see IRM 4.19.3.22.10, Assessments.

- (13) If Exam wants the case, take the following actions:

1. **Allow the statutory period to expire.**
2. Access the Assessment window and enter an “N” in the SOURCE DOCUMENT ATTACHED field and the appropriate priority code.
3. Commit the Assessment window.
4. Prepare Form 3210, including the appropriate Exam contact information, and leave it with the case.
5. Input PC 94 and release the case.

- (14) A **Freeze Code “-O”** on the Tax Account screen, is a Disaster Indicator set by TC 971 AC 086 or 087. See IRM 4.19.3.5.6, Declared Disaster Areas, for more information.

- (15) **Freeze Code “-P-”** indicates the case may be assigned in the FRP or Integrity and Verification Operation (IVO) held the refund. Research IDRS for the following:

If	And	Then
TC 599 AC 17 or 89 is present	FRP has an open control (will show AUDT in control base)	Refer the case to the FRP coordinator who will provide instructions to either continue processing or to transfer case. If FRP wants the case transferred, use PC 13.

If	And	Then
TC 720	TC 971 with either AC 052, 123, 129, 134, 617 is present	<p><b>During screening</b> close the case no change using PC 28. <b>If a notice was issued and there is a credit on the account</b>, take the following actions to close the case:</p> <ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window.</li> <li>2. Enter/verify TC 290 .00.</li> <li>3. Input Hold Code 4.</li> <li>4. Remove all other transaction/reference codes.</li> <li>5. Input "N" in the SOURCE DOCUMENT ATTACHED field.</li> <li>6. Input remarks: No change.</li> <li>7. Change the AUTO/MANUAL IND field to "M".</li> <li>8. Commit the Assessment window.</li> <li>9. Input PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> <li>10. Using the IAT "xMend" or "REQ54" tool, input a TC 290.00 and include Hold Code 4.</li> </ol> <p><b>If a notice was issued and there is no credit</b>, close the case no change using PC 52, 71, or 92 as appropriate.</p>

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- (17) A **Freeze Code "-R"** on Tax Account screen may reflect RIVO or Taxpayer Protection program (TPP) involvement when TC 971 AC 052, AC 134, AC 617 or TC 570 with TC 971 AC 199 is present which indicates a frozen refund. RIVO uses the TC 971 AC 199 to place a hard freeze on a module when the return has been deemed questionable or false. Research IDRS CC TXMODA for a TC 971 AC 199 which may have a literal in the Miscellaneous (MISC) field indicating the inventory type for proper case referral and resolution. Refer to the "If and Then" table below for case processing instructions.

MISC field literal	Definition
1 AMWEX60033 OMMEFDS	Return was previously determined to meet OMM criteria.

MISC field literal	Definition
2 AMWEX60033 REFEFDS	Return has been determined to be fraud.
3 AMWEX60033 GATT EFDS	TP has been identified as a "full year" prisoner and the return is claiming refundable credits that the TP may not be qualified for.
4 AMWEX60033JDDDB73EFDS	Return is being reviewed by RIVO and additional time is needed to complete the review.
5 AMWEX60033	Return has been determined to be fraud.
6 AMWEX60033 IRP EFDS	Return is being reviewed for suspicious IRP and may be claiming false income and/or withholding from a potential fabricated entity or an abused EIN.

Take the following actions below when there is RIVO or TPP involvement AND the case contains one of the literals in the table above to close the case. Otherwise, continue processing the case.

If	Then
During screening	Close the case no change with PC 28.
A notice was issued and there is a credit on the account	<ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window.</li> <li>2. Enter/verify TC 290 .00.</li> <li>3. Input Hold Code 4.</li> <li>4. Remove all other transaction/reference codes.</li> <li>5. Input "N" in the SOURCE DOCUMENT ATTACHED field.</li> <li>6. Input remarks: No change.</li> <li>7. Change the AUTO/MANUAL IND field to "M".</li> <li>8. Commit the Assessment window.</li> <li>9. Input PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> <li>10. Using the IAT "xMend" or "REQ54" tool, input a TC 290.00 and include Hold Code 4.</li> </ol>
A notice was issued and there is no credit on the account	Close the case no change using PC 52, 71 or 92, as appropriate.

- (18) A **Freeze Code "-S"** replaces the assignment of computer condition codes to identify tax returns filed within a declared disaster area and is set with a TC 971 AC 688. The -S freeze does not suppress notices. Continue normal case processing. See IRM 4.19.3.5.6, Declared Disaster Areas, for more information.

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ing purposes only. Continue normal case processing.

- (20) If there is a **Freeze Code “-U”**, see IRM 4.19.3.5.13, Erroneous Refunds, for further information. Freeze Code “-U” indicates the Erroneous Refund area is monitoring a case for available credits and a closure may release needed credits.
- (21) If there is a **Freeze Code “-V”** and/or TC 520, a Bankruptcy condition is present. If identified on the Tax Account screen;
  - a. During Case Analysis (screening), close the case using PC 27.  
**Note:** If TC 520 is reversed by TC 521 or 522, continue normal processing.
  - b. During Response phase (after the taxpayer has been issued an AUR Notice), see IRM 4.19.3.22.1.10, Bankruptcy Procedures - Responses.
- (22) If there is a **Freeze Code “-W”** with closing code (cc) 81, or cc 84 and/or a TC 520 (not reversed by TC 521 or 522), a Bankruptcy condition is present. If identified on the Tax Account screen;
  - a. During Case Analysis (screening), close the case using PC 27.  
**Note:** If TC 520 is reversed by TC 521 or 522, continue normal processing.
  - b. During Response phase (after the taxpayer has been issued an AUR Notice), see IRM 4.19.3.22.1.10, Bankruptcy Procedures - Responses.
- (23) A **Freeze Code “-Y”** on the account indicates the taxpayer filed an Offer-in-Compromise with the Service. See IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes, for additional information.

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- (25) If a Freeze Code other than those explained in (2) through (23) above, are indicated on the Tax Account screen, refer to Document 6209, IRS Processing Codes and Information.

4.19.3.4.3.3  
(07-03-2023)  
**Transaction Codes  
Reflecting Tax Liability**

- (1) A **TC 150** indicates a return was filed and posted to the Master File. The TC 150 amount is the tax assessed when the original return was filed.
- (2) **TCs 290 and 300** indicate additional tax was assessed after the original return was filed. The system adds these amounts to the TC 150 amount to determine the total tax per return. If the **TC 290/300** source document is present, determine if the adjustment source document (Form 5147, Form 5344, Examination Closing Record, Form 4700, Examination Workpapers, amended or duplicate return) resolves the U/R issue(s).

- A TC 300-0 with a corresponding TC 764, TC 768, or TC 765 indicates Exam adjusted EIC with no change to AGI or TXI. See IRM 4.19.3.17.3, Earned Income Credit, for further instructions on EIC.
- Certain modules where an overstatement of estimated tax payments or W/H credits resulted in a refund, offset, or a credit elect may show as assessed using TC 290, RC 051, for the amount of the overstatement. These accounts will generally not contain a TC 807.

(3) **TCs 291 and 301** indicate a portion or all of a previously assessed tax was abated after the original return was filed. The system subtracts these amounts from the TC 150 amount to determine the total tax per return. If the TC 291/301 source document is present, determine if the adjustment source document (Form 5147, Form 5344, Examination Closing Record, amended or duplicate return) resolves the U/R issue(s). If the AGI/TXI on the Tax Account screen:

- a. Differs from the tax return, order the TC 291/301 document without screening for income discrepancies.

**Note:** For TY 2020, **Do not** order the TC291/301 document if it can be clearly identified that the change to the AGI/TXI is due to the Unemployment Compensation Exclusion (UCE).

- b. Matches the tax return, screen for income discrepancies and see (5) below.

(4) **Order the missing TC 290/291 or TC 300/301** adjustment source document

- a. Before issuance of a notice or
- b. Prior to taking a PC 20 action.

(5) **Do not order the missing TC 290/291 or TC 300/301** source document for the following situations:

- a. The difference between the AGI/TXI on the return and the AGI/TXI shown on the Tax Account screen matches the total discrepant amount within  
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reported and close the case if there are no other related issues (for example, Self-employment tax (SE tax), 10 percent tax).

**Note:** To calculate reported self-employment income, divide the amount shown in the SE INCOME fields on the Tax Account screen by .9235 (92.35 percent).

- b. The adjustment changes the amount(s) or item(s) back to the original figures on the return (changes may have resulted from a math error code or unallowable code). The AGI, TXI and Tax (TC 150 minus TC 291) should equal the amounts on the original tax return.
- c. A TC 766/767 with credit reference (CRN) 338 or CRN 257 for TY 2020 and subsequent for Economic Rebate Payments (EIP).
- d. W/H, excess SSTAX, or additional MCTXW is the only issue (PC 20 criteria) and the adjustment does not have a TC 806/807 or TC 766/767 with credit reference number (CRN) 252 present.
- e. A TC 806/807 or a TC 766/767 with CRN 252 is the only change (there is no change to the AGI or TXI) and W/H or excess SSTAX is not an issue.

**Caution:** Certain modules where an overstatement of estimated tax payments or W/H credits resulted in a refund, offset, or a credit elect may show as assessed using TC 290, RC 051, for the

amount of the overstatement. These accounts will generally not contain a TC 807. Send a Special Paragraph using the following verbiage as an example "The other taxes as shown on this notice include the previous change made to your federal income tax withheld."

- f. The adjustment is a TC 291/301 when the AGI, TXI and the tax has been reduced to zero. Close case with PC 28 (these are generally filing status changes or incorrect SSN).
- (6) Order the TC 290-0 adjustment source documents when one of the following corresponding TCs is present:
- TC 976/977
  - TC 971 AC 010, 012 through 016 or 120
  - TC 806/807 with the TC 290-0
  - TC 764/765/768
- Exception:** Do not order the TC 290-0 adjustment source document for changes to EIC and there is no change to AGI or TXI.
- TC 766/767 with CRN 336
  - TC 766/767 with CRN 252
  - TC 766/767 with CRN 260
  - TC 766/767 with CRN 262
  - ELF return and the blocking series of the TC 290-0 is "05" - "07" or "15" - "17"
- (7) **Do not order TC 290-0 adjustment source documents** for the following:
- a. TC 290-0 adjustment source document is for changes to EIC (TC 764/765/768) and there is no change to AGI or TXI.
  - b. The TC 290-0 has a corresponding TC 971 AC 071. These are injured spouse claims for which the refund was released.
  - c. The TC 290-0, the TC 150 and the TC 846 have the same DLN with blocking series 92X (example: 18221-046-92337-5). These are also injured spouse claims for which the refund was released.
  - d. The TC 290-0 has Reason Code (RC) 202 indicates no Economic Impact Payments (EIP) due to TIN issues.
  - e. The TC 290-0 has a corresponding TC 971 AC 270. These are cases where the amended return was sent back to the taxpayer.
  - f. The TC 290-0 is in the 98 blocking series (adjustment made without the original return) and there is a RC 062 or 065. These are penalty abatement request disallowances and have no impact on our AUR case.
  - g. The TC 290-0 has a corresponding TC 271 which fully reverses the previous TC 270 amount.
  - h. The TC 290-0 has a corresponding TC 971 AC 142. This is a true duplicate return.
- (8) The Tax Account screen indicates if the adjustment source document is a Correspondence Imaging Inventory (CII) document. If it is determined the adjustment is:
- A CII document, view document on Account Management System (AMS).
  - Not a CII document, follow the instructions in (9) below.
- (9) Request an amended return to resolve the case, if necessary.



- a. To request an amended return, enter an "X" in the ORDER RTN field for the applicable DLN on the Tax Account screen. Input the appropriate IPC XA. See Exhibit 4.19.3-3, AUR Internal Process Codes for further information.

**Exception:** The system will not accept an "X" for any DLN where the DLN indicates the return is Virtual or a CII document.

- b. If the DLN of the amended return is the control DLN on the Tax Account screen, attach the original return behind the amended return and refile together under the control DLN. Otherwise, refile them separately.
- (10) Review all adjustment documents to determine if the U/R amount has already been taken into consideration. If so, close the case using PC 21. If a document has been requested, refile it separately when the case is closed.
  - (11) **Consider all** previous changes to income, deductions, refundable/non-refundable credits, taxes, and penalties when a CP 2000 is to be issued.
  - (12) When a **TC 300/301** is present on the Tax Account screen with a TC 421 and no -L freeze, a disposal code displays on the Tax Account screen. If pursuing U/R income, determine the disposal code. The disposal code is located under the column titled "DIS CD" in the transaction section of the Tax Account screen.
    - a. If the disposal code is 01 - 13, review the attached audit papers to determine if the U/R amount has been addressed. If there is still a U/R amount after review, issue a notice. Consider all changes made by Exam per the TC 300/301.
    - b. If the disposal code is 20 - 99, no audit was performed. Continue processing the case.
  - (13) If a **TC 300/301 and a TC 577 with Julian Date 999** is displayed on the Tax Account screen (no -L Freeze present), the U/R income has not been addressed by the Examination Function. Review the papers to determine what changes were made and take those changes into consideration when calculating U/R income adjustments.
  - (14) When a **TC 896** with the literal "OFF to IRA" is present, the taxpayer has paid additional tax on excess contributions on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. This tax is posted to the taxpayer's Master File Tax (MFT) 29 account and is not included in the TC 150 amount. The system adds this amount to the TC 150 amount to arrive at total tax per return.

**Note:** TC 892 offsets a TC 896.

- (15) If a duplicate/amended return is filed (**TC 976/977 or TC 971 AC 010, 012 through 016 or 120**), a CP 2000, CP 2501 or PC 20 is to be issued, a **TC 290/291 is present**, and the duplicate or amended return is not in the case file, research Account Management System (AMS) and Employee User Portal (EUP) for the duplicate/amended return. If after performing AMS/EUP research the amended/duplicate return is not located:
  - 1. Order the duplicate/amended return by requesting the TC 290/291 DLN unless the conditions in (7) above apply.

2. Close the case using PC 29 if the duplicate/amended return is not available.

(16) If a duplicate/amended return is posted (**TC 976/977 or TC 971 AC 010, 012 through 016 or 120**), within 45 days, a CP 2000, CP 2501 or PC 20 is to be issued, **and a TC 290/291 is NOT present**, take the following action:

1. Transfer the case to the Unit Suspense batch.
2. Monitor the case for 45 days from the TC 976/977 or the TC 971 date for the pending/posting of the TC 290/291.
3. If the TC 290/291 posts, research AMS/EUP for the return information, if not available on AMS/EUP, order the adjustment document.
4. If the TC 290/291 does not post, continue processing.

**Note:** Underreporter functions that work their own Accounts Maintenance Research (AMRH) Transcripts should forward these cases to the appropriate unit after the batch has been disassembled.

(17) **TC 295** indicates a tentative allowance from Form 1045, Application for Tentative Refund, was input on the taxpayer's account by Adjustments. **TC 299** indicates an abatement of the original tax. If there is a TC 295 or 299 unreversed, or only partially reversed by TC 294 or 298, and there is U/R income, issue a notice.

(18) **TC 305** indicates a tentative allowance from Form 1045 was input on the taxpayer's account by Exam. **TC 309** indicates an abatement of the original tax. If there is a TC 305 or 309 unreversed, or only partially reversed by TC 304 or 308, and there is U/R income, issue a notice.

(19) If **TC 599, TC 720 and/or TC 570** are present, see IRM 4.19.3.4.3.2, Freeze Codes, for instructions on how to process.

#### 4.19.3.4.3.4 (11-23-2022)

#### Other Transaction Codes and Math Error Codes

- (1) Other TCs shown on the Tax Account screen may require additional action.
- (2) **TC 160 or 166** indicates a Delinquency/Failure to File Penalty was assessed. TC 161 or 167 means a portion or all of the penalty has been abated. When a U/R issue exists, the system computes or recomputes the Delinquency/Failure to File Penalty when required. See IRM 4.19.3.18.1, Failure to File (FTF) Penalty, for additional information.
- (3) **TC 170 or 176** indicates an Estimated Tax (ES) Penalty was assessed. TC 171 or 177 means a portion or all of the penalty has been abated. When a U/R issue exists, a recomputation of the ES penalty may be required. See IRM 4.19.3.18.3, Estimated Tax (ES) Penalty, for additional information.
- (4) **TC 270 or 276** indicates a Failure to Pay Penalty (FTP) was assessed. TC 271 or 277 means a portion or all of the penalty is abated. See IRM 4.19.3.18.2, Failure to Pay Penalty (FTP), for additional information.
- (5) **TC 460** indicates a request for extension of time to file was approved. The extension date appears in the Remarks column.
- (6) **TC 480 (not reversed by TC 481 or 482)** indicates the taxpayer has filed an "Offer in Compromise" (OIC) with the Service. Continue normal AUR processing. A TC 29X may be input on these types of cases. Send copies of the case data to Collection OIC function upon their request.

- (7) **TC 540** indicates the taxpayer is deceased. See IRM 4.19.3.5.5, Deceased Taxpayers, for further instructions.
- (8) **TC 604** indicates either bankruptcy has been discharged/revoked or close-out of the MFT 30 module in preparation of mirroring to MFT 31.
- During screening, close the case using PC 27.
  - During responses (**AFTER** the taxpayer has been issued an AUR notice), see IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases, (when TC 971 AC 065 is present) or the Bankruptcy Coordinator (all others).
- (9) **TC 764 or 768** indicates earned income credit (EIC) was allowed. TC 765 indicates the credit was fully or partially reversed. If TC 764, 765, or 768 is present, EIC may need to be computed or recomputed. See IRM 4.19.3.17.3, Earned Income Credit, for instructions.
- (10) **TC 766 with:**

Credit Reference Number (CRN)	Indicates
<b>CRN 336</b>	Additional Child Tax Credit was allowed. TC 767 (with CRN 336) indicates the credit was fully or partially reversed. If TC 766/767 (with CRN 336) is present, Additional Child Tax Credit may need to be computed or recomputed. See IRM 4.19.3.17.4, Additional Child Tax Credit (ACTC), for instructions.
<b>CRN 252</b>	Excess SSTAX has been adjusted. TC 767 (with CRN 252) indicates the credit was fully or partially reversed. If TC 766/767 (with CRN 252) is present, excess SSTAX may need to be computed or recomputed.
<b>CRN 260</b>	Previously allowed American Opportunity Credit (AOC).
<b>CRN 261</b>	Previously allowed Refundable Adoption Credit.
<b>CRN 262</b>	Previously allowed Premium Tax Credit (PTC).

- (11) If a **TC 780 has been fully reversed by a TC 781 or 782**, continue normal AUR processing.
- (12) If an **unreversed TC 780 is present** on the Tax Account screen, a warning message displays to close the case. Take the following action:
- Close case using the appropriate PC (28, 52, 71, or 96).
  - Leave a case note stating this is an OIC closure.

3. Issue a Letter 1802-C, if closing the case with PC 52, 71 or 96.

- (13) **TC 806/800** credits the tax module for the amount of W/H claimed on a tax return. TC 807/802 reverses the TC 806/800 credit in whole or in part. W/H may need to be adjusted because of AUR processing. Before proposing a change to W/H, be certain the adjustment has not been previously allowed. See IRM 4.19.3.17.1, Withholding - General, for instructions.

**Note:** Certain modules where an overstatement of estimated tax payments or W/H credits resulted in a refund, offset, or a credit elect will show as assessed using TC 290, RC 051, for the amount of the overstatement. These accounts will generally not contain a TC 807.

- (14) **TC 971 AC 151** indicates duplicate filing by secondary taxpayer, close the case using PC 10.
- (15) If a TC other than those explained in IRM 4.19.3.4.3.3, Transaction Codes Reflecting Tax Liability, or IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes, are indicated on the Tax Account screen, refer to Document 6209, IRS Processing Codes and Information.

**Note:** If the transaction code does not impact the case, continue normal processing.

- (16) **Beginning in TY 2020**, cases in **Subfile P** will be worked in all AUR Campuses. For cases in **Subfile P**, AUR will disregard the TC 971 ID Theft indicators(s) and continue normal AUR processing. If issuing a notice, Paragraph 45 will automatically generate. See Exhibit 4.19.3-7, CP Paragraphs. Leave a case note with the following verbiage, "IDT Subfile P case. IDT marker not considered during screening".
- (17) TC 971 with certain Action Codes (AC), indicate the taxpayer may be a victim of identity theft. During response phase, see IRM 4.19.3.22.1.26, Identity Theft (IDT) Claims - Overview, and IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for additional information. **During screening phase if the case is NOT in Subfile P and:**

If there is a TC 971 AC	Literal	Then
501, 504, or 506	CI OT, CI RF, DECD, EC029, EMPL, INCMUL, INCOME, OMM, OTHER 1, RFND, SB AU, TPRQ, UPC147, WI AMT, or WI AU	Close case PC 23
501, 504, or 506	DDB, EC027, IRSADM, IRSERR, MULTFL, NKI-M, NOFR, OMMGB, OTHER, OTHER2, PRISNR or WI PRP	Continue normal AUR processing.
505, 522 or 525	N/A	Close case PC 23
523	N/A	Continue normal AUR processing.

If there is a TC 971 AC	Literal	Then
524	N/A	Follow IRM 4.19.3.5.5, Deceased Taxpayers, and IRM 4.19.3.22.1.14, Decedents.

**Note:** For a list of AC meanings see, Exhibit 4.19.3-16, Identity Theft Action Codes.

- (18) If the taxpayers address on AUR or IDRS CC ENMOD/IMFOLE is a Service Center/Campus Address, there is no confirmed good address for the taxpayer, and the taxpayer is a victim of ID Theft, close the case PC 23. See IRM 4.19.3.5, Analysis Procedures, for additional information.
- (19) If the tax return in question meets the criteria outlined in the Refund Scheme Listing, IRP data, see IRM 25.23.4-1, IRTPTR/IDRS Data Decision Tree, (i.e., the only UR income is social security benefits that do not indicate a filing requirement, etc.), it may be an indication that the return is bad (not filed by the SSN owner) and the address on the module may not be that of the actual taxpayer. It may be necessary to research the taxpayer's address against prior year returns or IDRS CC ENMOD and reissue the notice/letter accordingly. Refer to Exhibit 4.19.3-19, Filing Requirements for Most People, for additional information. If the income is clearly not the taxpayer's, close the case PC 23.
- (20) **TC 972** with a corresponding Action Code (**AC**) indicates identity theft has been reversed, continue normal AUR processing.
- (21) If there is a math error code on a case, the math error code number displays in the MATH ERROR CODE field of the Tax Account screen. If there are multiple math error codes, they display up to a maximum of five (5) codes in this field.

**Note:** The math error code verbiage displayed on the Tax Account screen is abbreviated and paraphrased from the actual verbiage in Document 6209, IRS Processing Codes and Information.

- (22) If a math error was made during original processing, take the math error into consideration, enter/verify the appropriate amounts in the applicable system window. See IRM 4.19.7, Automated Underreporter (AUR) Technical System Procedures.

4.19.3.4.3.5  
(10-25-2023)

**Correspondence  
Imaging Inventory (CII)**

- (1) CII is used to manage scanned images of amended Individual Master File (IMF) returns, documents and electronic case files.
- (2) When there is a duplicate/amended return on Tax Account (TC 976/977 or TC 971 AC 010, 012 through 016 or 120 or a posted TC 290/291) an indicator "1" is displayed in the Tax Account screen in the CII column when a CII document is available.
- (3) To research Account Management System (AMS) for a CII document, take the following actions:
  - 1. Access IDRS.
  - 2. Access AMS.

3. From the AMS Message Center Screen , enter the“ SSN” in the TIN field box and press <Enter> on the keyboard. The account summary screen appears.
4. In the Alert section, click on the “View CII Images” link.
5. Select the tax year to review from the CII image list and click on “Open Image”.
6. Compare the amended return to the U/R issues to determine if any or all issues are addressed. Continue normal processing.

**Note:** Review history section in the account summary screen for any case history, actions taken etc.

7. After processing changes, input the IRS received date located on the amended return.

(4) To exit AMS:

1. Click on the “Exit Account” link in the upper right-hand corner.
2. In the Message Center Screen, click on the “Logout” link to exit the system.

4.19.3.4.3.6  
(11-23-2022)

**Modernized e-file (MeF)  
Overview**

- (1) Modernized e-file is a web-based system which allows electronic filing of returns through the internet.
- (2) MeF accepts electronic returns for the current tax year and two prior years. Taxpayers will still have the option to submit a paper version of Form 1040-X.
- (3) Users can access MeF through the Employee User Portal (EUP) Portal.
- (4) AUR users can access Accounts Management System (AMS) and Employee User Portal (EUP) when there is instruction to research Tax Account for TC 971/120, TC 971/010, and/or an -A freeze is present, and the taxpayer’s response is not in the case file, or it hasn’t been routed.
- (5) The following Individual Tax Forms be e-filed through the MeF platform:
  - Form 1040/1040-SR
  - Form 1040-X
  - Form 9465

**Note:** The Individual Tax forms above are used by the AUR program. The list is not all inclusive.

4.19.3.4.3.7  
(10-06-2022)

**Taxpayer Digital  
Communication (TDC)  
Overview**

- (1) Taxpayer Digital Communication (TDC) provides an alternative communication option for taxpayers under review in the Automated Underreporter (AUR) Program. One segment of TDC is Secure Messaging. The eGain system is used to communicate with the taxpayer via secure messaging. Access to eGain requires a Business Entitlement Access Request System (BEARS). The AUR system is used to process the cases.
- (2) TDC leverages technology to improve communication with the taxpayer (referred to as Customer on eGain). Taxpayers often experience long gaps between communications with the IRS due to the inherent slowness of the standard mail process. Secure Messaging shortens the communication period and provides more real-time decisions which can decrease overall case time.



- (3) Secure Messaging provides taxpayers the opportunity to interact with the TE without using the mail. Taxpayers can upload and submit documentation directly to the TE working their case. Communications between the taxpayer and the tax examiner are done through a secure email server. Authorized representatives are also allowed to participate.
- (4) Secure Messaging does not change IRM procedures. The focus of TDC is the communication option and the opportunity to interact with the customer via digital means. Unless otherwise noted, all TDC cases are to be worked the same way non-TDC cases are worked (i.e., IRM process and procedures are followed).
- (5) The unique feature of TDC is the use of digital communication technology. Many TDC procedures mirror those actions normally taken by AUR TEs in their non-TDC interactions.
- (6) Correspondence should be viewed online, not printed.

4.19.3.4.4  
(09-01-2003)  
**Information Return Window**

- (1) The Information Return window displays the complete IR. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Information Return window.
- (2) Payer address information, as shown on the Information Return window, displays on the CP 2000/CP 2501.

4.19.3.4.5  
(09-01-2003)  
**Income Comparison Screen**

- (1) The Income Comparison screen displays a comparison of amounts reported by payers on IRs and the amount the taxpayer reported on their tax return. Access this window when it is necessary to view RETURN and IRP amounts or to determine the discrepant income type. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Income Comparison Screen.
- (2) The OFFSET field displays codes describing how matched return and IRP amounts were offset for identification of potential discrepancies.
- (3) When attempting to offset income, make sure the income to which it is being offset has not already been used. However, if you can determine that offsets were applied incorrectly, analyze that issue as well.

4.19.3.5  
(10-25-2023)  
**Analysis Procedures**

- (1) The following instructions are for use by AUR tax examiners. They are to be used in conjunction with training materials and the IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures.
  - a. An UNDERREPORTED (U/R) condition exists when income shown on the IR(s) was not reported by the taxpayer on Form 1040, Form 1040-SR . Proposed tax adjustments are based on these U/R amounts, as well as on reported income amounts for which the taxpayer failed to include the required additional taxes (for example, SE tax).
  - b. An OVER-DEDUCTED (O/D) condition exists when the taxpayer claims more of a deduction than is substantiated by IR(s) and/or allowed by law (for example, Mortgage Interest Deduction or Individual Retirement Account (IRA) Deduction).
  - c. An UNDERCLAIMED (U/C) condition exists when the taxpayer fails to claim all the payments to which they are entitled (such as, W/H).



- d. An OVERCLAIMED (O/C) condition exists when the taxpayer reduces their tax liability by an amount that either exceeds the amount shown on the IR(s), and/or the amount cannot otherwise be substantiated (for example, Education Credits).
- (2) If Exam issues are discovered during AUR processing, consult with the team leader. Then, if necessary, consult with an Exam representative to decide the appropriate action(s) to take.
- (3) The system message will display when the taxpayer's address contains; Internal Revenue Service, IRS, or Department of Treasury. If condition exist, close case PC 16 or PC 23 if the case has been identified as IDT, see IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes.

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LIST OF DISCREPANCIES field on the Tax Account screen. If the category is a combination type, all appropriate discrepancies are displayed.

- (5) The IR(s) contributing to the discrepancies are listed first on the Case Analysis screen, and the specific income type is identified with an asterisk. The AUR system alerts the user when a discrepancy exists where there are no IR(s) to mark.
- (6) If the Case Analysis screen does not contain any asterisked items, go to the Income Comparison screen and/or Tax Account screen to determine the discrepancy and screen the case accordingly.

**Note:** O/D and O/C deduction(s) in question will not have a system generated IR. You may need to create an IR based on system identified discrepancies.

- (7) Cases involving U/R and EIC are identified in Subfile E. An EIC discrepancy can occur when there is unreported interest, dividends, capital gain net income (including securities), rents, royalties or income from certain passive activities and the taxpayer claims investment income less than the amounts shown in the table below. **If the taxpayer's total investment income exceeds the amount listed in the table below (regardless of overall AGI), the EIC is disallowed.**

TY 2020	TY 2021	TY 2022
\$3,650	\$10,000	\$10,300

- a. Due to the investment income limitation for EIC, cases have been created with small amounts of apparent U/R investment income. These investment income discrepancies are not asterisked (in either Case Analysis or the Income Comparison screens) to alert the tax examiner of where the discrepancy lies.
- b. When accessing cases in Subfile E, screen **ALL** IRs.
- c. If there is any U/R (regardless of amount), complete the Return Value screen.
- (8) Discrepant income types are identified with an asterisk on the Income Comparison screen and Information Return window.

**Note:** Due to computerized offsets, some APPARENT W/H discrepancies are not asterisked. Follow procedures in IRM 4.19.3.17.1, Withholding - General, for these cases.

(9) The Case Analysis screen may contain IRs that **HAVE NOT** been identified as discrepant. These IRs were added after the case creation and must be analyzed. These IRs are listed along with the discrepant IRs and are identified with an indicator in the AMENDED INDICATOR field. IRs containing the same income types, **MUST BE** screened and a applicable IR Code assigned to each element of the IR. The indicators are shown as follows:

- N - New
- AN - Amended New
- RN - Replace New
- DN - Duplicate New
- XN - Delete New

(10) Analyze the asterisked elements on the IR(s) related to the computer identified discrepancies. Also analyze other issues related to the income on the discrepant IR.

**Example:** Consider adjustments to: Child Care Credit when the DCB element is asterisked; consider SE tax when NEC, MERCH, MED, FISH, etc., elements are asterisked (or when the system identifies a potential SE tax issue); consider the 10 percent tax when Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., element is asterisked and the IR contains a COD, "J", "L", "M", "1", or "5" .

**Note:** The AUR system identifies potential SE tax discrepancies on reported income from 1040/1040-SR, Schedule 1, lines 3, 6 or 8 where no SE tax was paid. The system alerts the user a discrepancy exists when there are no IRs to mark. An asterisk displays in the SELF EMPLOYMENT TAX field on the Income Comparison window. Follow IRM procedures for specific income types and see IRM 4.19.3.16.1, Self-Employment Tax, and Exhibit 4.19.3-20, Examples of Self-Employment Income, to determine when SE tax needs to be considered.

- a. If the asterisked IR is discrepant and it contains W/H, always screen the W/H element(s).
- b. If there are no asterisked elements for cases in Subfile E, see (7) above.
- c. If the asterisked element(s) is/are fully reported on the line(s) designated for that income on the tax return (for example, discrepant wages are fully reported on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021), line 1a (TY 2022), then check the INCOME COMPARISON screen for a possible misplaced data entry. Screen the income type related to the misplaced data entry.
- d. If the asterisked element is identified as being included in another type of income, analyze all related IRs, (for example, Pensions are identified as discrepant but are found reported on the wage line - analyze both pensions and wages).
- e. If the asterisked element results in above tolerance U/R, screen the remaining non-asterisked items.

**Note:** It is not necessary to mark non-asterisked IR(s) to access the Return Value screen.

- (11) Digital assets (Virtual currency) may be used to pay for rent, royalties, or any type of goods or services and is to be treated as ordinary income by the recipient if received as part of operating a trade or business. An employer may use it as payment for wages, salaries and compensation. If the taxpayer engaged in certain transactions involving digital assets (virtual currency), the virtual currency box at the top of Form 1040/1040-SR (TY 2020 and TY 2021), or the digital asset check box at the top of Form 1040/1040-SR (TY 2022) will be checked "Yes". Follow appropriate analysis procedures, based on the document type the payer used to report the income.

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**Note:** The terminology used by the IRS to describe these types of assets has generally changed to the term "digital assets" following the enactment of the Infrastructure Investment and Jobs Act in November 2021. This IRM will list the income as "digital assets(virtual currency)" for the AUR tax years being worked. (Virtual currency reference for tax periods 2020 and 2021, digital assets for tax period 2022).

- (12) If the discrepant IR(s) element(s) is/are reported and/or the system identified discrepancy is resolved, close the case using PC 21.
- (13) When there is U/R income or if related tax/credit adjustment issues are involved, proceed to Return Value.
- a. AUR multiplies the CHANGE TO AGI field amount by the highest tax rate

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**Note:** Ignore the Case Analysis screen system prompt to close the case if any of the following is an issue - Schedule A Mortgage Interest, MIP, SE tax, Federal Insurance Contributions Act (FICA), W/H, excess SSTAX, Dependent Care Benefit (DCB), Child Care Credit, Employer Provided Adoption Benefits (EPAB), Education Credits, EIC, and/or Premature Distribution Tax on retirement income. Complete the Return Value screen before closing the case.

- b. Complete all applicable windows.
- c. If the dollar tolerance for issuing a notice is not met, the system displays a message to close the case. Use PC 22 to close below tolerance cases.
- (14) Proposed adjustments on the CP 2000/ CP 2501 require an explanation to the taxpayer. There is a single set of explanation paragraphs for both the CP 2000/ CP 2501. Paragraphs are either manually selected or automatically generated based on the case condition. All applicable paragraphs display in the SELECTED PARAGRAPH field(s) on the Notice Summary screen. All automatic paragraphs are automatic toggle. If a CP 2501 Notice is selected (PC 30), the system prevents any non-CP 2501 paragraphs from printing on

the notice. If issuing a CP 2501, **do not** “toggle off” apparent inappropriate CP 2501 paragraphs. Non-automatic paragraphs may be viewed, selected, deleted, and/or added.

- There is a single Notice Summary screen. This is to facilitate automatically generating a CP 2000 from a CP 2501 no-response.
- The programming that automatically selects paragraphs occurs in different screens (Case Analysis, Return Value or Notice Summary) depending on the conditions needed to set the paragraph. To reduce the instances of paragraphs resetting, the tax examiner should **only** “toggle off” or “toggle on” paragraphs from the Select Notice Paragraph window accessed in the Notice Summary screen.
- CP 2000/CP 2501 automatic and non-automatic paragraphs are notated in this IRM as “PARAGRAPH XX”.
- Miscellaneous Letter paragraphs are notated as “Special Paragraph”. The verbiage provided in the Special Paragraphs is for example only and can be modified as needed.
- There are various numbered paragraphs for use by AUR. In situations where the numbered paragraphs are not applicable, a Special Paragraph may be written in the Special Paragraph window.

**Note:** Special Paragraphs **MUST BE** reviewed by a manager or lead tax examiner. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Selecting, Viewing and Deleting Notice Paragraphs.

- (15) Twelve different income types can be marked as underreported. If there are

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- (16) When issuing a notice for underreported issues, send the applicable element(s) of the IR. The entire IR will not be sent unless all elements (income types) on an IR are marked with a “S”. This includes modified and created IRs. When an IR is marked with a “U”, the system automatically enters the Send Indicator. If it is determined the IR should not be sent, remove the Send Indicator.

**Note:** The Send Indicator must be manually entered on any created or modified IR the tax examiner wants to include on the Notice. In order for a created IR to be considered valid for inclusion on the notice, it must contain: a payer name, payer EIN, and an income amount greater than zero (in addition to other required entries).

**Exception:** The system may determine an element of an IR should automatically be included on the notice. In this situation when a user marks an element of an IR to send, the system displays the message; “ELEMENT DOES NOT NEED TO BE SENT.” Consider the element as a valid inclusion on the notice.

- (17) Close short year returns with PC 28.

- (1) The initial review of IRs is accomplished from the Case Analysis screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures- Case Analysis Overview.

- All IR(s) with the same document type are sorted in payer Employer Identification Number (EIN) sequence.
  - Be aware of Payer Agent/Fraud information.
- (2) Delete **EIN** IRs as invalid if any of the following apply:
- a. The payer EIN or name on Form W-2 or Form 1099 matches the payee EIN or name on the IR in question.
  - b. Schedule E contains a Partnership or Small Business Corporation with the same EIN or name as the payee EIN or name on the IR(s) in question, **UNLESS** the payer on the IR **is** the partnership or small business corporation shown on Schedule E.
- (3) Delete the **EIN** IR when the payee name line(s) is obviously not the taxpayer. For example, the name line(s) contains any of the following groups:
- Government agencies - federal, state, or local
  - School - private, public, colleges, universities, etc.
  - Charitable and tax-exempt organizations - hospitals, churches, medical centers, etc.
  - Pension Profit Sharing Plan name line(s) with the words “trustee for”, “trustee”, etc.
- (4) Consider the **EIN** IR valid (as belonging to the taxpayer) when **ANY** of the following conditions are present:
- a. Primary or secondary taxpayer’s name is the only payee name on the IR.
  - b. Primary or secondary taxpayer’s name appear in the first or the second name lines on the IR.
  - c. The payee address on the EIN IR is the same address as shown on the tax return, Form W-2 or Form 1099 attached to the tax return, or other SSN IRs.
  - d. The payee name on the IR implies a sole proprietorship type business, or the taxpayer’s occupation as shown on Form 1040, or Schedule C or F is typically operated as a sole proprietorship or small business.
  - e. The payee EIN on the IR matches the EIN on the Schedule C or F.
- Exception:** If it appears the EIN listed on the Schedule C or F does not belong to the taxpayer (for example, the listed EIN matches a **payer** EIN on another IR), use IDRS CC INOLES to determine the validity of the EIN.
- (5) Compare all valid EIN IRs to amounts on the tax return and related schedules. Use the instructions for the particular type of income involved.
- (6) Assert SE tax, as appropriate, only on the issues that are normally subject to SE tax. See IRM 4.19.3.16.1, Self-Employment Tax, for further instructions and Exhibit 4.19.3-20, Examples of Self-Employment Income.
- (7) **EIN IRs do not display with an Income Identify Code in the INC CD field. When applicable enter the appropriate Income Identify Code, for example, interest, securities, or SE income.** If it cannot be determined which Income Identify Code to enter, see Exhibit 4.19.3-9, Income Identify Codes, and enter the value from the “Displayed Codes” column. If the IR has a status code of “U”, it is necessary to remove the “U” before an Income Identify Code can be entered.
- (8) Delete IRs when:

- a. Payer Agent Indicator “Y” is present and the Payer Agent window contains instructions to delete the IR. See IRM 4.19.3.6, Payer Agent.

**Note:** If all U/R income is from identified PayerAgents and the Payer Agent window contains instructions to accept or delete the IR, close the case with PC 24.

- b. The payee entity contains the words “Estate of”.
- c. The taxpayer’s name is preceded by the word “by”.
- d. The payee(s) name is obviously different from the Tax Account names and does not contain obvious business words, even though the SSN matches.
- e. EIN 99-9999999, foreign income, is present and another EIN is present for the same payer. IR dollar amounts may vary due to currency exchange rates.

**Note:** Delete the 99-9999999 IR ONLY when both are present. Foreign Source IRs are treated the same as domestic source IRs.

- f. The literal is “DELET”.
- g. The filing status is “3” or “6” and the SSN on the IR is for the spouse.
- h. The IR contains non-select term(s) and you determine the payee is NOT the taxpayer. See Exhibit 4.19.3-10, Non-Select Table.

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- j. When the message window displays “Systemic Identified Fraudulent IR” and the IR SSA FRAUD IND box contains a “Y.”

(9) Consider IRs with the following conditions valid and pursue any U/R amounts:

- a. The payer’s name is garbled, missing, or incomplete. See IRM 4.19.3.5.2, Comparison of IRP Information Returns With Return Information.
- b. The payee’s first and last name are in a different order on the IR.
- c. The payee name is a foreign version of an English name (such as, Peter listed as Pedro or Pierre).
- d. The payee name line includes the taxpayer’s title (for example, MD, DDS, CPA).
- e. Only a name control is showing as the payee name and it matches the taxpayer’s name.
- f. The payee second name line includes “c/o” (or a variation) followed by the taxpayer’s name.
- g. The payee name line contains obvious business words and you determine the payee is the taxpayer.
- h. The literal is “AMEND” and the document does not match the original documents. See (11) below for further instructions.
- i. The payee name is followed by “and” or “or” without other names.
- j. The IR payee name is a maiden name. If the payee’s first name or initial on the IR are the same as the Tax Account name, pursue the IR.
- k. The word “rollover” is present on either the payee or payer side on a 1099R IR. See IRM 4.19.3.8.10.4, Rollovers, for further information.

(10) The payee entity name line of the IR may contain terms or variations of terms. See Exhibit 4.19.3-10, Non-Select Table.

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that document type unless you determine the payee is the taxpayer.



- (11) **Amended IRs** are identified on the Case Analysis screen by Indicator “A”, “R”, “D” or “X” in the AMD IND field. Amended IRs are identified on the Information Return window by the literal “AMEND”, “REPLC”, “DUPLC”, or “DELET”. If the computer has pre-identified amended IRs that are used to replace the original IR, the amended IRs have the literal “REPLC” and the literal on the original is “DELET”. **PARAGRAPH 47** automatically generates when Amended IRs are included on the notice. See Exhibit 4.19.3-7, CP PARAGRAPHS. Delete original IRs if amended IRs match an original. The amended and original IR must have:
- The same payer name and/or EIN.
  - The same account number (if present).
  - The same type of income if the money amount changes or different income types when the money amount stays the same (for example, amending a Form 1099-MISC, Miscellaneous Income, from NEC to OTINC).
- (12) Pursue all IRs if the amended IR(s) does not match an original, or if the amended IR matches more than one of the other IRs.
- a. Amended IRs may reflect incomplete information; neither amount literals nor \$0 (zero) amounts are displayed. If such an IR is present, assume the payer/employer attempted to zero out an incorrect income amount previously reported.
  - b. A blank in the amount field of an amended IR represents \$0 (zero). Amended IRs with \$0 (zero) amounts appear on the Case Analysis screen only if there is another IR with at least one money amount or the IR is for a Form W-2.
- (13) When there are two identical IRs (SSN/EIN, name, amount, account number, income type, etc.) take the following actions:

If	Then
The source matches	Delete one of the IRs. <b>Exception:</b> For Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, see IRM 4.19.3.8.23.1, Securities Sales - Analysis, and for Form 1099-S, Proceeds From Real Estate Transactions, see IRM 4.19.3.8.25.1, Real Estate Transactions - Analysis.



If	Then
The source is different	delete the paper source IR. <b>Exception:</b> For Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, see IRM 4.19.3.8.23.1, Securities Sales - Analysis, and for Form 1099-S, Proceeds From Real Estate Transactions, see IRM 4.19.3.8.25.1, Real Estate Transactions - Analysis.
One does not contain an account number	
The account numbers of both IRs contain the same sequence of numbers or characters. <b>Example:</b> Account number 0003013826 and account number 3013826 are account numbers which contain the same sequence of numbers.	Delete one of the IRs

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- (14) Do not consider IRs as duplicates when the account numbers are obviously different, even though all other elements are identical.
- (15) If a 99NEC, 99MIS, PTK-1 or TRK-1 IR are present for the same taxpayer, from the same payer **AND** for an identical money amount, see IRM 4.19.3.8.12.1, Conduit Income - Analysis, for further information.

4.19.3.5.2  
(10-06-2022)

**Comparison of IRP  
Information Returns  
With Return Information**

- (1) Different income types may be combined on one information document, (for example, Form W-2 may include ordinary wages, allocated tips, W/H). On the Case Analysis screen, each income type is displayed separately and can be assigned a status code.

**Note:** If an IR with multiple income elements is U/R, input status code "U" ONLY for the income element that is actually U/R. If necessary, enter status code "R" or "N" for any remaining income elements that are not U/R.

- (2) The information return will display a check box for IRA/SEP/SIMPLE IND on Form 1099-R, box 7 and PROP/SERVICES on Form 1099-S, box 4. When checked, refer to the table below for additional information:

Document	Box number	Description
1099-R	7	Taxpayer received a traditional IRA/SEP/SIMPLE distribution
1099-S	4	Transferor received or will receive property or services as part of the consideration for the property transferred. The value of any services or property (other than cash or notes) is not included in the gross proceeds.

- (3) An Income Identify Code in the INC CD field of the Case Analysis screen and the Information Return window identifies certain income types to the system so that U/R income is included in related calculations (such as, earned income qualifying for earned income credit (EIC), income subject to SE tax). See Exhibit 4.19.3-9, Income Identify Codes. The tax examiner may change or delete this code if information on the taxpayer's return indicates the displayed code for U/R income types is inaccurate.
- (4) The following general rules apply to the analysis of all types of IRs:
- b. Consider an IR reported if the taxpayer reports the same amount of income but under a different payer name.
  - c. Allow a tolerance of \$1 (rounding) for each IR. In those processes which do automatic calculations and grouping (for example, SS/RR, IRA Deduction), the system considers the (rounding) tolerance.
- Note:** The system does not consider a rounding tolerance during automatic calculations that apply to W/H, SE Tax, excess SSTAX, additional MCTXW, or the 10 percent tax. Follow the taxpayer's intent as to rounding, dropping cents, when working these issues.
- d. Consider Payer Agent criteria when evaluating IRs. See IRM 4.19.3.6, Payer Agent, for further instructions regarding Payer Agent data.
- (5) Misplaced entries on the tax return are frequent causes of U/R discrepancies. Taxpayers report income on their returns in a variety of places. It is important to thoroughly review the ENTIRE return before identifying income as being underreported.
- a. If there is unearned income (for example, UNEMP, TX/A) reported as wages, complete the Return Value screen adjusting the TOTAL EARNED INCOME field of the EIC window if necessary.
  - b. Be sure income identified on an attachment is carried forward and included in the adjusted gross income.

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- (6) When comparing IRs with entries on any line not specifically identified for that income type, the amount must match within \$1 or be clearly identified as the income type in question.
  - a. If the amount matches within \$1, consider the IR reported.
  - b. If the amount does not match within \$1, but the income type has been clearly identified, consider the IR(s) reported if the entry is a larger amount, or consider the IR partially U/R if the entry is a lesser amount.
- (7) When payer documents are attached (Form W-2, Form 1099-MISC, etc.) to a paper return, consider them more accurate than the IR UNLESS:

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cessing and consider the IR the most accurate.

- b. There is an amended IR that corresponds with the payer document. Consider the amended IR the most accurate.
  - c. They appear to be for an incorrect tax year.
- (8) Taxpayers recreate payer information (such as Form W-2, Form 1099-R, etc.) to include with their ELF return, increasing the potential for input errors of the payer information, such as transposed money amounts or missing information (for example, pension plan box on Form W-2, COD on Form 1099-R). Review ELF payer documents displayed in the TRDB window as follows:

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**Exception:** If the information appears to be fraudulent or paper documents appear to be altered, see IRM 4.19.3.5.8.1, Identifying and Developing Fraud in AUR, for additional information.

- (9) For ELF returns, consider the IR more accurate than the ELF payer document when the ELF payer document shows less income than the IR. All elements of the IR are considered more accurate than the ELF payer document elements.
- (10) If the return is missing supporting forms or schedules, research IDRS. If the information is not available, take the following action(s):

1. Allow credit against IRs for wages, W/H, interest, and dividends reported on the return unless there is an indication the return amounts are not from the same payer(s) on the IR(s).
  2. For all other types of income, do not allow credit against IRs unless the return amount matches an IR within \$1.
  3. Do not make any changes in the calculation windows (for example, Child Care Credit, Schedule A, Alternative Minimum Tax), but allow the system to compute if the necessary supporting schedule or form is missing.
- (11) The Create Information Return window is used to create a new IR. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Creating Information Returns.
- (12) **Create an IR if:**
- a. The taxpayer reports income/deductions for which there is no corresponding IR, and the reported amount is needed by the system to perform related calculations. (The corresponding information document may or may not be attached to the return.)
  - b. There is an attached information document with no corresponding IR, and the income is not reported. **Send PARAGRAPH 139**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  - c. The payer's name is garbled, missing or incomplete. Use the EIN to research IDRS CC INOLES for the proper payer name. If the income is U/R, recreate the IR as shown on the Case Analysis screen, including the correct payer name. Include the created IR on the notice.
- Caution:** In order for a created IR to be considered valid for inclusion on the notice, it must contain: a payer name, payer EIN, and an income amount greater than zero (in addition to other required entries). The Send Indicator must be manually entered on the IR by clicking in the SEND INDICATOR field on the Case Analysis screen.
- d. The tax examiner determines other conditions exist that require creation of an IR.
- (13) The Modify Information Return window modifies an existing IR. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Modifying Information Returns.
- (14) **Modify an IR if:**
- a. The COD/PGR Indicator is incorrect.
  - b. The Payee Indicator is incorrect.
  - c. One or more IR(s) belongs to both taxpayers and the income/deduction amount needs to be allocated (for example, the taxpayers divided non-employee compensation from one IR between two Schedules C, and SE tax is an issue).
  - d. One or more IR(s) is reported on more than one schedule or form (for example, mortgage interest on Schedule A and Schedule E), and the income must be allocated in order to reflect the correct Income Identify Code.
  - e. It is determined other conditions require modification of an IR.
- Reminder:** After an IR is modified the system marks the original amount with an "X". To include the modified IR on the notice, click the SEND INDICATOR field next to the original amount.

- (15) Use the SEARCH option to view only those IRs that fit specific criteria (for example, payer name, income type). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Search Function.
- (16) Use the SCROLL IR option to view multiple IRs on the Information Return window, without returning to the Case Analysis screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - CA Tools Menu.
- (17) Use the GROUP option when a breakdown is not provided and it is necessary to compare a total money amount for related IRs with a single line entry on the return. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Grouping Information Returns.

**Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. The Mixed IR Group menu has a drop-down menu to select an income type or combination of income types. It may not be necessary to use the Group function if the correct U/R can be determined without it.

- a. If the group total amount is larger than the single line entry on the return, assign status code "U" to the group.
- b. If the group total amount is smaller than the single line entry on the return, assign status code "R" to the group.

**Note:** All IRs of the same income type are grouped together, regardless of the Income Identify Codes. After grouping, it may be necessary to remove an IR(s) from the group because of the Income Identify Code.

- (18) If a 99MIS IR has two elements with identical money amounts (for example, NEC is \$500 and MED is \$500) and the taxpayer reports one of the amounts, #
- (19) A photocopy of a prior year CP 2000 response may be attached to the return. Consider the information in the previous year's response. This information may result in resolving the U/R issue(s).
- (20) When a U/R issue for the **same** type of income from the **same** payer was resolved per a copy of a Letter 2625C response from a prior year attached to the return, delete any current year IR.

**Note:** If a prior year AUR closure letter (such as, CP 2005, Letter 1802-C) is attached to the return, research the prior year to see if the resolved issue(s) #  
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- (21) If all IRs are matched exactly, but there is still a U/R amount:
  - 1. Add the amounts reported on the return. (There has probably been a math error.)
  - 2. Pursue the U/R issue.
  - 3. Send an appropriate paragraph to advise the taxpayer of the error.
- (22) If the discrepancy is resolved, close the case using PC 2X.
- (23) Foreign source income IRs are identified by:

- A payer TIN of "99-9999999".
- An unusual payer name (Bundesent fer Finazen, Banque de Quebec) or a payer name indicating a foreign country (French Dividends, German Securities, United Kingdom Royalties).
- Foreign country abbreviation in the State field.
- Account Code Type "T".

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4.19.3.5.2.1  
(09-01-2012)  
**Service Center  
Recognition/Image  
Processing System  
(SCRIPS)**

- (1) The following procedures apply to the analysis of Service Center Recognition/Image Processing System (SCRIPS) IRs.
- (2) The system displays a warning message when STATUS CODE "U" is assigned to a SCRIPS IR(s). When this message is received, the tax examiner should screen the related IR with EXTREME care.

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- (4) If a SCRIPS IR is asterisked and is deleted due to one of the conditions in (3) above and the other asterisked item(s) are reported or below tolerance, close the case. If the other asterisked item(s) are U/R, continue processing.
- (5) If a SCRIPS IR is U/R and none of the conditions in (3) above are present, consider the IR correct and pursue the issue using normal procedures.

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- b. Do not send SCRIPS IRs with erroneous information. Create an IR to reflect the correct information and include it on the notice.

- (6) Do not send information regarding erroneous SCRIPS IRs to the AUR Payer Agent Coordinator, unless some other payer agent (P/A) condition exists.

4.19.3.5.3  
(09-30-2014)  
**Jointly Owned Income**

- (1) Joint ownership is indicated when there are two or more names on the IR, or one payee name is on the IR followed by "and" or "or". This situation occurs primarily when working with interest, dividend and/or securities income.

- (2) When the taxpayer reports the appropriate percentage of ownership from a
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- (3) If the taxpayer resides in a Community Property state, see IRM 4.19.3.5.4, Community Property States, for further instructions.
- (4) If the filing status is 3 (Married Filing Separately), the spouse's name appears
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- the spouse's return.

**Note:** If the IR is solely for the spouse, delete the IR.

- a. If the spouse did not file a return, issue a CP 2000.
  - b. If the spouse filed a return, it may be possible to determine if the spouse reported the jointly owned income. If the difference between the spouse's IRPTR data and their reported per return amount (from CC RTVUE, or IMFOLR) for the related income type equals the U/R amount (within
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- issue a notice for the full U/R amount to the AUR taxpayer.
- (5) If the filing status is 6 (taxpayer claiming an exemption for spouse not filing), issue a notice as appropriate to the primary taxpayer for the U/R issue.

**Reminder:** If the filing status is 6 and the IR is for the spouse, delete the IR.

4.19.3.5.4  
(10-25-2023)  
**Community Property  
States**

- (1) Taxpayers who reside in a community property state and who are subject to the state's community property laws must follow the state community property laws to report their community/separate income on a federal tax return.
- (2) AUR may receive requests for filing status changes based on the June 26, 2013 Supreme Court ruling on a provision of the 1996 Defense of Marriage Act (DOMA). The effect of the Supreme Court's opinion is that same-sex couples who are lawfully married under state law are treated as married for all federal tax purposes including income and gift and estate taxes. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions, taking the standard deduction, employee benefits, contributing to an IRA and claiming earned income tax credit (EITC) and child tax credit (CTC). If the taxpayer submits a Form 1040-X requesting a filing status change see IRM 4.19.3.22.7.4, Referrals.
- (3) Refer to Pub 555 , Community Property for applicable states.
- (4) Married taxpayers can elect to file either a joint return or separate returns (to get a greater tax advantage). If the taxpayers meet certain conditions, they may be eligible to file a non-joint return using either FS 1 (single) or FS 4 (head of household), as opposed to FS 3 (married filing separate).
- (5) RDPs are not married for federal tax purposes. They can use only the single filing status, or if they qualify, the head of household filing status. RDPs treat



income as jointly owned. An RDP must report half of all community income and all of their separate income on their tax return. Taxpayers attach Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property States, (or similar statement) to show how the income has been allocated.

(6) Community income is generally income from:

- Community property (such as, a jointly owned savings account)
- Salaries, wages or pay for services that either spouse performed during their marriage
- Real estate that is treated as community property under the laws of the state where the property is located

(7) Separate income is generally income from separate property. Separate income belongs to the taxpayer who owns the property.

**Note:** Contribution limits on IRAs are applied without regard to community property interests.

(8) When married taxpayers choose to file separate tax returns, they should use Form 8958 (or similar statement), to list their income, deductions and W/H. Each taxpayer is instructed to attach the Form 8958 (or similar statement) or a photocopy of the other spouse's payer documents (Form 8958, etc.) to each of their individual tax returns.

(9) On the Form 8958(or similar statement), community income is generally equally divided between both taxpayers and each taxpayer would report their separate income.

- a. Earned income (for example, wages, nonemployee compensation) is generally considered community income and the taxpayers would divide their combined income equally between them.

**Note:** The amount of W/H would also be combined and divided between both taxpayers.

- b. Jointly held savings accounts are treated as community property. Individual savings accounts that earn either interest or dividends are generally considered separate property.

**Exception:** The Community Property laws for those taxpayers who reside in Idaho, Louisiana, Texas or Wisconsin stipulates that income from separate property is generally treated as community income. For example, interest earned on an individual savings account would be considered community income.

(10) On an individually filed tax return, if there is partially reported income/ deductions and the taxpayer resides in a community property state as listed in (3) above, determine if the AUR condition is the result of the income allocation.

- a. Consider the information return fully reported if attached statements/ worksheets or Form 8958 identifies the income was allocated between both spouses (including RDPs).
- b. If the discrepant information return is not addressed in the attached statement/worksheets or Form 8958, pursue the full amount of the income.

4.19.3.5.5  
(09-21-2020)  
**Deceased Taxpayers**

- (1) On married filing joint (FS 2) returns if there is an indication the primary or secondary taxpayer is deceased, but the Tax Account screen (Entity section) does not reflect this, research IDRS CC INOLES to determine which taxpayer is deceased.
- (2) Follow the procedures listed below to screen the case:

**Note:** When one of the taxpayers is deceased, see IRM 4.19.3.8.17.1, SS/RR - Analysis, for procedures to resolve SS/RR discrepancies on jointly filed returns.

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**Caution:** If the decedent's income is reported on the return, consider the IR reported and enter status code "R". This allows the system to correctly calculate any changes.

**Exception:** If the surviving spouse's U/R income causes a change in the taxable portion of a decedent's reported SS/RR, Student Loan

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PARAGRAPHS.

- d. Issue a notice if the U/R IR(s) show ownership for the surviving spouse.
- (3) If issuing a notice, input the current information in the Update Address window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information.
  - a. Update the first name line.
  - b. For joint returns, enter DECD after the given name of the deceased taxpayer.
  - c. For other than joint returns, enter DECD after the taxpayer's last name, including suffix.

**Note:** The first name line is limited to 35 characters. If DECD will not fit on this, input the deceased taxpayer's name and DECD on the second name line.

  - d. Enter the second name line, if present.
  - e. Enter "D" in the Split Code field.

4.19.3.5.6  
(10-25-2023)  
**Declared Disaster Areas**

- (1) AUR HQ inputs zip codes for specific declared disaster area situations, as necessary, based on IRS Disaster Relief Memos. Follow system prompts to ensure proper handling of declared disaster area cases. Disaster types with case impact:

**Note:** Use of IPC 0D, 3D, 6D or 8D and Batch Type 35, 43, 63 and 73 to process disaster cases should occur ONLY when the taxpayer self-identifies or as directed by AUR HQ and ONLY for impacted sites/cases.

- Type 3 - prevents cases from defaulting (notices continue to be issued).

- Type 4 - suppresses CP 2000/CP 2501 and Statutory Notices AND prevents all enforcement actions.

**Note:** IRS Disaster Relief Memos provide guidance on how enforcement actions are impacted; for example, suspension of notice issuance and/or prevention of cases from defaulting. No change or adjustments resulting in a refund are permitted. See IRM 4.19.3.22.1.16, Disaster Cases, for additional information.

- (2) Special rules apply to qualified retirement plans and for withdrawals and loans from IRAs (which are taken into consideration on Form 8606, Nondeductible IRAs. See IRM 4.19.3.8.10.3, Retirement-Analysis, for additional information). reported on:

- Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments.
- Form 8915-F, Qualified Disaster Retirement Plan Distributions and Repayments.

4.19.3.5.7  
(06-28-2021)  
**Frivolous Return  
Program (FRP)**

- (1) A frivolous return is defined as noncompliance with filing and/or paying tax based on unfounded legal or constitutional arguments. Frivolous returns often contain the following:

- Arguments about the obligation to file or pay tax on the face of the tax return or on attachments to the tax return.
- Altered forms or jurats containing frivolous arguments.
- Verbiage that attempts to impede or circumvent the administrative processing of the tax return.
- Irregular entries such as the taxpayer name or other fields in all lower-case letters or addresses with "Territory of" instead of the state.

**Note:** For a full list of recognized frivolous arguments, see *Frivolous Tax Arguments* for further information.

- (2) If in doubt about whether the return is frivolous, consult with your lead or manager. If it is determined during screening the return is frivolous, close the case with PC 13, notate the folder/Form 4251/ Campus cover sheet for clerical "FRP to Ogden".
- (3) If the return is determined NOT to be frivolous, continue normal processing.
- (4) If FRP requests an AUR case after taxpayer contact, close the case with the appropriate PC (38, 64 or 85), notate the folder/Form 4251/Campus cover sheet for clerical "FRP to Ogden".

4.19.3.5.8  
(10-02-2012)  
**Fraud Referral Program**

- (1) The primary objective of the fraud program is to foster voluntary compliance through the recommendation of a criminal investigation/prosecution and/or civil penalties against taxpayers who evade the assessment and/or payment of taxes known to be due and owing.
- (2) Tax fraud is often defined as an intentional wrongdoing on the part of a taxpayer, with the specific purpose of evading a tax known or believed to be owing. Tax fraud requires both:
  - a. a tax due and owing; and

- b. fraudulent intent
- (3) The objective of the Campus Fraud Referral Program is to:
  - a. Identify cases with potential fraud.
  - b. Develop fraud guidance from the Campus Fraud Referral Specialist (FRS).
  - c. Refer potential fraud cases to Field Exam for further development.
- (4) **Fraud Technical Advisor (FTA)** - The FTA assists with the development of fraud in the Campus Examination environment.
- (5) **Functional Fraud Coordinator (FFC)** - The FFC is a fraud liaison assigned to a specific function or operation within the Campus. The FFC is responsible for reviewing the Form 13549, Campus Fraud Lead Sheet, and conducting research used to establish a pattern of non-compliance. See IRM 4.19.10.4.3, Responsibilities of the Functional Fraud Coordinator (FFC), for additional information.
- (6) **Campus Fraud Coordinator (CFC)** - The CFC is a fraud liaison assigned to each SB/SE Campus. The CFC is the main point of contact with the FTA assigned to that campus.
- (7) **Exam Fraud Coordinator (EFC)** - The EFC is a fraud liaison assigned to each W&I Exam function. The EFC is the main point of contact with the FTA assigned to that campus.

4.19.3.5.8.1  
(11-23-2022)  
**Identifying and  
Developing Fraud in  
AUR**

- (1) During the course of AUR case work, situations may be encountered involving potential fraud, referred to as indicators of fraud. Although only a small percentage of cases are fraudulent, it is essential to detect and report any potential fraudulent activities. The following list has been developed for AUR and identifies examples of indicators of fraud that are most likely to be found in a campus environment (this list is not all inclusive and may involve a promoter/return preparer):
  - Altered Documents
  - False deductions/adjustments to income
  - False/overstated Form W-2 for EIC purposes (may be preparer/promoter)
  - False Schedule C for EIC purposes
  - Identity theft (sale or purchase)
  - False basis in assets
  - False transaction date for asset disposition
  - False statements made by taxpayer
  - False exemptions
  - Use of decedent's SSN
  - False business, rental, or farm expenses
  - False or overstated refundable credits
  - False/overstated Form 1099- MISC
  - Amended returns with any of the above
- (2) Fraud is developed by trained Fraud caseworkers until it is determined affirmative acts (deceit, subterfuge, camouflage, concealment or some attempt to color or obscure events or to make things seem other than they are) exist. The Service must prove the taxpayer acted deliberately and knowingly with the specific intent to violate the law. Once a suspicion or indicator of fraud is

found, it is essential the case be transferred to the designated AUR Functional Fraud Coordinator (FFC) for further development.

4.19.3.5.8.1.1  
(11-23-2022)

**Online Fraud and Other  
Scams (PHISHING)**

- (1) Cases where the taxpayer indicates receipt of an AUR notice/letter but there is no record on the AUR system of any notice/letter issuance for the tax year in question; in other words, a fake CP 2000, require special handling. Ask the taxpayer if the notice/letter was received vial mail or email; see the table below to determine the proper actions to take:

If the taxpayer received the notice	Then
Via mail	<ol style="list-style-type: none"> <li>1. Advise the taxpayer to report the incident by accessing the information on <a href="https://www.irs.gov/uac/report-phishing">https://www.irs.gov/uac/report-phishing</a> and following the directions. <b>Note:</b> If the taxpayer does not have internet access, refer to (2), below.</li> <li>2. Request the taxpayer provide a copy of the notice/letter, including all enclosures and the packaging envelope, if available.</li> <li>3. Inform the taxpayer the AUR department has no compliance issue and no further action is necessary. <b>Caution:</b> It may be necessary to research the taxpayer's account(s) to validate there are no other IRS issues; for example, balance due.</li> <li>4. If the taxpayer's identity is compromised (their SSN is on the notice/letter), inform the taxpayer they may be a victim of ID Theft and advise them to complete Form 14039, IRS Identity Theft Affidavit. See IRM 4.19.3.22.1.26.1, IDT - General for additional information.</li> <li>5. Refer the matter to the AUR Coordinator and advise the Coordinator the notice/letter was received by mail. Provide a copy of the notice/letter, including enclosures and the packaging envelope, if available. Inform the Coordinator if no enclosures or packaging was provided, when requested from the taxpayer.</li> </ol>

If the taxpayer received the notice	Then
Via email	<ol style="list-style-type: none"> <li>1. Inform the taxpayer not to reply to the email, open any attachments as they may contain malicious code, or click on any links.</li> <li>2. Advise the taxpayer to report the incident by accessing the information on <a href="https://www.irs.gov/uac/report-phishing">https://www.irs.gov/uac/report-phishing</a> and following the directions. <b>Note:</b> If the taxpayer does not have internet access, refer to (2), below.</li> <li>3. Request the taxpayer provide a copy of the email/fax, if available.</li> <li>4. Inform the taxpayer the AUR department has no compliance issue and no further action is necessary. <b>Caution:</b> It may be necessary to research the taxpayer's account(s) to validate there are no other IRS issues; such as, balance due.</li> <li>5. If the taxpayer's identity is compromised (their SSN is on the notice/letter), inform the taxpayer they may be a victim of ID Theft and advise him/her to complete Form 14039 , IRS Identity Theft Affidavit. See IRM 4.19.3.22.1.26.1, IDT - General. for additional information.</li> <li>6. Refer the matter to the AUR Coordinator and advise the Coordinator the notice/letter was received via email. Provide a copy of the email, if available.</li> </ol>

- (2) If the taxpayer does not have internet access advise them to contact TIGTA. TIGTA can be reached at 800-366-4484. Non-emergencies can be accessed through the online web at *Report a Crime or IRS Employee Misconduct - U.S. Treasury Inspector General for Tax Administration (TIGTA)*.

4.19.3.5.8.2  
(09-21-2020)

**AUR Tax Examiners  
Fraud Responsibilities**

- (1) Identify indications of fraud that are uncovered through regular case processing. Prior to researching for fraud indicators, use the IAT "aMend" tool, research portion, to determine Scrambled SSN or Mixed Entity. If yes, prepare Form 4442 for referral to AM. If no, refer to the following:
  - a. Fraud Refund Scheme listing found in the Job Aids section on SERP: *Fraud Refund Scheme Listing*
  - b. IRM 4.19.3.5.8.1, Identifying and Developing Fraud in AUR.
  - c. IRP data versus the filed return; for example, the only UR income is social security benefits that do not indicate a filing requirement. The posted return appears to have fraudulent income reported, such as Schedule C and wage income that cannot be verified on IRPTR.
- (2) Discuss the indicators of fraud with the group manager or lead. If the group manager or lead concurs:
  1. Complete Sections I, II, III, and, Part V of Form 13549, Campus Fraud Lead Sheet (information and indicators of fraud).
  2. Secure the group managers initials and date.
  3. Assign the appropriate Internal Process Code;

IPC	Description
0F	Screening Fraud Referral
3F	CP 2501 Fraud Referral
6F	CP 2000 Fraud Referral
8F	Statutory Fraud Referral

4. Forward the case and the sheet to the AUR Functional Fraud Coordinator (FFC) for consideration.
- (3) Documentation is critical in the development of fraud. Maintain complete and accurate case notes that include each of the following:
- a. All case actions.
  - b. All documents received.
  - c. All contacts must be adequately documented (for example, changes to entity information were recognized/updated).
  - d. All conversations with the taxpayer, representative, return preparer, and third parties must be recorded (what was discussed and the responses).
- (4) If Fraud refuses the case it will be returned to the tax examiner per IRM 4.19.3.5.8.3, AUR Functional Fraud Coordinator Responsibilities. See the table below for the appropriate action to take.

If	Then
The case is in the screening phase	Close the case PC 28, if instructed by the FFC to do so.
The taxpayer's response indicates they did not file a tax return (regardless of agreement to the U/R income)	<ol style="list-style-type: none"> <li>1. Research and print ENMOD. If there is an indication of identity theft see IRM 4.19.3.22.1.26.3, IDT Claims - Responses.</li> <li>2. If not, issue a Letter 2626C, and advise the taxpayer to submit a completed return including the required signatures or a signed statement that they did not have a filing requirement with a copy of our notice.</li> <li>3. Request Form 14039 or a police/law enforcement incident report.</li> <li>4. Leave a detailed case note outlining the taxpayer response and actions (such as, "TP resp didn't file. 2626C for rtn or signed stmt").</li> </ol>

4.19.3.5.8.3  
(11-23-2022)  
**AUR Functional Fraud  
Coordinator  
Responsibilities**

- (1) The AUR Functional Fraud Coordinator (FFC) is responsible for monitoring and managing the Fraud Program within the AUR Operation:

1. Conduct preliminary screening of potential fraud case(s) referred from the AUR Operation (all cases in IPC 0F, 3F, 6F, and 8F).

**Note:** If W/H is the only issue and the W/H matches the payer document on file (IRPTR) do not forward to the CFC as a fraud referral unless directed by AUR HQ Policy.



2. Perform thorough research and review of the potential fraud cases for a pattern of non-compliance and/or fraud scheme characteristics within the AUR Program.
  3. Input and maintain case action on the AUR HQ Policy Fraud SharePoint.
  4. Leave a case note detailing actions taken (for example, forwarded to AUR HQ Policy for Fraud, doesn't meet fraud criteria, etc.).
  5. Track all AUR fraud leads, including those declined/returned to AUR and those accepted for further fraud development on the *AUR HQ Policy SharePoint*.
  6. Submit information on fraud referral/accepted/declined cases to Exam Headquarters by Completing the Campus Fraud Monitoring report located at \\VPWSENTHRCMN43\Common by the fifth day of each month.
  7. Maintain a copy of each Form 13549, Campus Fraud Lead Sheet for 3 years.
  8. AUR will use a combination of the IPC listing and Form 13549, Campus Fraud Lead Sheet, to track fraud referrals.
- (2) The AUR FFC is responsible for maintaining fraud referrals on the *AUR HQ Policy SharePoint*.
1. Complete AUR HQ Policy Fraud SharePoint template for all potential fraud cases.
  2. Review and determine if referral from the AUR Operation meets fraud criteria:

If	Then
Case(s) potentially meets criteria but is incomplete from initiator.	Update AUR HQ Policy Fraud SharePoint with appropriate actions to return the case to the initiator.
Case(s) does not meet fraud criteria.	<ol style="list-style-type: none"> <li>1. Update AUR HQ Policy Fraud SharePoint with the appropriate actions to decline the referral.</li> <li>2. Leave a detailed case note of the declination on the AUR System.</li> <li>3. Complete Form 13549, Campus Fraud Lead Sheet, Section VI with explanation of declination.</li> <li>4. Return copy of completed Form 13549, Campus Fraud Lead Sheet, to the initiator through their manager/lead within 5 business days.</li> <li>5. Reassign case to the initiator's AUR User Identification Number (SEID).</li> </ol>

If	Then
FFC has determined the case(s) is deemed valid for potential fraud.	<ol style="list-style-type: none"> <li>1. Update AUR HQ Policy Fraud SharePoint with the appropriate actions to accept the referral.</li> <li>2. AUR HQ Policy Fraud will provide the FFC with determination of necessary steps.</li> </ol>

**Reminder:** ALL potential fraud cases need to be documented on the AUR HQ Policy Fraud SharePoint.

- (3) AUR HQ Policy Fraud will provide determination of next steps for potential fraud case(s):

If	Then
AUR HQ Policy Fraud determines the referral is accepted.	<ol style="list-style-type: none"> <li>1. Leave a detailed case note on the AUR System.</li> <li>2. Scan all case contents and send securely to “*SBSE AUR HQ Policy Fraud” email.</li> <li>3. Complete Form 13549, Campus Fraud Lead Sheet, Section VI with explanation of acceptance.</li> <li>4. Return copy of completed Form 13549, Campus Fraud Lead Sheet, to the initiator through their manager/lead.</li> <li>5. Follow guidance provided from AUR HQ Policy Fraud.</li> </ol>

If	Then
AUR HQ Policy Fraud determines the case needs to be sent to Campus Fraud Coordinator (CFC).	<ol style="list-style-type: none"> <li>1. Update AUR HQ Policy Fraud SharePoint with the appropriate actions to refer case to Campus Fraud Coordinator (CFC).</li> <li>2. Complete Form 13549, Campus Fraud Lead Sheet, Section VI with explanation of acceptance.</li> <li>3. Scan all case contents and completed Form 13549, Campus Fraud Lead Sheet, to the CFC for final determination.</li> <li>4. Monitor case for determination from CFC.</li> </ol> <p><b>Note:</b> CFC is required to provide a determination to accept or decline fraud lead within 21 business days of receipt.</p>

**Caution:** The normal Assessment Statute Expiration Date (ASED) expires three (3) years from the due date of the return or three years from the received date of the original return; whichever is later. There must be at least 13 months remaining on the ASED, from the date the case is referred to the CFC. If less than 13 months remain and the case has good fraud potential, the FFC can contact the CFC who can consider accepting the case on a case by case basis.

(4) If the CFC accepts the fraud lead for further development, they will request the case be reassigned and ensure the case is established on AIMS. The AUR FFC will:

1. Leave a detailed case note on the AUR System.
2. Update AUR HQ Policy Fraud SharePoint stating the case has been accepted by CFC.
3. Close the case using Fraud Closing PC 14, 44, 72 or 84, as appropriate.
4. Annotate the Form 13549, Campus Fraud Lead Sheet, and keep a copy for the AUR records.
5. Send a copy of the Form 13549, Campus Fraud Lead Sheet to the initiator through the initiator's manager.
6. Ensure the entire case contents are forwarded to CFC.

**Note:** If the case contents are being trans-shipped to the CFC, recharge the return using IDRS CC ESTABDT or Form 2275, Records Request, Charge and Recharge.

(5) If the CFC declines the fraud lead, they will return the Form 13549 with a written explanation to AUR. The AUR FFC will:

1. Leave a detailed case note on the AUR System.
2. Update AUR HQ Policy Fraud SharePoint stating the case has been declined by CFC.
3. Return the Form 13549 to the initiator through the initiator's manager.
4. Reassign the case to initiating tax examiner's SEID.

4.19.3.5.9  
(10-25-2023)  
**Miscellaneous**

- (1) Initial processing errors, or additions to the AGI are corrected by entering the appropriate amount(s) in the MISCELLANEOUS ADJUSTMENT fields on the MISC ADJUSTMENT/SCHEDULE C EXPENSE window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Miscellaneous Adjustment/Schedule C Expense. **When any amount is entered in this window send a Special Paragraph explaining the adjustment.** The amount computed in the changed amount field is included in the AGI by the system and is considered in all calculations. This amount is included in the U/R Amount on the Return Value screen and displays on the Notice Summary as Miscellaneous Adjustment.

**Caution:** Do not use this window for situations where a specific income/deduction type has its own window for the required adjustment. Also, the entry for the return field can be a negative or a positive amount, depending on the line entry being changed.

- (2) If Form 6781, Gains and Losses from IRC 1256 Contracts and Straddles, is attached to the return, or if Form 1040, Schedule 2, line 8 (TY 2020), line 17z (TY 2021 and subsequent), indicates the tax is from Form 6781, continue normal processing. This is reported on Schedule D.
- (3) A net operating loss (NOL) is identified by a negative entry on

TY	Form and line number
2020	Form 1040 / Form 1040-SR, Schedule 1, line 9 caused by negative amounts on Schedule 1, lines 3, 4, 5 (other than Schedule E Part I, line 18), line 6 or the indication of a carryover NOL notated on the dotted portion of Schedule 1, line 8.
2021 and subsequent	Form 1040/1040-SR, Schedule 1, line 10 caused by negative amounts on Schedule 1, line 8a (other than Schedule E Part I, line 18). <b>Note:</b> A NOL is indicated by a negative amount on Form 1040/1040-SR, Schedule 1, line 8a.

- a. Verify the correct amount is displayed in the NET OPERATING LOSS AMT field of the Return Value screen.

- b. If a NOL is caused by negative entries on Form 1040 / Form 1040-SR, Schedule 1, lines 4 or 8, an amount does not display on the Return Value screen. Input the amount of the NOL in the NET OPERATING LOSS AMT field.
  - c. The NET OPERATING LOSS AMT field displays an amount that is just a negative figure, not an actual NOL. If a displayed amount is not a NOL, delete the incorrect amount.
- (4) If Form 1040/1040-SR Schedule 1, shows a net operating loss, continue normal processing.
  - (5) If IRC 6501(d), Request for Prompt Assessment, is noted on the tax return, or there is a statement requesting a prompt assessment, AND there is a U/R amount, the case **MUST BE WORKED EXPEDITIOUSLY**. Prompt Assessment cases have an 18-month statutory period for the assessment of additional tax. Refer to the table below for the proper action to take:

If	Then
	<ol style="list-style-type: none"> <li>1. Enter "Y" in the IRC 6501(d) field on the Tax Account screen.</li> <li>2. Enter the irregular statute of limitation date in the IRREG DATE field on the Tax Account screen.</li> <li>3. Control the case and continue processing.</li> </ol>

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- (6) If an attachment indicates the income in question is nontaxable and the taxpayer cites an IRC section, determine the validity of the taxpayer's statement by researching the IRC. If the IRC submitted by the taxpayer is not valid, send a Special Paragraph to inform them the explanation is not acceptable.
- (7) Erroneous refunds caused by IRS error require special processing, see IRM 4.19.3.5.13, Erroneous Refunds, for further information.

#### 4.19.3.5.10 (10-06-2022)

#### Limitation on Business Losses

- (1) For tax years 2017 and before 2026, section 461(1) of the Internal Revenue Code disallows excess business losses of the noncorporate taxpayers if the amount of the loss is more than \$270,000 (\$540,000 for MFJ). The threshold amounts for the disallowance will be adjusted for inflation in future years. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) repealed the section 461(1) limitation for tax year 2020. For tax year 2020, taxpayers may need to file an amended return if they filed a TY 2020 return applying the limitation.
- (2) The taxpayer may need to adjust the business loss when there are changes to income reported and the loss is more than the limitation on any of the following:
  - Schedule C
  - Schedule D/Form 8949
  - Schedule E
  - Schedule F
  - Form 4835

- Form 4797

- (3) Taxpayers are instructed to report the excess business loss amount on Form 1040 / Form 1040-SR, Schedule 1, line 8 (TY 2020 ) as a positive number and indicate “ELA”, or Form 1040/1040-SR, Schedule 1, line 8o (TY 2021), 8p (TY 2022).

**Note:** **DO NOT** assess SE tax on the excess business loss amount reported on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020 ) or Form 1040/1040-SR, Schedule 1, line 8o (TY 2021), line 8p (TY 2022).

- (4) If Form 461, Limitation on Business Losses is attached, Send PARAGRAPH 202, see Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.5.11  
(10-06-2022)  
**Limitation on Business  
Losses Responses**

- (1) Taxpayer's may submit Form 461, Limitation on Business Losses, with their response. If the taxpayer provides a new or revised Form 461, input the new loss amounts in the MISC ADJUSTMENT window as a positive amount.

4.19.3.5.12  
(09-01-2010)  
**AUR Bankruptcy  
Coordinator Procedures  
- Contact by Insolvency**

- (1) When contacted by an Insolvency Specialist on a case in AUR inventory that has not yet been screened:
1. Inform the Insolvency Specialist there will not be an AUR issue for the year in question.
  2. Leave a detailed case note documenting the contact with the Insolvency Specialist.
  3. Take the following action to close the case with PC 27:

If	Then
The case is currently in a batch (AB, AU, or BF status)	Have the case assigned to yourself and input closing PC 27.
The case is not currently in a batch (for example, the case is in a future run control)	On a weekly basis, provide the clerical function with a listing of SSNs and request that they assign PC 27.

**Note:** Follow the above procedures regardless of whether or not Bankruptcy indicators are present on the AUR system.

4. Run the AUR Bankruptcy Status listing on a weekly basis and take appropriate steps to address the cases identified on the listing. Provide clerical with the SSNs of any “pre notice” cases identified from the listing to be closed with PC 27. See IRM 4.19.3.22.1.10.2, Bankruptcy Procedures - AUR Bankruptcy Coordinator Instructions, for additional information.
- (2) When contacted by an Insolvency Specialist on a case that has been screened but the notice has not yet been issued:
1. Inform the Insolvency Specialist there will not be an AUR issue for the year in question.
  2. Leave a detailed case note documenting the contact with the Insolvency Specialist.

3. Stop the notice and input PC 27. See IRM 4.19.3.19.3, Stop Notice Functionality, for additional information on stopping notices.

**Note:** Follow the above procedures regardless of whether or not Bankruptcy indicators are present on the AUR system and/or regardless of the proposed U/R amounts.

4.19.3.5.13  
(08-26-2016)  
**Erroneous Refunds**

- (1) An erroneous refund is any receipt of money from the Service to which the recipient is not entitled. It includes all erroneous payments to the taxpayer, even if the erroneous refund involves returning the taxpayer's own money. An erroneous refund may occur when:
  - The statute of limitations has expired and a refund is issued.
  - There are misapplied payments.
  - The AUR adjustment erroneously releases a credit hold (for example, IVO involvement TC 971 AC 134 is present).
  - The AUR payment is posted with TC 670 or TC 610.
- (2) When an erroneous refund is identified and the TC 846 has not posted, use the IAT "Stop Refund" tool to stop the refund. The action to stop the refund must be input by 10:00 a.m. on the Wednesday preceding the date of the refund.

**Caution:** Do **not** stop a direct deposit refund, which is identified by the number "10" in the DDRRC field on IDRS CC IMFOLT.

- (3) When an erroneous refund is identified and is the only issue, assign PC 28, 53, 68, or 88. If the Erroneous Refund Statute Expiration Date (ERSED) has expired, close the case with PC 28, 52, 71, or 96. Take appropriate actions to resolve the erroneous refund issue. See IRM 4.19.3.5.13.1, Recovering Erroneous Refunds, for additional information.

4.19.3.5.13.1  
(08-26-2016)  
**Recovering Erroneous Refunds**

- (1) There are four categories of erroneous refunds that AUR will work; Category A1, A2, B and D. Each category has a specific method that must be used to recover the erroneous refund and different statutes of limitation apply.
- (2) The Statute of Limitation used when recovering erroneous refunds are:
  - a. ASED (assessment statute expiration date) which is generally three years from the date the return was filed,
  - b. CSED (collection statute expiration date) which is generally ten years from the date of assessment, and
  - c. ERSED (erroneous refund statute expiration date) which is generally two years from the date of the erroneous refund check or direct deposit. A five year statute applies when the IRS can show the erroneous refund was induced by fraud or a misrepresentation of a material fact. ERSED is used to recover Category D erroneous refunds.
- (3) When a case is determined to be an erroneous refund, there are two steps to follow for recovering the erroneous refund:
  1. Identify the appropriate erroneous refund category.
  2. Complete the required actions within the applicable statutes to correct the error that caused the erroneous refund.



Category	IRM Reference
A1	See IRM 4.19.3.5.13.1.1
A2	See IRM 4.19.3.5.13.1.2
B	See IRM 4.19.3.5.13.1.3
D	See IRM 4.19.3.5.13.1.4

4.19.3.5.13.1.1  
(05-07-2018)

**Recovering Erroneous Refunds - Category A1**

- (1) Category A1 Erroneous Refunds occur when the tax liability has been understated due to an error by the IRS on either a tax assessment or on an adjustment to the tax liability and the error results in a refund.

**Example:** The IRS lowered the tax when processing the original return or an incorrect adjustment on an amended return was made.

- (2) The Category A1 Erroneous Refund is generally recovered with a deficiency assessment by the Examination function. The notice of deficiency must be issued by the ASED.
1. Prepare Form 4442, Inquiry Referral, and include any information pertinent to the erroneous refund. Forward the Form 4442 to the Examination function for the issuance of a deficiency notice.

**Note:** When Exam is contacted for issuance of a deficiency notice, notify HQ. Provide the tax year, SSN and an erroneous refund chronology.

2. Use the IAT "REQ77" tool to input TC 971 AC 663 regardless of erroneous refund amount.
3. Leave a case note and assign appropriate PC/IPC.

**Note:** The Letter 510C is not issued on Category A1 Erroneous Refunds. Do not input a TC 470 or a TC 844 on these accounts.

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4.19.3.5.13.1.2  
(05-07-2018)

**Recovering Erroneous Refunds - Category A2**

- (1) Category A2 Erroneous Refunds involve errors on non-refundable and/or refundable credits that are subject to deficiency procedures. Examples of refundable credits subject to deficiency procedures include Additional Child Tax Credit and Earned Income Tax Credit.
- (2) Category A2 Erroneous Refunds are generally recovered with a deficiency assessment by the Examination function. The notice of deficiency must be issued by the ASED.
1. Prepare Form 4442 and include any information pertinent to the erroneous refund. Forward to the Examination function for the issuance of a deficiency notice.

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**Note:** When Exam is contacted for issuance of a deficiency notice, notify HQ. Provide the tax year, SSN and an erroneous refund chronology.

2. Use the IAT "REQ77" tool to input TC 971 AC 663 regardless of erroneous refund amount.
3. Leave a case note and assign appropriate PC/IPC.

**Note:** The Letter 510C is not issued on Category A2 Erroneous Refunds. Do not input a TC 470 or a TC 844 on these accounts.

4.19.3.5.13.1.3  
(08-26-2016)

#### Recovering Erroneous Refunds - Category B

- (1) Category B Erroneous Refunds occur when the taxpayer overstates their W/H, additional MCTXW, excess SST, or estimated income tax payments on a return or a claim for refund.

**Note:** If the **IRS caused** the overstatement of W/H, additional MCTXW, excess SST, or estimated tax payments, the erroneous refund becomes a Category D Erroneous Refund and can only be recovered through the Category D Erroneous Refund procedures. See IRM 4.19.3.5.13.1.4, Recovering Erroneous Refunds - Category D, for further information.

- (2) Category B assessments are not subject to the deficiency procedures; however, the assessments **must** be made by the ASED.
- (3) The Letter 510C is not issued on Category B Erroneous Refunds.
- (4) Do not input a TC 470 or a TC 844 on these accounts.
- (5) Do not use Hold Codes on the adjustment that will prevent the notice from being generated.

4.19.3.5.13.1.4  
(03-03-2021)

#### Recovering Erroneous Refunds - Category D

- (1) Category D Erroneous Refunds include any erroneous refund not included in any other erroneous refund category. The Category D Erroneous Refunds can also include any other Category of Erroneous Refunds if the ASED has expired but the ERSED is still open.
- (2) The Erroneous Refund Unit in Accounting inputs a false credit (TC 700) on Category D Erroneous Refunds to remove the erroneous refund amount from the Masterfile and reestablish the account in Accounting.
  - a. This action prevents notices and administrative collection action (liens or levies) from occurring on the erroneous refund liability.
  - b. The TC 700 credit can be identified by a Document Code 58 and a blocking series 950-999 in the DLN.
  - c. These accounts will have a -U Freeze (generated by a TC 844) and it informs other employees the account is being worked and monitored in Accounting.
  - d. **Do not release the TC 700 credit.**
- (3) The IAT "Erroneous Refund" tool may be used in the processing of Category D erroneous refunds.
- (4) When a Category D Erroneous Refund is identified within the ERSED statute:

1. Issue Letter 510C using the IAT "Letters" tool. The date of the letter is considered to be the Date of Demand. Two copies of the letter are needed; one to attach to Form 12356, Erroneous Refund Worksheet, and one for the AUR case file.

**Exception:** Do not send Letter 510C when the ERSED is expired. Refer to (15) below.

2. Input the adjustment using the IAT "REQ54" tool for the TC 807 (W/H) and/or TC 252 (EXSST) using blocking series 55 and Hold Code (HC) 3. Use source document "Y" if including the original return with the adjustment.

**Note:** Failure to Pay Penalty (FTP) under IRC 6651(a)(2) and (a)(3),

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3. Input any necessary credit transfers using the IAT "Credit Transfer" tool. Use TC 570 on the debit side to suppress the CP 60 Notice. The IAT "Credit Transfer" tool contains a box for Debit Freeze and Credit Freeze and will input the TC 570 when checked.
4. Input TC 470 using the IAT "REQ77" tool. If the ERSED has expired, **do not** input TC 470.
5. Input TC 971 AC 663 using the IAT "REQ77" tool.
6. Input a TC 844 using the IAT "REQ77" tool for taxpayer error or refunds of more than \$50,000. If the ERSED has expired, **do not** input TC 844. Enter the date of the erroneous refund in the "TRANS-DT" field.

**Note:** The TC 844 generates a "-U" freeze on the account and the TC 470 will stop all systemic notices and collection processes.

7. Input a TC 844 using the IAT "REQ77" tool for IRS error and refunds of \$50,000 or less. If the ERSED has expired, **do not** input TC 844. Enter the Date of Demand in the "EXTENSION-DT" field, the date of the erroneous refund in the "TRANS-DT" field and the erroneous refund amount in the "FREEZE-RELEASE-AMT" field.

**Note:** The TC 844 generates a "-U" freeze on the account and the TC 470 will stop all systemic notices and collection processes.

(5) Once the adjustment posts on IDRS:

1. Create a new IDRS control with Category ERRF.
2. Assign the IDRS control base to the Erroneous Refund Unit in Accounting (A/ER). The first five digits of the Erroneous Refund Units IDRS numbers are as follows:

Site	IDRS
Austin	06113
Cincinnati	04117
Fresno	09118
Kansas City	09118
Ogden	04117

3. Change the status to "M" with activity code "ERRORREF".
4. Prepare Form 12356, Erroneous Refund Worksheet, and include a copy of all pertinent information (such as, Form 3465, Adjustment Request, case history sheet, case notes, etc.), including a copy of the Letter 510C which was sent.
5. Refer the case to the A/ER. See IRM 3.17.80-4, Erroneous Refund Coordinators, for a list of A/ER functions and their corresponding Erroneous Refund Coordinators.
6. Close the case by assigning PC 28, 53, 68, or 88, as appropriate, or appropriate IPC on Recon cases.

**Note:** When assigning PC 53, 68, or 88, complete the assessment window and enter an "M" in the AUTO/MANUAL IND field to indicate a manual assessment, as the adjustment was input on IDRS.

- (6) If the case involves a combination of Erroneous Refund (Cat D- W/H, additional MCTXW, and/or excess SSTAX) and other AUR issues, take the following actions:
  1. Use the IAT "REQ54" tool to input the adjustment using blocking series 05 and "N" source document since the original will be kept to work other AUR issues.
  2. Monitor for the adjustment to post on both IDRS and AUR Tax Account.
  3. After the adjustment for W/H, additional MCTXW, and/or excess SSTAX posts, issue a CP 2000 for the remaining AUR issues, following normal AUR processing procedures.

**Note:** Do not create a new IDRS control with Category ERRF.

- (7) If **before a Statutory Notice of Deficiency** was issued, a Category D erroneous refund was due to the AUR payment refunding in error when the account was **paid in full**, take the following actions:
  1. Send Letter 510C using the IAT "Letters" Tool. Two copies of the letter are needed; one to attach to Form 12356 and one for the AUR case file.

**Exception:** If the erroneous refund is discovered during phone contact with the taxpayer, a case history can be input on IDRS instead of issuing a Letter 510C. Advise the taxpayer to void and return the check if it has not been cashed. Enter history "PHTPERRF" on IDRS using IDRS CC ACTON or IAT "ACTON" tool. The date you request repayment on the phone is the Date of Demand. Leave a detailed case note on AUR.
  2. Use the IAT "REQ77" tool to input TC 844 and TC 470.
  3. Work the case as an AUR agreed response, assigning PC 53, 67, or 87. If partial payment see (11) below.

- (8) Once the adjustment posts on IDRS:
  1. Use the IAT "REQ77" tool to input TC 971 AC 663.
  2. See (5) steps 1 - 3 above, to create a new IDRS control.
  3. Prepare Form 12356, Erroneous Refund Worksheet, and include a copy of all pertinent information (such as, Form 3465, Adjustment Request, case history sheet, case notes, etc.), including a copy of the Letter 510C which was sent.

4. Leave a detailed case note.

(9) If **after a Statutory Notice of Deficiency** has been issued, a Category D erroneous refund was due to the AUR payment refunding when the account was **paid in full**, take the following actions:

1. Send Letter 510C using the IAT "Letters" Tool. Two copies of the letter are needed; one to attach to Form 12356 and one for the AUR case file.

**Exception:** If the erroneous refund is discovered during phone contact with the taxpayer, a case history can be input on IDRS instead of issuing a Letter 510C. Advise the taxpayer to void and return the check if it has not been cashed. Enter history "PHTPERRF" on IDRS using IDRS CC ACTON or IAT "ACTON" tool. The date you request repayment on the phone is the Date of Demand. Leave a detailed case note on AUR.

**Exception:** If the case is controlled at a different site, check the action required box for the controlling site to complete the erroneous refund procedures.

2. Use the IAT "REQ77" tool to input TC 844 and TC 470
3. Request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.

(10) Once the adjustment posts on IDRS:

1. Use the IAT "REQ77" tool to input TC 971 AC 663.
2. See (5) steps 1 - 3 above, to create a new IDRS control.
3. Prepare Form 12356, Erroneous Refund Worksheet, and include a copy of all pertinent information (such as, Form 3465, Adjustment Request, case history sheet, case notes, etc.), including a copy of the Letter 510C which was sent.
4. Leave a detailed case note.

(11) If the Category D erroneous refund was due to the AUR payment refunding in error, when a **partial payment** was received, take the following actions:

1. Send Letter 510C using the IAT "Letters" Tool. Two copies of the letter are needed; one to attach to Form 12356 and one for the AUR case file.

**Exception:** If the erroneous refund is discovered during phone contact with the taxpayer, a case history can be input on IDRS instead of issuing a Letter 510C. Advise the taxpayer to void and return the check if it has not been cashed. Enter history "PHTPERRF" on IDRS using IDRS CC ACTON or the IAT "ACTON" tool. The date you request repayment on the phone is the Date of Demand. Leave a detailed case note on AUR.

**Exception:** If the case is controlled at a different site, check the action required box for the controlling site to complete the erroneous refund procedures.

2. Use the IAT "REQ77" tool to input TC 844 and TC 470.

3. Assign PC 75 and release the case. Monitor the case for the PC 75 to post.
- (12) After a Stat has been issued:
1. Request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.
  2. Monitor IDRS for the adjustment to post. Once the adjustment posts on IDRS:
  3. Use the IAT "REQ77" tool to input TC 971 AC 663.
  4. See (5) steps 1 - 3 above, to create a new IDRS control.
  5. Prepare Form 12356, Erroneous Refund Worksheet, and include a copy of all pertinent information (such as, Form 3465, Adjustment Request, case history sheet, case notes, etc.), including a copy of the Letter 510C which was sent.
  6. Leave a detailed case note on AUR.
- (13) If the case is in Reconsideration phase:
1. Send Letter 510C using the IAT "Letters" Tool. Two copies of the letter are needed; one to attach to Form 12356 and one for the AUR case file.  
**Exception:** If the erroneous refund is discovered during phone contact with the taxpayer, a case history can be input on IDRS instead of issuing a Letter 510C. Advise the taxpayer to void and return the check if it has not been cashed. Enter history "PHTPERRF" on IDRS using IDRS CC ACTON or IAT "ACTON" tool. The date you request repayment on the phone is the Date of Demand. Leave a detailed case note on AUR.
  2. Use the IAT "REQ77" tool to input TC 844 and TC 470.
- (14) Once the adjustment posts on IDRS:
1. Use the IAT "REQ77" tool to input TC 971 AC 663.
  2. See (5) steps 1 - 3 above, to create a new IDRS control.
  3. Prepare Form 12356, Erroneous Refund Worksheet, and include a copy of all pertinent information (such as, Form 3465, Adjustment Request, case history sheet, case notes, etc.), including a copy of the Letter 510C which was sent.
  4. Leave a detailed case note.
- (15) When the ERSED is expired, complete the following:
1. Notate "ERSED Statute Expired" on the folder/Form 4251/Campus cover sheet.
  2. Complete Form 12356 and include a copy of all pertinent information.
  3. Use Form 12634, Correspondence Transmittal, or Form 3499, Informational Transmittal, to route case documentation to the appropriate Erroneous Refund Unit. See table in (5), step 2, above for routing information.
  4. Do not input TC 844 or TC 470.
  5. Do not send Letter 510C.
  6. Use the IAT "REQ77" tool to input a TC 971 AC 663.
  7. Leave a case note on AUR.

8. Close case with PC 28, 52, 71, or 96, as appropriate.

4.19.3.5.13.2  
(08-22-2017)  
**Repaid Erroneous  
Refunds**

- (1) Erroneous refunds which have been repaid may be discovered during AUR processing. Per IRC 6404(e)(2), a taxpayer should not be charged interest from the date of the erroneous refund to the date repayment is demanded, if they did not cause the erroneous refund and the refund amount is \$50,000 or less. Even though the refund was repaid, it is necessary to follow Category D erroneous refund procedures to protect the taxpayer from interest charges.

**Note:** Interest is not charged when a treasury check is returned (not cashed).

**Note:** Interest is charged from the date of the refund if the erroneous refund amount is over \$50,000.

- (2) If the erroneous refund has been repaid take the following actions:

**Exception:** If the taxpayer returned the erroneous refund check (TC 841 on the account with "99999" in the DLN) see (4) below.

1. Use the IAT "REQ77" tool to input TC 844, using the current date as the date of demand. This will reverse any systemically assessed interest.
2. Complete Form 12356, Erroneous Refund Worksheet. In the details section include the following information, using the verbiage provided as an example: "Full paid erroneous refund. No Letter 510C sent. Please input TC 845 to reverse TC 844."
3. Use the following table to determine the appropriate action:

If	Then
The original payment was <b>full payment received before a Stat</b> was issued	Work the case as an AUR agreed response, assigning PC 53, 67, or 87.
The original payment was <b>partial payment received before a Stat</b> was issued	<ol style="list-style-type: none"> <li>1. Assign PC 75 and release the case.</li> <li>2. Monitor the case for the PC 75 to post and the Stat to be mailed.</li> <li>3. After the Stat has been issued, request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.</li> </ol>
<b>Payment was received after a Stat</b> was issued	Request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.
The case is in Reconsideration phase	Use the IAT "xMend" or "REQ54" tool to post the appropriate adjustment.

- (3) Once the adjustment posts:

1. See IRM 4.19.3.5.13.1.4 to create a new IDRS control.
2. Use the IAT "REQ77" tool to input a TC 971 AC 663.



3. Refer the case to the A/ER using Form 3210, Document Transmittal. See IRM 3.17.80-4, Erroneous Refund Coordinators, for a list of A/ER functions and their corresponding Erroneous Refund Coordinators.
  4. Leave a detailed case note on AUR.
- (4) If the taxpayer returned the erroneous refund check (TC 841 on the account with "99999" in the DLN) take the following actions:
1. Use the IAT "REQ77" tool to input a TC 971 AC 663.
  2. Complete Form 12356, Erroneous Refund Worksheet. In the details section include the following information, using the verbiage provided as an example: "Check returned; TC 844 not needed. No Letter 510C sent."
  3. Use the following table to determine the appropriate action:

If	Then
The original payment was <b>full payment received before a Stat</b> was issued	Work the case as an AUR agreed response, assigning PC 53, 67, or 87.
The original payment was <b>partial payment received before a Stat</b> was issued	<ol style="list-style-type: none"> <li>1. Assign PC 75 and release the case.</li> <li>2. Monitor the case for the PC 75 to post and the Stat to be mailed.</li> <li>3. After the Stat has been issued, request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.</li> </ol>
<b>Payment was received after a Stat</b> was issued	Request the case and hold in unit suspense until the taxpayer responds or the suspense period has expired. If no response is received, default the case using the appropriate PC.
The case is in Reconsideration phase	Use the IAT "xMend" or "REQ54" tool to post the appropriate adjustment.

- (5) Once the adjustment posts:
1. Refer the case to the A/ER using Form 3210, Document Transmittal. See IRM 3.17.80-4, Erroneous Refund Coordinators, for a list of A/ER functions and their corresponding Erroneous Refund Coordinators.
  2. Leave a detailed case note on AUR.

4.19.3.6  
(10-07-2019)  
**Payer Agent/Fraud  
Information**

- (1) The Payer Agent/Fraud file is a compilation of Employer/Payer Information Return documents (such as, Form W-2, Form 1099, Form 1098) which have been verified as erroneously filed or processed or determined potentially fraudulent. The AUR Payer Agent/Fraud file is tax year specific.
- (2) The PA field of the Case Analysis screen indicates the type of Payer Agent/Fraud file data for the IR in question. One of the following will be present:
  1. Indicator "Y" indicates Payer Agent.
  2. Indicator "F" indicates Fraud.
  3. Indicator "B" indicates both Payer Agent and Fraud indicators are present.

See IRM 4.19.3.6.2, AUR Site Payer Agent/Fraud Coordinator - Instructions, for additional information about the Fraud Indicator.

- (3) Taxpayers and/or Employers/Payers may contact/notify AUR that a discrepancy with documents or the filing of IRs for a tax year has occurred. Tax examiners are encouraged to request the taxpayers and/or Employers/Payers forward the information to the site AUR Payer Agent/Fraud Coordinator.
- (4) The AUR FFC will refer potential fraud information to the AUR Payer Agent/Fraud Coordinator for consideration.

4.19.3.6.1  
(10-07-2019)  
**Tax Examiner -  
Instructions**

- (1) Access the Payer Agent window for all IRs showing Payer Agent Indicator “Y” or “B”. The Payer Agent window lists the payer’s name, EIN, document type, source, and a synopsis of the reporting problem. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Viewing Payer Agent Information.

**Note:** If all U/R income is from identified Payer/Agents and the Payer Agent window contains instructions to accept or delete the IR, close the case with PC 24. If U/R issues remain, continue normal processing (the P/A closing PC would NOT apply).

- (2) During the screening phase, the tax examiner may identify questionable IRs, which appear to be erroneous but are not marked with a Payer Agent code “Y”. When IRs appear to be questionable and the tax examiner determines the IRs should be investigated, take the following steps:
  1. Print the Case Analysis screen and the Info Return screen.
  2. Forward both screen prints and any additional supporting information documents to the site AUR Payer Agent Coordinator.
  3. Continue normal processing.
- (3) During the response phase, the tax examiner may receive information from the payer or the taxpayer indicating the proposed U/R is the result of a payer reporting error, or a payroll processing mistake. Take the following action to forward the information to the site Payer Agent Coordinator:
  1. Photocopy the taxpayer statement or payer letter and print the Case Analysis screen and the Info Return screen.
  2. Forward these photocopies and any additional supporting information documents to the site AUR Payer Agent Coordinator.
  3. Continue normal processing.
- (4) Click Indicator “F” or “B” in the PA field of the Case Analysis screen to access the Potential Fraud window. It may list the payer’s name, EIN, document type, source and money amount; however, because some fraudulently filed information returns are submitted using different payer names and EINs, a fraud indicator may be applied using money amounts only. Follow the specific instructions in the Fraud Description Notes section of the window to determine the proper action to take on the IR.
- (5) During the screening phase, the tax examiner may identify questionable IRs, which appear to be fraudulent but are not marked with a Payer Agent code “F”. When IRs appear to be potentially fraudulent see IRM 4.19.3.5.8.2, AUR Tax Examiners Fraud Responsibilities, for additional information.

- (6) During the response phase, the examiner may receive information from the taxpayer which appears to involve potential fraud. When response information appears to indicate fraud, see IRM 4.19.3.5.8.2, AUR Tax Examiners Fraud Responsibilities, for additional information.

4.19.3.6.2  
(11-20-2017)  
**AUR Site Payer  
Agent/Fraud Coordinator  
- Instructions**

- (1) The AUR Site Payer Agent/Fraud Coordinator will perform the following tasks:
- Take action on all IRs referred by tax examiners or the AUR FFC as questionable/suspicious Payer Agent or Fraud data.
  - Sort and review the screen prints received from tax examiners or the AUR FFC deemed questionable/suspicious. Begin research when four or more screen prints with the same EIN are identified. The Site P/A Coordinator should attempt to make a determination about the discrepant IRs. If payer contact is necessary to determine the impact, check IDRS for a telephone number or call XXX-555-1212 (XXX represents the area code of the city/state being called).

**Note:** Revised Third-Party procedures allow for the administrative action of verifying information received from Employers/Payers. This verification is not considered a third-party contact if the purpose of the contact is to process information received from the source and/or to ensure its validity/correctness.

- Create a Payer Agent record when a Payer Agent record does not currently exist, and the information available leads to a determination that- the Payer Agent should be added to the Payer Agent File.
- Update payer name and text lines, when required. There may be more than one type of income or source code for each Payer Agent EIN entered. Verify by scrolling both type and source fields; P=Paper and T=Tape (magnetic media).
- Input the EIN to search/query the Payer Agent File.
- View and/or print Payer Agent reports from the Payer Agent Coordinator menu.

**Note:** A Payer Agent cannot be created if a Payer Agent record already exists for the EIN, document type, source code or tax year. If this condition exists, the system displays a message.

- (2) If the referral is from the AUR FFC, create a Fraud record when a Fraud record does not currently exist and the information from the AUR FFC indicates a Fraud message should be added to the Fraud File:

**Note:** If no IR is present, create an IR for zero prior to creating a fraud record. Mark the IR with status code "N".

- Search/query the existing Fraud records in the Potential Fraud window by inputting the EIN in the search field. If an EIN is not available, search using the Doc Type, Income Type or Money Amount.
- If no record exists, update input fields; for example, EIN, payer name, income type, money amount and Fraud Description Notes to add a record.

**Note:** The EIN field may be left blank when one is not available.

- c. If a record exists, only the Fraud Description Notes can be modified. Modify the Notes by highlighting the EIN and pressing “enter”; after revising the Notes press “save.”

- (3) At the end of the AUR program for the tax year, print a copy of the Payer Agent/Fraud Listing report and retain them for three years.

4.19.3.6.3  
(11-20-2017)  
**National Designated  
AUR Payer Agent/Fraud  
Coordinator -  
Instructions**

- (1) Employer/Payer identified IR filing discrepancies are submitted through the Enterprise Computing Center at Martinsburg (ECC-MTB) Management and Technology Information Returns Division. Documentation received from Employers/Payers is reviewed at ECC-MTB and copies are provided to the HQ (national) designated AUR Payer Agent/Fraud Coordinator (currently located in Ogden). The HQ (national) designated AUR Payer Agent/Fraud Coordinator has access to the national AUR Payer Agent File and Fraud File and is responsible for the input of all Employer/Agent Information Return documents received from ECC-MTB or the AUR FFC.

**Note:** IR documents are identified as tape source or a combination paper/tape source.

- (2) Query the Payer Agent File/Fraud File to determine if the Payer information received should be established or needs to be updated.

**Note:** If the EIN is not available, query the Fraud records by using the Doc Type, Income Type or Money Amount.

- (3) A Payer Agent cannot be created if a Payer Agent record already exists for the EIN, document type, source code or tax year. If this condition exists, the system displays a message. To Update/Create a Payer Agent record:
  - 1. Enter the EIN of the identified Payer Agent.
  - 2. Select the appropriate document type from the list displayed.
  - 3. Enter the appropriate Source Code: “P” for Paper or “T” for Tape (magnetic media).
  - 4. Enter the payer name.
  - 5. Select or enter new instructions for the tax examiners.
- (4) The AUR Payer Agent Program is automatically invoked during the weekly run process. The program updates the Payer Agent File for all sites during the weekly process with the new and updated records.
- (5) Revised Third-Party procedures allow for the administrative action of verifying information received from Employers/Payers. This verification is not considered a third-party contact if the purpose of the contact is to process information received from the source and/or to ensure its validity/correctness.

4.19.3.7  
(12-15-2017)  
**Determination of CP  
2501 Issuance**

- (1) Issuance of a CP 2501 (assignment of PC 30) is required for the conditions listed below. In certain other situations, issuance of a CP 2501 may provide better customer service since it is an inquiry instead of a proposal of assessment. If in doubt, consult your lead or manager for guidance.

**Exception:** The system parameters are set by HQ to stop issuing CP 2501 at a certain point in the AUR processing year.

- a. The U/R income is \$100,000 or more.
- b. Cases involving partially reported K-1 IRs when the discrepant amount is \$50,000 or more per income type, per payer.

**Exception:** Partially reported INT, DIV, LTCG, STCG, and ROYAL discrepancies do not require a CP 2501.

- c. Cases involving questionable underclaimed W/H and/or additional MCTXW that result in an overall refund. See IRM 4.19.3.17.1.2, Withholding - Miscellaneous, and IRM 4.19.3.17.1.4, Additional Medicare Tax (Withholding Reconciliation), for further information.

**Exception:** If the refund is due to U/C W/H from a Form 1099-SSA, and the income is reported correctly, do not issue a CP 2501.

- d. Cases resulting in an overall refund due to underreported income.
- e. Cases involving U/C excess SSTAX on ELF returns - see IRM 4.19.3.17.2, Social Security Tax/Tier I Railroad Retirement Tax.
- f. Cases involving Form 8615, Tax for Certain Children Who Have Unearned Income, and the parent or child used the Qualified Dividends and Capital Gains Worksheet, Schedule D or Schedule J tax methods. See IRM 4.19.3.14.1, 8615 Window.
- g. Cases where the On File Date is the same for multiple IRs and none of the IRs are reported. See IRM 4.19.3.8.12.1, Conduit Income - Analysis.
- h. Cases in Category 30 and EARN is being pursued.

**Note:** If Earn is being pursued as a secondary issue (in category other than Category 30), issue a CP 2000.

4.19.3.8  
(08-26-2016)

#### Analysis of Each Income Type

- (1) These instructions are used to process the various U/R income amounts by each income type and must be used in conjunction with the general instructions in IRM 4.19.3.5, Analysis Procedures.

4.19.3.8.1  
(10-07-2019)

#### Wages - General

- (1) Wages are amounts received for performing services as an employee of an employer and are generally not subject to SE tax.
- (2) Wages are identified on the Case Analysis screen by the literal "W-2" in the DOC TYPE field and the literal "WAGES" in the INCOME TYPE field.

4.19.3.8.1.1  
(10-06-2022)

#### Wages - Analysis

- (1) Compare WAGES amount with entries on Form 1040 / Form 1040-SR line 1, (TY 2020 and TY 2021), line 1a (TY 2022).

**Note:** If wages are U/R and the taxpayer enters "SNE" (Special Needs Exclusion) on the dotted line portion of wage line, compare the U/R amount with Form 8839, Qualified Adoption Expenses, line 29. If the amount on Form 8839, line 29 matches the U/R amount within \$1, accept wages as reported. If the amount is not equal to the U/R wages, consider the difference U/R.

- (2) Wage comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as wages:

- a. Form 1040/1040-SR, line 4b

#  
#

#  
#  
#  
#  
#  
#

- b. Schedule C or Schedule F - If wages are reported here, see IRM 4.19.3.8.1.3, Wages Paid to Statutory Employees, for instructions regarding Statutory Employees.
  - c. Attachments to the return.
  - d. Form 2106, Employee Business Expenses, Part 1, line 7 - Give credit for these amounts if the payer name on the IR is related to the occupation box on Form 2106. If the occupation box on Form 2106 is blank, consider the IR(s) fully U/R unless amounts match within \$1. If line 7 is greater than line 6, in column A of Form 2106, the excess reimbursements must be included as income on Form 1040.
- (3) When comparing reported wages to IRs, do not allow partial credit for unidentified amounts **UNLESS** the return is missing supporting Form(s) W-2. Returns that were processed through OCR or ELF may not have Form(s) W-2 attached. DO NOT request the Form(s) W-2 from FRC. Allow the credit for amounts reported on lines shown in (1) above. Issue a CP 2000 for discrepancies.
- (4) If the taxpayer reports the same amount of Form W-2 income as shown in the IR, but under a different payer name, consider the IR reported.
- (5) Consider any two WAGE IRs, **for the same taxpayer**, that contain identical income information, as duplicates even if the payer names and EINs are different. Take the following action:
- a. If the taxpayer failed to report either WAGE IR, consider only one of the IRs U/R (mark all elements of the other IR with status code "D" or "N"), and show **both** of the IRs on the notice.
  - b. If the taxpayer reported one of the IRs, delete the IR the taxpayer did not report (mark all elements of the IR with status code "D" or "N"). If there are no other U/R issues, enter PC 24.
- (6) If there are two WAGE IRs for the same taxpayer, from the **same payer** (payer name and EIN match) take the following action:

#  
#  
#  
#

elements of the IR with status code "D" or "N").

**Exception:** If the payer is IHSS (In Home Support Services) do not apply the 25 percent rule, continue normal processing.

- b. If the taxpayer does not fully report one of the WAGE IRs, group them together and consider the difference U/R.
- (7) Allow taxpayers (such as, **police officers, firefighters, etc.**) who have sustained "IOD" (Injury on Duty) or "LODI" (Line of Duty Injury) injuries to reduce Form W-2, box 1 Wages, by amounts indicated as line of duty injury payments when **ALL** of the following conditions are present:



- a. The taxpayer is under age 65.
- b. The payer statement is attached indicating the taxpayer was injured while on duty and provides a specific amount of excludable income. If the attached payer letter does not provide a specific amount, allow the exclusion if the taxpayer includes a worksheet providing a breakdown of excludable income.

**Note:** When pursuing excluded amounts because the above condition is not met, send a Special Paragraph requesting payer documentation to support the taxpayer's claim.

- c. The amount has not been excluded from box 1 Wages as shown on the attached Form W-2.

**Note:** If the taxpayer has double excluded the amount (Social Security Wages are more than the Wages shown on Form W-2box 1), **send PARAGRAPH 46**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (8) **Retired/non-active status members of the military** employed as Junior ROTC (Reserve Officers Training Corps) instructors receive allowances for uniforms, housing, subsistence. However, unlike active-duty military personnel, these taxpayers **CANNOT** exclude these allowances. Disallow any excluded amounts and **send PARAGRAPH 154**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) When wages or Social Security wages are U/R, and the taxpayer paid SE tax, or is now subject to SE tax, enter/verify the appropriate entries in the SE Tax window.
- (10) Use status code "R" in the SSWAG and SSTIP literal when screening valid Wage IRs. **Do not** use status code "N" or "D". Status code "N" or "D" may result in an incorrect excess SSTAX calculation.
- (11) The system automatically enters status code "R" on MCWGE. The status code can be changed to "D" if necessary.

**Note:** The system no longer marks the MCTXW element with a status code "R", this amount is used in the calculation of the Additional Medicare Tax withheld, see IRM 4.19.3.17.1.4, Additional Medicare Tax (Withholding Reconciliation).

- (12) If there are two or more fully U/R WAGE IRs with an **out-of-state payee address** beyond the reasonable commuting area of the taxpayer (for example, taxpayer lives in Pennsylvania and U/R IRs are for Georgia), **send PARAGRAPH 167**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** Many WAGE IRs involving the potential illegal use of SSNs are from agricultural, farming, food processing, or wholesale/retail employers.

- (13) When taxpayers exercise **statutory (qualified) employee stock options**, the amount is generally excluded from ordinary income and the gain may be reported as a capital gain on Schedule D when the shares acquired upon exercise are sold.



- a. Taxpayers may reduce Form W-2, box 1, Wages by the amount shown in box 14 (identified as: stock, incentive stock options (ISOs), employee stock purchase plan (ESPP), etc.) and report the difference as a gain on Schedule D/Form 8949, column (h).

**Note:** If the stock received upon exercise was not held a minimum of 2 years from the date the option was granted or 1 year from the date the option was exercised, the employer may not identify the exercised amount on the Form W-2, box 14. If the balance of the WAGE IR is found on Schedule D/Form 8949, column (h), consider the issue resolved.

- b. Review Form 1040/1040-SR, line 1 (TY 2020, and TY 2021), or line 1a (TY 2022) and Schedule D before determining any U/R WAGE amount.
- c. If the taxpayer did not report the full WAGE amount, **send PARAGRAPH 164**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** When the option is exercised, Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, may also be issued to show the value of the stock. Since the STOCK IR relates to the exercise of the statutory employee stock option, allow credit for amounts reported on Schedule D/Form 8949, column (d) against STOCK IRs.

- (14) When taxpayers exercise **non-statutory (non-qualified) employee stock options**, the gain upon exercise is reported as ordinary income. Employers include the exercised amount on Form W-2, box 1 and identify the stock option amount in box 12 using code "V". The WAGE IRs displays with the literal VCODE.

**Caution:** Taxpayers may reduce Form W-2, box 1, wages by the amount shown in box 12 (Code "V") and report the difference as a gain on Schedule D/Form 8949, Part 1, column (h).

- a. Review Form 1040/1040-SR, line 1, (TY 2020 and TY 2021) or line 1a (TY 2022) and Schedule D, Part 1 before determining any U/R WAGE amount.

**Caution:** If the taxpayer reports the non-statutory option gain as a long-term capital gain (Schedule D/Part II) AND a notice is being sent for other U/R issues, remove the non-statutory option gain from the LONG-TERM GAIN(LOSS) field in the Sch D window. **Send PARAGRAPH 165**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- b. If the taxpayer did not report the full WAGE amount, **send PARAGRAPH 164**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** When the option is exercised, Form 1099-B may also be issued to show the value of the stock. Since the STOCK IR relates to the exercise of the non-statutory employee stock option, allow credit for amounts reported on Schedule D/Form 8949, column (d) against STOCK IRs.

- (15) **Whenever wages are U/R, compute W/H or consider W/H.**

- a. If there is an U/R WAGE IR with no W/H amount, there are no other IRs with W/H, and there is a TC 806, 807, or TC 290 with Reason Code 51 and/or Reason Code 136 on the Tax Account screen, complete the Withholding window. See IRM 4.19.3.17.1.1, Withholding - Analysis, for additional information. Reason Code 136 is present when Additional Medicare Tax from Form 8959 was adjusted.
  - b. If there is an U/R WAGE IR with no W/H amount, and there are no other IRs with W/H, the system automatically generates a W/H amount of zero (0) on the Summary screen.
- (16) For a list of the codes found in box 12 of Form W-2, see Exhibit 4.19.3-8, Form W-2 - box 12 Codes.

4.19.3.8.1.2  
(09-24-2021)

**Attached Forms W-2 -  
Analysis**

- (1) Consider wages U/R if wage amounts from attached Form W-2 are:
  - Omitted
  - Added incorrectly when there are multiple Form W-2 involved
  - Transposed
  - Taken from the wrong box(es) on Form(s) W-2. **Send PARAGRAPH 2**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (2) If it appears the taxpayer reduced Form W-2 box 1 Wages by the amount in box 11 (Nonqualified Plans), pursue the difference as U/R wages and **send PARAGRAPH 50**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** Before considering the amount U/R, check to see if the taxpayer reported the amount as pension income.

- (3) An O/R situation exists if the taxpayer's entry on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021) or line 1a (TY 2022) is greater than the total WAGE IR(s).
- (4) Consider wage income O/R if you determine the taxpayer:
  - Made a double entry (math error)
  - Transposed figures
  - Used Social Security Wages from Form W-2, box 3. **Send PARAGRAPH 2**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) The taxpayer may exclude certain types of income. Wages reported on Form W-2, box 1 are generally reduced by the amount of **excluded income**. Some of these exclusions are:
  - a. Tax favored amounts.
  - b. Elective **deferrals to certain retirement plans, such as 401(K) or 403(B)**. These are generally tax-deferred annuities for teachers and employees of 501(c)(3) organizations and/or plans. See Exhibit 4.19.3-8, Form W-2 - box 12 Codes, for a complete list of the elective deferral codes found in box 12 of Form W-2.
  - c. Dependent Care Assistance Benefits (**DCB**). See IRM 4.19.3.8.2.1, Dependent Care Benefits (DCB), for limitation of excludable income.
  - d. "IOD" (**Injury on Duty**) or "LODI" (**Line of Duty Injury**) payments. See IRM 4.19.3.8.1.1, Wages - Analysis, for further information.
  - e. **Survivor annuity** received by the spouse, former spouse, or child of a public safety officer killed in the line of duty or a chaplain killed in the line of duty after September 10, 2001 while responding to a fire, rescue, or

- emergency as a member or employee of a fire or police department will generally be excluded from the recipient's income regardless of the date of the officer's death.
- f. Cost of **living allowances** paid to federal employees working abroad.
  - g. **Ministers Housing Allowances** Ensure excluded minister housing allowance is subjected to SE tax, **unless**: the taxpayer notates "Exempt Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners" or "Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits" on Form 1040 (see table below IRM 4.19.3.8.1.5, Wages Miscellaneous for line numbers) or the housing allowance is for a retired minister. This amount may be the difference between net Schedule C income and income subject to SE tax on Schedule SE, see IRM 4.19.3.8.1.5(4), Wages Miscellaneous.
  - h. Exercised statutory **Employee Stock Options**. See IRM 4.19.3.8.1.1, Wages - Analysis, for further instructions.

**Exception:** Back pay settlements or awards under the ADEA (Age Discrimination in Employment Act) cannot be excluded from income and should be pursued as U/R if excluded. Liquidated damages recovered under the ADEA do not constitute wages and should be reflected as other income on Form 1099-MISC.

Since the amount reported on Form W-2, box 1 should reflect these exclusions from income, the taxpayer should not subtract the above items from the amount reported as wages.

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- The Form W-2 attached to the return appears to be altered, AND
- There is a W/H discrepancy, AND

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**Note:** Use the IR as the most correct information if the case does not meet referral criteria or if the referral is returned.

- (7) If wages are U/R, check the attached Form W-2 and/or any attachments to determine if the taxpayer excluded the amount as **sick pay**.
  - a. Accept the exclusion if there is an indication the taxpayer paid the premiums (an amount present on Form W-2, box 12, with code "J" that matches the excluded amount) and per attached paystubs or other documentation, the payer incorrectly included employee paid sick pay on Form W-2, box 1. Form W-2, box 1 matches box 3, SSWAG, or attached payer documentation.
  - b. If there is no clear indication per a. above, consider the amount U/R and issue CP 2000. **Send PARAGRAPH 25**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** Payers are instructed to indicate the amount of sick pay not included in income (and not shown in boxes 1, 3, and 5) in box 12 of Form W-2 with Code "J" when the employee contributed to the sick pay plan.

- (8) If the taxpayer attaches a **substitute Form W-2** and reports a lesser amount than shown on the IR from the same payer, consider the difference U/R.

- (9) Consider W-2 IRs fully reported when Wage or W/H amounts on the IRs are

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**Note:** This also applies to Virtual cases.

- (10) If the taxpayer participates in a nonqualified deferred compensation plan that does not meet all requirements as specified in IRC 409A, the employer must report the deferred compensation as income and the amount is subject to an additional tax.

- a. The employer identifies income under IRC 409A on **Form W-2 in box 12 with Code Z**.

**Note:** The amount in Form W-2 box 12, Code Z is already included in box 1 (WAGES). If WAGES are U/R and the difference corresponds to the NQDC amount, pursue the discrepancy as WAGES. **Send PARAGRAPH 127**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- b. Income recognized under IRC 409A is identified on the Case Analysis screen by the literal "W-2" in the DOC TYPE field and the literal "NQDC" in the INCOME TYPE field.

**Note:** Enter status code "R" on the "NQDC" element(s).

- c. The "NQDC" amount is subject to an additional tax. See IRM 4.19.3.16.7, Additional Taxes on Income from Nonqualified Deferred Compensation Plan (IRC Section 409A), for further instructions.

**Reminder:** Mark the NQDC IR element(s) with Send Indicator "S" when adjusting the additional tax.

4.19.3.8.1.3  
(09-21-2020)  
**Wages Paid to Statutory Employees**

- (1) Statutory employees are independent contractors, for purposes of reporting income and expenses on their tax returns, who are treated as employees for FICA tax purposes.

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occupation is listed in IRM 4.19.3.22.3.1.1, Statutory Wages. Do not make any adjustments to the Schedule C, and/or SE tax.

- (3) Statutory employees should receive a Form W-2 with the statutory employee box checked in box 13. If the Statutory Employee box was checked, the SEI literal has a value of "1" displayed on the IR. If it was not checked, the SEI literal has a value of "0" (zero).
- (4) Statutory employees report their Form W-2 Wages on **Schedule C**, line 1, along with business expenses on line 28 of Schedule C. This income is **NOT** subject to SE tax and business expenses are not subject to the 2 percent limitation for miscellaneous itemized deductions. This income is subject to social security and Medicare taxes that should be withheld at the source by the payer and shown on Form W-2 as SS/Medicare Tax Withheld, SS Wages, and Medicare Wages and Tips.

**Note:** Follow the taxpayer's intent, **do not** refund SE tax computed on wages paid to statutory employees.

- (5) **Performing artists** are not statutory employees, but they may report Form W-2 income on Schedule C (instead of Form 2106), if during the tax year **ALL** of the following conditions apply:
- They perform services in the performing arts for at least two employers,
  - They receive at least \$200 each from any two of these employers,
  - Their related performing arts expenses are more than 10 percent of their gross income from the performance of those services, AND
  - Their adjusted gross income (AGI) is not more than \$16,000 before deducting these business expenses.
- (6) Cases involving wages of statutory employees are created when:
- Wages received by an individual other than a statutory employee were reported on the Schedule C, and the individual incorrectly deducts expenses on Schedule C.  
**Note:** Only statutory employees may deduct expenses on Schedule C.
  - The statutory employee did not report the wages on Schedule C, line 1, or as wages on Form 1040/1040-SR.
- (7) There is a discrepancy if there is a difference between the total of all wages (but not allocated tips) on all Form W-2 when the statutory employee indicator in box 13 of Form W-2 is checked and the wages per return, Schedule C, line 1.
- (8) Input Income Identify Code "**SW**" in all U/R wages from Statutory Employee IRs if wages are U/R.
- (9) Consider wages from Statutory Employees U/R and **send PARAGRAPH 115**, (see Exhibit 4.19.3-7, CP PARAGRAPHS) if the Wage amounts from attached Form(s) W-2 are:
- Omitted
  - Added incorrectly when there are multiple Form(s) W-2 involved
  - Transposed
  - Taken from the wrong box(es) on Form(s) W-2, **send PARAGRAPH 2**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) If the taxpayer combines non-statutory wages with statutory wages or self-employment income (for example, NEC, MERCH, OTINC, MED) on the same
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- (11) If the taxpayer includes **only non-statutory wages on Schedule C**, disallow the expenses from Schedule C, line 28, and the amounts on Schedule C, lines 2, 4, and/or 30.
- Input the amount of disallowed expenses in the PRIM/SEC SCH C EXPENSE PER RETURN field(s).
  - Enter a zero (0) in the PRIM/SEC SCH C EXPENSE NOW field(s) on the MISC ADJUSTMENT/SCHEDULE C EXPENSE window.  
**Note:** These amounts display on the CP 2000 Summary as a changed item (changes to the Primary and/or Secondary Schedule C expenses displays as a single item on the Summary screen).
  - Send PARAGRAPH 116**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** When disallowing expenses on Schedule C due to the conditions above, do not adjust any SE tax claimed. Manually access the SETAX window to suppress the change. See IRM 4.19.3.16.1, Self-Employment Tax.

4.19.3.8.1.4  
(10-07-2019)  
**Fellowships, Grants, and Stipends**

- (1) If an explanation attached to the return indicates the fellowship, grant, or stipend was used for tuition, fees, books, supplies, and equipment required for the course, AND:

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**Note:** The taxpayer cannot deduct or exclude expenses that exceed the IR. (for example, enters a negative amount).

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- c. The taxpayer excludes expenses not shown above, then pursue the unallowable expenses. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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- (3) If the taxpayer enters "SCH" next to Form 1040/1040-SR, line 1 (TY 2020 and TY 2021), line 1a (TY 2022), accept as fully reported.
- (4) Scholarships and fellowship grants not reported on Form W-2 should be reported on Schedule 1, line 8r (TY 2022).
- (5) If no explanation is attached and the IR is not fully reported, pursue the amount not reported. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.8.1.5  
(09-21-2020)  
**Wages Miscellaneous**

- (1) If Wages are U/R and the taxpayer has Form W-2 wages, determine if the taxpayer makes any reference to repayment of supplemental unemployment benefits. If the taxpayer correctly reported net wages after repayment of supplemental unemployment benefits, consider the wages reported.
- (2) If wages are U/R and the taxpayer is claimed as a dependent on another person's return, see IRM 4.19.3.13(4), Standard Deduction, for further instructions.
- (3) If wages are U/R, the system requires that you analyze W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (4) If the taxpayer is a minister and has reported Form W-2 wages on a Schedule C:
- a. If the Form W-2 and/or WAGE IR shows SSTAX has NOT been withheld, allow the expenses. The net income is subject to SE tax UNLESS the taxpayer has a Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, or Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits, exemption annotated on Form 1040/1040-SR, Schedule 2, line 4.



- b. If the Form W-2 and/or WAGE IR shows SSTAX has been withheld, disallow the expenses. Do not adjust any SE tax claimed. Manually access the SETAX window to suppress the change. See IRM 4.19.3.16.1, Self-Employment Tax.
  - c. Ensure excluded minister housing allowance is subjected to SE tax, **unless** the taxpayer notates "Exempt Form 4361" or "Form 4029" on 1040/1040-SR, Schedule 2, line 4 or the housing allowance is for a retired minister.
- (5) If the taxpayer computes Social Security Tax on Tips on Form 4137, Social Security and Medicare Tax on Unreported Tip Income, but did not include the tip income in the AGI, consider the tip income U/R.
- a. If necessary, create a W-2 IR with an A-TIP element for the amount of allocated tips for which Social Security Tip Tax was reported but was not included in income. See IRM 4.19.3.16.2, Social Security Tax on Tip Income Unreported to the Payer.
  - b. The system computes a 50 percent Social Security Tip Tax Penalty when the taxpayer uses Form 4137, PARAGRAPH 15 automatically generates. See Exhibit 4.19.3-7 , CP PARAGRAPHS.
- (6) If Wages are U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.2  
(09-01-2003)  
**Other W-2 Income**

- (1) In addition to wage income, Form W-2 can contain information relating to Dependent Care Benefits (DCB), Employer Provided Adoption Benefits (EPAB).

4.19.3.8.2.1  
(10-25-2023)  
**Dependent Care Benefits (DCB)**

- (1) An employer can exclude (within certain limits) earnings from taxable wages designated to pay for childcare and/or care for a dependent(s) who is unable to care for themselves. The excluded amount is limited to the smaller of the taxpayer's earned income, the spouse's earned income, or \$5,000 (\$2,500 if MFS) (TY 2020 and TY 2022). The American Rescue Plan (ARP) Act of 2021 increased the maximum amount to \$10,500 (\$5,250 if MFS) (TY 2021).

**Note:** The ARP allows employers to amend dependent care plans to allow the taxpayer unused amounts in a subsequent year. Unused amounts are added to the maximum amount of Dependent Care Benefits (DCB) allowed for 2021.

**Note:** For each month, or part of a month, a spouse was a full-time student or was unable to care for themselves, they are considered to have worked and earned income. Their income for each month is at least \$250 (\$500 if more than one qualifying person was cared for).

- (2) The Case Analysis screen displays this benefit with the literal "W-2" in the DOC TYPE field and the literal "DCB" in the INCOME TYPE field.

**Note:** Screen ONLY system identified discrepant DCB amounts (those marked with an asterisk). If the case is open because of other income discrepancies, mark any non-asterisked DCB amounts on the WAGE IRs with status code "N" or "D".



**Exception:** If the system displays “Warning: Excluded Benefits, Verify DCB” enter/verify the appropriate entries on the Dependent Care Benefits window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Dependent Care Benefits.

- (3) The gross benefit amount shows separately on Form W-2, box 10. The wage amount on Form W-2, Box 1 SHOULD NOT INCLUDE the DCB for the tax year.

**Note:** The employer includes any DCB over \$5,000 (TY 2020 and TY 2022) or \$10,500 (TY 2021) in the taxpayer’s wages as shown on Form W-2, box 1.

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- (5) Taxpayers MUST complete Form 2441, Child and Dependent Care Expenses, Parts I, II, and III in order to compute the correct amount of Child Care Credit and excludable DCB.
- Form 2441, line 15, contains the TOTAL BENEFIT AMOUNT less the amount forfeited.
  - Form 2441, line 26 contains the TAXABLE BENEFIT AMOUNT. Taxpayers should include this taxable benefit amount on Form 1040/1040-SR line 1 with **DCB** written on the dotted line (TY 2020 and TY 2021) or line 1e (TY 2022).
  - See IRM 4.19.3.15.2, Credit for Child and Dependent Care Expenses, for further instructions regarding Child Care Credit.
- (6) The system computes the correct taxable amount of DCB. Enter/Verify the appropriate entries on the Dependent Care Benefits window whenever necessary to compute or recompute DCB by taking the following actions: See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Dependent Care Benefits.
- Enter/Verify the DCB amount from Form **2441** line 15, Child and Dependent Care Expenses, in the REPORTED DEP CARE BENEFITS field.
  - Enter/Verify the total amount of DCB as reported by the payer(s) on the IR(s) minus the amount **forfeited benefits** from Form **2441** line 14, in the DEPENDENT CARE BENEFITS field.
  - Enter/Verify the **qualified expenses** amount from Form **2441** in the QUALIFIED EXPENSES field.
  - Enter/Verify the primary taxpayer’s original earned income in the PRIMARY EARNED INCOME field. If negative, enter “0” (zero).

**Caution:** When earned income is from self-employment, enter the amount shown on Schedule SE, line 3.

- Enter/Verify the secondary taxpayer’s original earned income in the SECONDARY EARNED INCOME field. If negative, enter “0” (zero).
- Enter/Verify the amount of DCB reported by the taxpayer on the Form **1040 wage** line in the REPORTED TAXABLE BENEFITS field.
- Enter/Verify the manually computed DCB amount, if applicable in the MANUAL COMPUTED BENEFITS FIELD.

**Note:** An amount in this field will override the system calculation.

- (7) If there is an indication the taxpayer participated in one of the following Cafeteria Plans: flex plan, flex credits, or flex dollars (pre-tax deduction) for Dependent Care Benefits and the taxpayer IS NOT claiming Child Care Credit, consider the DCB reported.

- (8) If the taxpayer did not file Form 2441 and did not report DCB, the taxable

determine if DCB is U/R:

1. Select the Dependent Care Benefits window.
2. Enter zero (0) in the REPORTED DEP CARE BENEFITS field.

4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Dependent Care Benefits.

4. PARAGRAPH 156 automatically generates when DCB is U/R.

- (9) If the taxpayer filed Form 2441 and Part III is blank or incorrectly completed, take the following action:

1. Review the taxpayer's entries in Part III, lines 12 through 26 and prepare a mock Form 2441 to correct any errors and/or complete any omitted entries. Use the total expenses shown in Part II, line 2, column (c), (TY 2020 and TY 2021) or column (d) (TY 2022) to determine the line 16 (qualifying expenses) amount.
2. Access the DCB window and use the information from the mock Form 2441 to input all appropriate entries.
3. **Send PARAGRAPH 66**, see Exhibit 4.19.3-7, CP PARAGRAPHS. Toggle off PARAGRAPH 156 when sending PARAGRAPH 66.

- (10) Taxpayers who receive DCB generally do not qualify for Child Care Credit. If Child Care Credit is claimed, take the following action:

1. If the DCB IR(s) is reported, click on the Send Indicator to show these IRs on the notice.
2. Complete screening of ALL remaining IRs in the Case Analysis screen, following normal procedures.
3. Access the Return Value screen. Ignore any system prompt to close the case below tolerance.
4. See IRM 4.19.3.15.2, Credit for Child and Dependent Care Expenses, to determine the correct entry in the QUALIFYING EXPENSES field in the Child Care Credit window.

- (11) If the taxpayer reduced their wages by the DCB IR amount, pursue the issue as an U/R WAGES issue.

4.19.3.8.2.2  
(09-24-2021)  
**Employer-Provided  
Adoption Benefits  
(EPAB)**

- (1) Employer-provided adoption benefits (EPAB) are available for taxpayers who adopt a child(ren) who is a U.S. citizen or resident or who adopt a foreign child(ren) if the adoption becomes final in the AUR tax year.
- (2) Taxpayers may be eligible to exclude qualified adoption expenses paid for or reimbursed by their employers under a qualified written EPAB, up to the amounts listed in the table below. The exclusion may be available for each child, whether the child is a foreign child, a child who is a U.S. citizen or

resident, or a child with special needs. If the adopted child is a U.S. child with special needs, the taxpayer may be able to exclude up to the maximum dollar limit for the year, even if the taxpayer or employer did not pay any qualified expenses, provided the employer has a written qualified adoption assistance plan.

TY	Amount
2020	\$14,300
2021	\$14,440
2022	\$14,890

- (3) Employer-provided adoption assistance payments are shown on Form W-2, box 12 and are identified with a code "T".
- (4) The wage amount on Form(s) W-2, box 1 does not include the EPAB payments for the tax year.
- (5) Taxpayers **must** complete Form 8839, Qualified Adoption Expenses, Part I, II and III in order to compute the correct amount of taxable or excludable EPAB, Form 8839, line 28. If no Form 8839 is filed, consider the EPAB fully U/R.
- (6) Taxpayers should include this taxable benefit amount on Form 1040/1040-SR line 1 and notate **AB** on the dotted line (TY 2021 and prior), line 1f (TY 2022).
- (7) The Case Analysis screen displays this benefit with the literal "W-2" in the DOC TYPE field and the literal "EPAB" in the INCOME TYPE field.
- (8) If the amount from the Taxable Benefits line 29 of Form 8839, is not reported on Form 1040/1040-SR, line 1(TY 2021 and prior), line 1f (TY 2022), create a WAGE IR for that amount. **Send PARAGRAPH 191**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) Access the EPAB window by entering a "U" in the IR CODE field.

**Note:** Screen EPAB IR(s) after analyzing all other potentially discrepant income types. After any subsequent analysis that changes the TOTAL AGI CHANGE field, reselect the EPAB window. Recompute all changes to adjustments to income before selecting this window.

**Exception:** Compute taxable EPAB amount BEFORE Student Loan Interest Deduction (SLID), Tuition and Fees (TY 20 and prior) and/or Domestic Production Activities Deduction (DPAD) (TY 2019 and prior). See IRM 4.19.3.4.2, Case Analysis Screen, for the proper sequence when these issues are present on the same case.

- (10) Enter/verify the appropriate entries on the EPAB window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Employer-Provided Adoption Benefits.
- (11) If it can be determined the taxpayer reduced their wages by the EPAB payment, pursue the issue as U/R wages. Also pursue EPAB as a separate issue. **Send PARAGRAPH 195**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Reminder:** If “SNE” is noted on Form 1040/1040-SR, line 1, see IRM 4.19.3.8.1.1(1) Note, Wages - Analysis.

- (12) PARAGRAPH 190 automatically generates when EPAB is U/R. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.8.3  
(03-03-2021)  
**Interest - General**

- (1) Interest is reported by payers on Form 1099-INT, Form 1099-OID, Form 1099-B and on Schedules K-1 from Form 1065, Form 1041, and Form 1120-S.
- (2) Interest income is identified on the Case Analysis screen by the literal “99INT” in the DOC TYPE field and the literal “INT” in the INCOME TYPE field and “99INT” in the DOC TYPE field and the literal “MKTDS” in the INCOME TYPE field.

4.19.3.8.3.1  
(03-03-2021)  
**Interest - Analysis**

- Municipal Bonds
- Tax Sheltered Annuities (403(b)) accounts
- Simplified Employee Pensions (SEP) or Individual Retirement Accounts (IRA)
- A Pension Plan or Profit Sharing Plan (including a 401(k) plan)
- A Capital Construction Fund (CCF) account

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- (2) Compare INT amounts with entries on Form 1040/1040-SR, line 2a or 2b, Schedule B, Part I, line 1.

**Note:** Form 1040/1040-SR, line 2a, is used to report tax-exempt interest. If the amount on line 2a matches the interest amount(s) on a 99INT IR, consider the 99INT IR U/R unless the payer is a state or political subdivision of a state, the District of Columbia, or a U.S. possession.

- (3) Interest comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as interest:
- a. Form 1040/1040-SR, Schedule 1, line 8z
  - b. Schedule C, line 6
  - c. Schedule E, Parts II, III, or IV
  - d. Schedule F, lines 8 or 43
- (4) If Schedule B (or an attachment in lieu of Schedule B) is attached, compare IRs with individual items. If you cannot match individual IRs:
1. Group all INT amounts from the same payer.
  2. Compare to the total interest reported for that payer.
  3. If the group total amount is smaller, assign status code “R” to the group.
  4. If the group total is larger, assign status code “U” to the group.
- (5) If a breakdown of interest by payer is not shown on the return or on an attachment and there is only one IR:
1. Compare the amount reported on Form 1040/1040-SR, line 2b.
  2. If the taxpayer reports a larger amount, consider the IR fully reported.

3. If the taxpayer reports a lesser amount, allow credit for the amount reported.
- (6) If a breakdown of interest by payer is not shown on the return or on an attachment and there is more than one IR:
  1. Group by income type INT.

**Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.

**Note:** If BOND, MKTDS and/or AMD IRs are present it may be necessary to add BOND, MKTDS and/or AMD IRs to the group.
  2. Compare the group total amount to the total interest amount reported on the return.
  3. If the group total amount is smaller, assign status code "R" to the group.
  4. If the group total amount is larger, consider the difference U/R and assign status code "U" to the group.
  5. If interest amounts are U/R, **send PARAGRAPH 64**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Exception:** If the specific U/R amount matches an IR - PARAGRAPH 64 may not be appropriate.
- (7) Taxpayers often interchange interest and dividend income. Check any dividend income areas when comparing INT amounts. Offset interest income against dividend income ONLY if one of the following applies:
  - a. The same amount (within \$1) AND the same payer are reported; OR
  - b. An unidentified amount matches the U/R interest amount within \$1.
- (8) If interest income is listed on Schedule B but is not added into the AGI:
  1. Consider the interest income U/R. If necessary, create an IR for any income the taxpayer included on Schedule B for which we do not have a corresponding IR.
  2. If interest and/or dividend amounts are U/R, **send PARAGRAPH 57**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) If you notice a math error on Schedule B:
  1. Create an IR for any reported interest amount(s) for which we do not have a corresponding IR.
  2. Group by income type INT.
  3. Compare the group total amount to the total interest reported.
  4. If the group total is larger, assign status code "U".
  5. **Send PARAGRAPH 79**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  6. If the group total amount is smaller, assign status code "R" to the group.

4.19.3.8.3.2  
(09-24-2021)

**Original Issue Discount  
(OID)**

- (1) A 99OID IR reflects the original issue discount allocable to the tax year and may show the qualified stated interest paid or credited on the obligation during the tax year.

**Caution:** If there is an IR where the OID amount and the W/H amount are identical, refer these cases to the FRP. See IRM 4.19.3.22.9, Disagreed Responses.

- (2) Original issue discount is identified on the Case Analysis screen by the literals "99 OID" in the DOC TYPE field and the following literal(s) in the INCOME TYPE field:
- "S-INT" is the qualified stated interest paid or credited on the obligation during the tax year
  - "OID" is the original issue discount allocable to the tax year, and/or
  - "OIDTO" is the original issue discount on Treasury Obligations.
  - "MKTDS" is the market discount if the taxpayer made the election under section 1278(b) to include in income as it accrues.

**Note:** OID on Treasury Inflation-Indexed Securities is reported in box 8 on Form 1099-OID.

- (3) Original issue discount, which is treated as interest income, is the difference between the issue price and stated redemption price of a debt instrument
- #
- institutions (banks, credit unions, and savings and loans).
- (4) Original issue discount (other than original issue discount on an obligation with a term of 1 year or less) is reported on Form 1099-OID.
- (5) If the taxpayer reports a partial amount or no amount from a 99OID IR, consider whether the taxpayer has made an adjustment for acquisition premium, or some other offset. Original issue discount may be reduced by these offsets provided the taxpayer first included the gross amount of original issue discount on Form 1040, Schedule B, line 1. The line 2 amount should then reflect the taxable amount of original issue discount as adjusted for these offsets.

**Note:** Pursue the OID issue if the taxpayer reports an incorrect amount of taxable original issue discount due to an improper offset of the gross amount of OID.

- (6) If the taxpayer reports a partial amount or no amount from a 99OID IR and the Schedule B does not reflect any adjustments, consider the OID, S-INT and OIDTO amounts in determining the U/R amount.
- (7) If 99OID and 99INT IR(s) are present from the same payer, and you cannot determine which amount is reported:
1. Group the OID, S-INT, OIDTO and INT amounts by PAYER EIN.
  2. Compare the group total amount to the total amount reported by the taxpayer for that payer.
  3. If the group total amount is smaller, assign status code "R" to the group.
  4. If the group total amount is larger, consider the difference U/R and assign status code "U" to the group.



4.19.3.8.3.3  
(10-06-2022)  
**Savings Bonds,  
Treasury Bills, Treasury  
Bonds, and Treasury  
Notes**

- (1) Interest from U.S. Savings Bonds, Treasury Bills, Treasury Bonds, and Treasury Notes appear on 99INT IRs with the literal "BOND". OID on Treasury Inflation-Indexed Securities is reported in box 8 on Form 1099-OID.
- (2) Bond interest is identified on the Case Analysis screen by the literal "99INT" in the DOC TYPE field and the literals "BOND" or "TEBND" (Tax-Exempt Bond) in the INCOME TYPE field. TEBND amounts are system deleted.
- (3) If the taxpayer reports an amount of savings bond interest equal to or greater than the IR(s) amount, consider the IR(s) reported unless the return amount is identified as being from a different payer.
- (4) Accept bond interest if the taxpayer indicates the following:
  - a. The bond interest is reported each year as it accrues. Accept only if the taxpayer reports an interest amount.
  - b. Interest on inherited savings bonds was reported on the decedent's final individual income tax return.
- (5) If the taxpayer included Bond income as Capital Gains on Schedule D, Part II, consider the Bond reported. Subtract the Bond Income from the LONG-TERM GAIN/(LOSS) field in the Sch D/8814/ECR Tax window and send the IR(s).  
**Send PARAGRAPH 145**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (6) If a breakdown of bond interest by payer is not shown on the return or on an attachment and there is only one IR:
  1. Compare the amount reported on Form 1040/1040-SR, line 2b.
  2. If the taxpayer reports a larger amount, consider the IR fully reported.
  3. If the taxpayer reports a lesser amount, allow credit for the amount reported.
- (7) If the taxpayer reports bond interest but does not identify the payer and there is more than one BOND IR:
  1. Group by income type BOND.  
**Note:** If INT IRs are present, it may be necessary to add INT IRs to the group.
  2. Compare the group total to the amount of reported bond interest.
  3. If the group total amount is smaller, assign status code "R" to the group.
  4. If the group total amount is larger, consider the difference U/R and assign status code "U" to the group.
  5. If bond amounts are U/R, **send PARAGRAPH 64**. See Exhibit 4.19.3-7, CP PARAGRAPHS.  
**Exception:** If the specific U/R amount matches an IR - PARAGRAPH 64 may not be appropriate.
- (8) If the taxpayer reports an amount as savings bond, T-Bill bond, or note interest, and the 99INT IR shows only regular interest, consider the IR reported if the amounts match within \$1 ONLY if the taxpayer has not excluded interest on Schedule B, line 3, for college tuition. PARAGRAPH 108 automatically generates when the exclusion is fully disallowed.
- (9) 99INT IRs should not show EWPEN amounts if only bond interest is present. Treat such IRs as potential Payer Agent data or questionable.



4.19.3.8.3.4  
(09-21-2020)

### Savings Bond Exclusion

- (1) Form 8815, Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued After 1989, is allowed on Schedule B, line 3.
- (2) Bond Interest must be reported on the return before being claimed as a Savings Bond Exclusion on Form 1040/1040-SR.
- (3) When the taxpayer excludes a savings bond interest amount and the AGI is changed, the Adjusted Gross Income and Savings Bond Exclusion windows may display when the Return Value window is selected. If the windows do not display, they must be accessed before continuing to the Return Value screen.
- (4) The AUR system computes the new excludable savings bond interest amount based on the entries in the Adjusted Gross Income and Savings Bond windows and displays it in the RECOMPUTED SAVINGS BOND EXCLUSION field.
- (5) If the Adjusted Gross Income (AGI) window appears, see IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Adjusted gross Income (AGI) window.

**Reminder:** Enter/verify the amount in the Excluded Savings Bond field of the AGI window.

- (6) The savings bond exclusion claimed on Schedule B, line 3 is **disallowed** when:
  - a. The taxpayer is married filing a separate return
  - b. The new Modified Adjusted Gross Income (MAGI) is:

Filing Status	TY 2020	TY 2021	TY 2022
Single, Head of Household and Qualifying Surviving Spouse	\$97,350 or more	\$98,200 or more	\$100,000 or more
Married Filing Joint	\$153,550	\$154,800	\$158,650

**Note:** The new MAGI is the amount claimed on Form 8815, line 9, plus U/R income.

- (7) The savings bond exclusion claimed on Schedule B, line 3 is **adjusted** when the new MAGI is greater than:

Filing Status	TY 2020	TY 2021	TY 2022
Single, Head of Household and Qualifying Surviving Spouse	\$82,350	\$83,200	\$85,800
Married Filing Joint	\$123,550	\$124,800	\$128,650

- (8) If the system determines the exclusion claimed should be disallowed in whole or part, an IR is created by the system for the amount of the disallowance and coded with status code "U".

- (9) PARAGRAPH 105 automatically generates when the exclusion is adjusted or eliminated. PARAGRAPH 107 automatically generates when the exclusion is eliminated based on the filing status.
- (10) If you adjust the Savings Bond Exclusion, enter the amount from Schedule B in the RETURN field of the Summary screen.

4.19.3.8.3.5  
(10-06-2022)  
**Accrued Market  
Discount (AMD)**

- (1) Accrued Market Discount is identified on the Case Analysis screen with the literal "1099B" in the DOC TYPE field and the literal "AMD" in the INCOME TYPE field. Accrued Market Discount is reported on Form 1099-B, box 1f.

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- (3) Compare AMD amounts with entries on Form 1040/1040-SR, line 2b and/or Schedule B, Part 1, line 1.
  - (4) Accrued Market Discount comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as AMD:
    - 1. Form 8949 Part I or II, column (g).
    - 2. Schedule D, Part I, line 1b, column (g) or Part II, line 8B, column (g).
  - (5) If Schedule B (or an attachment in lieu of Schedule B) is attached, compare AMD IR(s) with individual items. If you cannot match individual IRs:
    - 1. Group all INT and AMD amounts from the same payer in the same group.
    - 2. Compare group total to the total amount reported on the return from that payer.
    - 3. If the group total is smaller, assign status code "R" to the group.
    - 4. If the group total is larger, assign status code "U" to the group.

**Note:** If BOND IRs are present, it may be necessary to add BOND IRs to the group.

**Caution:** When grouping AMD and INT together the summary screen will show the income type as interest income.

  - 5. If interest amounts are U/R, **send PARAGRAPH 64**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- Exception:** If the specific U/R amount matches an IR - PARAGRAPH 64 may not be appropriate.

4.19.3.8.3.6  
(09-21-2020)  
**Interest Miscellaneous**

- (1) Interest income may be reduced by any of the following, provided the taxpayer first included this income on Schedule B, line 1. The line 2 amount should then reflect the taxable amount of interest minus these adjustments:
  - a. Nominee Distributions - Interest received by the taxpayer that belongs to another person, such as a child.
  - b. Accrued Interest - Interest on securities transferred between interest payment dates.
  - c. Tax-Exempt Interest - (for example, Municipal Bonds).

**Note:** When SS/RR is also present, see IRM 4.19.3.8.17.1, SS/RR - Analysis.

- d. Amortizable Bond Premium - Premium offsets interest on taxable bonds acquired after December 31, 1987.
  - e. Frozen Deposits - An account from which the taxpayer is unable to withdraw funds because the financial institution or others in the area are bankrupt, insolvent, or in receivership.
- (2) Pursue the issue if it appears the taxpayer reports an incorrect taxable interest due to improper deduction of these amounts.
  - (3) PARAGRAPH 85 automatically generates to inform the taxpayer they may be subject to Backup Withholding (BWH) when the total of U/R interest, dividends, and patronage dividends is greater than \$500.
  - (4) 99INT and 99OID IRs may reflect an Early Withdrawal Penalty (EWPEN). See IRM 4.19.3.9.5, Early Withdrawal Penalty (EWPEN) - General, for further instructions.

**Caution:** Taxpayers may net the EWPEN against the interest. See IRM 4.19.3.9.5.1, Early Withdrawal Penalty (EWPEN) - Analysis.

- (5) If a 99INT IR, from the U.S. Treasury, with EIN 38-1798424 is shown on the Case Analysis screen, it is credit interest paid to the taxpayer by IRS for refund cases and is fully taxable.
- (6) 99INT IRs may reflect W/H. If there is an indication the interest account is jointly owned with someone other than the taxpayer's spouse or the filing status is 3:

2. **Send PARAGRAPH 6**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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**Note:** See IRM 4.19.3.5.3, Jointly Owned Income, for additional instructions on jointly owned income.

- 4. See IRM 4.19.3.17.1, Withholding - General, for further instructions on W/H.
- (7) A fully U/R 99INT IR with a payee EIN is considered self-employment income. Enter an Income Identify Code to assess SE tax. See IRM 4.19.3.16.1, Self-Employment Tax and Exhibit 4.19.3-9, Income Identify Codes.
- (8) If interest is U/R, enter the amount from Form 1040/1040-SR, line 2b in the RETURN field on the Summary screen.

4.19.3.8.4  
(09-30-2014)  
**Dividends and Capital  
Gain Distributions**

- (1) Dividends are distributions paid by corporations, partnerships, and/or estates and trusts. They are reported on Form 1099-DIV and on Schedules K-1 from Form 1065, U.S. Return of Partnership Income, Form 1041, U.S. Income Tax Return for Estates and Trusts, and Form 1120-S, U.S. Income Tax Return for an S Corporation.

- (2) Capital gain distributions are normally paid by regulated investment companies, mutual funds, and real estate investment trusts from their net long-term capital gains.

4.19.3.8.4.1  
(09-21-2020)

#### Dividends - General

- (1) The types of dividends compared are:
- Ordinary Dividends - Entire amount is taxable
  - Capital Gain Distributions - Are considered taxable
- (2) Dividends are identified on the Case Analysis screen by the literal "99DIV" in the DOC TYPE field and one of the following literals in the INCOME TYPE field:
- "ORDIV" - Ordinary dividends
  - "QDIV" - Qualified Dividends may be eligible for the Capital Gains rate of 20 percent.
  - "NDDIS" - Non-Dividend distributions (non-taxable)
  - "INEXP" - Investment Expenses (information only/system deleted)
- (3) The AUR system considers each of the following amounts separately:
- Ordinary Dividends
  - Capital Gain Distributions (including 28 percent rate, 5 year gain, 1250 gain and 1202 gain)
- (4) If a 99DIV IR with multiple income types is U/R, and the tolerance for issuing a notice is met, screen all elements of the IR.

4.19.3.8.4.2  
(02-27-2023)

#### Dividends - Analysis

- 403(b) accounts
- SEP or IRA accounts
- Municipal Bond funds
- Pension Plan or Profit Sharing Plan (including a 401(k) plan)
- Capital Construction Fund (CCF) account

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- (2) Compare ORDIV amounts with entries on Form 1040/1040-SR, line 3b.

**Note:** Qualified dividends reported on line 3a must be included in total dividends reported on line 3b. If the taxpayer reduces the dividends amount by the qualified dividend amount, the difference is U/R. **Send PARAGRAPH 65**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- a. Schedule B, Part II.
  - b. Schedule E, Parts II, III, and/or IV. The amounts must match within \$1 or be clearly identified as Dividend Income.
- (3) Compare IR(s) on the Case Analysis screen with individual items listed on Schedule B, if attached. The taxpayer may use an attachment in lieu of Schedule B.

- (4) Dividend IRs display Ordinary Dividends (ORDIV), Qualified Dividends (QDIV), Capital Gain Distributions (CG), and non-dividend distributions (non-taxable) as separate amounts.
  - a. The QDIV are included in the ORDIV.
  - b. If the sum of the ORDIV and the CG amounts matches the sum of dividends reported on Schedule B, line 5, consider the IR(s) fully reported.
- (5) If individual IR(s) do not match the amount claimed on the return:
  1. Group ordinary dividend amounts from the same payer.
  2. Compare the group total amount to the total ordinary dividends reported for that payer.
  3. If the group total amount is smaller, assign status code "R" to the group.
  4. If the group total amount is larger, assign status code "U" to the group.
- (6) If a breakdown of dividends by payer is not shown on the return or on an attachment and there is only one IR:
  1. Compare the amount reported on Form 1040/1040-SR, line 3b.
  2. If the taxpayer reports a larger amount, consider the IR fully reported.
  3. If the taxpayer reports a lesser amount, allow credit for the amount reported.
- (7) If a breakdown of dividends by payer is not shown on the return and there is more than one dividend IR:
  1. Group all ORDIV together.

**Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.
  2. Compare the group total amount to the total reported dividends.
  3. If the group total amount is smaller, assign status code "R" to the group.
  4. If the group total amount is larger, consider the difference U/R and assign status code "U" to the group.
  5. If dividend amounts are U/R **send PARAGRAPH 64**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Exception:** If the specific U/R amount matches an IR - PARAGRAPH 64 may not be appropriate.
- (8) Dividends and interest income are often interchanged by the taxpayer. Check any interest income areas when comparing IRs (for example, credit union dividends). Check any dividend income areas when comparing INT amounts. Offset dividend income against interest income ONLY if one of the following applies:
  - a. The same amount (within \$1) AND the same payer are reported; OR
  - b. An unidentified amount matches the U/R dividend amount within \$1.
- (9) If dividend income is listed on Schedule B but is not added into the AGI:
  1. Consider the income U/R. Create an IR for any income the taxpayer reported on Schedule B for which we do not have a corresponding IR.

2. If interest and/or dividend amounts are U/R, **send PARAGRAPH 57**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) If the taxpayer reports ordinary dividends on Schedule D/Form 8949, lines 1a, 1b, 2, or 3 column (d) or lines 8a, 8b, 9 or 10 column (d).
  1. Consider the amount(s) in columns (e) and (g), (cost or other basis) U/R.
  2. To arrive at the amount to enter in the REPORTED AMOUNT field, subtract the columns (e) and (g) amounts from the information return.

**Caution:** Delete the dividend income from the LONG-TERM GAIN (LOSS) field in the Sch D/8814/ECR Tax window.

  3. **Send PARAGRAPH 52**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (11) If you notice a math error on Schedule B:
  1. Create an IR for any reported dividend amount(s) for which we do not have a corresponding IR.
  2. Group by income type ORDIV.
  3. Compare the group total amount to the total dividends reported.
  4. If the group total is smaller, consider reported and assign status code "R" to the group.
  5. If the group total is larger, consider the difference U/R and assign status code "U" to the group.
  6. **Send PARAGRAPH 79**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (12) During Case Analysis, screen the QDIV element of the IRs. If the ORDIV element of the IR is fully or partially U/R enter status code "U" and the reported amount as zero for fully U/R, or the amount from Form 1040/1040-SR, line 3a for partially U/R in the QDIV element of the IR. This will ensure that the appropriate Schedule D tax rate is determined.
- (13) The QDIV element(s) is systemically included on the notice when the ORDIV element is marked with a "U". Send Indicator "S" will not be reflected on the QDIV element of the IR on the Case Analysis screen and QDIV(s) will not be displayed on the Summary screen: however, QDIV(s) will be included on the notice. **PARAGRAPH 4** automatically generates.

**Note:** Any changes to reported QDIV are used in determining the proper Schedule D tax rate and will not impact the AGI.

4.19.3.8.4.3  
(09-01-2012)

#### Dividends Miscellaneous

- (1) The taxpayer may report a net dividend amount based on the payer's
- (2) Dividends from money market funds may be reported under a different name. If a dividend amount on a 99DIV IR matches an amount on Schedule B, consider the IR reported unless there is an IR(s) for that individual payer.
- (3) Restricted stock transferred to an employee as compensation for services may accrue dividends. Even though these dividends are reported on Form 1099-DIV, they should be treated as wages. Consider the income reported if the amount was included with wages.
- (4) Reinvestment dividends are not allowable as an exclusion.

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- (5) 99DIV IRs may reflect W/H. If there is an indication the dividend account is jointly owned with someone other than the taxpayer's spouse or the filing status is 3:

**PARAGRAPH 6**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** See IRM 4.19.3.5.3, Jointly Owned Income, for further instructions on joint ownership.

3. See IRM 4.19.3.17.1, Withholding - General, for further instructions on W/H.
- (6) A fully U/R 99DIV IR with a payee EIN is considered self-employment income. Enter an Income Identify Code to assess SE tax. See IRM 4.19.3.16.1, Self-Employment Tax and Exhibit 4.19.3-9, Income Identify Codes.
- (7) Nominee dividends may be deducted provided the taxpayer first included this income on Schedule B, line 5.
- (8) PARAGRAPH 85 automatically generates to inform the taxpayer they may be subject to BWH when the total of U/R interest, dividends, and patronage dividends is greater than \$500.
- (9) If dividends are U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.4.4  
(12-22-2014)  
**Capital Gain  
Distributions - General**

- (1) Capital Gain Distributions are identified in the Case Analysis screen by the literal "99DIV" in the DOC TYPE field and "CG" - Capital Gain Distributions - Income Identify Code "SD" displays for Capital Gain Distributions in the INCOME TYPE field.
- (2) The AUR system considers Capital Gain Distributions separately from Ordinary Dividends.
- (3) If Capital Gains are U/R and the tolerance for issuing a notice is met, screen all elements of the IR.

4.19.3.8.4.5  
(09-21-2020)  
**Capital Gain  
Distributions - Analysis**

- (1) Compare capital gain distributions amounts with entries on: .
- Form 1040/1040-SR, line 7
  - Schedule D, line 13, column (h).
  - Form 8949, Part II, line 1, column (h).
- Note:** The taxpayer may use an attachment in lieu of Form 8949.
- (2) Verify the taxpayer has reported capital gain distributions on Schedule D, line 13, and the proper amount was carried over to Form 1040/1040-SR, line 7.
- (3) If no Schedule D is present verify the taxpayer reported the capital gain distributions directly on Form 1040/1040-SR, line 7.
- (4) When the taxpayer reports Capital Gain Distributions directly on Form 1040/1040-SR, line 7 the Schedule D window in Return Value MUST be accessed manually. See IRM 4.19.3.14.2, Sch D/8814/ECR Tax Window.



(5) If the taxpayer provides a breakdown of capital gains (for example on an attachment), be sure the amount was properly transferred to either Schedule D, line 13, column (h) or Form 1040/1040-SR, line 7 before considering them reported. If not, then consider the amount U/R and **send PARAGRAPH 3**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

(6) If a breakdown of capital gain distributions is not shown on the return and there is more than one capital gain distribution IR:

1. Group by income type CG.

**Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.

2. Compare the group total amount to the amount reported on Schedule D, line 13, column (h) or if Schedule D is not attached, Form 1040/1040-SR, line 7.

3. If the group total amount is smaller, assign status code "R" to the group.

4. If the group total amount is larger than the amount reported, consider the difference U/R and assign status code "U" to the group.

**Note:** If the reported dividend amount matches the sum of the ORDIV and CG on the IR(s), consider the capital gain distributions fully reported.

5. If capital gains amount are U/R, **send PARAGRAPH 64**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Exception:** If the specific U/R amount matches an IR - PARAGRAPH 64 may not be appropriate.

(7) Capital Gain Dividends reported on Form 1099-DIV with a "S" or "P" in the taxpayer field on the Case Analysis screen default with an Income Identify Code of "SD" for long-term capital gain/loss belonging on Schedule D, Part II. If the taxpayer field contains an "E" for EIN, the user MUST ENTER an Income Identify Code of "SD".

(8) Change the Income Identify Code on partially U/R CG elements when you can determine from the taxpayer's reported amount that:

a. The CG distributions do not belong on Schedule D. Enter the appropriate Income Identify Code (for example, "PB" for the income to be treated as primary business subject to SE tax). See Exhibit 4.19.3-9, Income Identify Codes.

**Note:** Capital gain distributions which have an Income Identify Code of "PB", "PF", "SB", "SF", or "CG" IRs with a payee EIN display on the Summary screen as Nonemployee Compensation. Send the taxpayer a Special Paragraph explaining that the CG income is shown on the notice as Nonemployee Compensation and is subject to SE tax.

b. The Capital Gain distributions are determined to be a short-term capital gain/loss belonging on Schedule D, Part I. Input an Income Identify Code of "ST".

(9) Capital Gain IRs with Income Identify Codes of "SD" or "ST" are screened using the following procedures:

1. Enter a status code of "U" on the CG element containing Income Identify Code of "SD" or "ST".
2. The Adjusted Gross Income window displays. Enter/verify the fields.
3. The COMPUTE SCHEDULE D LOSS window displays. Refer to IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - SCHEDULE D LOSS, to determine the correct field entries.

**Note:** If there are U/R CG and the taxpayer reports a capital loss on Form 1040/1040-SR, line 7 enter a zero (0) in both fields on the COMPUTE SCHEDULE D LOSS window. It may be necessary to blank out both fields first. This will prevent the system from using losses in excess of \$3,000 (\$1,500 if MFS) to offset U/R Schedule D income.

4. The cursor returns to the IR CD field of the IR where it was before the windows displayed. The field is blank.

**Note:** The AGI and COMPUTE SCHEDULE D LOSS windows only display automatically when a status code of "U" is initially entered. It is not necessary to access these windows again unless the field entries need to be changed.

5. Enter a status code ("U", "R", or "N") and the reported amount, if applicable, for the CG elements containing Income Identify Code of "SD" or "ST".
  6. The system uses the information on the COMPUTE SCHEDULE D LOSS window to determine the correct U/R amount of Schedule D income. The total U/R Schedule D income amount is included in the TOTAL AGI CHANGE field on the Case Analysis screen.
- (10) PARAGRAPH 24 automatically generates when CG are treated as ordinary income due to loss limitations. If the loss per return is less than \$3,000 (\$1,500 if MFS) toggle off PARAGRAPH 24 from the Summary screen.
- (11) If Capital Gain Distributions are U/R, enter the return amount from Schedule D, line 13, Form 1040/1040-SR, line 7 in the RETURN field of the Summary screen.

4.19.3.8.5  
(09-01-2003)  
**State and Local Income  
Tax Refunds (SITR) -  
General**

- (1) State and local income tax refunds (SITR) are taxable in the year received if the taxpayer itemized deductions in the previous year and claimed a deduction for state and/or local income taxes that resulted in a tax benefit.
- (2) The prior year filing status code is used in figuring the AUR year taxable SITR amount.
- (3) SITR payments are reported on Form 1099-G, Certain Government Payments.
- (4) State income tax refunds are identified on the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "SITR" in the INCOME TYPE field.

4.19.3.8.5.1  
(10-25-2023)  
**SITR - Analysis**

- (1) Taxpayers that pay Alternative Minimum Tax do not derive a benefit from SITR. The AUR program now identifies taxpayers who paid ALT MIN Tax in the prior year before considering SITR unreported. Therefore, only pursue system identified (asterisked) SITR discrepant IRs. If the case is open for other issues, mark the non-asterisked SITR IR(s) with status code "D", "N" or "R".

- (2) State and local income tax refunds (SITR) are potentially U/R if there is no SITR amount reported or when there are multiple SITR IRs and not all are reported. Compare SITR IRs to Form 1040/1040-SR, Schedule 1, line 1.
- (3) For TY 2022, taxpayers from certain states are not required to report their payments received for the promotion of the general welfare or as a disaster relief payment. For example, payments received related to the outgoing pandemic, may be excludable from income for federal tax purposes under the General Welfare Doctrine or as a Qualified Disaster Relief Payment.
- (4) Enter/Verify the required amounts on the SITR window by taking the following actions: See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - State and Local Income Tax Refunds.

**Note:** An entry in the STATE/LOCAL W/H field is required only when the taxpayer has netted. See below for additional information.

- Enter the amount of state and local tax refund from Form 1040, Schedule 1, line 1, in the REPORTED SITR field
- Enter the amount of state and local income taxes claimed on current year Schedule A, line 5a, in the STATE/LOCAL TAX DED field.

**Note:** Leave this field blank when there is no current year deduction. **DO NOT** enter "0" (zero).

- Enter the total number of age and/or blind exemptions for the taxpayer and spouse as reported on the return in the AGE/BLIND COUNT field.
- Enter "Y" if the taxpayer has been claimed as a dependent on someone else's return in the CLAIMED ON ANOTHER'S RETURN field.
- Enter "Y" if the Married Filing Separate and Spouse Itemized Deduction/ Dual Status box on the return is checked in the FS3/ITEMIZED OR ALIEN field.

**Note:** The prior year SITR information displays in the PRIOR YEAR section of the window. Only change if the displayed value is incorrect.

- (5) 1099G IRs with reported SITR amounts for other than the prior tax year are deleted by the system. The literal "X" displays in the IR CODE field of the Case Analysis screen.
- (6) When **any** of the following conditions are present, mark all SITR IRs (including those system identified as discrepant) with status code "D", "N", or "R":
  - a. SITR worksheets are attached to the return.
  - b. The taxpayer indicates there is no tax benefit due to Alternative Minimum Tax.
- (7) The AUR system will compute the U/R SITR amount if Form 1040/1040-SR, Schedule 1, line 1, does not equal the total of the SITR IRs.

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- a. The taxpayer claimed itemized deductions for the prior AUR tax year, AND
- b. The prior year total itemized deductions are greater than their standard deduction, AND

- c. The prior year state/local tax deduction is less than (including zero) the SITR IR(s).
- d. Form 1040/1040-SR, Schedule 1, line 1 does not equal the SITR IR(s).

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- (9) If the system computed a SITR refund, the current year filing status code has changed from the prior year, and the PRIOR YEAR TOTAL ITEMIZED DED field on the SITR window is less than or equal to 0 (zero), the system displays the following message: "Warning: SITR refund. Prior Yr Sch A info needed, access RTVUE on IDRS."

If	And	Then
The current year filing status is "1", "3", or "4" and, the prior year filing status was equal to "2" or "5"	It can be determined the taxpayer's SSN in the prior year was a secondary SSN	Research the Primary and Secondary SSNs using IDRS CC RTVUE.
The current year filing status is "2" or "5"	The prior year filing status is "1", "3", or "4"	Access IDRS CC RTVUE for each spouse that has a SITR IR.

- a. Mark the applicable SITR IR with status code "N" or "D" if the spouse did not claim state/local taxes on the prior year Schedule A.
- b. If the spouse reported SITR on the current year return and the prior year filing status was 1, 3, or 4 and the spouse did not itemize, enter the amount of SITR reported as a miscellaneous deduction in the SCH C EXP/MISC Adjustment window, to refund the amount. **Send PARAGRAPH 192**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- c. Verify the PRIOR YEAR fields on the SITR window match RTVUE and correct if necessary.

**Caution:** If taxpayer chose to itemize (even when it is less than the standard deduction) and the taxpayer claimed state/local tax deduction on the previous year's Schedule A, do not allow the SITR refund. Mark the SITR IR with status code "N" or "D".

- (10) If the system computed a SITR refund and the current year filing status code has not changed from the prior year, the system displays the following message: "Warning: SITR refund."

- 1. Access IDRS CC RTVUE.
- 2. Verify the PRIOR YEAR fields on the SITR window match RTVUE and correct if necessary.

**Caution:** If taxpayer chose to itemize (even when it is less than the standard deduction) and the taxpayer claimed state/local tax deduction on the previous year's Schedule A, do not allow the SITR refund. Mark the SITR IR with status code "N" or "D".

- (11) The system will not compute an U/R SITR amount if the Prior Year Taxable Income is zero or negative.

- (12) If the difference between the sum of state and local income tax withheld and the SITR IR(s) is equal to or greater than the taxpayer's current AUR tax year Schedule A, line 5a amount, this indicates the taxpayer netted.
  - a. The system considers the SITR reported.
  - b. If the taxpayer netted SITR, the system alerts the tax examiner to send an appropriate paragraph. If a notice is sent for any other issue, **send PARAGRAPH 141**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (13) Do not refund apparent O/R SITR for taxpayers who are minors or who are claimed as a dependent on someone else's return. Delete the SITR IRs for minors and dependents claimed on someone else's return.
- (14) If the taxpayer filed "married filing jointly" in the prior year, and filed "married filing separately" in the current AUR tax year and reported one-half of the SITR amount, consider the SITR fully reported.
- (15) PARAGRAPH 69 automatically generates when SITR is U/R.
- (16) PARAGRAPH 16 automatically generates when SITR is O/R because the taxpayer did not claim itemized deductions for the prior AUR tax year.
- (17) If SITR is U/R, enter the return amount in the RETURN field of the Summary screen.

4.19.3.8.6  
(09-24-2021)  
**Nonemployee  
Compensation (NEC) -  
General**

- (1) Nonemployee compensation is fees, commissions, or any other compensation paid by a business to an individual who is not an employee.
- (2) Nonemployee compensation is reported on Form 1099-NEC.
- (3) Nonemployee compensation is identified on the Case Analysis screen by the literal "99NEC" in the DOC TYPE field and the literal "NEC" in the INCOME TYPE field.

4.19.3.8.6.1  
(10-06-2022)  
**NEC - Analysis**

- (1) Compare NEC amounts with entries on:
    - a. Schedule C, Part I.
    - b. Schedule E, Part II - see (3) below.
    - c. Schedule F, Part I or III.
    - d. Form 4835, Farm Rental Income and Expenses, Part I.
- Note:** Consider NEC reported if it is included in a larger total for the applicable taxpayer on Schedule C, F or Form 4835, unless the IR is obviously not the same type of income.
- (2) When comparing NEC IRs with entries on any line not specifically identified for NEC, the amount must match within \$1 or be CLEARLY IDENTIFIED by payer name, activity or as NEC income:
    - a. Form 1040/1040-SR, line 1.

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- b. Schedule D, Part I, lines 1a, 1b, 2, or 3 column (d) or Part II, lines 8a, 8b, 9 or 10, column (d).

**Caution:** Digital Assets (Virtual currency) may be reported or partially reported on Schedule D. This income may be identified by payer name or may be referred to as bitcoin or similar language on the system IR. If the income is partially reported and the taxpayer includes an explanation they reported the fair market value of the digital asset (virtual currency), as of the date it was received, consider the income reported.

- c. Form 8949- Part I, line 1 column (d) or Part II, line 1, column (d).

**Caution:** Digital Assets (Virtual currency) may be reported or partially reported on Form 8949. This income may be identified by payer name or may be referred to as bitcoin or similar digital asset terminology. If the income is partially reported and the taxpayer includes an explanation they reported the fair market value of the digital assets (virtual currency), as of the date it was received, consider the income reported.

- d. Form 2106, Employee Business Expenses, line 7 - Give credit when the NEC IR is related to the occupation (or activity) shown on Form 2106. See (4) below.
- e. Schedule E, Part I.
- f. Form 4797, Sales of Business Property, Parts I, II, or III.
- g. Form 6252, Installment Sale Income, line 5 or line 21.
- h. Form 3903, Moving Expenses, line 4.

**Note:** Only Members of the Armed Forces who meet certain requirements can deduct moving expenses.

**Note:** The taxpayer may report the sale of timber, coal, easements, right-of-way (ROW), land damages, etc. on the designated lines for Schedule D, Form 8949 or Form 4797. Consider the NEC reported if the sales price matches the IR within \$1.

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- a. An amount on the return **matches within \$1**. Also give credit for reported amounts identified as being from the same payer.
- b. The taxpayer is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, SC, or PC) and pays wages to themselves (the name and/or address of the payer is similar to or matches the name and/or address of
- c. The taxpayer appears to be a **partner or shareholder** as shown on
- d. The taxpayer is in the **medical profession** and has reported wages from a medical professional corporation (payer name must include CORP,

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INC, LC, LLC, PA, SC, PC, clinic or group) but not a hospital or medical

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g. The taxpayer **nets the amount** for reimbursed expenses reported on

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h. Form 3115, Application for Change in Accounting Method, is attached

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i. The combined NEC for both taxpayers equals the Schedule C within \$1 or there is a statement indicating the amounts are included in a larger total.

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The U/R amount cannot exceed the amount on Form 2106, column A, line 8. To arrive at the amount to input in the RETURN field, subtract the amount that should have been included in income (Form 2106, column A, line 8) from the IR amount.

**Note:** Only Armed Forces Reservists, qualified performing artists, fee basis state or local government officials and employees with impairment-related work expenses can use Form 2106. Form 2106 expenses are reported on Form 1040/ 1040-SR, Schedule 1, line 11 ( TY 2020), Schedule 1, line 12 (TY 2021 and subsequent).

(5) If the payer is an **oil, gas, or petroleum** company:

- a. Consider the IR(s) reported if it is included (identified by payer or activity) in a larger total on Schedule C, or Schedule E, Part I.
- b. Depletion should NOT be deducted on Schedule C, Part II, or Schedule E, Part I, unless the business activity is related to a natural resource (for example, oil, gas, mineral, timber).
- c. Consider the depletion amount U/R if that depletion was deducted from income that is clearly NEC (Schedule C, line 12, or Schedule E, line 20). To arrive at the amount to enter in the SHOWN ON RETURN field, subtract the depletion amount from the IR amount(s).
- d. Consider the IR fully U/R if the depletion amount cannot be determined.

(6) Nonemployee Compensation may represent **crop insurance proceeds**, which are reported on Schedule F, line 6a or 6b, or Form 4835, line 5a or 5b. The taxpayer may elect to postpone the crop insurance proceeds to the year following the damage. If the NEC amount(s) appears to be this type of income, consider the amount reported if:

- a. The box on Schedule F, line 6c, or Form 4835, line 5c, is checked AND
- b. The reported amount is equal to or greater than the NEC IR amount(s).



- (7) If an explanation is attached to the return indicating the **fellowship, grant, or stipend** was used for tuition, fees, books, supplies, and equipment required for the course, AND:

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The taxpayer cannot deduct expenses that exceed the IR.

- b. The expenses are less than the IR, pursue the difference if not reported on the return.
- c. The taxpayer excluded expenses not shown above, then pursue the unallowable expenses. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (8) If the NEC IR is identifiable as **fellowship/grant/stipend income, no explanation** of tuition expenses is attached, and the IR is not fully reported, pursue the amount not reported. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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- b. DO NOT ASSESS SE tax on scholarship/stipend income.

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- (10) If the taxpayer reports NEC income on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021), line 1g (TY 2022) and attaches a Form 8919, Uncollected Social Security and Medicare Tax on Wages, to assess the employee share of FICA, the taxpayer is indicating that they are NOT LIABLE for SE tax on NEC because they're an employee. Unless an employment status determination has been rendered by the SS-8 group to identify if the taxpayer is an independent contractor or employee, SE tax must be assessed. To ensure that credit is given for the tax paid on Form 8919:

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1. Do not change the Income Identify Code.
  2. Remove any amount from the ADDITIONAL FICA TAX window that is subject to SE Tax in the PRIMARY/SECONDARY INCOME SUBJECT TO FICA field.
  3. Access the SE Tax window and enter the Primary/Secondary Form 8919 tax in the PRI/SEC TAX FROM FORM 8919 INCOME field.
  4. Enter the amount of reported NEC in the PRIM/SEC 8919 INCOME SUBJECT TO SE TAX field.
- Note:** DO NOT enter this amount in the "Reported SE Income not on Sch SE" field of the SE Tax window.
5. If necessary, adjust the PRI/SEC SS/RR WAGES/TIPS field so it does not include the NEC amount from Form 8919.
  6. **Send PARAGRAPH 12**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

See IRM 4.19.3.22.3.23, Self-Employment Tax (SE Tax) vs. Employee Share of FICA.

- (11) If Form 4137, Social Security and Medicare Tax on Unreported Tip Income, is attached to the return:

1. Do not change the Income Identify Code.
2. Access the SST on TIPS window and correct the entries in the PRI/SEC ALLOCATED TIPS, UNREPORTED SS TIPS and/or MEDICARE-ONLY TIPS fields to reflect the actual amount of tip income received (use zero (0) or blank if no tip income was received).

**Reminder:** Do not adjust the PRI/SEC UNREPORTED TIP TAX field.

3. Access the SE Tax window and input the reported NEC amount in the PRI/SEC REPRTD SE INC NOT ON SCH SE field.
4. If necessary, adjust the PRI/SEC SS/RR WAGES/TIPS field so it does not include the NEC amount from Form 4137.

**Reminder:** Do not assess a tip tax penalty.

5. **Send PARAGRAPH 12**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

See IRM 4.19.3.22.3.23, Self-Employment Tax (SE Tax) vs. Employee Share of FICA.

- (12) If taxpayers who are **members of federally recognized Native American Tribes** report Form 1099-NEC tribal-related income on Form 1040/1040-SR, Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021 and subsequent) do not assess SE tax if any of the following literals are provided:

- INDIAN GAMING
- INDIAN GAMING PROCEEDS
- IGP
- INDIAN TRIBAL DISTRIB
- INDIAN TRIBAL INCOME
- INDIAN TRIBAL FUND
- INDIAN TRIBAL EARNINGS
- NATIVE AMERICAN
- NATIVE AMERICAN DISTRIB
- IGE
- ITI
- ALASKA PERMANENT FUND
- ALASKA PERMANENT FUND DIV
- APF
- APFD

- (13) If the taxpayer reports NEC on Form 1040/1040-SR, Schedule 1, line 8 ( and

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4.19.3.8.6.2  
(02-27-2023)

#### NEC - Miscellaneous

- (1) If a NEC amount on a 99NEC IR is U/R, **verify the Income Identify Code** so the system computes SE tax correctly. See Exhibit 4.19.3-9, Income Identify Codes.
- (2) Underreported NEC is considered self-employment income (Income Identify Code is "PB", "PF", "SB", or "SF", as applicable) even if there is Form W-2 wage income from the same payer, **unless** the following applies:

- a. The NEC is partially or fully reported on **Form 2106, Form 3903, Form 4835, Form 6252, Form 4797, Schedule D, Form 8949 or Schedule E, Part I**. NEC reported on these forms is not subject to SE tax or considered earned income (Income Identify Code is blank).

**Note:** Excess reimbursements on Form 2106 must be reported on Form 1040/1040-SR, line 1(TY 2020 and TY 2021), line 1a (TY 2022) and is considered earned income. Enter Income Identify Code "PE" or "SE".

**Note:** Only employees in the following categories qualify to use Form 2106: Armed Forces Reservists, qualified performing artists, fee basis state or local government officials and employees with impairment-related work expenses.

- b. The taxpayer is a **newspaper carrier or magazine seller** and is under the age of 18, **DO NOT** assess SE tax.
- c. The taxpayer is exempt from SE tax on the net earnings covered by an **approved** Form 4361 or Form 4029. If the taxpayer writes "Exempt Form 4361" or "Form 4029" on Form 1040/1040-SR, Schedule 2, line 4,

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**Note:** Although taxpayers may exclude **Ministers Housing Allowance** from NEC, it generally is subject to self-employment (SE) tax. Thus, there may be a difference between net Schedule C income and income subject to SE tax due to the Ministers Housing Allowance.

- d. If the taxpayer indicates that an NEC amount is compensation for a "**non-compete**" agreement or they are a member of a federally recognized Native American Tribe, the NEC amount is not subject to SE tax. Leave the INCOME IDENTIFY CODE field blank.
  - e. If the taxpayer indicates the compensation is for **court awards/settlements**. See IRM 4.19.3.8.18.2, Other Income Miscellaneous, for further information.
- (3) If there is reported NEC on which the taxpayer **should have paid SE tax but did not**, SE tax must be computed or recomputed if NEC is asterisked or a CP 2000 is sent for another issue(s). Enter the reported NEC amount in the PRIM REPRD SE INC NOT ON SE and/or SEC REPRD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax or Exhibit 4.19.3-20, Examples of Self-Employment Income.
- a. Send reported NEC IR elements on the notice when adjusting SE tax.
  - b. If the NEC amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an unpostable condition will occur.
- (4) If the taxpayer reports NEC income, but indicates they **worked as an employee and**
- a. **Paid** the employee 7.65 percent of **FICA**, follow the instructions in IRM 4.19.3.8.6.1, NEC - Analysis.
  - b. **Did not pay** the employee 7.65 percent of **FICA**, charge the appropriate amount of SE tax.
  - c. The NEC IR is **partially reported on Form 4137 or Form 8919** and SS/Medicare tax is paid on the reported amount instead of SE tax, unless the condition in IRM 4.19.3.8.6.1 is met, treat the U/R NEC from the

partially reported IR as subject to SE tax and follow the instructions in IRM 4.19.3.8.6.1, NEC - Analysis.

d. **Send PARAGRAPH 12**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- (5) If the taxpayer **reports NEC** income AND attaches a **Form 4137**, follow the instructions in IRM 4.19.3.8.6.1, NEC - Analysis.
- (6) If the taxpayer **reports NEC** income AND attaches a **Form 8919**, follow the instructions in IRM 4.19.3.8.6.1(9) or (10) as appropriate, NEC - Analysis.
- (7) **99NEC IRs may reflect W/H**. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (8) If there are two or more fully U/R NEC **IRs with an out-of-state payee address** beyond the reasonable commuting area for the taxpayer (for example, taxpayer lives in Pennsylvania and U/R IRs are for Georgia), **send PARAGRAPH 167**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) If the taxpayer participates in a nonqualified deferred compensation plan that does not meet all requirements as specified in **IRC 409A**, (appears with the literal 409AI on the IR) the payer must report the deferred compensation as income and the amount is subject to an additional tax.
  - a. The payer identifies income under IRC 409A on Form 1099-MISC, box 15b (TY 2019), box 14 (TY 2020 and subsequent) or Form 1099-MISC, box 12 (TY 2020 and subsequent).

**Note:** TY 2019 the amount in Form 1099-MISC box 15b is already included in box 7 (NEC). If NEC is U/R and the difference corresponds to the 409AI amount, pursue the discrepancy as NEC. **Send PARAGRAPH 127**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- b. Income subject to IRC 409A regulations is identified on the Case Analysis screen by the literal "99MIS" in the DOC TYPE field and the literal "409AI" in the INCOME TYPE field. Enter status code "R" on the "409AI" element(s).
- c. The 409AI amount is subject to an additional tax. See IRM 4.19.3.16.7, Additional Taxes on Income from Nonqualified Deferred Compensation Plan (IRC Section 409A), for further instructions.

**Reminder:** Mark the 409AI IR element(s) with Send Indicator "S" when adjusting the additional tax.

- (10) If NEC is U/R, enter the GROSS return amount in the RETURN field on the Summary screen.

4.19.3.8.7  
(10-04-2016)

**Merchant Card and  
Third-Party Network  
Payments (MERCH) -  
General**

- (1) Merchant Card and Third-Party Network Payments are payments the taxpayer accepted from merchant cards (credit and debit cards), or received through a third-party network (PayPal, Google checkout, etc).
- (2) Merchant Card and Third-Party Network Payments are reported on Form 1099-K, Payment Card and Third-Party Network Transactions.
- (3) Merchant Card and Third-Party Network Payments are identified on the Case Analysis screen by the literal "1099K" in the DOC TYPE field and the literal "MERCH" in the INCOME TYPE field.

**Note:** The IR may reflect the informational literal "NOCRD", which is system deleted ("X"). Do not pursue NOCRD amounts.

4.19.3.8.7.1  
(10-25-2023)  
**MERCH - Analysis**

- (1) Compare MERCH amounts with entries on:
  - a. Schedule C, Part I.
  - b. Schedule E, Part II - see (5) below.
  - c. Schedule F, Part I or III.
- (2) Consider MERCH reported if it is included in a larger total for the applicable taxpayer on Schedule C, or F, unless the IR is obviously not the same type of income.
- (3) When comparing MERCH IRs with entries on any line not specifically identified for MERCH, the amount must match within \$1 or be CLEARLY IDENTIFIED by payer name, activity or as MERCH income:
  - a. Form 1040/1040-SR, line 1 (TY 2020 and TY 2022), 1a (TY 2022).
  - b. Schedule 1, Part I, line 8z.

**Note:** If the taxpayer is selling a personal item at a loss or reporting an error on the Form 1099-K the gross receipts will be reported on line 8z-Other Income using the description "Form 1099-K Personal Item Sold at a Loss" or "Form 1099-K received in Error" with an offsetting amount reported on Part II - Line 24z Other adjustments.

- c. Schedule D, Part I, lines 1a, 1b, 2, or 3 column (d) or Part II, lines 8a, 8b, 9 or 10, column (d).
- d. Form 8949, Sales and Other Dispositions of Assets, Part I, line 1 column (d) or Part II, line 1, column (d).

**Caution:** Digital assets (Virtual currency) may be reported or partially reported on Form 8949. This income may be identified by payer name or may be referred to as bitcoin or similar digital asset terminology. If the income is partially reported and the taxpayer includes an explanation they reported the fair market value of the digital assets, as of the date it was received, consider the income reported.

- e. Schedule E, Part I.
  - f. Form 4797, Sales of Business Property, Parts I, II, or III.
- (4) The taxpayer may report the sale of timber, coal, easements, right-of-way (ROW), land damages, etc. on the designated lines for Schedule D, Form 8949 or Form 4797. Consider the MERCH reported if the sales price matches the IR within \$1.

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- a. The taxpayer is incorporated (payer name must include CORP, INC, LC, LLC, PA, SC, or PC) and pays wages to themselves (the name and address of the payer is similar to or matches the name and/or address of

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- b. The taxpayer appears to be a **partner or shareholder** as shown on

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- c. The taxpayer is in the **medical profession** and has reported wages from a medical professional corporation (payer name must include CORP, INC, LC, LLC, PA, SC, PC, clinic or group) but not a hospital or medical

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4.19.3.8.7.2  
(12-13-2018)

**MERCH - Miscellaneous**

- (1) If MERCH is U/R, **verify the Income Identify Code** so the system computes SE tax correctly. See Exhibit 4.19.3-9, Income Identify Codes.
- (2) Underreported MERCH can be considered self-employment income (Income Identify Code is "PB", "PF", "SB", or "SF", as applicable) even if there is Form W-2 wage income from the same payer.
- (3) If MERCH is not subject to SE tax (for example, MERCH reported on Schedule E, Part I, or Schedule D/Form 8949) remove the income identify code and leave the field blank.
- (4) If there is reported MERCH on which the taxpayer **should have paid SE tax but did not**, SE tax must be computed or recomputed if MERCH is asterisked or a CP 2000 is sent for another issue(s). Include the reported MERCH amount in the PRIM REPRTD SE INC NOT ON SE and/or SEC REPRTD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax and Exhibit 4.19.3-20, Examples of Self-Employment Income.
  - a. Send reported MERCH IR elements on the notice when adjusting SE tax.
  - b. If the MERCH amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.
- (5) PARAGRAPH 109 automatically generates when the MERCH IR is identified as U/R or used to create a group. If MERCH is not used to create a group, **send PARAGRAPH 109, see Exhibit 4.19.3-7, CP PARAGRAPHS.**
- (6) If MERCH is U/R, enter the GROSS return amount in the RETURN field on the Summary screen.

4.19.3.8.8  
(09-01-2003)

**Medical Payments - General**

- (1) Medical payments are compensation paid to doctors, dentists, and others in the medical profession (for example, Nurse Practitioner, Midwife, Chiropractor, Doctor of Osteopathy, Veterinarian, Podiatrist).
- (2) Medical payments are reported on Form 1099-MISC.

- (3) Medical payments are identified on the Case Analysis screen by the literal “99MIS” in the DOC TYPE field and the literal “MED” in the INCOME TYPE field.

4.19.3.8.8.1  
(09-21-2020)

**Medical Payments -  
Analysis**

- (1) Compare MED amounts with entries on:
- Schedule C, Part I, if it appears to be for a medical practice.
  - Schedule E, Part II, if it appears to be related to the medical profession.
- (2) MED comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as MED payments:

TY 2020	TY 2021 and subsequent
Form 1040 / Form 1040-SR, line 1	Form 1040 / Form 1040-SR, line 1
Form 1040 / Form 1040-SR, Schedule 1, line 8	Form 1040 / Form 1040-SR, Schedule 1, line 8z

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- Reported wages from a **medical professional corporation** (payer name must include CORP, INC, LC, LLC, PA, SC, PC, clinic, or group), but not a hospital or medical center or
- Is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, SC or PC) and pays wages to themselves (the name and/or address of the payer is similar to or matches the name and/or address of the taxpayer).

**Note:** If there are no WAGES IRs displayed on the Case Analysis screen, review the Form W-2 attached to the return.

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4.19.3.8.8.2  
(09-01-2013)

**Medical Payments  
Miscellaneous**

- (1) If MED payments are U/R and the taxpayer's occupation and/or the payer name on the MED IR(s) is NOT related to the medical field, the income may be **sick pay or disability payments**. Form 1099-MISC are sometimes incorrectly used to report sick pay or disability payments.
- Do not consider the U/R MED amount(s) as self-employment income.
  - Delete the Income Identify Code(s).
- (2) If MED payments are U/R and the taxpayer is in the medical profession, treat U/R MED payments as self-employment income. See IRM 4.19.3.16.1, Self-Employment Tax.



- (3) If there is reported MED on which the taxpayer **should have paid SE tax but did not**, SE tax must be computed or recomputed, if MED or SE tax is asterisked or a CP 2000 is sent for another issue(s). Include the reported MED amount in the PRIM REPRTD SE INC NOT ON SE and/or SEC REPRTD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax, and Exhibit 4.19.3-20, Examples of Self-Employment Income.
  - a. Send reported MED IR elements on the notice when adjusting SE tax.
  - b. If the MED amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.
- (4) IRs with MED amounts may reflect **W/H**. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (5) If MED payments are U/R, enter the GROSS return amount in the RETURN field on the Summary screen.

4.19.3.8.9  
(10-06-2022)  
**Fishing Income -  
General**

- (1) Fishing income is earned by fishing boat crew members, or the cash amounts paid for the purchase of fish for resale from any person engaged in the trade or business of catching fish.
- (2) Fishing income is reported on Form 1099-MISC.
- (3) Fishing income is identified on the Case Analysis screen by the literal "99MIS" in the DOC TYPE field and the literal "FISH" in the INCOME TYPE field or **99MIS** in the DOC TYPE field and the literal **FRSAL** in the INCOME TYPE field.

4.19.3.8.9.1  
(10-06-2022)  
**Fishing Income -  
Analysis**

- (1) When comparing FISH or FRSAL amounts with the following entries, the amount must match within \$1 or be CLEARLY identified by payer name, activity or as fish income:
  - a. Schedule C, Part I.
  - b. Schedule E, Part I.
  - c. Schedule E, Part II.
  - d. Form 1040/1040-SR, Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).

4.19.3.8.9.2  
(10-06-2022)  
**Fishing Income  
Miscellaneous**

- (1) If a FISH or FRSAL amount on a 99MIS IR is U/R, verify the Income Identify Code so the system computes SE tax correctly. Valid Income Identify Codes are "PB", "PF", "SB", or "SF", as applicable. See Exhibit 4.19.3-9, Income Identify Codes.
- (2) If there is fishing income reported on which the taxpayer should have paid SE tax but did not, SE tax must be computed or recomputed if FISH, FRSAL, or SE tax is asterisked or a CP 2000 is sent for another issue(s). Include the reported FISH amount in the PRIM REPRTD SE INC NOT ON SE and/or SEC REPRTD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax, and Exhibit 4.19.3-20, Examples of Self-Employment Income.
  - a. Send reported FISH or FRSAL IR elements on the notice when adjusting SE tax.

b. If the FISH amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.

- (3) 99MIS IRs with FISH or FRSAL amounts may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (4) If fishing income is U/R, enter the GROSS return amount in the RETURN field on the Summary screen.

4.19.3.8.10  
(09-21-2020)  
**Retirement Plans**

- (1) Form 1099-R, Distributions from Pensions, Annuities, Retirement, or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., is used to report distributions from retirement plans.
- (2) Retirement plans include pensions and annuities, profit-sharing and stock bonus plans, individual retirement accounts (IRAs), employee savings plans. Distributions from retirement plans are not always fully taxable.
- (3) Other pension and annuity payments (including non-IRA distributions that are periodic payments or lump-sum distributions not entitled to special tax treatment on Form 4972, Tax on Lump-Sum Distributions) are reported on Form 1040/1040-SR line 4a and/or 4b or line 5a and/or line 5b for pensions.
- (4) When distributions from Traditional or Roth IRAs, 401(k), 403(b), governmental 457, 501(c)(18)(D), SEP or SIMPLE plans, or qualified retirement plans as defined in section 4974(c) (including Federal Thrift Savings Plan) are determined to be U/R, check for Form 8880, Credit for Qualified Retirement Savings Contributions, and adjust as appropriate. See IRM 4.19.3.15.6, Qualified Retirement Savings Contributions Credit, (QRSC), for more information.

4.19.3.8.10.1  
(09-24-2021)  
**Form 1099-R Information Returns**

- (1) Form 1099-Rs may display the following literals:
  - “GR/A” - Gross amount
  - “TX/A” - Taxable amount
  - “ECG” - Eligible Capital Gains

**Note:** Payers must include the capital gain distribution amount in the gross and taxable distribution amount boxes on Form 1099-R.

  - “UNRAP” - Unrealized Appreciation
  - “EMCON” - Employee Contributions from box 5 of Form 1099-R

**Note:** “UNRAP” and “EMCON” amounts are system deleted.

- (2) A Category of Distribution (COD) code displays in the IND field on the Case Analysis screen and on the Information Return window for 1099R IR(s). The COD contains up to two indicators. For the meaning of each individual indicator, see Exhibit 4.19.3-6, Category of Distribution (COD) Chart - Form 1099-R.

**Note:** There should be one indicator present in the COD field; however, two indicators may display. Generally, two indicators display as an alpha/numeric combination. Consider each indicator individually.

**Example:** COD “7A” is read as COD 7 (normal distribution) and COD A (qualifies for 10-year tax option on Form 4972). Zero (0) has no meaning and is

considered a blank space. The only valid numeric/numeric COD combinations are: 8 and 1, 8 and 2, or 8 and 4. If the 1099R IR contains any other numeric/numeric combination (for example, 14) disregard the second indicator.

- (3) Consider the indicators on any attached Form 1099-R, box 7 the most accurate information available. If attached documents indicate that the displayed COD is incorrect and the COD code is "J", "L", "M", "S", "1", or "5", modify the IR to show the correct COD code.
- (4) Use COD codes to compare 1099R IR amounts with the proper placement on the tax return.
- (5) The following information displays on all 1099R IRs:
  - TOTAL DIST IND
  - TAX AMT NOT DET

**Note:** A "1" indicates the applicable box(es) was checked on the IR. A "blank" indicates the applicable box was **not** checked.

- (6) Payers report lump-sum credit distributions to Civil Service annuitants on Form 1099-R. The gross credit amount is included with the total of any periodic payments made. The taxpayer must compute and report the taxable credit amount on Form 1040/1040-SR line 5b.
- (7) The taxpayer may erroneously treat Form 1099-R income as Social Security/Railroad Retirement Benefits, reporting the amount on Form 1040/1040-SR, lines 6a and 6b . See IRM 4.19.3.8.10.5, Railroad Retirement Board (RRB) IRs, for more information.
- (8) Taxpayers make donations of cash and/or other assets (generally stocks) to nonprofit organizations and receive an annuity from the nonprofit organizations from their donations. These annuities are partly capital gains from the taxpayer's donated assets as well as annuities. Nonprofit organizations report these capital gains and annuities on Form 1099-R; COD "F" in box 7 indicates charitable gift annuities and may contain ECG amounts. See IRM 4.19.3.8.10.8, Lump-Sum Distributions, for further instructions.

#### 4.19.3.8.10.2 (06-28-2021) Identifying Retirement Types

- (1) The following references are for specific retirement types and **MUST** be used in conjunction with the general instructions in IRM 4.19.3.8.10.3, Retirement-Analysis, and IRM 4.19.3.8.10.4, Rollovers.
- (2) See IRM 4.19.3.8.10.5, Railroad Retirement Board (RRB) IRs, when:
  - a. Form 1099-R is attached, or the IR indicates the payment is from the Railroad Retirement Board.
  - b. Form 1099-R shows Taxable Contributory Amount, Taxable Vested Dual Benefit, and/or Taxable Supplemental Annuity.
- (3) See IRM 4.19.3.8.10.6, Pensions and Annuities, when
  - a. Form 1099-R is attached and indicates pension/annuity or
  - b. The taxpayer attached a written statement which identifies the income as pension or annuity or

- c. The taxpayer reported the distribution on Form 1040/1040-SR, line 5a and/or 5b or
  - d. The taxpayer indicates **PSO** next to Form 1040/ Form 1040-SR, line 5a/b
- (4) See IRM 4.19.3.8.10.7, IRA Distributions, when:
- a. Form 1099-R is attached and an IRA/SEP distribution is indicated in box 7.
  - b. Form 1099-R or the IR shows "IRA" in the payer or payee name lines.
  - c. The taxpayer attached a written statement identifying the income as an IRA distribution.
  - d. PGR Indicator of "1" is displayed.
  - e. The GR/A and TX/A amounts are the same and the payer indicates the taxable amount has not been determined.
  - f. COD J is present or
  - g. The IRA/SEP/Simple box is checked on the IR.
  - h. The taxpayer reported the distribution on Form 1040/1040-SR, line 4a and/or 4b.
  - i. The taxpayer indicates **QCD** next to Form 1040/1040-SR, line 4a and/or 4b.
  - j. The taxpayer indicates **HFD** next to Form 1040/1040-SR, line 4a and/or 4b.
- (5) See IRM 4.19.3.8.10.8, Lump-Sum Distributions, when:
- a. Form 1099-R or IR shows COD code "A".
  - b. The IR contains ECG amounts.

4.19.3.8.10.3  
(04-24-2023)  
**Retirement - Analysis**

- (1) These are general instructions and **MUST** be used in conjunction with the instructions for specific retirement types.
- (2) Compare retirement plan IRs with entries on:

**Caution:** If Form 8606 is attached, see IRM 4.19.3.8.10.7, IRA Distributions, before determining the U/R amount.

TY 2020	TY 2021 and subsequent
Form 1040/1040-SR line 1, 4a, 4b, 5a or 5b	Form 1040/1040-SR line 1, 4a, 4b, 5a or 5b
Form 1040/1040-SR Schedule 1, line 8	Form 1040/1040-SR Schedule 1, line 8z

- a. Form 4972 (if the taxpayer was a teacher, see IRM 4.19.3.8.10.8, Lump-Sum Distributions)
- b. Schedule D, see (4) below.
- c. Attachments to Form 1040.
- d. Schedule B - If reported here, also analyze INT or DIV, as applicable.

**Note:** If there is an indication the distribution is a life insurance policy surrendered for cash, see IRM 4.19.3.22.3.6, Retirement Distributions - Form 1099-R.

- (3) For IRM 4.19.3.8.10.3 through IRM 4.19.3.8.10.9 when reference is made to gross pensions and annuities, refer to Form 1040/1040-SR, line 4a and/or 5a

or taxable pensions and annuities, refer to Form 1040/1040-SR, line 4b and/or 5b.

- (4) If the taxpayer included ordinary retirement income as Capital Gains on Schedule D, compare the amount reported, if identified as the same payer, with the IR and take the following action:
- If the amount reported, column (h), is equal or greater than the IR amount, consider the income reported.
  - If the amount reported, column (h), is less than the IR amount, consider the difference U/R.

**Exception:** If after removing retirement income from Schedule D, the Schedule D remains a loss, consider retirement income fully U/R.

- (5) If the taxpayer included ordinary retirement income as Capital Gains on Schedule D and claimed a loss, consider the retirement income fully U/R and consider the loss as overclaimed up to \$3,000 (\$1,500 if MFS).
- Only recapture the losses related to the retirement income.
  - If reported on Schedule D, Part II, subtract the retirement income from the LONG-TERM GAIN/(LOSS) field in the Sch D/8814/ECR Tax window, if necessary and **send PARAGRAPH 134**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** If there is U/R retirement reported on Schedule D and the taxpayer reports a capital loss on Form 1040/1040-SR, line 7 enter a zero (0) in both fields on the COMPUTE SCHEDULE D LOSS window. It may be necessary to blank out both fields first. This will prevent the system from using losses in excess of \$3,000 (\$1,500 if MFS) to offset U/R Schedule D income.

- (6) Accurate analysis of retirement plan IRs depends on whether the payer of reported Form 1099-R income is identifiable. The payer is identified if the taxpayer has:

- Attached Form 1099-R
- Written a statement
- Annotated the return
- Claimed the W/H on a 1099R IR
- Reported an amount within \$1

- (7) Do not pursue 1099R IRs with COD codes of:

**Note:** The system will delete (mark with "X") all elements of the 1099R IR:

- 6
- G
- H
- N
- P
- Q
- R
- T
- W

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Rollovers.

- (9) If the Form 1099-R is from Railroad Retirement, and has a COD “N”, pursue the IR if not reported.
- (10) Delete 1099R IRs with COD code of “F”.
- (11) The **Office of Personnel Management** (OPM) is the payer of a Civil Service Annuity.

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and annuities line of the return is zero or blank.

- b. If the taxable pensions and annuities line of the return is blank or zero, pursue the **GR/A**.

**Note:** If the case is an ELF, the zero literal may not appear.

- (12) If there is an indication the Form 1099-R income is a **military retirement distribution**, see IRM 4.19.3.8.10.6.1, Military Pensions.
- (13) If there is an indication that a pension from a 1099R IR is a **disability pension**, input an Income Identify Code of “PE” or “SE”, as applicable. Disability pensions (COD “3”) are considered earned income.

**Exception:** Disability payments for injuries incurred as a result of a terrorist attack directed against the United States or its allies are not taxable and should not be included in income. See IRM 4.19.3.22.1.27, Victims of Terrorist Attacks, for acceptable indications.

- (14) If there is an indication that the distribution is a Qualified Charitable Distribution (QCD), see IRM 4.19.3.8.10.7, IRA Distributions.
- (15) When **both “GR/A” and “TX/A”** amounts are present on the same 1099R IR, the system automatically assigns status code “X” to the “GR/A” amount. Change the status code if necessary.
- (16) If the COD on the IR or Form 1099-R attached is other than one listed in (7) above and displays **only the “GR/A”** literal, pursue the GROSS distribution amount when the taxpayer does not include the distribution on the return.

**Exception:** If COD J is present, see IRM 4.19.3.8.10.7, IRA Distributions.

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discloses an amount, including zero (0) or reports a lesser amount as calculated on Form 8606, Nondeductible IRAs, or similar worksheet.

**Note:** If the taxpayer reports an amount less than “GR/A” amount and the distribution code indicates the 10 percent premature distribution tax should be assessed, use the 5329 window to calculate the correct amount of the additional tax. See IRM 4.19.3.16.3(8), 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for additional information.

- a. If COD J is present, see IRM 4.19.3.8.10.7, IRA Distributions.
- b. If the payer is OPM, see IRM 4.19.3.8.10.3, Retirement - Analysis.
- c. If payer is Railroad Retirement Board, see IRM 4.19.3.8.10.5, Railroad Retirement Board (RRB) IRs.

- (18) If the IR or Form 1099-R attached displays **only the “TX/A”** literal, pursue the TAXABLE distribution amount ONLY.
- (19) If a “TX/A” amount is present and the payer indicates the **“taxable amount has not been determined”**, accept what the taxpayer reports if the taxpayer reports a lesser taxable amount, as calculated on an attached Form 8606 or similar worksheet.

**Note:** If the IR contains both taxable amount not determined and total distribution or the taxpayer writes “rollover” or provides another statement that the distribution was rolled over, see IRM 4.19.3.8.10.4, Rollovers.

- (20) If there are multiple 1099R IRs from the same payer, compare the total gross IR amount to the total amount reported by the taxpayer. If the gross amount is not present, use the taxable amount.
- (21) Compare the IR amount(s) to the return amount Form 1040/1040-SR, lines 4a and 4b, or 5a and 5b:

If the return amount is	Then
Equal or greater than the IR amount(s)	Consider the income reported unless identified as a different payer.
Less than the IR amount(s) <b>Note:</b> If the taxpayer indicates that the simplified method or general rule was used, consider the IR(s) reported.	Consider the difference U/R if the reported income is identified as the same payer.
Less than the IR amount(s) AND the reported income is unidentified or identified as a different payer <b>Note:</b> See IRM 4.19.3.8.10.2, Identifying Retirement Types, for additional information regarding identification of retirement plan IRs.	Consider the income fully U/R.

- (22) Consider 1099R IRs reported when the return indicates that the U/R amount is due to employee contributions AND:
- a. Form 1099-R or similar documentation is attached, and the box 5 amount matches the U/R amount within \$1 or
  - b. The 1099R IR contains INCOME TYPE “EMCON” and the amount matches the U/R amount within \$1.



4.19.3.8.10.3.1  
(10-06-2022)

**Qualified Disaster  
Retirement Plan  
Distributions and  
Repayments**

- (1) The Disaster Tax Relief and Airport and Airway Extension Act of 2017, the Tax Cuts and Jobs Act, the Bipartisan Budget Act of 2018, and the Taxpayer Certainty and Disaster Tax Relief Act of 2019, Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 provided special rules apply for using distributions from IRAs and employer retirement plans by victims of 2017 California Wildfires, Hurricanes Harvey, Irma and Maria, the Coronavirus, and major disasters occurring in 2019 and 2020. The legislative provisions provide for:
- Disaster distributions of up to \$100,000 (TY 2020 and TY 2021), and \$22,000 (TY 2022) from IRAs and certain employer retirement plans for taxpayers who suffered an economic loss because of the disaster.
  - Exemption for disaster distributions from the 10 percent tax (or 25 percent tax for distributions from SIMPLE IRAs) on early withdrawals.
  - Inclusion of disaster distributions in taxpayer's income over three years.
  - Recontribution of all or part of a disaster distribution within three years of receipt.
  - Recontribution of distributions taken to purchase or construct a home in a disaster area if the home was not purchased or constructed because of the disaster (does not apply to coronavirus disaster or qualified 2016 disasters); and
  - Increasing the amount and postponing repayments of loans from qualified plans for victims of a disaster (does not apply to qualified 2016 disasters).
  - Taxpayers adversely affected by the Coronavirus have special qualifying rules.
- Note:** The \$100,000 limit applies (TY 2020 and TY 2021), and \$22,000 (TY 2022), for each disaster.
- (2) Taxpayers may include amounts from other retirement distributions not qualified to be included with Qualified Disaster Retirement Plans and Repayments, see IRM 4.19.3.8.10.3, Retirement – Analysis, for additional information.
- (3) Compare amounts reported on Form 1040/1040-SR; line 4b or 5b with the applicable lines below:

Form	Definition	Tax Year / Reporting lines
8915-B, Qualified 2017 Disaster Retirement Plan Distribution and Repayments for tax years 2017 and 2018	<ul style="list-style-type: none"><li>• A qualified 2017 disaster distribution received in 2017 or 2018 is included as income in equal amounts over 3 years</li><li>• A qualified 2017 disaster distribution repayment made in 2019, 2020, and 2021.</li></ul>	2019, lines 9 and 18 2020, lines 7 and 14

Form	Definition	Tax Year / Reporting lines
8915-C, Qualified 2018 Disaster Retirement Plan Distributions and Repayments	<ul style="list-style-type: none"> <li>• A qualified 2018 disaster distribution from an eligible retirement plan, was made in 2019 or before June 17, 2020.</li> <li>• A qualified distribution in 2019 for the purchase or construction of a main home in 2018 disaster areas is repaid, in whole or in part, no later than June 17, 2020.</li> <li>• A qualified 2018 disaster distribution in 2019 is included in income in equal amounts over 3 years.</li> <li>• A qualified 2018 disaster distribution repayment made in 2019, 2020, and 2021.</li> </ul>	2019, lines 19, 34, and 35 2020, lines 20 and 36 2021, lines 9 and 18 2022, lines 7 and 14

Form	Definition	Tax Year / Reporting lines
8915-D, Qualified 2019 Disaster Retirement Plan Distributions and Repayments	<ul style="list-style-type: none"> <li>• A qualified 2019 disaster distribution from an eligible retirement plan, and the distribution was made in 2019 or 2020.</li> <li>• A qualified distribution in 2019 for the purchase or construction of a main home in 2018 disaster areas is repaid, in whole or in part, no later than June 17, 2020.</li> <li>• A qualified 2019 disaster distribution received in 2019 or 2020 is included in income in equal amounts over 3 years.</li> <li>• A qualified 2019 disaster distribution for the Puerto Rico Earthquake's disaster (DR-4473-PR) from an eligible retirement plan was received in 2021.</li> <li>• A qualified 2019 disaster distribution repayment in 2020 or 2021.</li> </ul>	2019, lines 11, 19, and 25 2020, lines 19, 34 and, 35 2021, lines 20 and 36 2022, lines 9 and 18

Form	Definition	Tax Year / Reporting lines
8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments	<ul style="list-style-type: none"><li>• A coronavirus-related distribution was received.</li><li>• A qualified 2020 disaster distribution other than a coronavirus-related distribution was received.</li><li>• A qualified distribution received in 2020 for the purchase or construction of a main home in qualified 2020 disaster areas was repaid, in whole or in part, no earlier than the first day of the disaster and no later than June 25, 2021.</li></ul>	2020, lines 11, 19, and 25

Form	Definition	Tax Year / Reporting lines
8915-F, Qualified Disaster Retirement Plan Distributions and Repayments	<ul style="list-style-type: none"> <li>• A qualified disaster distribution was made from an eligible retirement plan.</li> <li>• A qualified distribution was received.</li> <li>• A qualified disaster distribution was received in a prior year and is being including in income in equal amounts over 3 years and the 3-year period has not yet lapsed.</li> <li>• A repayment of a qualified disaster distribution was made.</li> </ul>	2021 and subsequent, lines 7, 15, 26 and 32

**Note:** Taxpayers filing Married Filing Joint (MFJ) are required to file a separate Form 8915-A if each spouse received a distribution.

- (4) For TY 2021 and subsequent Form 8915-F, compare amounts reported on the return with the applicable lines below:

Form 8915-F	Definition	If	Then
Part 1	Used to figure the distribution amount of all retirement plans that qualify for disaster treatment for 2021.	1. Lines 2, 3, or 4 column (a) for total distributions. 2. Lines 2, 3, or 4 column (b), for qualified disaster distributions made in 2021.	Consider the IR reported when the line 7 amount is included in the reported amount on Form 1040/ Form 1040-SR, line 4b or 5b.
Part II	Used to figure the taxable amount from retirement plans (other than IRA's)	The IR is included in Part II, line 11	Consider the IR reported when the line 15 amount is reported on Form 1040/ 1040-SR, line 5b.
Part III	Used to figure the taxable amount from Traditional, SEP or SIMPLE, and Roth IRA distributions	The IR is included in Part III, line 21	Consider the IR reported when the line 26 amount is reported on Form 1040/ 1040-SR, line 4b .
Part IV	Used to figure the taxable amount of qualified distributions for the purchase or construction of a main home in Qualified 2020 Disaster Areas (non-Covid related)	The IR is included on line 28	Consider the IR reported when the line 32 amount is reported on Form 1040/ 1040-SR, line 4b or 5b.

1. Retirement income in excess of \$100,000 (TY 2020 and TY 2021), or \$22,000 (TY 2022) is reported on Form 8915-F, Part I, lines 2a, 3a, or 4a. Consider the IR reported if Part I, line 7 and lines 15, 26, and/or 32 match what is reported on Form 1040/1040-SR, lines 4b or 5b. If the



amount reported on Form 1040/1040-SR, lines 4b or 5b is less than amounts shown on Form 8915-F, Part I, line 7 and/or lines 15, 26, or 32, pursue the difference.

**Note:** IRS provided alternatives for this form to be included with an e-filed return. Some software providers allow the forms to be attached as a PDF file and others as a statement attached to the return. Accept attached statements and/or taxpayer note in lieu of Form 8915-F if they include reporting information similar to the actual form.

**Caution:** If a taxpayer received a qualified 2021 disaster distribution and dies, the distribution may no longer be spread over 3 years. The remainder of the distribution must be reported on the return of the deceased taxpayer.

- 2. If the difference between Form’s 8915-A, 8915-B, 8915-C, 8915-D, 8915-E and 8915-F and the amounts reported on the return match the Form 1099R IR(s), consider the IR(s) reported.
  - 3. If you cannot determine whether the Form 1099R IR is reported on page 1 of the return, see IRM 4.19.3.8.10.3, Retirement – Analysis, for additional information.
- (5) Qualified disaster distributions are not subject to the 10 percent or 25 percent tax; see IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs.

**Note:** Distributions in excess of the \$100,000 qualified disaster distribution limit may be subject to the additional tax on early distributions.

4.19.3.8.10.4  
(10-07-2019)  
**Rollovers**

- (1) The Payee/Payer name line on a 1099R IR may contain the word “rollover” with the date the taxpayer transferred funds into the new plan. Consider the 1099R IR valid and pursue any U/R income.
- (2) Inherited distributions (usually COD “4”) may be rolled over by a non-spouse beneficiary, in a direct trustee transfer to an account that was set up to receive the distribution.
- (3) Qualified plan loan offset distributions (COD “M”) are excepted from the 60-day rollover period. The rollover timeframe is extended until the due date, including extensions, for filing the federal income tax return for the taxable year in which the offset occurred. Do not pursue the loan offset distribution amount when Form 5498 or similar documentation indicating the rollover was made by the due date, including extensions, of the return is present.

**Note:** Only the qualified loan offset distribution amount qualifies for the excepted 60-day rollover timeframe. The remaining distribution, if any, is not excepted from the 60-day rollover timeframe.

- (4) A 1099R IR with COD “3”, “5”, “8”, “E”“L” or “U” **cannot be rolled over**. If a  
  
used the incorrect code) and allow the rollover. When pursuing the issue, PARAGRAPH 34 generates for COD “L”.
- (5) Payers may erroneously report rollover contributions in box 5 (FMV) of Form 5498 instead of box 2 (ROLVR).

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**Note:** The instructions in the table below do not apply when the IR containing the FMV amount also contains an RCONV amount.

If	Then
A Form 5498 IR is present with the literal ROLVR	Consider the income to be rolled over.
the only element on the IR,	Consider the income to be rolled over.
contains other elements,	Consider the 1099-R distribution U/R.
No Form 5498 IR is present with the literals	Consider the 1099-R distribution U/R.
A Form 5498 IR is present with the literal RCONV	See IRM 4.19.3.8.10.7, IRA Distributions.

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- (6) When a **distribution contains a TX/A amount and W/H**, the taxpayer receives a net amount (GR/A minus W/H). In order for a distribution to be considered fully rolled over (tax-free), the taxpayer **MUST** rollover the entire TX/A amount by supplementing the amount withheld with additional monies from another source.

If	And	Then
The net amount (GR/A minus W/H) is greater than or equal to the TX/A amount on the IR	There is an indication of a rollover (per (5) above)	Consider the issue resolved.
The GR/A and the TX/A amount on the IR are the same	The GR/A is reported on the gross pension line of the return (see IRM 4.19.3.8.10, and the difference between the IR and the Form 5498 equals the W/H amount <b>and</b> there is no indication that the taxpayer supplemented the rollover amount to account for the W/H <b>and</b> the amount reported on the taxable pension and annuities line of the return (see IRM 4.19.3.8.10, does not match the W/H on the IR	Consider the difference between the W/H on the IR and the TX/A amount reported as U/R. <b>Send PARAGRAPH 49</b> , (see Exhibit 4.19.3-7, CP PARAGRAPHS) when pursuing the W/H as U/R TX/A from the same IR.

If	And	Then
The GR/A and the TX/A amount on the IR are the same	The GR/A is reported gross pension and annuities line of the return and the difference between the IR and the 5498 does not equal the W/H amount	Consider IR fully U/R.
The GR/A and the TX/A amount on the IR are different	The GR/A is reported gross pension and annuities line of the return and the amount on taxable pension and annuities line of the return does not equal	Consider IR fully U/R.

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- (7) It may be necessary to modify or use the 5329 Premature Distribution Tax window for partially rolled over IRs. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for additional instruction.
- (8) Taxpayers may **partially rollover** retirement plans reported on Form 1099-R. Consider a distribution to be partially rolled over when all the following apply:
- the taxpayer enters the "GR/A" amount on the gross return lines,
  - a lesser amount on the corresponding taxable line,
  - a 5498 IR is present with the literal "ROLVR" or "FMV" in the INCOME TYPE field **AND**

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- (9) If a 5498 IR with either "**ROLVR**" or "**FMV**" is not present to substantiate the rollover (see (6) above), consider the Form 1099-R distribution partially U/R when the taxpayer enters the GR/A amount on the gross return lines, reports a lesser amount on the corresponding taxable return lines.

4.19.3.8.10.5  
(09-21-2020)  
**Railroad Retirement  
Board (RRB) IRs**

- (1) Pensions and annuities are reported from the RRB on Form RRB-1099-R.
- (2) The RRB files a separate Form RRB-1099-R for each of the following amounts and each of these amounts displays as separate IRs for each taxpayer:
- Employee Contributions (box 3)
  - Contributory Amount Paid (box 4)
  - Vested Dual Benefit (box 5)
  - Supplemental Annuity (box 6)
  - Total Gross Paid (box 7)
  - Prior Year Repayments (box 8)
- (3) The following list contains the symbols and definitions for CODs, positions 1 and 2, for RRB-1099-R documents:
- "V" - RRB-Vested Dual Benefit - box 5 - Windfall, fully taxable
  - "X" - RRB-Tier 1
  - "Z" - RRB-Supplemental - box 6 - Gross amount of supplemental benefits paid
  - "Y" - RRB-Tier 2

- (4) Railroad Retirement Board pension income is reported as GR/A on a separate Form RRB-1099-R IR showing COD "X", "V", "Z" or "Y". Group these RRB-1099-R IRs together to determine the total taxable amount. Unless the taxpayer indicates that the simplified method or general rule was used, the GR/A is considered fully taxable. Compare the total to the amount reported on Form 1040/1040-SR, line 5b. If the total is less than the IR amount then consider the difference U/R.

**Note:** If the taxpayer indicates that the simplified method or general rule was used to reduce the "GR/A" amount(s), consider the IR(s) reported.

- (5) If the taxpayer **erroneously treats the RRB-1099-R income as Social Security/Railroad Retirement Benefits**, consider the IR(s) fully underreported. To determine this, compare the RRB-1099-R IR to the following lines Form 1040/1040-SR, lines 6a and 6b:

**Note:** The SSA/RRB window needs to be recalculated, see (6) below.

- (6) To calculate the new/correct taxable SS/RR amount take the following actions:
1. Reduce the gross benefits reported on the return by the RRB-1099-R amount (create an SS/RR IR for zero, if appropriate).
  2. Enter the amount indicated on the taxable line of the return in the TAXABLE BENEFITS field. This results in a recalculation of taxable SS/RR (often resulting in an overall decrease).
  3. **Send PARAGRAPH 131**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.8.10.6  
(10-06-2022)

#### Pensions and Annuities

- (1) A pension is generally a series of payments made after retirement for past services with an employer. An annuity is a series of payments under a contract purchased by the taxpayer alone or with the help of an employer. Annuity payments are made regularly for more than one full year.
- (2) Total distributions are indicated on either the IR, Form 1099-R with the appropriate box checked, or an attachment to the return.
- (3) If the 1099R IR or an attachment shows the income is for support of a minor child:

provide a breakdown.

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breakdown and the taxpayer reports their designated portion.

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provides a breakdown and the taxpayer reports none of the income or less than their portion.

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- (4) If a U/R 1099R IR shows a city, county, or state as the payer and the taxpayer indicated **"disabled Firefighter"** or **"disabled Public Service/Law Enforcement"** age 65.

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**Note:** If the taxpayer attaches a copy of a Private Letter Ruling from the IRS to a pension plan administrator indicating that the payments are non-taxable for life, accept the statement and do not pursue regardless of age.

- (5) Generally taxpayers must include as income amounts received from personal injury or sickness through an accident or health plan that is paid for by the employer. Pursue any 1099R IRs unless the taxpayer provides a statement and/or documentation that the income is excludable. The taxpayer may provide any of the following (this list is not all inclusive):
- Statement that the distribution is excludable under IRC 104 (line of duty injury).
  - The disability pension was never converted to a normal pension based on age or length of service.
  - A Private Letter Ruling from the IRS to a pension plan administrator that the payments are non-taxable for life.
  - Statement/Documentation from the payer that the income is nontaxable.
  - Distribution is payment(s) for disability due to injuries received from a terrorist attack, see IRM 4.19.3.22.1.27, Victims of Terrorist Attacks, or military action, see IRM 4.19.3.8.10.6.1, Military Pensions, for further information.
  - Eligible retired public safety officers (PSO) can elect to exclude a maximum of \$3,000 from distributions made directly from a governmental retirement plan to providers of accidental, health, or long-term care insurance. See (6) below.
- (6) An eligible retired public safety officer, such as, safety/law enforcement officer, firefighter, chaplain or member of a rescue squad or ambulance crew, can elect to exclude a maximum of \$3,000 from income distributions made from an eligible governmental retirement plan that are used to pay the premiums for accident, health or long-term care insurance. Allow the exclusion if **PSO** is next to line 5b,(TY 2020 and subsequent) of Form 1040/1040-SR, or reporting the disability pension on line 1 of Form 1040/1040-SR.

**Note:** If it can be determined that the taxpayer is a retired public safety officer who has taken this exclusion, but the literal “PSO” is missing, allow the exclusion up to a maximum of \$3,000.

- (7) Retired ministers are allowed to reduce taxable pension amounts by their housing allowance. Accept the amount reported by the taxpayer if there is an indication that part of the pension is a housing allowance.

4.19.3.8.10.6.1  
(09-24-2021)  
**Military Pensions**

- (1) Military retirement is funded solely by the United States Government and is administrated by the Defense Finance and Accounting Service Center (DFAS).
- Form 1099-R distributions from the DFAS are generally fully taxable.
  - DFAS retiree payments are distributed on a periodic (monthly) basis and therefore **cannot be rolled over**.
  - If the taxpayer reports less than the TX/A amount, pursue the difference and **send PARAGRAPH 155**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Exception:** If the taxpayer reports a lesser amount and provides a statement from the Veteran’s Administration (VA) awarding disability compensation, confirm that the taxpayer took the correct reduction. Pursue any inconsistencies and send a Special Paragraph to the taxpayer.

- (2) Taxpayers who receive favorable disability determinations from the Veteran’s Administration (VA) may be able to reduce the TX/A amount by the amount

withheld as determined by the VA. The VA notifies the taxpayer of the percentage awarded and provides a breakdown, including:

- total amount awarded
- amount withheld
- monthly entitlement and
- payment start date(s)

- (3) When a military member has a combat-related disability (e.g., Agent Orange presumptive), they may qualify for Combat Related Special Compensation (CRSC). According to Defense Finance and Accounting Services (DFAS), many Vietnam veterans have been issued retroactive CRSC awards based on the Veteran Affairs (VA) determination. Each Branch of the military will make a determination and issue the veteran an award letter. The veteran will also have documentation from VA regarding their disability. If the taxpayer indicates they are a disabled veteran and the VA benefits are non-taxable, qualifies for a reduction of the taxable amount, or reported the correct reduced taxable amount, see the procedures below:

If the taxpayer indicates the income is:	And	Then
Nontaxable due to IRC 1.122-1 or Non-taxable Pursuant to 26 CFR	N/A	Send the appropriate letter/notice and disallow the explanation. <b>Note:</b> These two provisions are part of the Family Protection (FPA) Act of 1966 and are <b>not</b> applicable to VA disability income.
Non-disability severance pay	N/A	Send appropriate letter/notice explaining the income is fully taxable in the year it is received.
Paid under the Department of Veterans Affairs (VA) Compensated Work Therapy (CWT) program (Revenue Ruling 2007- 69)	N/A	

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If the taxpayer indicates the income is:	And	Then
VA benefits and not fully taxable	A copy of an official VA Determination letter granting the retroactive benefit, with the table showing amount withheld and effective date, is provided.	<div>1. Math verify to determine the allowable reduction. See (4) below for additional information.</div> <div>2. Determine if the correct amount is reported. If</div> <div>follow step 3 below.</div> <div>3. Issue appropriate letter/notice to explain why the explanation is not acceptable and continue normal processing.</div>

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If the taxpayer indicates the income is:	And	Then
Combat Related Special Compensation (CRSC) or Concurrent Receipt of Disability Pay (CRDP) and non-taxable	<p>A copy of the DFAS Letter indicating the type of payment is provided.</p> <p><b>Note:</b> The taxpayer could be eligible for Combat Related Special Compensation (CRSC) <b>and</b> (Concurrent Receipt of Disability Pay (CRDP) payments <b>but</b> only one payment is prohibited by law. The taxpayer will elect which payment they want.</p>	<p>1. If the income is</p> <p>If the income is CRDP, follow step 2 below.</p> <p>2. Issue appropriate letter/notice to explain CRDP is fully taxable and continue normal processing.</p>
Individual Unemployment (IU) payment award	<p>A copy of documentation from the VA to substantiate the amount reported is provided.</p> <p><b>Note:</b> The VA Determination Letter for these claims will NOT have a table for the Amount Withheld. The letter will provide the effective date of the award and tax reduction amounts.</p>	<p>reduced amount is fully reported. If the reduced amount is not fully reported, follow step 2 below.</p> <p>2. Issue recomputed notice, as applicable, and continue normal processing.</p>

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If the taxpayer indicates the income is:	And	Then
Rolled over	N/A	Send appropriate letter/notice explaining Military distributions can't be rolled over and continue normal processing.

- (4) In order to determine the allowable reduction in the Form 1099-R DFAS retirement distribution (based on the VA disability determination), apply the following formula: multiply the "amount withheld" by the number of months from the "payment start date" to the next "payment start date".

**Note:** You must add one month to the date listed under the heading of "Payment Start Date" or "Effective Date" because the amount is not actually withheld until the following month.

**Example:** The year shown in the payment start date column "202X" should be the AUR year of the case you are working.

Total Award Amount	Amount Withheld	Monthly Entitlement Amount	Payment Start Date
\$1,000	\$450	\$550	March 1, 202X
\$1,000	\$0	\$1,000	Nov. 1, 202X

Payment start date of April 1, 202X (March 1, 202X plus one month) to next payment start date of December 1, 202X (November 1, 202X plus one month) is 8 months x \$450 (amount withheld) = \$3,600. The taxpayer would be allowed to reduce the Form 1099-R TX/A amount by \$3,600.

Occasionally, the amount withheld and monthly award changes over a period of months. When a retroactive award crosses over from a previous year, only consider the AUR tax year in the calculation.

**Example:** The year shown in the payment start date column "202X" should be the AUR year of the case you are working, unless otherwise indicated.

Total Award Amount	Amount Withheld	Monthly Entitlement Amount	Payment Start Date
\$800	\$250	\$550	Sept. 1, 202X (prior year)
\$840	\$260	\$580	Apr. 1, 202X
\$840	\$0	\$840	Oct. 1, 202X

Since the first payment start date is in a prior year, use January 1, 202X as the first payment start date. Payment start date of February 1, 202X (January 1, 202X plus one month) to next payment start date of May 1, 202X (April 1, 202X plus one month) is 4 months x \$250 (amount withheld) = \$1,000. From the June 1, 202X (May 1, 202X plus one month) payment start date to the next payment start date of November 1, 202X (October 1, 202X plus one month) is 6 months x \$260 = \$1,560. The taxpayer would be allowed to reduce the Form 1099-R TX/A amount by \$2,560 (\$1,000 + \$1,560).

4.19.3.8.10.7  
(09-24-2021)  
**IRA Distributions**

- (1) Traditional Individual Retirement Arrangements (IRA), Simplified Employee Pensions (SEP), Roth IRAs, and SIMPLE IRAs are tax-favored means of saving for retirement.
- (2) The following literals may display:
  - a. RCONV (Roth Conversions)
  - b. RCONT (Roth IRA contribution). If this amount matches the IRA deduction on the return, pursue the issue since Roth IRA contributions are not deductible. PARAGRAPH 30 automatically generates when the UR IRA deduction amount is equal to the RCONT, RCONV or ESA element amount.
- (3) Information returns will display a check box if the payer checked Form 1099-R, box 7, to indicate an IRA/SEP/SIMPLE.

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- (5) Certain taxpayers can make a nontaxable qualified charitable distribution (QCD) from their IRA (traditional or ROTH). Taxpayers indicate that a distribution is a Qualified Charitable Distribution by entering "QCD" next to Form 1040/1040-SR, line 4a/4b. Consider the 1099R IR(s) resolved when "QCD" is shown next to the lines in the table above **AND**:
  - a. The taxpayer's age, as shown on the AUR system, is at least 71.

**Note:** If the AUR system displays an age younger than 71, research IDRS CC INOLES to verify the taxpayer's age. If the IDRS research shows that the taxpayer did not meet the minimum age of 70 1/2, the distribution is taxable. Pursue any underreported amounts (based on the TX/A element) and **send PARAGRAPH 225**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  - b. The excluded amount of QCD does not exceed \$100,000. On a jointly filed return (MFJ), each spouse is allowed to exclude up to a \$100,000 of QCD if the minimum age requirement is met. Pursue any apparent underreporting of taxable distribution in excess of \$100,000 (per spouse) and include a Special Paragraph explaining that nontaxable qualified charitable distributions are limited to \$100,000 per spouse.
- (6) Taxpayers, who are eligible, can elect to exclude a non-taxable health savings account funding distribution (HFD) amount once in their lifetime. The exclusion cannot exceed the full amount of the distribution(s) or the limit on the HSA contribution. Taxpayers indicate that a distribution was transferred to their health savings account funding distribution by entering "HFD" next to the pensions and annuities line of the return see IRM 4.19.3.8.10.

- a. If the taxpayer has reported the full amount of the distribution(s) on Form 8889, Health Savings Accounts, Part I, line 10, consider the 1099R IR(s) resolved.
- b. If the taxpayer has reported the full amount of the distribution(s) on Form 8889, Part III, line 20, this is taxable. Taxpayers are instructed to report the taxable portion on 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8e (TY 2021 and subsequent) and indicate "HSA".

**Note:** The 10 percent premature distribution tax may apply. See IRM 4.19.3.16.4, 20 Percent Tax on Archer Medical Savings Account (AMSA) and Health Savings Account (HSA) Distributions, for further information.

**Reminder:** Send reported 1099R IR elements when the 10 percent tax is adjusted.

- c. If the taxpayer indicates the distribution is an HFD and did not complete a Form 8889 consider the distribution fully taxable. Send a Special Paragraph using the following verbiage as an example: "We need more information to determine the taxable amount of your health savings account funding distribution shown on this notice. Please complete and return Form 8889, Health Savings Accounts".

(7) **Form 8606** is used to figure the taxable portion of:

- a. Distributions from Traditional (including inherited), SEP and SIMPLE IRAs (Part I).
- b. Conversions from Traditional, SEP and SIMPLE IRAs to Roth IRAs (Part II).
- c. Distributions from Roth IRAs (Part III).

(8) **Form 8606, Part I**, is used to figure the taxable portion of nondeductible contributions to Traditional IRAs as well as figure the taxable portion of distributions from Traditional, SEP and SIMPLE IRAs, that have received nondeductible contributions. The total amount is reported on Form 1040/1040-SR, line 4a and the taxable amount from Form 8606, is reported on line 4b.

(9) If the total of the Traditional, SEP or SIMPLE IRA distribution IR(s) matches the Form 8606, line 7 amount, subtract the Form 8606, line 12 amount from the Form 8606, line 7 amount.

**Caution:** If, the taxpayer listed on Form 8606, there are any 5498 IRs that reflect a FMV, those amounts may need to be included on Form 8606, line 6. If

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(10) If the FMV amounts are not included on Form 8606, line 6,

**Note:** If there is an indication that the 5498 IR is from a Roth account (for example, contains the literals RCONV or RCONT) the FMV should not be included on Form 8606, line 6.

- 1. Do not accept the Form 8606, consider the IR(s) partially or fully U/R.
- 2. **Send PARAGRAPH 54**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

3. Send 5498 IRs that contain the FMV element for the taxpayer listed on Form 8606.

**Note:** Do not include 5498 IRs when it can be clearly determined that the IR is for a ROTH account.

- (11) **Form 8606, Part II**, is used to figure the taxable portion of conversions from Traditional, SEP, or SIMPLE IRAs to Roth IRAs. The total amount is reported on Form 1040/1040-SR, line 4a and the taxable amount from Form 8606, line 18 is included on line 4b:

- a. Consider the 1099R IR reported when the taxpayer reports the total amount of the distribution on Form 8606, line 8 or 16 and the taxable amount from Form 8606, line 18, Part II on the taxable pensions and annuities line of the return.

**Note:** If line 18 is zero or blank, only consider the IR reported if the amount on line 17 is equal to the IR amount.

- b. The 10 percent premature distribution tax may also apply. see IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for further information.
- c. A 1099R IR with COD "N" or COD "R" represent recharacterizations. These are corrections of amounts converted from Traditional, SEP or SIMPLE IRAs to Roth IRAs. Delete any 1099R IRs containing COD "N" or COD "R".

**Note:** A conversion of a traditional IRA to a ROTH IRA, and a rollover from any other eligible retirement plan to a ROTH IRA **cannot** be recharacterized as having been made to a traditional IRA.

- (12) **Form 8606, Part III**, is used to figure the taxable portion of non-qualified distributions (COD "J") from Roth IRAs. The total amount is reported on Form 1040/1040-SR, line 4a and the taxable amount from Form 8606, line 25c is included on line 4b:

- a. Consider the 1099R IR reported when the taxpayer completes Form 8606, Part III and reports the amount from Form 8606, line 25c on Form 1040/1040-SR, line 4b (whether or not a matching Form 5498 RCONT is present) OR
- b. Consider the Roth distribution on a 1099R IR to be a return of regular contributions from a Roth IRA when the amount of the distribution matches the Form 5498 RCONT amount or a statement is attached identifying the amount as a return of regular contribution.
- c. If the taxpayer does not complete Form 8606, Part III, and/or there is no corresponding 5498 RCONT IR, consider the Form 1099-R distribution amount fully taxable. PARAGRAPH 83 automatically generates.

**Note:** If there is no indication that the distribution is a qualified Roth IRA distribution (Form 1099-R COD "Q" or "T") or a return of regular contributions from a Roth IRA, pursue the U/R taxable amount.

- d. The 10 percent premature distribution tax penalty may also apply. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for further information.

- (13) If the taxpayer reports a lesser taxable amount and Form 8606 is not completed, pursue the difference. **Send PARAGRAPH 83** unless the IR contains a COD "J". An IR with COD "J" automatically generates PARAGRAPH 83, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (14) A return of regular contributions from a Roth IRA or qualified distributions from a Roth IRA are considered non-taxable. To be considered a qualified Roth IRA distribution, the Roth IRA must have been maintained for a minimum of 5 years and meet one of the following conditions:

**Caution:** Roth IRA distributions made within the 5-taxable-year period are not a qualified distribution. Payers may identify Roth distributions within the first 5 years with COD "J".

- a. Was made on or after the date the taxpayer reaches age 59 1/2,
- b. Was made because the taxpayer was disabled,
- c. Was made to a beneficiary or to the taxpayer's estate after their death, or
- d. The distribution (up to \$10,000) was used for a qualified first-time home purchase.

**Note:** Qualified distributions from a Roth IRA may be identified by COD "Q" or "T". Do not pursue 1099R IRs with COD "Q" or "T". See IRM 4.19.3.8.10.3, Retirement - Analysis, for further instructions.

- (15) Distributions from a **SIMPLE** (Savings Incentive Match Plan for Employees) plan are fully taxable as ordinary income. Premature distributions from a SIMPLE plan may be subject to the additional tax on early distributions. Distributions made within the first 2 years are subject to a 25 percent tax on early distributions and are identified by a COD "S". See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for further information.
- a. During the 2-year period, to qualify for a tax-free rollover/transfer, amounts in a SIMPLE IRA must be rolled over/transferred into another SIMPLE IRA.
  - b. After the 2-year period, amounts in a SIMPLE IRA can be rolled over/transferred tax-free to either another SIMPLE IRA plan or any qualified IRA/deferred compensation plan.
- (16) IRA distributions do not qualify for special tax treatment on **Form 4972**, Tax on Lump Sum Distributions. See IRM 4.19.3.8.10.8, Lump-Sum Distributions. **Send PARAGRAPH 152**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (17) COD 5 is used for prohibited transactions such as borrowing from an IRA or using an IRA as security on a loan. If either of these transactions occur, treat the entire value of the account as a distribution to the taxpayer. These distributions are subject to the 10 percent tax on early distributions from qualified plans and cannot be rolled over. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs.

4.19.3.8.10.8  
(10-06-2022)  
**Lump-Sum Distributions**

- (1) A lump sum distribution is the distribution or payment in one tax year of a plan participant's entire balance from all of the employer's qualified plans of one kind (for example, pension, profit-sharing, stock ownership plan (ESOP), qualified annuity plan, stock bonus plans).

- (2) A lump sum distribution may qualify for special tax treatment on **Form 4972**. The system assigns Income Identify Code of "LS" when the COD is "A". When the taxpayer reports their lump sum distributions on Form 4972, determine if they reported the total amount.

**Note:** AUR does not math verify or screen Form 4972 qualification errors.

- (3) If the taxpayer reports the total amount of the lump sum distribution on Form 4972, consider the income reported.
- (4) If Form 4972 was used to report the lump sum income AND there are U/R issues other than Lump Sum:
1. Select the Lump Sum window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Lump Sum Tax.
  2. Enter the amount from Form 4972, line 30, in the 4972 TAX field, as applicable.
  3. Verify the amount in the FORM 1040 ADDITIONAL TAX field on the Other Taxes window when it displays on the Return Value screen.
- (5) If there is only one 1099R IR present, and it is only partially reported (for example, the taxpayer claimed W/H from a 1099R IR):
1. Select the Lump Sum Tax window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Lump Sum Tax.
  2. Enter the entire TX/A amount in the ORDINARY INCOME field(s) for the primary and/or secondary taxpayer, as applicable. (Use GR/A amount if the TX/A is not present.)
- (6) If an **ECG** amount is shown on the 1099R IR, the taxpayer may elect not to receive capital gains treatment. The taxpayer should then report the taxable amount of the distribution.

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situations apply:

- The gross or taxable amounts are on Form 4972, Part III, line 10 **AND** the taxpayer includes the lump sum tax on Form 1040 OR
  - An amount on the return matches the gross or taxable amount from the 1099R IR within \$1 OR
  - The gross amount is on Form 1040/1040-SR, line 5a. The taxable amount is on line 5b.
  - The TX/A amount less the ECG amount is on Form 1040/1040-SR, and the ECG amount is reported on, Schedule D, Part II, column (h) lines 8a, 8b, 9, 10 or 13, or Form 8949, Part II, line 1, column (h).
- (8) The taxpayer may elect to receive capital gains treatment and report the ordinary income and capital gains separately on Form 4972. The entire distribution must be included on the Form 4972, and cannot be allocated between different forms.

**Example:** The taxpayer cannot report ordinary income from the distribution on Form 4972, line 10, and the ECG income from that particular IR on Schedule D/Form 8949.



- (9) Capital gains from a lump sum distribution should not be reported on **Schedule D** if the taxpayer has elected to report the lump sum income on Form 4972. If the taxpayer has erroneously included a Lump Sum CG on Schedule D, exclude the CG from the Schedule D and include the CG amount on Form 4972. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Lump Sum Tax.

**Note:** Make appropriate changes to the COMPUTE SCHEDULE D LOSS window and the Sch D/8814/ECR Tax window on Return Value when necessary.

- (10) The taxpayer may **elect to treat the entire distribution** (ECG and Ordinary Income) as ordinary income on Form 4972. The amount from box 2a (Taxable Amount) minus the amount from box 3 of Form 1099-R should be reported on Form 4972, Part III, line 8. If the taxpayer did not complete Part II of the Form 4972, enter the Taxable Amount from box 2a of Form 1099-R.
- (11) Lump sum distributions do not qualify for the special tax treatment on **Form 4972** when:
- There is an indication of a partial rollover of a lump sum.
  - The distribution is an IRA distribution.
  - The distribution is from a tax-sheltered annuity plan (a 403(b) plan, such as, Teachers Retirement).
  - The distribution is a Civil Service annuity.
- (12) If any of the conditions in (11) above apply and the income matches either the gross or taxable amount on a 1099R IR, consider the taxable amount U/R.
- Select the Lump Sum Tax window.
  - If the entire amount shown on Form 4972 is considered U/R, input a zero (0) in the PRIMARY/SECONDARY LUMP SUM TAX field, as applicable.
  - If there is income other than the U/R amount that qualifies for special tax treatment on Form 4972, enter the qualifying amount **ONLY** in the ORDINARY INCOME field(s) for the primary and/or secondary taxpayers, as applicable, and leave the PRIMARY/SECONDARY LUMP SUM TAX field blank.
  - Send PARAGRAPH 63**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  - When the Total Other Tax window displays in Return Value, enter/verify the ADDITIONAL TAX PER RETURN field.
- (13) Lump sum distributions do not qualify for the special tax treatment on Form 4972 when a portion of the lump sum distribution is from U.S. Retirement Bonds. Disallow the special tax treatment for the bond portion **ONLY**.
- Select the Lump Sum Tax window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Lump Sum Tax.
  - Enter the qualifying amount of the lump sum distribution in the ORDINARY INCOME or CAPITAL GAIN field for the primary or secondary taxpayer, as applicable.

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- (15) Enter Income Identify Code "LS" if applicable.

4.19.3.8.10.9  
(04-27-2021)

**Employee Savings Plans**

- (1) Distributions from employee savings plans are reported on Form 1099-R.
- (2) Consider employee savings plan IRs reported if:
  - a. There is an unidentified income amount on Form 1040 or any of its schedules that matches the IR within \$1.
  - c. The taxpayer reports the gross amount on Form 1040/1040-SR, line 4a
  - d. The taxpayer identifies the taxable portion on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent) or on an attachment.
  - e. The taxpayer reports a taxable amount identified as being from a savings
- (3) If a taxpayer is younger than 55, the 10 percent tax on early distributions from qualified plans is assessed by the system if the COD is "L", "1", or "5".
  - a. If the taxpayer is between 55 and 59 years old and the distribution is paid by an employee savings plan, change the COD indicator to blank so the system does not assert the 10 percent tax. If the taxpayer reported the 10 percent tax on their employee savings plan, do not modify the
  - b. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for further information regarding the 10 percent premature distribution tax.
  - c. Mark the 1099R IR element(s) with Send Indicator "S" when adjusting the 10 percent tax.

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4.19.3.8.10.10  
(09-01-2008)  
**Retirement  
Miscellaneous**

- (1) 1099R IRs may be subject to an additional 10 percent or 25 percent tax. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for further information.
- (2) If it appears the taxpayer has completed Form 5329 but failed to include the taxable distribution on page 1 of the Form 1040/1040-SR, **send PARAGRAPH 51**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (3) 1099R IRs may reflect W/H. Follow instructions in IRM 4.19.3.17.1, Withholding - General.
- (4) PARAGRAPH 34 automatically generates when the U/R retirement distribution has COD "L".
- (5) PARAGRAPH 11 automatically generates to inform the taxpayer whenever the proposed tax increase shown on the CP 2000 includes the additional 10 percent tax on early distributions from qualified plans. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs.
- (6) PARAGRAPH 96 automatically generates when retirement income is U/R regardless of Income Identify Code.

- (7) When 1099R IRs are U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.11  
(09-24-2021)

#### Rents and Royalties - General

- (1) Rent and royalty income is compensation for the use of property or rights by someone other than the owner.
- (2) Rents and royalties are reported on Form 1099-MISC or PTK-1 and SBK-1.
- (3) Rents and royalties are identified on the Case Analysis screen by the literal "99MIS" or "PTK-1", or "SBK-1" in the DOC TYPE field and the literal "RENT", "ROYAL", or "OTREN" in the INCOME TYPE field.

4.19.3.8.11.1  
(09-21-2020)

#### Rents and Royalties - Analysis

- (1) Compare RENT or ROYAL amounts with entries on:
- a. **Schedule E, Part I, lines 3, 4, 23a and 23b.** If payer names are listed, match specific amounts. If payer names are not listed, group by income type RENT or ROYALTY, as applicable and compare the group total amount to the total reported rents or royalties.
- Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.
- b. **Schedule E, Part II.** Amounts must match within \$1 or be identified as rents and royalties.
- c. **Schedule C, Part 1, line 1.** If the taxpayer is in the business of rental property, or it can be determined from the payer name or business activity that the income is from the same source, compare the group total to the amount on line 1.

**Note:** When screening for Rents/Royalties income on Schedule C, also consider any additional IR(s) for NEC, MERCH, MED and/or FISH income to determine the U/R amount.

- d. **Schedule C, Part 1, line 6** (if specifically identified as rent/royalty

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- e. **Schedule F, Part I or Part III.** Do not pursue IRs when the amount

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- f. **Form 4835, Farm Rental Income and Expenses.** Consider the IRs

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Otherwise, issue a CP 2000 for the full amount of the IR(s).

- g. **Form 2106, line 7, columns A and/or B.** The amount must match within

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Nonemployee Compensation (NEC) - Analysis.

**Note:** Employees only in the following categories qualify to use Form 2106: Armed Forces Reservists, qualified performing artists, fee basis state or local government officials and employees with impairment-related work expenses.

- h. **Schedule D**, or Form 8949 if income is identified as Coal and Timber royalties, patents, rights of way or easements.
- i. **Form 1040/ Form 1040-SR, Schedule 1, line 8** (TY 2020), Schedule 1,

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- a. Is a member of a federally recognized **Native American tribe** and there is an indication that the rental income was directly derived from land allotted to the taxpayer that is held in trust by the U.S. government. The taxpayer may cite the court decision *Squire v. Capoeman* (351 US 1), or the following Revenue Rulings: 67-284 1967-2 CB 55, 62-16 1962-1 CB 7, or 74-13 1974-1 CB 14, 94-65 1994-2 CB 14.

**Note:** Only income derived from the direct exploitation of the land is considered tax-exempt. Examples include: sale of crops and/or livestock raised on the land, sales of natural resources, and rental of land for grazing purposes. Income derived from capital improvements made to the land (for example, the establishment of a Gambling Casino) is not directly derived from the land and is fully taxable.

- b. Identifies the rental amount and **cites it is excludable under IRC 280(A)** or indicates that the rental was for less than fifteen (15) days.

4.19.3.8.11.2  
(10-07-2019)  
**Rents and Royalties  
Miscellaneous**

- (1) When the rent or royalty income is partially reported as self-employment income by the taxpayer, identify the RENT or ROYAL amount as Self-Employment income by entering the appropriate Income Identify Code in the INC CD field on the Case Analysis screen. See Exhibit 4.19.3-9, Income Identify Codes.
- (2) If there is reported rent or royalty income reported on which the taxpayer should have paid SE tax but did not, SE tax must be computed or recomputed if the Rent/Royalty or SE tax is asterisked or a CP 2000 is sent for another issue(s). Include the reported rent or royalty amount in the PRIM REPRD SE INC NOT ON SE and/or SEC REPRD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax.
  - a. Send reported rent or royalty IR elements on the notice when adjusting SE tax.
  - b. If the rent or royalty amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an unpostable condition will occur.
- (3) If U/R rent or royalty can be identified as coal/timber royalties, patents, rights of way or easements, it should be reported on Schedule D/Form 8949:
  - a. Input Income Identify Code "SD" if the U/R RENT or ROYAL amount(s) is a long-term capital gain/loss (Schedule D/Form 8949, Part II).
  - b. Input Income Identify Code "ST" if the U/R RENT or ROYAL amount(s) is a shortterm capital gain/loss (Schedule D/Form 8949, Part I).

**Note:** Income Identify Code "SD" and "ST" allow the system to compute the Schedule D tax if applicable. See IRM 4.19.3.14.2, Sch D/8814/ ECR Tax Window, for further instructions.

c. See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis, to access the Schedule D window.

- (4) If there is U/R Schedule D RENT or ROYAL and the taxpayer reported a capital loss on Form 1040 / Form 1040-SR, line 7. See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis, to access the Schedule D window.
- (5) 99MIS IR(s) may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (6) When rent or royalty income is U/R, enter the gross reported amount in the RETURN field of the Summary screen.

4.19.3.8.12  
(09-30-2018)

**Conduit Income -  
General**

- (1) Conduit income is the taxpayer's allocable share from a partnership (Form 1065), Small Business Corporation (Form 1120-S), or Estates and Trusts (Form 1041).
- (2) Conduit income is reported on Schedules K-1 filed with Form 1065, Form 1120-S, and Form 1041.
- (3) Conduit income is identified on the Case Analysis screen by the literal "SBK-1", "PTK-1", or "TRK-1" in the DOC TYPE field and one or more of the following literals in the INCOME TYPE field:
  - "ORINC" - Ordinary Income
  - "REAL" - Real Estate

**Note:** If REAL is system deleted with a status code "X", remove the status code and work the REAL issue.

- "OTREN" - Other Rental
- "ROYAL"- Royalties
- "INT" - Interest Income
- "DIV" - Dividend Income
- "BNINC" - Ordinary Business Income
- "OTPOR" - Other Portfolio Income
- "STCG" - Short-Term Capital Gains
- "LTCG" - Long-Term Capital Gains
- "179EX" - Section 179 Expense amounts
- "G-PAY" - Guaranteed Payment Amounts

**Note:** The literal "179EX" (Section 179 Expense amount) is shown for information

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4.19.3.8.12.1  
(07-01-2020)

**Conduit Income -  
Analysis**

- (1) Delete K-1 IRs if the payee or payer area identifies the income as being from:
  - 403(b) accounts
  - SEP or IRA accounts
  - Pension Plan or Profit Sharing Plan, including 401(k) plan
  - Municipal Bond funds
- (2) When screening conduit IRs, **keep the positive and negative amounts separate**, but be aware that the taxpayer may have netted the negative IRs against positive IRs and/or the totals on the tax return. Review all forms, schedules and attached explanations to identify gross income amounts.

**Note:** Ensure that any amounts reported on attachments are properly included on Schedule E and in the AGI on the tax return.

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- (4) The taxpayer may combine negative share amounts with Section 179 Expenses and report the total loss on Schedule E, Part II, column (i) . If the taxpayer did not claim the Section 179 Expense on Schedule E, Part II, column (j), consider the issue resolved. See (18) below if the taxpayer also claimed the 179EX on column (j).
- (5) Schedules K-1 are not required to be attached to the return. If attached, use them as part of the screening process.
- (6) **Schedules K-1 should not include W/H.** Only backup withholding (BWH) can be reported on a Schedule K-1. W/H amounts shown on a PTK-1 (Form 1065), SBK-1 (Form 1120-S) or TRK-1 (Form 1041) IRs may be the result of errone-

Analysis, for further instructions.

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- (7) Do not pursue elements of system deleted TRK-1 IRs (marked with **X**), even if asterisked. Only screen TRK-1 IRs which are not system deleted, following normal procedures.

**Exception:** If REAL is system deleted with the status code "X", remove the status code and work the REAL issue.

- (8) Conduit income may be found elsewhere on the return and/or attachments. **Thoroughly review the entire return, schedules and attachments before pursuing discrepant K-1 amounts.**
- a. Consider conduit income reported if a \$1 match is found on the return, schedules or attachments, unless it is specifically identified as a different payer.
- b. **Consider each element of a K-1 IR separately.** For example, if the taxpayer only reports the INT/DIV portion of the IR on Schedule B but fails to report the remaining K-1 income types included on the IR (for example, ORINC, G-PAY, etc.), pursue the remaining income types based on the applicable IRM procedures.
- c. Use the Income Comparison screen to assist in determining if the discrepant K-1 income amount is included in a larger total on the return.
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**Note:** On DIV income from TRK-1 (Trusts) IRs, the payer name on the IR may not match the payer name on the return. Use the dollar match criteria to determine if the income is properly reported.

**Note:** If there is U/R STCG and the taxpayer reports a capital loss on Form 1040/1040-SR, Schedule 1, line 7, enter a zero (0) in both fields on the



COMPUTE SCHEDULE D LOSS window. It may be necessary to blank out both fields first. This prevents the system from using losses in excess of \$3,000 (\$1,500 if MFS) to offset U/R Schedule D income.

**Example:** If STCG IR(s) is a negative (-) \$500 and Schedule D line 5 is negative (-) \$750, pursue \$250 as U/R (O/D).

- (16) **LTCG** is reported on Schedule D, line 12, column (h). Pursue any U/R amounts including O/D losses. See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis, for further instructions.

**Note:** If there is U/R LTCG and the taxpayer reports a capital loss on Form 1040/1040-SR, line 7 enter a zero (0) in both fields on the COMPUTE SCHEDULE D LOSS window. It may be necessary to blank out both fields first. This prevents the system from using losses in excess of \$3,000 (\$1,500 if MFS) to offset U/R Schedule D income.

**Note:** If the taxpayer did not file a Schedule D, determine if the LTCG is reported directly on Form 1040/1040-SR, line 7.

- (17) **ROYAL** is reported on Schedule E, Part I, line 4.

- (18) **Section 179 Expenses** are generally reported on Schedule E, Part II, column (j). Taxpayers may reduce the ORINC, REAL, OTREN or G-PAY amount by the 179EX and report the net income on column (k). If the ORINC, REAL, OTREN or G-PAY U/R amount matches the 179EX amount on the SBK-1 or PTK-1 IR AND column (j) is blank, consider the IR reported. If the taxpayer also included the 179EX on column (j) this represents a double deduction. Disallow the double deduction and **send PARAGRAPH 142**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (19) **ORINC, G-PAY and REAL/OTREN (from PTK-1 or SBK-1 IRs)** are reported on Schedule E, Part II, columns (h) and (k).

**Note:** If REAL is system deleted with a status code "X", remove the status code and work the REAL issue.

- a. If the taxpayer reports passive income on column (h) or passive loss on column (g) **AND** attaches Form 8582, Passive Activity Loss Limitations,

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- b. If the taxpayer does not report the payer name/EIN on the Schedule E (or Schedule E is not completed/present) **AND** attaches Form 8582,

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- c. If the taxpayer attaches a completed Form 6198, At Risk Limitation, that

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- d. See (18) above when the PTK-1 and/or SBK-1 IR(s) contain Section 179 Expenses (179EX).

- (20) **BNINC, OTPOR and REAL/OTREN (from TRK-1 IRs)** are reported on Schedule E, Part III, column (d) and/or (f),

**Note:** If REAL is system deleted with a status code “X”, remove the status code and work the REAL issue.

- a. If the taxpayer reports passive income on column (d) or passive loss on
- b. If the taxpayer **does not** report the payer name/EIN on the Schedule E (or Schedule E is not completed/present) **AND** attaches Form 8582,
- c. If the taxpayer attaches a completed Form 6198 that matches the payer

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- (21) Pursue all fully U/R SBK-1, PTK-1 and TRK-1 IRs and/or their elements, regardless of the income type or dollar amount.
- (22) Always attempt to match ORINC, REAL, OTREN, G-PAY, BNINC and/or OTPOR income element(s) to the amounts reported on the return. The taxpayer must disclose an amount (including zero) in order to consider the income element(s) partially reported. When the return amount, per payer, does not correspond to a specific income element(s), group the element(s) and give credit for reported amounts.
- (23) PARAGRAPH 24 automatically generates when STCG and/or LTCG is treated as ordinary income due to loss limitations. If the loss per return is less than \$3,000 (\$1,500 if MFS), toggle off PARAGRAPH 24 from the Summary screen.

4.19.3.8.12.2  
(10-07-2019)  
**Conduit Income  
Miscellaneous**

- (1) Conduit amounts (ORINC, REAL, G-PAY, and OTREN) from PTK-1 IRs may be subject to SE tax. If any of the following conditions apply, enter Income Identify Code “PB”, “PF”, “SB”, or “SF” as applicable.

**Note:** When determining income subject to SE tax and the taxpayer did not complete Schedule SE, do not include any PTK-1 losses reported on Schedule E from a different partnership name.

- a. The PTK-1 IR is fully U/R and the payer name/EIN is not reported on the tax return.

**Exception:** Do not assess SE tax on ORINC, REAL, and OTREN if the payer is a LTD, LLC, LC, LLP, or LP. See IRM 4.19.3.16.1, Self-Employment Tax, for further instructions and see Exhibit 4.19.3-9, Income Identify Codes, for applicable Income Identify Codes.

- b. The PTK-1 IR is partially reported as self-employment income by the taxpayer. If pursuing the issue because taxpayer reports a loss and the income element is a gain, do not pursue SE tax unless the loss amount was considered on an existing Schedule SE.
- (2) When conduit income is U/R, enter the appropriate return amount in the RETURN field on the Summary screen. For conduit income types reportable on Schedule E Part II and Part III, use the sum of Schedule E, lines 32 and 37 as the “per return” amount. If the resulting “per return” amount is negative, enter the actual loss amount in the RETURN field.

- (3) If STCG Distributions are U/R or O/D, enter the return amount from Schedule D, line 5, in the RETURN field of the Summary screen. If LTCG Distributions are U/R or O/D, enter the return amount from Schedule D, line 12 (Form 1040, line 7 if no Schedule D is attached), in the RETURN field of the Summary screen. If STCG and LTCG distributions are U/R or O/D, enter the return amount from Schedule D, lines 5 and 12 combined in the RETURN field of the Summary Screen.

4.19.3.8.13  
(09-01-2010)

**Agricultural  
Subsidies/Market Gain  
on CCC  
Loans/Commodity Credit  
Corporation (CCC)  
Loans Forfeited**

- (1) Agricultural subsidies are government payments to farmers or businesses to assist in a policy deemed advantageous to the public. There are many types of Agricultural subsidy payments, including Conservation Reserve Program (CRP) payments, counter-cyclical payments, and market gain. Agricultural subsidies may be a payment in cash or a payment in kind (PIK), including Commodity Credit Corporation (CCC) certificates.

**Note:** The taxpayer may refer to Agricultural Subsidy payments (Ag Sub) as CRP.

- (2) All government payments reported to the IRS must be included in income in the year they are actually or constructively received.
- a. Income is constructively received when it is credited to the taxpayer's account or set apart in any way that makes it available to the taxpayer. It is not necessary that the taxpayer have physical possession of it.
  - b. See IRM 4.19.3.8.13.3, Commodity Credit Corporation (CCC) Loans Forfeited, with regard to a farmer's election for reporting CCC loan proceeds as income in the year of the loan rather than reporting income when the commodity is sold.

4.19.3.8.13.1  
(09-01-2010)

**Agricultural  
Subsidies/Market Gain  
on CCC Loans - General**

- (1) Agricultural subsidies (including CCC certificates) are reported to the IRS on Form 1099-G.
- (2) Agricultural subsidies (including CCC certificates) are identified on the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "AGSUB" in the INCOME TYPE field.
- (3) Market gains on CCC Loans are reported to the IRS on Form 1099-G and are identified on the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "MRKGN" in the INCOME TYPE field.

4.19.3.8.13.2  
(09-21-2020)

**Agricultural  
Subsidies/Market Gain  
on CCC Loans -  
Analysis**

- (1) Compare the total of AGSUB and MRKGN amounts with entries on:
- a. Schedule F, lines 4a, 4b, 39a, or 39b. If the AGSUB IR(s) is less than or equal to the amount reported on any of these lines, consider the IR(s) reported.
- Note:** If the total of AGSUB and MRKGN IR(s) is greater than line 4a or 39a, use the line 4b or 39b amount to determine any U/R.
- c. Form 4835, Farm Rental Income and Expenses, lines 3a or 3b. If the total of AGSUB and MRKGN IR(s) is less than or equal to the amounts reported on either line, consider the IR(s) reported.

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**Note:** If the total of AGSUB and MRKGN IR(s) is greater than line 3a, use the line 3b amount to determine any U/R.

- (2) AGSUB and MRKGN comparisons for the following entries must **match within \$1** or be **CLEARLY IDENTIFIED** as AGSUB and/or MRKGN:
- a. Schedule F, lines 8 or 43.
  - b. Schedule F, lines 2 or 37 (agricultural subsidies reported as commodities).
  - c. Schedule E, Part I. Check property names on Schedule E, line 1 to clearly identify farm rental.
  - d. Form 4835, line 6.
  - e. Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).

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shows that the taxpayer is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, PC, or SC) in a farming business and paid wages to themselves (the payer name and/or address is similar to or matches the taxpayer name and/or address). Do not consider AGSUB or MRKGN reported if the W-2 and 1099G IR are from the same payer.

- (4) Agricultural subsidy payments made to members of **federally recognized Native American Tribes** under programs administered by the Department of Agriculture's Stabilization and Conservation Service are exempt from federal income taxes when the subsidy is received as a result of activity occurring on

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- (5) Underreported AGSUBs and MRKGNs are considered self-employment income unless the conditions defined below apply. Delete the Income Identify Code if:
- a. The agricultural subsidy is fully or partially reported on Form 4835, Form 4797, Form 6252, Schedule D, or Schedule E, Part I.
  - b. The agricultural subsidy is fully U/R and the only farm income on the return is on Form 4835 or Schedule E, Part I.
- (6) The system computes SE tax when Income Identify Code "PF" or "SF", is entered for AGSUB and/or MRKGN income.
- (7) If there are reported AGSUB and/or MRKGN on which the taxpayer should have paid SE tax but did not, the SE tax must be computed or recomputed if the AGSUB and/or MRKGN is asterisked or a notice is sent for other issue(s). Include the reported AGSUB and/or MRKGN amount in the PRIM REPRD SE INC NOT ON SCH SE and/or SEC REPRD SE INC NOT ON SCH SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax.
- a. Send reported AGSUB and/or MRKGN IR elements on the notice when adjusting SE tax.
  - b. If the AGSUB and/or MRKGN amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an unpostable condition will occur.
- (8) 1099G IRs may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.

- (9) PARAGRAPH 104 automatically generates when MRKGN is U/R, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) If AGSUB and/or MRKGN is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.13.3  
(03-28-2011)  
**Commodity Credit  
Corporation (CCC)  
Loans Forfeited**

- (1) Generally, CCC loan proceeds are not reported as income. However, if a taxpayer pledges part or all of their production to secure a CCC loan, they may elect to report the CCC loan proceeds as income in the year the proceeds are received, instead of the year the crop is sold.
- (2) Taxpayers may make the election to report CCC loans on Schedule F, lines 5a, 40a or Form 4835, line 4a.
- (3) CCC loans forfeited are reported on Form 1099-A, Acquisition or Abandonment of Secured Property.
- (4) Commodity Credit Certificates received under some government programs are sold or used to pay the CCC loans. These certificates are includable as income and are reported on Form 1099-G.
  - a. Compare 1099G IR(s) to amounts identified on the return by the terms "CCC", "PIK", or "Storage".
  - b. If income reported under these categories matches the IR(s) within \$1, consider the IR(s) reported. If no amount is reported, consider the IR(s) fully U/R.
- (5) A farmer may pledge grain or other commodities to secure a loan from the CCC. They may also include the proceeds of the loan as income in the year actually received. If, however, they use the commodity credit certificates to repay the loan, for an amount less than the original amount of the loan, that market gain is reported on Schedule F, lines 5b, 5c, 40b, or 40c or Form 4835, #
- (6) CCC loans forfeited are identified on the Case Analysis screen by the literal "1099A" in the DOC TYPE field and one of the following literals in the INCOME TYPE field:
  - a. "DEBTS" - Debt satisfied.
  - b. "FMV" - Fair market value. Disregard the literal "FMV" and the amount on a 1099A IR. (The system automatically assigns status code "X" to FMV amounts.)
  - c. "AV" - Appraisal value. Disregard the literal "AV" and the amount on a 1099A IR. (The system automatically assigns status code "X" to AV amounts.) #
- a. A Form W-2 or WAGE IR shows that the taxpayer is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, PC or SC) in a farming business and paid wages to themselves (the payer name and/or address is similar to or matches the taxpayer's name and/or address). Do not consider CCC reported if the W-2 and 1099A IR are from the same payer.
- b. Income from a farming business is reported on Schedule E, Part II.

- (8) Compare DEBTS (debt satisfied amounts on 1099A IRs) with entries on Schedule F or Form 4835.
  - a. Consider CCC loans fully reported when the amount(s) reported on Schedule F, lines 5b, 40b, or Form 4835, line 4b, equals or exceeds the CCC (DEBTS) IR(s).
  - b. If there are amounts reported on Schedule F, lines 5c or 40c, or Form 4835, line 4c, equals or exceeds the CCC (DEBTS) IR(s).
  - c. Consider CCC loans partially U/R when there is an amount reported on Schedule F, lines 5b or 40b, or Form 4835, line 4b that is less than the DEBTS IR(s).
  - d. Consider CCC loans fully U/R when Schedule F, lines 5b or 40b, or Form 4835, line 4b is zero or blank **AND** there are no entries on Schedule F, lines 5c or 40c, or Form 4835, line 4c.
- (9) If a DEBTS amount is U/R, verify the Income Identify Code so the system computes SE tax correctly. The Income Identify Code should be "PF" or "SF", as applicable. See Exhibit 4.19.3-9, Income Identify Codes. Delete the Income Identify Code for U/R DEBTS amounts if the:
  - a. CCC loan forfeited is fully or partially reported on Form 4835 or Schedule E, Part I, or
  - b. CCC loan forfeited is fully U/R and the only farm income on the return is on Form 4835 or Schedule E, Part I.
- (10) PARAGRAPH 102 automatically generates.
- (11) If CCC income is U/R, enter the return amount in the RETURN field on the Summary screen.

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#4.19.3.8.14  
(10-06-2022)**Patronage Dividends -  
General**

- (1) Patronage dividends (PTDIV) are paid by cooperatives. They are considered income unless they are attributable to personal or family items, capital assets, or depreciable assets used in the taxpayer's business.
- (2) PTDIVs are reported to the IRS on Form 1099-PATR, Taxable Distributions Received From Cooperatives.
- (3) Section 199A(g) provides a domestic production activity deduction for only specified agricultural or horticultural cooperatives. Patrons of specified agricultural or horticultural cooperatives report any section 199A(g) DPAD that is passed through from a specified agricultural or horticultural cooperative on Form 8995-A, Qualified Business Income Deduction, Part IV, line 38.
- (4) Patronage dividends are identified on the Case Analysis screen by the literal "99PAT" in DOC TYPE field and one of the following literals in the INCOME TYPE field.
  - "PTDIV" - Patronage Dividends
  - "NPAT" - Non-Patronage Distributions
  - "PURA" - Per Unit Retain Allocations
  - "REDEM" - Redemption
  - "DPAD" - Domestic Production Activities Deduction. Reported on the appropriate of Form 8995-A, Qualified Business Income Deduction.



4.19.3.8.14.1

(09-21-2020)

**PTDIV - Analysis**

- (1) Group the 99PAT income elements (PTDIV, NPAT, REDEM and PURA) from all 99PAT IRs and compare the group total with entries on:

- a. Schedule F, lines 3a, 3b, 38a or 38b. If the 99PAT group amount is less than or equal to the amount reported on any of these lines, consider the IRs reported and mark the group with status code "R".

**Note:** If the 99PAT group amount is greater than line 3a or 38a, mark the group with status code "U" and use the amount on line 3b or 38b to determine the U/R.

- b. Form 4835, line 2a or 2b. If the 99PAT group amount is less than or equal to the amount reported on either line, consider the IRs reported and mark the group with status code "R".

**Note:** If the 99PAT group amount is greater than line 2a, mark the group with status code "U" and use the amount on line 2b to determine the U/R.

- c. Schedule E, Part I. If an amount is identified as farm rental AND matches within \$1, consider the 99PAT IRs reported and mark the group with status code "R".

**Note:** Check property names on Schedule E, line 1a and 1b. If the income reported on this line matches the IR group amount(s) within \$1, consider the 99PAT IRs reported and mark the group with status code "R".

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- e. Schedule B, Part II. The amount must match within \$1 or be identified by payer name.

- f. Schedule C, line 6, if the business activity is fishing related or the distribution received is from a cooperative. The amount must match within \$1, must be clearly identified as patronage dividends, or must be identified by payer name.

- (2) If **Form 8995-A is present**, see IRM 4.19.3.9.10, Domestic Production Activity Deduction.

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shows the taxpayer is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, PC or SC) in a farming business, and paid wages to themselves (payer name and/or address is similar to or matches the taxpayer's name and/or address). Do not consider PTDIV reported if W-2 and 99PAT IR are from the same payer.

4.19.3.8.14.2

(09-30-2014)

**PTDIV - Miscellaneous**

- (1) If a 99PAT IR amount is U/R, verify the Income Identify Code, so the system computes SE tax correctly (Income Identify Code "PF", "SF", "PB", or "SB" as applicable). See Exhibit 4.19.3-9, Income Identify Codes. Delete the Income Identify Code if:

- a. The PTDIV is fully or partially reported on Form 4835, Schedule B, or Schedule E, Part I, or



- b. The PTDIV is fully U/R AND the only farm income on the return is on Form 4835 or Schedule E, Part I.
- (2) If there are reported PTDIVs on which the taxpayer should pay SE tax but did not, SE tax must be computed or recomputed if the 99PAT is asterisked or a notice is sent for another issue(s). See IRM 4.19.3.16.1, Self-Employment Tax.
- (3) PARAGRAPH 85 automatically generates when the total of U/R interest, dividends, and patronage dividends is greater than \$500.
- (4) If PTDIV income element(s) is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.15  
(09-01-2003)  
**Crop Insurance -  
General**

- (1) Crop insurance proceeds are amounts received by farmers as a result of destruction or damage to crops.
- (2) Crop insurance proceeds are reported on Form 1099-MISC, box 9.
- (3) Crop insurance proceeds are identified on the Case Analysis screen by the literal "99MIS" in the DOC TYPE field and the literal "CROP" in the INCOME TYPE field.

4.19.3.8.15.1  
(09-21-2020)  
**Crop Insurance -  
Analysis**

- (1) Compare CROP amounts with entries on:
  - a. **Schedule F, line 6a, 6b, or 41.** If the CROP IR(s) is equal to or less than the amounts reported on any of these lines, consider the IR(s) reported.
  - b. **Form 4835, line 5a or 5b.** If the CROP IR(s) is equal to or less than the amounts reported on either of these lines, consider the IR(s) reported.

**Note:** If the CROP IR(s) is greater than line 5a and the box on line 5c is blank, use the amount on line 5b to determine the U/R.

  - c. **Schedule F, lines 8 or Form 4835, line 6.** The amount must match within \$1.
  - d. **Form 1040/ Form 1040-SR, Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021 and subsequent)** the amount must match within \$1 or be clearly identified as CROP income.

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- a. Form W-2 or WAGE IR is present that shows the taxpayer is incorporated (payer name must include CORP, INC, LC, LLC, PA, PC or SC) in a farming business, and paid wages to themselves (payer name and/or address is similar to or matches the taxpayer's name and/or address). Do not consider CROP reported if Form W-2 and Form 1099-MISC are from the same payer.
- b. Income from a farming business is reported on Schedule E, Part II.

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- c. The taxpayer elects to postpone CROP income to the next year by checking the box on Schedule F, line 6c, or Form 4835, line 5c, and attaches a statement.

4.19.3.8.15.2  
(09-01-2013)  
**Crop Insurance  
Miscellaneous**

- (1) If a CROP amount is U/R, verify the Income Identify Code so the system computes SE tax correctly (Income Identify Codes are "PF" or "SF", as applicable). See Exhibit 4.19.3-9, Income Identify Codes. Delete the Income Identify Code if the crop insurance proceeds are:
  - a. Fully or partially reported on Form 4835 or Schedule E, Part I, or
  - b. Fully U/R and the only farm income on the return is on Form 4835 or Schedule E, Part 1.
- (2) If there is reported CROP on which the taxpayer should have paid SE tax but did not, the SE tax must be computed or recomputed if CROP is asterisked or a notice is sent for another issue(s). Include the reported CROP amount in the PRIM REPRTD SE INC NOT ON SCH SE and/or SEC REPRTD SE INC NOT ON SCH SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax.
  - a. Send reported CROP IR elements on the notice when adjusting SE tax.
  - b. If the CROP amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.
- (3) PARAGRAPH 103 automatically generates when CROP is U/R.
- (4) If CROP is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.16  
(08-16-2011)  
**Unemployment  
Compensation - General**

- (1) Unemployment compensation is a benefit paid to qualified individuals during periods of unemployment.
- (2) Unemployment compensation is reported on Form 1099-G.
- (3) Unemployment compensation displays on the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "UNEMP" in the INCOME TYPE field.

4.19.3.8.16.1  
(04-24-2023)  
**Unemployment  
Compensation -  
Analysis**

- (1) For TY 2021 and subsequent, The American Rescue Plan (ARP) provision which allowed taxpayers to exclude specific amounts of their unemployment compensation from their TY 2020 tax return is no longer in effect. Refer to (9) below.
- (2) For TY 2020, The American Rescue Plan enacted on March 11, 2021, allows for taxpayers with a Modified Adjusted Gross Income (MAGI) of less than \$150,000, to exclude up to \$10,200 of unemployment compensation paid in TY 2020 from their income. If MAGI is \$150,000 or more, the taxpayer cannot exclude any unemployment compensation.
- (3) For TY 2020, taxpayers are entitled to the following Unemployment Compensation Exclusion (UCE): For S, HOH, MFS taxpayers, up to the lesser of Schedule 1, line 7 or \$10,200 can be excluded. For MFJ taxpayers **not** in a community property state, each spouse receiving unemployment is eligible for the exclusion which is calculated separately on the amount each taxpayer

received. For example: If the primary taxpayer received \$15,500 and the secondary taxpayer received \$8,900, the total exclusion amount would be \$19,100 (\$10,200 + \$8,900). Amounts over \$10,200 per taxpayer are taxable.

- (4) For TY 2020, for MFJ taxpayers in a community property state, up to the lesser of Schedule 1, line 7 or \$20,400 can be excluded. To determine if the taxpayer lives in a community property state see IRM 4.19.3.5.4, Community Property States.

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**Note:** For TY 2020, the IRS made systemic adjustments for each taxpayer's Unemployment Compensation Exclusion (UCE) based on Form 1099-G unemployment compensation information. Validate the UCE amount when the MAGI is \$150,000 or more, UNEMP is fully taxable.

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- (8) For TY 2020, if during screening it is identified the UCE amount is double excluded in error, use the MISC ADJ/SCH C EXP window, see IRM 4.19.7.10.11.16, Miscellaneous Adjustment/Schedule C Expense window to recapture the incorrect UCE amount. For example: the taxpayer reported unemployment, deducted the exclusion AND there is a recovery TC 291 adjustment with DLN (17254-JJJ-0504X-Y) on the account and the change to the AGI matches the deducted exclusion amount. Send a Special Paragraph explaining the double exclusion using the following verbiage as an example: The maximum allowable amount of unemployment compensation that can be excluded is \$10,200 per taxpayer (\$20,400 for married filing joint filers) or the amount received if less than \$10,200 per taxpayer. We have adjusted the unemployment compensation exclusion to reflect the maximum amount allowable.
- (9) Compare UNEMP amounts with entries on Form 1040/1040-SR, Schedule 1, line 7.
- (10) UNEMP comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as UNEMP payments:

TY 2020	TY 2021	TY 2022
Form 1040/ Form 1040-SR, line 1	Form 1040/ Form 1040-SR, line 1	Form 1040/ Form 1040-SR, line 1a
Form 1040/ Form 1040-SR, Schedule 1, line 8	Form 1040/ Form 1040-SR, Schedule 1, line 8z	Form 1040/ Form 1040-SR, Schedule 1, line 8z

**Caution:** If taxpayer includes UNEMP as wages on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021) or line 1a, (TY 2022). See IRM 4.19.3.17.3, Earned Income Credit.

- (11) If the tax return indicates the UNEMP income was repaid and includes an amount, accept as reported. The repaid amount plus reported amount must equal the IR, otherwise pursue the difference.

**Caution:** If the taxpayer indicated a portion of the UNEMP was repaid in a year other than the current AUR tax year, do not consider that repayment amount. Send a Special Paragraph using the following verbiage as an example: "Repayment of unemployment benefits made in a subsequent year may be deducted on Schedule A, as a miscellaneous deduction in the year it was repaid. Refer to Publication 525, Taxable and Nontaxable income."

- (12) If the **EIN begins with "66"** and the payer information is in Spanish, this income is not subject to U.S. income tax, delete the IR(s).
- (13) If supplemental unemployment benefits are received from a company financed fund, and the taxpayer did not contribute to the fund, they are not considered UNEMP. They are reported on Form W-2 and are fully taxable wages, subject to W/H, and should be reported on the wage lines. See IRM 4.19.3.8.1, Wages - General, for further instructions.

4.19.3.8.16.2  
(09-01-2022)

**UNEMP - Miscellaneous**

- (1) UNEMP (Form 1099-G) may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.

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- (2) PARAGRAPH 67 automatically generates when UNEMP is U/R.

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- (3) If UNEMP is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.17  
(09-21-2020)

**Social Security/Railroad Retirement Benefits (SS/RR) - General**

- (1) Social Security and Railroad Retirement Benefits may be partially taxable (by up to 85 percent) if the modified AGI plus fifty percent of the benefits is greater than the following adjusted base amounts:
  - \$25,000 for FS 1, 4 or 5
  - \$32,000 for FS 2
  - \$25,000 for FS 3 or 6 (and the taxpayer **did NOT live** with spouse any time during the AUR year)
  - \$0 for FS 3 or 6 (and the taxpayer **lived** with the spouse during the AUR year)
- (2) These payments are reported by payers on either Form SSA-1099 (benefits received under Title II of the Social Security Act), or Form RRB-1099 (Tier 1 railroad retirement benefits treated as social security).

**Note:** See IRM 4.19.3.8.10.5, Railroad Retirement Board (RRB) IRs, for information regarding the amounts reported by the Railroad Retirement Board on Form RRB-1099-R.

- (3) Social Security and Railroad Retirement Benefits display on the Case Analysis screen by the literal "SS/RR" in the DOC TYPE field and one of the following literals in the INCOME TYPE field.
  - a. "SS/RR" - taxable Social Security and Railroad Retirement Benefits.
  - b. "WCOMP" - Workers' Compensation. Disregard WCOMP amounts. (The system automatically assigns status code "X" to WCOMP amounts.)
  - c. "REPAY" - benefits that the taxpayer repaid in the current AUR tax year. The system uses this amount to reduce the recomputed SS/RR amount as appropriate.
  - d. "21PAY" - portion of SS/RR received in the AUR year for 2021 (for information only).
  - e. "20PAY" - portion of SS/RR received in the AUR year for 2020 (for information only).
  - f. "19PAY" - portion of SS/RR received in the AUR year for 2019 (for information only).
  - g. "18PAY" - portion of SS/RR received in the AUR year for 2018 (for information only).
- (4) **Workers' Compensation** payments made in place of Social Security and Railroad Retirement Benefits are considered as SS/RR when computing taxable benefits. If it appears that the taxpayer reduced the gross SSA benefits (SS/RR element) by the amount of the WCOMP element:
  1. Pursue the discrepancy.
  2. Mark the WCOMP element with Send Indicator "S".
  3. PARAGRAPH 100 automatically generates.

4.19.3.8.17.1  
(10-25-2023)

**SS/RR - Analysis**

- (1) When screening SS/RR IRs, check the name line area of the IR(s) to ensure that the benefits are properly credited to the appropriate taxpayer. Delete SS/RR amounts if the payee name line(s) indicates they are payments to a former spouse or dependent children, unless there is an indication the taxpayer in question is one of the actual recipients.
- (2) Compare the total of SS/RR amounts with entries on:

TY 2020	TY 2021 and subsequent
Form 1040/ Form 1040-SR, line 6a (total benefits) and line 6b (taxable benefits).	Form 1040/ Form 1040-SR, line 6a (total benefits) and line 6b (taxable benefits).
Form 1040/ Form 1040-SR, Schedule 1, line 8. The amount must match the taxable SS/RR payments within \$1 or be identified as Social Security/Railroad Retirement payments.	Form 1040/ Form 1040-SR, Schedule 1, line 8z. The amount must match the taxable SS/RR payments within \$1 or be identified as Social Security/Railroad Retirement payments.

- (3) When the taxpayer is married filing separately (FS 3 or 6) and lived apart from their spouse for the entire year, they are instructed to enter a “D” on the dotted line next to Form 1040/1040-SR, line 6a . If a “D” is present (or a “Y” on an ELF return), enter an “N” in the taxpayer LIVED WITH SPOUSE? field in the SSA RRB Changes window. If a “D” is not present:
- Assume the taxpayer lived with their spouse and zero is the applicable base amount for FS 3 or 6.
  - Ensure that the taxpayer LIVED WITH SPOUSE? field is blank.
  - PARAGRAPH 162 automatically generates.

**Note:** If there are no SS/RR IR(s) present on the Case Analysis screen, and it appears that the taxpayer did not report the proper taxable amount, because the “D” is not present, and there are no other U/R issues, close the case.

**SR, line 6a or 6b** is zero or blank or , **line 6a** is equal to or less than the surviving spouse’s SS/RR IR amount(s).

- (5) The taxable amount of SS/RR payments is computed by the system based on the appropriate entries on the Adjusted Gross Income window and the SSA/RRB window. If the taxpayer files a Schedule R, Credit for the Elderly or Disabled, the system requires you to access the SSA/RRB window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - SSA/RRB window.
- Screen SS/RR IR(s) **after** you analyze all other potentially discrepant income types. After any subsequent analysis that changes the TOTAL AGI CHANGE field, reselect the SSA/RRB window. (After computing the IRA deduction the system automatically recomputes SS/RR). Recompute all changes to adjustments (SLID, Tuition and Fees (TY 20 and prior), to income before selecting this window. See IRM 4.19.3.4.2, Case Analysis Screen, for the proper sequence when these issues are present on the same case.
  - Be alert for changes made during or after original processing when entering/verifying information in the SSA/RRB window. **Send**

**PARAGRAPH 97**, (see Exhibit 4.19.3-7, CP PARAGRAPHS), for erroneous changes made during original processing.

- (6) If Form 1040/1040-SR, line 6a is greater than the IR amount(s) and an adjustment to SS/RR is necessary, do not send the SS/RR IR(s) to the taxpayer.

**Note:** After computing the SS/RR, the GROUP TOTAL field on the Case Analysis screen displays the total SS/RR IR amount. Compare this amount to the amount on the appropriate line of Form 1040/1040-SR.

- (7) Whenever it is necessary to compute or recompute SSA/RRB take the following actions:
- Enter/Verify the amount from Form 1040/1040-SR, line 6a in the GROSS SSA/RRB BENEFITS field.
  - Enter/Verify the amount from Form 1040/1040-SR, line 6b in the TAXABLE SSA/RRB BENEFITS field
  - Enter/Verify that the amount in the TAX-EXEMPT INTEREST from Form 1040/1040-SR, line 2a field of the SSA/RRB window is correct. See IRM 4.19.3.8.3.6, Interest Miscellaneous, if the taxpayer improperly excluded tax-exempt interest on Schedule B.
  - If filing status 3 or 6, enter “N” in TP LIVED WITH SPOUSE? field, if the taxpayer did NOT live with spouse during the tax year. For all other filing statuses OR if there is no indication the taxpayer did not live with spouse, leave this field blank (not zero).

**Note:** A “D” (or a “Y” on an ELF return) annotated to the left of the SSA/RRB benefit line is an indication the taxpayer did not live with his/her spouse during the tax year.

- (8) If the repayment amounts exceed the SS/RR amounts, and the taxpayer reports a taxable SS/RR amount, but fails to subtract any or all of their payments from the SS/RR amount the system reduces the recomputed SS/RR amount as appropriate. This results in either a refund to the taxpayer or a reduction to their tax.
- (9) If there are no SS/RR IRs on the Case Analysis screen, the taxpayer reports a gross amount on Form 1040/ Form 1040-SR, line 6a and the amount on Form 1040/ Form 1040-SR, line 6b is blank, zero or less than 85 percent of the gross amount, and there are other U/R issue(s):
1. Create an IR for the gross amount reported on Form 1040/1040-SR, line 6a .
  2. Access the SSA/RRB window and enter/verify the fields.
- (10) If the taxpayer reported SS/RR (larger than the IR amount(s)), and the IR shows a REPAY amount, the REPAY IR must be coded with IR Code “D”. Otherwise, the system uses 85 percent of the REPAY amount as an offset and recomputes the tax.
- (11) When the system computes taxable SS/RR, it uses the amount the taxpayer reported as benefits or the total of the IRs (less any REPAY amounts), whichever is greater. If the taxpayer attached documentation stating the SS/RR amounts were repaid in the current AUR tax year and no corresponding IR is present showing the REPAY amount, you must create an IR so the system correctly computes the taxable portion.



**Caution:** If the taxpayer attached documentation stating the SS/RR amounts were repaid in a year other than the current AUR tax year, advise the taxpayer the repayment amount may be deducted **ONLY** in the year it was repaid.

- (12) Do not pursue SS/RR amounts if the taxpayer provides a statement and/or documentation that the income is excludable because the payments are for disability due to injuries received from a terrorist attack or military action.

4.19.3.8.17.2  
(09-21-2020)  
**SS/RR Miscellaneous**

- (1) Taxpayers can compute taxable SS/RR benefits following the Lump-Sum Election (**LSE**) method. There is an LSE method indication if **LSE** is written next to Form 1040/1040-SR line 6a, (TY 2020 and TY 2021), box 6c is checked (TY 2022) or the box next to **LSE ind** is checked on the TRDB

- a. The SS/RR IR amount(s) is reported on Form 1040/1040-SR, line 6a  
**AND**  
b. The SS/RR IR displays one or more of the following; 21PAY, 20PAY, or 19PAY OR 18PAY.

**Note:** If either of the conditions above are not met, pursue discrepant SS/RR.  
**Send PARAGRAPH 71**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- (2) Do not pursue potential U/R SS/RR benefits if there is an indication the taxpayer is a resident of one of the following countries:
- Canada
  - Egypt
  - Germany
  - Ireland
  - Israel
  - Italy
  - Japan
  - Romania
  - The United Kingdom
- (3) Form SSA-1099 or Form RRB-1099 may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, and/or see IRM 4.19.3.17.1.2, Withholding, SSTAX and Additional Medicare Tax Withheld - Miscellaneous, for further instructions.
- (4) PARAGRAPH 99 automatically generates when a change to modified AGI impacts the taxable amount of SS/RR.
- (5) If SS/RR is adjusted, enter the taxable return amount in the RETURN field on the Summary screen.
- (1) Other income is reported on Form 1099-MISC.
- (2) Other income is identified on the Case Analysis screen by the literal "99MIS" in the DOC TYPE field and the literal "OTINC" in the INCOME TYPE field.

4.19.3.8.18  
(07-11-2022)  
**Other Income (OTINC)-  
General**

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## 4.19.3.8.18.1

(10-25-2023)

**OTINC - Analysis**

- (1) Compare OTINC amounts with entries on:
  - a. Schedule C, line 6.
  - b. Schedule F, lines 8 or 43.
  - c. Form 4835, line 6.
- (2) If it can be determined from the payer name or business activity that it is the same income, consider OTINC reported if it is included in larger total for the applicable taxpayer on the following Schedules:
  - a. Schedule C
  - b. Schedule F, lines 1a or 2

**Note:** When determining the U/R amount consider NEC IR(s) as well as OTINC IR(s).

- (3) Comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as OTINC:
  - a. Form 1040/1040-SR, line 1.

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- b. Schedule D, see table below for line numbers - The taxpayer may report the sale of timber, coal, easements, right-of-way (ROW), land damages on these lines. Consider the OTINC reported if the sales price matches the IR within \$1.

Form/Schedule	Line Numbers
Schedule D	Part I, lines 1a, 1b, 2, or 3, column (d)
Schedule D	Part II, line 8a, 8b, 9 or 10, column (d)
Form 8949	Part I, line 1, column (d) or Part II, line 1 column (d)

- c. Form 8949, see table above for line numbers.

**Caution:** Digital assets (Virtual currency) may be reported or partially reported on Form 8949. This income may be identified by payer name or may be referred to as bitcoin or other digital asset terminology . If the income is partially reported and the taxpayer includes an explanation they reported the fair market value of the digital assets, as of the date it was received, consider the income reported.

- d. Schedule E, Part I.
- e. Form 2106, line 7.

**Note:** Only employees in the following categories qualify to use Form 2106: Armed Forces Reservists, qualified performing artists, fee basis state or local government officials and employees with impairment-related work expenses

(4) The OTINC amount on a 99MIS IR represents the full value of Other Income. If the taxpayer reports a lesser amount, consider the difference U/R, unless documentation is attached to the return.

(5) Accept OTINC as reported if:

- a. The taxpayer is **incorporated** (payer name must include CORP, INC, LC, LLC, PA, SC or PC) and pays wages to themselves (the name and/or address of the payer is similar to or matches the name and/or address of the taxpayer).

**Exception:** Do not consider OTINC reported if Form W-2 and 99MIS IR are from the same payer, the income is from the Alaska Permanent Fund Dividend, or is identified as National Mortgage Settlement (NMS) and/or Independent Foreclosure Review (IFR).

- b. The taxpayer appears to be a partner or shareholder as shown on Schedule E, Part II.

from the Alaska Permanent Fund Dividend, or identified as National Mortgage Settlement (NMS) and/or Independent Foreclosure Review (IFR).

- c. The taxpayer has identified the payments as disaster or FEMA mitigation, made under any of the following: the Hazard Mitigation Grant Program (HMGP), the pre-Disaster Mitigation Program (PDM) or the Flood Mitigation Assistance Program (FMA).

- d. The taxpayer **nets the amount** for reimbursed expenses reported on

- e. For TY 2022 and TY 2023, payments for affected taxpayers from the Red Hill Fuel Spill are excludable from gross income to the extent of the cost

(6) The value of medals and/or prizes and awards paid by the U.S Olympic Committee (USOC) to competitors after December 31, 2015 are tax-exempt when the taxpayer's AGI is \$1 million or less (\$500,000 for married filing separately). Taxpayers are instructed to include these amounts on Form 1040/1040-SR Schedule 1, line 8 (TY 2020), Schedule 1, line 8l (TY 2021) , line 8m (TY 2022) and subtract the amount on the dotted line portion of Form 1040/1040-SR, Schedule 1, line 22 (TY 2020), Schedule 1, line 24c (TY 2021 and subsequent). If the IR is not reported and it can be determined the taxpayer is

(7) If an explanation is attached to the return indicating the fellowship, grant, or stipend was used for tuition, fees, books, supplies, and equipment required for the course, AND:

The taxpayer cannot deduct expenses that exceed the IR.

- c. The taxpayer excluded expenses not shown above, then pursue the unallowable expenses. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- (8) If the OTINC IR is identifiable as fellowship, grant, stipend income, no explanation of tuition expenses is attached, and the IR is not fully reported, pursue the amount not reported. **Send PARAGRAPH 124**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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- b. DO NOT ASSESS SE tax on scholarship/stipend income.

4.19.3.8.18.2

(06-01-2023)

**OTINC - Miscellaneous**

- (1) The OTINC amount may represent a court award/settlement amount, as indicated on the taxpayer's attachment. The full amount is to be reported on Form 1040/ 1040-SR, Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021 and subsequent). The following items are to be included as Ordinary Income:
  - a. Interest on any award.
  - b. Compensation for lost wages or lost profits unless awarded due to personal physical injury or sickness.
  - c. Punitive damages. It does not matter if they relate to a physical injury or physical sickness.
  - d. Amounts received in settlement of pension rights (if the taxpayer did not contribute to the plan).
  - e. Damages for patent or copyright infringement, breach of contract or interference with business operations that replace ordinary income.
  - f. Damages for emotional distress received to satisfy a claim under antidiscrimination statutes, for example, Title VII of the Civil Rights Act of 1964, and comparable state statutes.
  - g. Damages received for emotional distress due to a personal injury that is unrelated to a physical injury or sickness (for example, employment discrimination or injury to reputation) but does not include damages not in excess of amount paid for medical care to treat emotional distress.
- (2) The Judgment Fund Branch of the United States Department of Agriculture (USDA) paid cash settlements and granted loan cancellations as a result of a 1999 class action discrimination suit filed by farmers. See IRM 21.6.4.4.9.3, USDA Discrimination Settlement Payments, for additional information.
- (3) The National Mortgage Settlement (NMS) and/or Independent Foreclosure Review (IFR) paid cash settlements to certain borrowers whose principal residence was involved in the foreclosure process.
- (4) Consider the IR reported if the taxpayer reports the payment(s) on the return AND indicates any of the following:

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**Note:** Beneficiaries of National Mortgage Settlement and Independent Foreclosure Review payments may treat the distribution(s) in the same manner as the decedent would have had the decedent lived and received the income.

- (5) Gains from reimbursements for damages, casualty and theft, etc., are reported on Form 4684 and Form 4797.
- (6) Any legal expenses, up to the settlement included in gross income, from: an unlawful discrimination suit, a claim against the U.S. Government or a claim made under section 1862(b)(3)(A) of the Social Security Act, may be deducted as an adjustment to income on the dotted portion of Schedule 1, line 22 (TY 2019 and TY 2020), Schedule 1, line 24h (TY 2021) on Form 1040/1040-SR. Consider any deducted amount over the reported settlement as U/R income.
  - a. Taxpayers are only allowed to deduct legal expenses incurred in attempting to produce or collect taxable income. For business related legal expenses, Schedules C, E, part I, and/or F may be used.
  - b. If the taxpayer nets the amount for legal fees, pursue the deducted amount as U/R.

**Exception:** If the settlement involves: unlawful discrimination as defined in IRC 62(e), a claim against the U.S. Government or a claim made under section 1862(b)(3)(A) of the Social Security Act.

- (7) OTINC paid by an auto manufacturer to a motor vehicle salesperson is not subject to SE tax and CANNOT be reported on Schedule C. If it is the only income reported on Schedule C:
  - 1. Disallow the expenses.
  - 2. Adjust SE tax as appropriate.
  - 3. **Send PARAGRAPH 205**, see Exhibit 4.19.3-7, CP PARAGRAPHS
- (8) If OTINC is partially reported on Schedule C or F, treat as self-employment income. Enter Income Identify Code "PB", "PF", "SB", or "SF" as applicable in the INC CD field on the Case Analysis screen. See Exhibit 4.19.3-9, Income Identify Codes.
- (9) If OTINC is reported on Schedule C or F and the taxpayer should have paid SE tax but did not, the SE tax must be computed or recomputed if OTINC is asterisked or a notice is sent for another issue(s). Include the reported OTINC amount in the PRIM REPRTD SE INC NOT ON SE and/or SEC REPRTD SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax.
  - a. Send reported OTINC IR elements on the notice when adjusting SE tax.
  - b. If the OTINC amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.
- (10) 99MIS IRs with OTINC amounts may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.

- (11) If Other Income is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.19  
(09-30-2018)  
**Gambling Income -  
General**

- (1) Gambling income represents reportable winnings from a gambling activity.
- (2) Gambling income is reported on Form W-2 G, Certain Gambling Winnings.
- (3) Gambling income is identified on the Case Analysis screen by the literal "W-2G" in the DOC TYPE field and the literal "GAMBL" in the INCOME TYPE field.

4.19.3.8.19.1  
(09-21-2020)  
**Gambling Income -  
Analysis**

- (1) Comparisons for the following must match within \$1 or be CLEARLY IDENTIFIED as GAMBL:

2020	TY 2021	TY 2022
Form 1040 / Form 1040-SR, line 1	Form 1040 / Form 1040-SR, line 1	Form 1040 / Form 1040-SR, line 1a
Form 1040 / Form 1040-SR, Schedule 1, line 8	Form 1040 / Form 1040-SR, Schedule 1, line 8b	Form 1040 / Form 1040-SR, Schedule 1, line 8b

- a. Schedule C, Part I, lines 1 or 6, if payer or business activity indicates that it is the same income. See IRM 4.19.3.8.19.2, Gambling Losses, for additional information.
- b. Schedule F, lines 8 or 43.
- (2) If the taxpayer reports gambling income on Schedule D, Part II, compare the amount reported with the IR and take the following action:
- If the amount reported on column (h), is equal to or greater than the IR amount, consider the income reported.
  - If the amount reported on column (h), is less than the IR amount, consider the difference U/R.
- Note:** If reported on Schedule D, Part II, subtract the gambling income from the LONG-TERM GAIN/LOSS field in the SCHD/8814/ECR Tax window and send a Special Paragraph using the following verbiage as an example: "Gambling winnings are ordinary income and do not qualify for capital gains treatment."
- (3) Gambling income may erroneously display as discrepant if an amount is present on Form W-2 G, box 7 (winnings from identical wagers). This amount displays on the IR by the literal "IDWAG". Disregard IDWAG amounts. The system automatically assigns status code "X" to IDWAG amounts. Consider gambling income reported if the amount the taxpayer reports matches the GAMBL IR within \$1.
- (4) If neither gambling income nor gambling losses are reported, consider the entire IR(s) U/R.
- (5) If the taxpayer did not itemize their deductions, **send PARAGRAPH 42**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.8.19.2  
(09-21-2020)  
**Gambling Losses**

- (1) If the taxpayer itemizes deductions on Schedule A, they may deduct gambling losses equal to gambling winnings. If the taxpayer deducts gambling losses on Schedule A but reports no winnings, disallow gambling losses on Schedule A.

**Exception:** If there are U/R Gambling IRs, pursue the Gambling IRs and allow the reported Gambling Losses up to the amount of the U/R Gambling IRs.

- (2) If the taxpayer did not file Schedule A, they may deduct gambling losses in excess of the applicable standard deduction amount for their filing status.  
**Send PARAGRAPH 42**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (3) The taxpayer is eligible to itemize deductions when deductions on Schedule A exceed the applicable standard deduction amounts for their filing status. See IRM 4.19.3.13, Standard Deduction, for further information.
- (4) Gambling losses are O/D if:
- They exceed gambling winnings.
  - They are deducted twice. (The taxpayer reports net gambling winnings and also deducts gambling losses on Schedule A.)
  - They are directly deducted from gambling winnings, and the taxpayer is not eligible to itemize deductions. (Gambling losses offset against gambling winnings are less than the standard deduction amount.)

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- (5) When the taxpayer is claiming gambling losses on Schedule A and, is not claiming any gambling winnings on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020) or Schedule 1, line 8b (TY 2021 and subsequent), **AND** there are no GAMBL IR(s):
- Select the Schedule A window and disallow the amount of losses the taxpayer claimed by entering zero (0) in the GAMBLING LOSS OF OTHER MISC RECOMPUTED field.
  - DO NOT adjust the GAMBLING LOSS OF OTHER MISC PER RETURN, TOTAL DEDUCTIONS fields.
  - Send PARAGRAPH 144**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (6) When the taxpayer claims more losses on Schedule A than winnings on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020) or Schedule 1, line 8b(TY 2021 and subsequent) take the following action:
- Select the Schedule A window and enter the allowable reported losses (up to the reported winnings PLUS any U/R gambling) in the GAMBLING LOSS OF OTHER MISC RECOMPUTED field.
  - DO NOT adjust the GAMBLING LOSS OF OTHER MISC PER RETURN, TOTAL DEDUCTIONS fields.
  - Send PARAGRAPH 42**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (7) When the taxpayer **nets** gambling losses against gambling winnings and either filed or did not file a Schedule A (or an attached Schedule A was not used because it was less than the standard deduction):



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1. Mark the GAMBL IR(s) U/R for the amount of loss claimed.
2. Select the Schedule A window.
3. If **no Schedule A** was filed and the allowable gambling losses now exceed the standard deduction amount, enter a zero (0) in the GAMBLING LOSS OF OTHER MISC PER RETURN, TOTAL DEDUCTIONS fields. Include the gambling losses (up to the gambling winnings amount) in the GAMBLING LOSS OF OTHER MISC RECOMPUTED field. If appropriate, update any other fields in the Schedule A window.
4. If **Schedule A was filed**, DO NOT adjust the GAMBLING LOSS OF OTHER MISC PER RETURN, TOTAL DEDUCTIONS fields. Update the GAMBLING LOSS OF OTHER MISC RECOMPUTED field with the amount of the allowable losses.
5. **Send PARAGRAPH 42**, (see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Caution:** If the filing status is 3 and/or the taxpayer checks the box on Schedule A, line 18 or writes "IE" (Itemized Elected) on the left dotted portion of Form 1040/1040-SR, line 12 (TY 2020 and TY 2022) or line 12a (TY 2021), DO NOT adjust the Schedule A window. Consider the gambling U/R and **send PARAGRAPH 42**.

- (8) If the taxpayer filed a Schedule A, verify the GAMBLING LOSS OF OTHER MISC PER RETURN and GAMBLING LOSS OF OTHER MISC RECOMPUTED fields contain the correct amounts.
- (9) Verify the TOTAL DEDUCTIONS fields include the allowable amount of gambling losses. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Schedule A window, for further instructions.
- (10) If the taxpayer did not file a Schedule A and gambling losses are less than the standard deduction amount, no entry is necessary on the Schedule A window. **Send PARAGRAPH 42**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (11) Only taxpayers who conduct gambling as a business (in other words, "**professional gamblers**") are permitted to report gambling income and losses on a Schedule C. The taxpayer may claim gambling losses only up to the amount of gambling income. If the taxpayer claims gambling losses in excess of gambling income, disallow the portion of gambling losses in excess of income.
  1. Enter the total gambling losses claimed in the PRIM/SEC SCH C EXPENSE PER RETURN field of the MISC ADJUSTMENT/SCHEDULE C EXPENSE window.
  2. Enter the allowable gambling losses in the PRIM/SEC SCH C EXPENSE NOW field of the MISC ADJUSTMENT/SCHEDULE C EXPENSE window.
  3. Adjust SE tax as appropriate.
  4. **Send PARAGRAPH 14**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (12) If it appears that gambling is not the primary source of income for the taxpayer (example: the taxpayer lists their occupation as other than "professional gambler" and/or reports significant earned income from non-gambling sources), use the MISC ADJUSTMENT/SCHEDULE C EXPENSE window to disallow the expenses and income claimed on Schedule C. Take the following action:

1. Enter a zero (0) in the MISC ADJUSTMENT PER RETURN field.
2. Enter the gambling income reported on Schedule C in the MISC ADJUSTMENT NOW field.
3. Enter the disallowed expenses amount as a positive amount in the PRIM/SEC SCH C EXPENSE PER RETURN field.

**Note:** Expenses include total expenses and cost of goods sold.

4. Enter the gambling income reported on Schedule C in the PRIM/SEC SCH C EXPENSE NOW field.
  5. Recalculate the SET window.
  6. **Send PARAGRAPH 14**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  7. Include a Special Paragraph on the notice using the following verbiage as an example: "The Miscellaneous Adjustment included in this notice reflects the changes made to your Schedule C."
- (13) GAMBL IRs may reflect W/H. See IRM 4.19.3.17.1.1, Withholding - Analysis, for further instructions.
- (14) If gambling winnings are U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.20  
(09-30-2014)  
**Cancellation of Debt  
(DBTCN) - General**

- (1) Cancellation of Debt is generally considered income to the taxpayer if a debt owed to the Federal Government, financial institution, credit union or other creditor was discharged and is not otherwise excluded from gross income.
- (2) Cancellation of Debt is reported on Form 1099-C, Cancellation of Debt.
- (3) Cancellation of Debt is identified on the Case Analysis screen by the literal "1099C" in the DOC TYPE field and the literal "DBTCN", "INTFG", or "FMV" in the INCOME TYPE field. Only pursue DBTCN amounts.

4.19.3.8.20.1  
(06-01-2023)  
**Cancellation of Debt  
(DBTCN) - Analysis**

CP PARAGRAPHS.

- (2) An IR with a literal of DBTCN may also have an identifiable event code "A", indicating Bankruptcy or "D", indicating foreclosure in the IND field under the PAYER section of the IR. These IRs are system deleted.

**Caution:** If the IRs are not system deleted mark with Status Code "D" or "N".

- (3) If a DBTCN IR is system deleted ("X") and you can determine based on a dollar match or as identified by payer that the IR is reported, DO NOT allow credit for the reported amount(s) against other DBTCN IRs.
- (4) Comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as DBTCN:
  - a. Form 1040/1040-SR, Schedule 1, line 8 (TY 2020 ) or line 8c (TY 2021 and subsequent).
  - b. Schedule C, Part I, line 6.
  - c. Schedule E, Part I, lines 3 and 4.
  - d. Schedule F, Part I, lines 3a, 4a, 5b, 6a, and 8; or, Part III, lines 39a - 43.

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- e. Give credit for amounts computed or explained on an **attachment** that are identified as being from the same payer.

**Exception:** If the taxpayer reports the full amount of the IR and then zeroes it out, request the taxpayer either get a corrected statement from the payer or submit a completed Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment).

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- (5) If there are two DBTCN IRs with **identical** payer names and money amounts and one IR is for the primary taxpayer and the other is for the spouse, delete one IR.

- (6) If the taxpayer reduces the reported DBTCN amount by the INTFG (interest

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- (8) Consider the DBTCN reported when DBTCN is from a Student Loan and the taxpayer has indicated:

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- (9) The Federal Emergency Management Agency (FEMA), operating as a division of the U. S. Department of Homeland Security, has a national program to forgive amounts paid to taxpayers (incorrectly or due to fraud) who are unable to repay these amounts. These IRs are valid. Pursue any U/R amounts.

- (10) The Mortgage Forgiveness Debt Relief Act of 2007 (Pub. Law 110-142) created an exclusion under sections 108(a)(1)(E) and 108(h) for discharged qualified principal residence indebtedness. For TY 2018 and prior, this exclusion applies to qualified principal residence indebtedness that is discharged on or after January 1, 2007 and before January 1, 2018. This exclusion also applies to discharges on or after January 1, 2018, if pursuant to a written agreement entered before January 1, 2018. The maximum amount that can be treated as qualified principal residence indebtedness is \$2 million (\$1 million if MFS). taxpayers must file Form 982 to claim this exclusion.

- (11) If the taxpayer has received DBTCN from a Foreclosure or Repossession and the taxpayer **is** personally liable (**recourse debt**), the amount by which the

canceled debt exceeds the FMV of the property must generally be reported as ordinary income on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8c (TY 2021 and subsequent).

- (12) If the taxpayer has received DBTCN from a Foreclosure or Repossession and the taxpayer is **not** personally liable (**non-recourse debt**), the gain or loss is computed by comparing the balance of the loan amount with the adjusted basis.
- a. Losses are non-deductible, unless the property was used in trade or business. #
  - Special Paragraph to inform the taxpayer these losses are not deductible.
  - b. Losses in excess of gains from sales of property used in trade or business are deductible as ordinary losses.
  - c. Losses in excess of gains from sales of capital assets held for investment are deductible up to \$3,000 (\$1,500 if married filing separately).
- (13) If the taxpayer indicates that the income is not taxable because they're **insolvent**, (for example, Form 982, box 1b, is checked or on an attached statement), the taxpayer **MUST** provide a statement showing the amount of their insolvency. If the taxpayer does not provide a breakdown of their assets and liabilities, **DO NOT** consider them to be insolvent. If no statement is attached send PARAGRAPH 223, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- Reminder:** If sending PARAGRAPH 223 because the taxpayer indicates income is not taxable because they're insolvent, but does not provide a breakdown of their assets and liabilities, "toggle off" PARAGRAPH 72.
- (14) The taxpayer is considered insolvent if the net liability amount(s) shown on the attached statement is **GREATER** than the total fair market value of assets immediately prior to the debt cancellation.
- a. If the DBTCN IR amount(s) is less than or equal to the insolvency #
  - b. If the DBTCN IR amount(s) is more than the insolvency amount, the #
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- (15) If the taxpayer indicates they did not report the DBTCN income because they #
- (16) If the taxpayer states that they filed for either Chapter 12 or 13 of the Bank- #
- Special Paragraph to the taxpayer requesting the bankruptcy paperwork.
- (17) If the taxpayer **indicates** that the cancellation or discharge of debt was due to #

4.19.3.8.20.2  
(09-30-2014)

#### DBTCN - Miscellaneous

- (1) PARAGRAPH 72 automatically generates when DBTCN is U/R.

- (2) If DBTCN is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.21  
(11-20-2013)

**Taxable Grants - General**

- (1) A grant is subsidized financing paid by federal, state, or local programs for energy conservation or production projects, and is income to the recipient.

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- (2) Taxable grants are reported on Form 1099-G.
- (3) Taxable grants are identified in the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "GRANT" in the INCOME TYPE field.

4.19.3.8.21.1  
(09-21-2020)

**Taxable Grants - Analysis**

- (1) Compare GRANT amounts with entries on Form 1040/1040-SR, Schedule 1, line 8 (d TY 2020), Schedule 1, line 8z (TY 2021 and subsequent), or an attachment to the return.

- The amount must match within \$1, or
- Must be identified as grant income

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- (3) If the payer is the US Department of Agriculture (USDA), compare grant amount(s) with entries on:
- a. Schedule F, lines 4a, 4b, 39a, or 39b.
  - b. Schedule F, lines 8 or 43. The amount must match within \$1 or be clearly identified as grants.
- Note:** If a GRANT amount is partially reported on Schedule F, treat as self-employment income. Enter Income Identify Code "PF" or "SF" as applicable in the INC CD field on the Case Analysis screen.
- c. Form 4835, lines 3a or 3b.

4.19.3.8.21.2  
(09-01-2004)

**Taxable Grants Miscellaneous**

- (1) 1099G IR(s) with GRANT amounts may reflect W/H. See IRM 4.19.3.17.1, Withholding - General, for further instructions.
- (2) **Send PARAGRAPH 124**, (see Exhibit 4.19.3-7, CP PARAGRAPHS), only if the GRANT is related to education.
- (3) When taxable grants are U/R, enter the return amount in the RETURN field of the Summary screen.

4.19.3.8.22  
(09-21-2020)

**Substitute Payments in Lieu of Dividends or Interest (PLDIV)**

- (1) Substitute payments in lieu of dividends or tax-exempt interest are made by a broker who transfers a taxpayer's securities for use in a short sale and receives certain substitute dividend or interest payments on the taxpayer's behalf while the short sale is open.
- (2) Substitute payments in lieu of dividends or interest are reported on Form 1099-MISC and are identified on the Case Analysis screen by the literal "99MIS" in the DOC TYPE field and the literal "PLDIV" in the INCOME TYPE field.

- (3) Compare PLDIV amounts with entries on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).
  - The amount must match within \$1, or
  - Must be clearly identified as substitute payments in lieu of dividends income
- (4) **Send PARAGRAPH 41** when PLDIV are reported as interest or dividends. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) If PLDIV are U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.23  
(03-03-2021)  
**Securities Sales -  
General**

- (1) Securities sales are the proceeds from transactions involving stocks, bonds, other debt obligations, commodities, or forward contracts.
- (2) Securities sales income is reported on Form 1099-B and taxpayers are instructed to include these amounts on Schedule D/Form 8949, Sales and Other Dispositions of Capital Assets.
- (3) Securities sales is identified on the Case Analysis screen by:

DOC TYPE field literal	INCOME TYPE field literal	Reference
"1099B"	"STOCK"	NA
"1099B"	"BASIS"	IRM 4.19.3.8.23.1.1, Cost Basis - Analysis for additional informa- tion.
"1099B"	"AMD"	IRM 4.19.3.8.3.5, Accrued Market Discount (AMD).

- (4) There are four Category Codes for STOCK:
  - Category 31 contains 100 or fewer IRs with Schedule D filed.
  - Category 39 contains more than 100 IRs with Schedule D filed.
  - Category 61 contains 100 or fewer IRs with no Schedule D filed.
  - Category 79 contains more than 100 IRs with no Schedule D filed.

4.19.3.8.23.1  
(07-11-2022)  
**Securities Sales -  
Analysis**

- (1) ONLY screen STOCK IRs and other elements of the IR in Category 31, 39, 61 and 79. If the securities are asterisked in categories other than 31, 39, 61 and 79, the system marks the IRs with status code "X". If appropriate, close the case with PC 2X.

- a. If the case is open in any other category, do not screen STOCK IRs.

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- (2) A CP 2501 must be the first notice sent if the net U/R from STOCK and BASIS IRs is \$100,000 or more; otherwise, issue a CP 2000 Notice.
- (3) Do not pursue negative STOCK amounts on 1099B IR(s).
- (4) Generally, 1099B STOCK IRs contain a CUSIP (Committee on Uniform Security Identification Procedures) number. This number can be up to nine characters long, consisting of alpha and/or numeric characters. The first six digits of the CUSIP represent the issuer number and the 4th and 5th and/or 6th positions may contain alpha character(s). The CUSIP number identifies the issuer of the security and the type of security. Alpha characters in the 7th and/or 8th position(s) of the CUSIP number denote fixed income obligation securities. Do not pursue unreported STOCK IRs that contain alpha characters in the **7th and/or 8th** positions of the CUSIP number **AND** the STOCK IR amount is divisible by 50 (for example, the last two digits of the STOCK transaction amount ends in either "00" or "50"). When the taxpayer has reported these amounts, the IRs must be taken into consideration when determining the U/R amount.
- (5) Pursue STOCK IRs whose entity includes nontaxable Municipal Bond, tax-free exchange or tax-free **unless** the CUSIP number meets the conditions provided in (1) above.
- (6) Some securities sales IR(s) appear to be duplicates because the account numbers, the amounts, AND the source (paper or tape) are identical. DO NOT consider these IR(s) as duplicates if the transaction (sales) dates, CUSIP number or item description shown on the IR(s) are different.
- (7) Digital assets (Virtual currency) for example, bitcoin, may be used to pay for goods and/or services and can be held for investment. Digital assets are treated as property for federal income tax purposes. While the treatment of digital assets may share some similarities to traditional securities such as equities and debt instruments, digital assets are not included in the definition of securities in many parts of the Internal Revenue Code. It can be reported by the payer on Form 1099-MISC, Form 1099-NEC, Form W-2, Form 1099-B, or Form 1099-K. Digital Assets (Virtual currency) received as payment for goods or services when operating a trade or business is generally treated as ordinary income and is generally subject to SE tax. See IRM 4.19.3.22.3.13, NEC and MERCH, for further instructions. Digital Assets (Virtual currency) held for the investment is generally treated as a capital asset and may result in a gain or loss upon the sale or exchange, similar to stocks, bonds and other investment property.

**Note:** If the taxpayer engaged in any transactions involving digital assets (virtual currency), the digital assets (virtual currency) check box at the top of Form 1040/1040-SR (TY 2020 and TY 2021) or the digital asset check box at the top of Form 1040/1040-SR (TY 2022) will be checked "Yes".
- (8) If the U/R is from the sale of digital assets (virtual currency) held for the investment, Form 1099-B, and the income is not reported on the return, send **Paragraph 224**, see Exhibit 4.19.3-7, CP PARAGRAPHS to advise the taxpayer the income is considered a capital asset. The sale or trade should be reported on Schedule D as a capital gain or loss.
- (9) Digital assets (Virtual currency) may be reported or partially reported on:



- Schedule D, Part I, lines 1a, 1b, 2, or 3 column (d) or
  - Schedule D, Part II, lines 8a, 8b, 9 or 10
  - Form 8949, Part I, line 1 column (d) or
  - Form 8949, Part II, line 1, column (d)
- (10) The Tax Cuts and Jobs Acts of 2017 (TCJA) enacted December 2017, allows taxpayers to elect to defer capital gains invested in a Qualified Opportunity Fund (QO Fund). Depending on how long the investment is held, in addition to temporary deferral, taxpayers may exclude some of the capital gain as follows:
- **Temporary Deferral** - Generally investors may elect to defer the recognition of capital gains invested into a QO Fund within 180 days of the date of the sale or exchange. An investor must include the remaining deferred gain on the earlier of an inclusion event or by December 31, 2026.
  - **Basis Increase** - The investors basis is zero at the time of the investment into the QO Fund. If the investor holds the QO Fund for at least 5 years, then the basis of the investment increased by 10 percent of the amount of the deferred gain. If the investor holds the QO Fund for at least 7 years, then the basis of the investment is increased by an additional 5 percent of the amount of the deferred gain.
  - **Permanent Exclusion** - If the QO Fund investment is a qualifying investment (an investment to which a proper deferral election was made) and the investor held the qualifying investment for at least 10 years, then the investor may adjust the basis in the investment to its fair market value on the date of the QO Fund investment is sold or exchanged. Thus, the appreciation on the investments in the QO Fund will not be subject to tax.

The sale or exchange of an investment in a QO Fund is reported on Form 8949 or Schedule D.

- (11) Compare STOCK (Short-Term) amounts with entries on:
- Schedule D, Part I, lines 1a, 1b, 2 or 3, column (d).
  - Form 8949, Part I, column (d).
- (12) Compare STOCK (Long-Term) amounts with entries on:
- Schedule D, Part II, lines 8a, 8b, 9 or 10, column (d).
  - Form 8949, Part II, line 1, column (d).
- (13) Comparisons with the following entries must match within \$1 or be CLEARLY IDENTIFIED as STOCK:
- a. Form 4797, Part II, line 10 and the taxpayer has made a mark-to-market election.
  - b. Schedule C, Part I, line 1 and the taxpayer made a mark-to-market election. **Send PARAGRAPH 117**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  - c. Form 6252, Part I, line 5.
- (14) If the taxpayer reported STOCK on either Schedule C or Form 4797 and there is no indication that a mark-to-market election was made, see IRM 4.19.3.8.23.1.2, Day Trader Securities - Analysis.

- (15) If Form 8949 (or a similar statement) is attached, use the following items when comparing the IRs to the return:
- sales date
  - money amount
  - item description (brokerage name or actual stock name)
  - income identify code
- (16) Accrued Market Discount (AMD) comparisons for the following entries must match within a \$1 or be CLEARLY IDENTIFIED as AMD, see IRM 4.19.3.8.3.5, Accrued Market Discount (AMD) for additional information:
1. Schedule B, Part I, line 1.
  2. Form 8949, Part I or II, column (g).
  3. Schedule D, Part I, line 1b, column (g) or Part II, line 8b, column (g).
- (17) Individual STOCK IR(s) are screened using the following procedures:
1. Mark the STOCK element with status code "U".
  2. The Adjusted Gross Income window displays. Enter/verify the fields.
  3. The COMPUTE SCHEDULE D LOSS window displays. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - SCHEDULE D LOSS, to determine the correct field entries.  
**Note:** If there is U/R STOCK and the taxpayer reports a capital loss on Form 1040/1040-SR, line 7 enter a zero (0) in both fields on the COMPUTE SCHEDULE D LOSS window. It may be necessary to blank out both fields first. This prevents the system from using losses in excess of \$3,000 (\$1,500 if MFS) to offset U/R Schedule D income.
  4. The cursor returns to the IR CD field of the IR where it was before the windows displayed. This field is blank.  
**Note:** The Adjusted Gross Income and COMPUTE SCHEDULE D LOSS windows automatically display when a status code "U" is entered the first time. It is not necessary to subsequently access these windows unless the field entries need to be changed.
  5. Enter status code "U", "R", or "N" and the reported amount, if applicable, for the STOCK elements.
  6. The system uses the information on the COMPUTE SCHEDULE D LOSS window to determine the correct amount of Schedule D income. The total U/R Schedule D income amount is included in the TOTAL AGI CHANGE field on the Case Analysis screen.
- (18) If you cannot match the individual IRs, take the following action:
1. Group the IRs by payer and compare the total to the gross amounts reported by payer on Form 8949, Part I, line 1, column (d) for Short-Term or Part II, line 1, column (d) for Long-Term.
  2. Compare the group total to the total stock reported for that payer.  
**Reminder:** Use both short and long-term stock sales amounts when making the comparison.
  3. If the group total amount is smaller, consider the stock reported.
  4. If the group total amount is larger, consider the difference underreported.

- (19) If a breakdown of stock is **not shown** on the return or an attachment and there is more than one STOCK IR, take the following action:

1. Group by income type or income identify code. Compare the total to the gross amounts reported on Schedule D,

Income Identify Code	Line Numbers
ST	Part I, lines 1a, 1b, 2 or 3, column (d) (Short-Term)
SD	Part II, lines 8a, 8b, 9 or 10, column (d) (Long-Term)

**Note:** The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.

2. Compare the group total to the total stock amount reported.

**Reminder:** Use both short and long-term stock sales amounts when making the comparison.

3. If the group total amount is smaller, consider the stock reported.
4. If the group total amount is larger, consider the difference underreported.

- (20) If Stock Option Statements are attached to the return consider them during the screening process.

- (21) When taxpayers exercise **non-statutory (nonqualifying) employee stock options**, the gain is reported as ordinary income. Employers include the exercised amount on Form W-2, box 1 and identify the stock option amount in box 12 using code "V". The "V" Code displays on WAGES IRs with the literal VCODE. Delete fully U/R STOCK IR(s) when:

- a. There are 1-4 STOCK IR(s) (per taxpayer) containing the payer name/ item description that corresponds with the payer name on a WAGES IR AND
- b. Form W-2 box 12 contains an amount with code "V" that is less than or equal to the total of STOCK IR amount(s).

**Note:** See IRM 4.19.3.8.1.1, Wages - Analysis, for additional information regarding exercising of employee stock options.

- (22) PARAGRAPH 24 automatically generates when STOCK is treated as ordinary income due to loss limitations. If the loss per return is less than \$3,000 (\$1,500 if MFS), toggle off PARAGRAPH 24 from the Summary screen.

4.19.3.8.23.1.1  
(11-23-2022)

#### Cost Basis - Analysis

- (1) ONLY screen BASIS IRs in Category 31, 39, 61 and 79. If the cost basis element is asterisked in categories other than 31, 39, 61 and 79, the system marks the IRs with status code "X". If appropriate, close the case with PC 2X. If the case is open in any other category, do not screen BASIS IRs.
- (2) The BASIS element displays income identify code of "SC" for Short-term cost basis or "LC" for Long-term cost basis.
- (3) A CP 2501 must be the first notice sent if the **net** U/R from STOCK and BASIS IR(s) is \$100,000 or more; otherwise, issue a CP 2000 Notice.

- (4) If the STOCK element on an IR containing BASIS is fully U/R, use the BASIS amount as the reported amount for STOCK and enter status code "N" or "D" on the BASIS element.

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- (7) If issuing a notice for STOCK and the BASIS amount was considered in determining the U/R amount, the BASIS element(s) is systemically included on the notice when the STOCK element is marked with a **U**. Send Indicator **S** will not be reflected on the BASIS element of the IR on the Case Analysis screen and BASIS will not be displayed on the Summary screen: however, BASIS will be included on the notice.

4.19.3.8.23.1.2  
(09-01-2012)

**Day Trader Securities -  
Analysis**

- (1) Transactions from trading activities are reported on Form 8949 (when the taxpayer has NOT made a mark-to-market election per IRC 475) or on Form 4797 (when the taxpayer has made a mark-to-market election).
- (2) The gain or loss from the trading of securities is not subject to SE tax.
- (3) Taxpayers who engage in the business of buying and selling securities (such as, a trader or day trader) are allowed to claim business related expenses on Schedule C.
- (4) Transactions from day trading activities are subject to the \$3,000 (\$1,500 if married filing separately) limit on capital losses **UNLESS** the taxpayer made a mark-to-market election (IRC 475).
- (5) If there is no indication that a mark-to-market election was made and the taxpayer reports securities gains on Schedule C (Part I, line 7 is positive) or Form 4797 (Part II, line 10 is positive) and the securities are equal to or greater than the STOCK IR(s), consider the STOCK reported, otherwise the difference is U/R.
- (6) If there is no indication that a mark-to-market election was made and the taxpayer reports securities losses on Schedule C (Part I, line 7 is negative) or Form 4797 (Part II, line 10 is negative), take the following actions:
- If securities reported are equal to or greater than the STOCK IR(s), consider the STOCK reported, otherwise the difference is U/R.
  - Disallow any losses in excess of \$3,000 (\$1,500 if married filing separately). Ensure that any capital losses reported on Schedule D are accounted for in determining the overall disallowed losses amount.
  - Do not make any adjustments to expenses claimed on Schedule C, Part II, line 28.
  - Do not make any adjustments to SE tax paid.
  - Send PARAGRAPH 118**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  - Issue a CP 2501 if the U/R amount is \$100,000 or more, otherwise issue a CP 2000.

4.19.3.8.23.2  
(09-21-2020)  
**Securities Sales  
Miscellaneous**

- (1) STOCK amounts may be taxed on Schedule D at the applicable capital gain tax rate. See IRM 4.19.3.14.2, Sch D/8814/ECR Tax Window, for further instructions.
- (2) In order for the system to compute the correct tax, the U/R STOCK amount(s) must contain an Income Identify Code. The Income Identify Code for STOCK IRs is defaulted to the appropriate Income Identify Code. The IR displays either a "ST" (Short-Term Gain/Loss) or "SD" (Long-Term Gain/Loss). Do not change the Income Identify Code during screening. See Exhibit 4.19.3-9, Income Identify Codes.
- (3) 1099B IR(s) with STOCK amounts may reflect W/H. If there is an indication that the securities account is jointly owned with someone other than the taxpayer's spouse or the filing status is 3:

**Note:** See IRM 4.19.3.5.3, Jointly Owned Income, for additional instructions on jointly owned income.

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- (4) PARAGRAPH 166 automatically generates when STOCK is U/R.
- (5) If STOCKs are U/R enter the sum of Schedule D, Part 1, lines 1a, 1b, 2 and 3, column (d) **and** Part II, lines 8a, 8b, 9 and 10 column (d) in the RETURN field of the Summary Screen.

4.19.3.8.24  
(09-01-2004)  
**Bartering - General**

- (1) Bartering is an exchange of one taxpayer's property or services for another taxpayer's property or services. The fair market value of property or services received through barter is taxable income.

**Example:** If a doctor agrees to give an accountant a medical exam in exchange for tax return preparation, the fair market value of the medical exam is taxable to the accountant, and the fair market value of the tax return preparation is taxable to the doctor

- (2) If these exchanges occurred through a barter exchange, they are reported to IRS on Form 1099-B. Form 1099-B shows the value of cash, property, services, credits, or scrip received by the taxpayer.
- (3) Bartering is identified on the Case Analysis screen by the literal "1099B" in the DOC TYPE field and the literal "BARTR" in the INCOME TYPE field. Bartering is reflected in the Gross Receipts amount on the Income Comparison screen.

4.19.3.8.24.1  
(09-21-2020)  
**Bartering - Analysis**

- (1) Bartering income is reported on:
  - a. Schedule C, lines 1 or 6.
  - b. Schedule F, lines 1a, 2, 3a, 3b, 7, 8, 9, 37, 42, 43, or 44. (Consider bartering reported here only if you can determine from the payer name or business activity that it is farm related income.)

- (2) Comparisons for the following entries must match within \$1 or be CLEARLY IDENTIFIED as BARTR:
  - a. Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).
  - b. Schedule D.
 

**Note:** Payers may erroneously report securities transactions as bartering since both income types are reported on Form 1099-B.
  - c. Form 8949.
  - d. Schedule E, Part I, lines 3 or 4.
  - e. Form 4835, lines 2a or 2b, 6 or 7.
- (3) BARTR is generally considered self-employment income. If there is reported BARTR on which the taxpayer should have paid SE tax but did not, SE tax must be computed or recomputed if BARTR is asterisked or a notice is sent for another issue(s). Include the reported BARTR amount in the PRIM/SEC REPORTED SE INC NOT ON SE field(s) on the SE Tax window. See IRM 4.19.3.16.1, Self-Employment Tax.
  - a. Send reported BARTR IR elements on the notice when adjusting SE tax.
  - b. If the BARTR amount is entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field in the SE Tax window in error, an un-postable condition will occur.
  - c. Do not assess SE tax when BARTR is fully or partially reported on Form 4835, Schedule D, Form 8949, or Schedule E, Part I.
- (4) Change the Income Identify Code on U/R BARTR IR(s) to "PF", "SF", "PB", or "SB" as applicable.
- (5) PARAGRAPH 126 automatically generates when BARTR is U/R.
- (6) If BARTR is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.25  
(12-26-2007)

**Real Estate Transactions  
- General**

- (1) Real estate transactions are the proceeds from the transfer (sale or exchange) of real estate.
- (2) Real estate transactions are reported on Form 1099-S.
- (3) Taxpayers can exclude up to \$250,000 (\$500,000 if married filing jointly) on the sale of their main home. Any gain in excess of the exclusion amount is reportable income.
- (4) Real estate transactions are identified on the Case Analysis screen by the literal "1099S" in the DOC TYPE field and the literal "REAL" in the INCOME TYPE field.

4.19.3.8.25.1  
(03-17-2023)

**Real Estate Transactions  
- Analysis**

- (1) **ONLY** screen REAL IR(s) in Category 65. If REAL is asterisked in categories other than 65, the system marks the IRs with status code "X". If appropriate, close the case with PC 2X. If the case is open because of other income discrepancies, do not screen the non-asterisked REAL IRs.

**Reminder:** Issue a CP 2501 if the U/R amount is \$100,000 or more.

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- (4) Information returns will display a check box labeled PROP/SERVICES if the payer checked Form 1099-S, box 4, to indicate a transferor received or will receive property or services as part of the consideration.
- (5) The Tax Cuts and Jobs Acts of 2017 (TCJA) enacted December 2017, allows taxpayers to elect to defer capital gains invested in a Qualified Opportunity Fund (QO Fund). Depending on how long the investment is held, they may be able to permanently defer tax on the eligible capital gain as follows:
- **Temporary Deferral** - Generally, investors may elect to defer the recognition of capital gains invested into a QO Fund within 180 days of the date of the sale or exchange. An investor must include the remaining deferred gain on the earlier of an inclusion event or by December 31, 2026.
  - **Basis Increase** - The investors basis is zero at the time of the investment into the QO Fund. If the investor holds the QO Fund investment for at least 5 years, then the basis of the investment is increased by 10 percent of the deferred gain. If the investor holds the QO Fund investment for at least 7 years, then the basis of the investment is increased by an additional 5 percent of the deferred gain.
  - **Permanent Exclusion** - If the QO Fund investment is a qualifying investment (an investment to which a proper deferral election was made) and the investor held the qualifying investment for at least 10 years, then the investor may adjust the basis in the investment to its fair market value on the date the QO Fund investment is sold or exchanged. Thus, the appreciation on the investments in the QO Fund will not be subject to tax.
- (6) Compare REAL amounts with entries on:
- a. Form 4797, Sale of Business Property, lines 1a, 1b, 1c, 2(d), 10(d), 20 or attachments.
  - b. Form 6252, Installment Sale Income, lines 5 or 21.
  - c. Schedule D, see table below for line numbers, or attachments.
  - d. The REAL transaction invested in a QO Fund is reported on Form 8949 or Schedule D, see table below for line numbers.

Form/Schedule	Line Numbers
Schedule D	Part I lines 1a, 1b, 2, or 3, column (d), sales price, or line 4, column (h), gain
Schedule D	Part II lines 8a, 8b, 9,10 (column (d), sales price, or line 11, column (h), gain
Form 8949	Part I, line 1, column (d)
Form 8949	Part II, line 1, column (d)

- e. An attachment to the return that includes purchase and sales price.
- f. If a through e above do not apply, research EUP for Form 8824, line 15 and 16. Leave a detailed case note.



- (7) If the amount reported per (6) above is equal to or greater than the REAL IR(s) amounts and is properly carried forward to Form 1040/ Form 1040-SR , Schedule 1, consider the issue resolved. If the amount reported is less, or is not properly carried forward to Form 1040/ Form 1040-SR, consider the difference U/R.

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- (9) If unable to identify REAL per (6) above, pursue the entire U/R real estate amount(s). **Do not apply any exclusion amount.**

4.19.3.8.25.2  
(01-28-2022)**Real Estate Transactions  
Miscellaneous**

- (1) If there is a Schedule C attached to the return and the principal business is listed as real estate broker, real estate sales, building, construction, or remodeling; or the principal business activity code indicates related business, for example, 233200, 238160, 238900, 531210, etc., consider REAL amount(s) fully reported when:

- Gross Receipts on Schedule C are larger than the REAL amount(s),
- The taxpayer reports the exact amount of the IR(s) on Schedule C, line 6, or
- The taxpayer includes the REAL on an attachment.

- (2) If U/R REAL should be reported on Schedule D:

- Enter Income Identify Code "SD" if the U/R REAL amount(s) is determined to be a long-term capital gain/loss, (Schedule D, Part II) or,
- Enter Income Identify Code "ST" if the U/R REAL amount(s) is determined to be a short-term capital gain/loss, (Schedule D, Part I) or,

**Note:** Income Identify Code "SD" and "ST" allow the system to compute the Schedule D tax if applicable. See IRM 4.19.3.14.2, Sch D/8814/ ECR Tax Window, for further instructions.

- PARAGRAPH 24 automatically generates. If the loss per return is less than \$3,000 (\$1,500 if MFS), toggle off PARAGRAPH 24 from the Summary
- See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis, for procedures to access the Schedule D window and U/R the capital gain income.

- (3) If there is U/R Schedule D REAL income and the taxpayer reports a capital loss on Form 1040/1040-SR, line 7:

- See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis, for procedures to access the Schedule D window and underreporting all Schedule D income.
- Enter a zero (0) in both fields on the COMPUTE SCHEDULE D LOSS window. This prevents the system from using losses in excess of \$3,000 (\$1,500 if MFS).

- (4) PARAGRAPH 5 automatically generates when REAL is U/R.

- (5) If REAL is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.26  
(09-21-2020)  
**Refund of Overpaid  
Mortgage Interest  
(ROMID) - General**

- (1) Refund of Overpaid Mortgage Interest Deduction (ROMID) is a refund of interest the taxpayer paid to a lending institution. If the taxpayer receives a refund in the same year they paid it, they must either:
  - a. Reduce the mortgage interest deduction claimed on Schedules A, C, E, F, Form 4835, Form 8829, or
  - b. Claim the refund amount on Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).
- (2) ROMID amounts are reported to the IRS on Form(s) 1098, box 4 and are displayed on the Information Return window and the Case Analysis screen with the DOC TYPE of "1098" and the INCOME TYPE of "ROMID".

4.19.3.8.26.1  
(09-21-2020)  
**ROMID - Analysis**

- (1) Compare ROMID amount(s) with entries on:
  - a. Form 1040/1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent). The amount must match within \$1 or must be clearly identified as ROMID.
  - b. Schedules A, C, E, F, Form 4835, or Form 8829 where it appears the taxpayer netted (subtracted ROMID amount) the mortgage interest amount reported.

**Note:** Use MORT IR amounts for reference even if they are system deleted.

- (2) If the taxpayer did not itemize deductions in the prior year, the ROMID may still be taxable if the taxpayer claimed a mortgage interest deduction on Schedule(s) C, E, F or Form 4835 or Form 8829. Research may be done on IDRS using CC RTVUE to determine if these Schedules or Forms were filed by the taxpayer and if a mortgage interest deduction was claimed. If the taxpayer did not claim the mortgage deduction on their prior year return, do not pursue the ROMID issue.
- (3) Consider the difference U/R if the ROMID cannot be identified, see (1) above.
- (4) See IRM 4.19.3.11.2, Mortgage Interest Deduction and Points Paid, for instructions on screening mortgage interest (MORT) amounts.
- (5) PARAGRAPH 123 automatically generates.
- (6) If ROMID is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.8.27  
(10-03-2017)  
**Qualified Education  
Program Payments -  
General**

- (1) Qualified Education Program Payments consist of Qualified Tuition Program (QTP) or Coverdell Education Savings Accounts (CESA) and are reported to IRS on Form 1099-Q, Payments From Qualified Education Programs (Under Section 529 and 530). Amount indicators on the Form 1099-Q reflect Gross Distribution (box 1); Earnings (box 2); and QTB (Basis box 3).
- (2) Contributions to a CESA are identified by a Form 5498-ESA, Coverdell ESA Contribution Information, and are non-deductible. If the taxpayer claims an IRA deduction and the amount matches a Form 5498-ESA contribution, disallow the deduction. PARAGRAPH 30 automatically generates when the U/R IRA deduction amount is equal to the RCONT, RCONV or ESA element amount.

4.19.3.8.27.1  
(10-06-2022)

**Qualified Education  
Program Payments -  
Analysis**

- (3) Qualified Education Program Payments are identified on the Case Analysis screen by the literal "1099Q" in the DOC TYPE field and the literals:
  - GRDIS - Gross Distribution
  - EARN - Gross Earnings
  - QTB - Qualified Tuition Basis
- (4) Only EARN is pursued as U/R. GRDIS and QTB is for information only and is system deleted. Underreported EARN is treated as ordinary income and NOT as earned income for purposes of computing EIC, Child Care Credit, etc.
- (1) If there is an indication of a Trustee-to-Trustee transfer (Form 1099-Q, box 4 is checked), the distribution is nontaxable. Do not pursue the issue.
- (2) If a 5498E IR is present with the literal "EROLV" in the INCOME TYPE field, distribution rolled over.
- (3) If case is in Category 30 and EARN is being pursued, issue a CP 2501.
- (4) If EARN is being pursued as a secondary issue (in category other than Category 30), issue a CP 2000.
- (5) Only pursue net positive EARN amounts. When there are multiple 1099Q IR(s), combine positive EARN amounts with any negative EARN amounts. If the combined net EARN is negative, do not pursue the EARN issue. Enter income status code "N" or "D".
- (6) 1099-Q IRs display a Distribution Type Indicator on the Case Analysis screen based on the information in Form 1099-Q box 5:
  - IND "1" - Qualified Tuition Program (QTP) from a private educational institution
  - IND "2" - QTP from a State (or state agent/instrumentality)
  - IND "3" - Coverdell ESA

**Note:** If the indicator is blank, the payer did not specify the type of distribution. Consider the IR valid and continue processing.

- (7) Generally, QTP or CESA distributions are non-taxable if they are less than the designated beneficiary's qualified education expenses. The taxable amount is reported on Form 1040/ Form 1040-SR, Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent). Consider the Form 1099-Q distribution(s) reported when:
  - a. The taxpayer indicates the designated beneficiary's qualified education

**Note:** A 10 percent additional tax may also apply. See IRM 4.19.3.16.5, 10 Percent Tax on Qualified Education Program Payments, for further instructions.

- (8) If an EARN IR is marked U/R, the GRDIS element(s) is systemically included on the notice. The gross distribution amount is used by the taxpayer to calculate the taxable portion of the earnings. The distribution is not taxable if

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the paid expenses minus the expenses claimed for credits or tuition and fees deduction (TY 2020 ) exceeds the gross distribution amount.

**Note:** The Send Indicator “S” will not be reflected on the GRDIS element of the IR on the Case Analysis screen and will not be displayed on the Summary screen.

4.19.3.8.27.2

(09-30-2014)

**Qualified Education  
Program Payments -  
Miscellaneous**

- (1) PARAGRAPH 31 automatically generates when EARN is U/R.
- (2) If EARN is U/R, enter the return amount in the RETURN field on the Summary screen. The CP 2000 displays the discrepancy as “Education Program Payments”.

4.19.3.8.28

(03-14-2018)

**Health Saving Accounts  
(HSA), Archer Medical  
Savings Account  
(AMSA) and Medicare  
Advantage MSA  
(MAMSA) Distributions -  
General**

- (1) Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA, is used to report the following distributions:
  - a. Health Savings Account (HSA).
  - b. Archer Medical Savings Accounts (AMSA).
  - c. Medicare Advantage Medical Savings Account (MAMSA).
- (2) HSA, AMSA and MAMSA distributions are identified on the Case Analysis screen by the literal “99-SA” in the DOC TYPE field and the following literals in the INCOME TYPE field:
  - “SAGD” - Gross distribution
  - “SAEEC” - Earnings on excess contributions

**Note:** The amount of SAEEC is already included in the SAGD amount. Do not pursue the SAEEC amount.

- (3) Taxpayers **must** complete Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, Section A to compute the correct amount of taxable “AMSA” distributions and Section B to compute the correct amount of taxable “MAMSA” distributions.

**Note:** Taxpayers are required to file Form 8853 when they receive an “AMSA” or “MAMSA” distribution, **even if they have no other filing requirement.**

- (4) Taxpayers **must** complete Form 8889, Health Savings Accounts, Part II, to compute the correct amount of “HSA” taxable distribution.

**Note:** Taxpayers are required to file Form 8889 when they receive an “HSA” distribution, **even if they have no other filing requirement.**

4.19.3.8.28.1

(02-27-2023)

**HSA, AMSA and MAMSA  
Distributions - Analysis**

- (1) 99-SA IRs display an Account Type Indicator on the Case Analysis screen based on the information in Form 1099-SA, box 5. This indicator displays in the IND field on the Case Analysis screen and Information Return window(s):
  - a. IND “1” - Health Savings Account (HSA)
  - b. IND “2” - Archer Medical Savings Account (AMSA)
  - c. IND “3” - Medicare Advantage MSA (MAMSA)
- (2) If a 5498S (HSA, AMSA, or MAMSA) IR is present with either the literal

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- (3) The system displays the Form 1099-SA distribution code at the bottom of the Case Analysis screen as DISTRIBUTION CD and in the DIST CD field of the Information Return window.
- (4) Compare 99-SA SAGD amounts with:

Indicator	With entry on
"1" (HSA)	Form 8889, line 14a
"2" (AMSA)	Form 8853, line 6a
"3" (MAMSA)	Form 8853, line 10

- a. If the amount is less than the IR, pursue the difference.
  - b. If the amount matches within \$1 or is greater, consider the IR reported and see (9) and (10) below.
- (5) Do not allow credit for amounts identified as HSA, AMSA or MAMSA on Schedule 1, line 8 (TY 2020), Schedule 1, line 8e (TY 2021) or Schedule 1, line \*e or 8f (TY 2022), if there are no entries on Form 8889, line 14a or Form 8853 lines 6a or 10 or there is no Form 8889 or Form 8853 attached.
- (6) Taxable HSA or AMSA distributions received prior to age 65, with a distribution code of 1 or 5 from Form 1099-SA are subject to an additional 20 percent tax. See IRM 4.19.3.16.4, 20 Percent Tax on Archer Medical Savings Account (AMSA) and Health Savings Account (HSA) Distributions, for more information regarding the additional tax. If the distribution code on the IR is "0", delete the IR and create an IR with either **1** for HSA or **2** for AMSA in the PGR/COD IND field and enter distribution code "1" to propose the additional 20 percent tax for AMSA or HSA.
- Exception:** Do not pursue the additional 20 percent tax on HSA when the box on Form 8889, line 17 a is checked, or on AMSA when the box on Form 8853, line 9a is checked, or 50 percent tax on MAMSA when the box on Form 8853, line 13a, is checked. See IRM 4.19.3.16.4, 20 Percent Tax on Archer Medical Savings Account (AMSA) Health Savings Account (HSA) Distributions.
- (7) Taxable MAMSA distributions from Form 1099-SA are subject to an additional 50 percent tax.

**Note:** If the taxpayer did not address the additional 50 percent tax on MAMSA, manually determine the additional 50 percent tax and enter the amounts in the OTHER MISCELLANEOUS TAXES field of the Total Other Taxes window. **Send PARAGRAPH 212**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- (8) The taxpayer includes the additional taxes on:

TY 2020	TY 2021 and subsequent
Schedule 2, line 8	Schedule 2, line 17c, 17e, 17f

See IRM 4.19.3.16.11, Miscellaneous Other Taxes, for further information.

- (9) If the taxable HSA distributions are listed on Form 8889, line 16, but are not added to the taxpayer's AGI, consider the Form 8889, line 16, amount as U/R and **send PARAGRAPH 80**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** If necessary, create an IR for the taxable HSA distribution amount.

- (10) If the taxable AMSA or MAMSA distributions are listed on Form 8853, line 8 or line 12, but are not added to the taxpayer's AGI, consider the Form 8853, line 8 or line 12, amount as U/R and **send PARAGRAPH 197**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- If necessary, create an IR for the taxable MSA distribution amount.
  - See (7) above when pursuing taxable MAMSA and/or the additional 50 percent tax.
- (11) If the taxpayer reduces their gross medical expenses on Schedule A by the amount of the 99-SA IR instead of using Form 8853 or Form 8889, consider the 99-SA IR reported.
- (12) PARAGRAPH 82 automatically generates when HSA is U/R and Form 8889 is not attached to the tax return.
- (13) PARAGRAPH 55 automatically generates when AMSA or MAMSA is U/R and a Form 8853 is not attached to the tax return.
- (14) PARAGRAPH 186 automatically generates when AMSA and/or MAMSA distributions are adjusted.
- (15) PARAGRAPH 136 automatically generates when HSA distributions are adjusted.

4.19.3.8.29  
(09-21-2020)

**Long-Term Care Benefits  
(LTC) - General**

- Long Term Care Benefits are reported on Form 1099-LTC, Long-Term Care and Accelerated Death Benefits.
- LTC is identified on the Case Analysis screen by the literal "99LTC" and the literal "LTCGB" (long term care gross benefits) or "LTCAB" (accelerated death benefits) in the INCOME TYPE field.
- Taxpayers **must** complete Form 8853, Archer MSAs Section C to compute the correct amount for LTC. The taxpayer may write "LTC" on the dotted portion of Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021) or reported on Schedule 1, line 8e (TY 2022) to identify the income.

4.19.3.8.29.1  
(10-06-2022)

**Long-Term Care Benefits  
(LTC) - Analysis**

- Form 1099-LTC contains the following information:
  - Box 1 - Gross long-term care benefits paid
  - Box 2 - Accelerated death benefits paid
  - Box 3 - Payment Type
  - Box 4 - Qualified Contract



- Box 5 - Illness Type
- (2) 99LTC IRs display a Payment Type indicator on the Case Analysis screen, based on the information from Form 1099-LTC, box 3:
    - “0” if the Per Diem and Reimbursement boxes are blank
    - “1” if the Per Diem box is checked
    - “2” if the Reimbursement box is checked
    - “3” if both boxes are checked
  - (3) 99LTC IRs display an Illness Type indicator on the Case Analysis screen, based on the information from Form 1099-LTC, box 5:
    - “0” if the Chronically Ill and Terminally Ill boxes are blank
    - “1” if the Chronically Ill box is checked
    - “2” if the Terminally Ill box is checked
    - “3” if both boxes are checked
  - (4) 99LTC IRs displays the Payment Type and Illness Type as a two digit indicator:
    - The 1st digit indicator represents the Payment Type
    - The 2nd digit indicator represents the Illness Type

**Example:** The 99LTC IR contains an indicator “21”. The “2” in the first position represents a Payment Type of “Reimbursement” and the “1” in the second position represents an Illness Type of “Chronically”.

- (5) Taxpayers use Form 8853 to determine the taxable portion of either LTCGB or LTCAB paid on a per diem basis.

**Note:** Taxpayers are instructed not to include per diem accelerated death benefits paid because the insured was terminally ill.

- a. Do not pursue unreported LTCGB or LTCAB when the payment indicator is “2” (reimbursement).
  - b. Do not pursue unreported LTCAB when the illness indicator is “2” (terminally ill).
- (6) Compare the LTCGB amount with the entry on Form 8853, line 17 and the LTCAB amount with the entry on Form 8853, line 19.
    - a. If the amount is less than the IR, pursue the difference.
    - b. If the amount matches within \$1, consider the LTC IR reported.
  - (7) If LTCGB or LTCAB are listed on Form 8853, line 26, but are not added into the taxpayer’s AGI:
    - a. Consider the Form 8853, line 26 amount U/R.
 

**Note:** If necessary, create an IR for the taxable LTCGB or LTCAB amount.
    - b. **Send PARAGRAPH 197** to explain the adjustment to the taxpayer. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (8) If the taxpayer reduces their gross medical expenses on Schedule A by the amount of the LTCGB or LTCAB IR element(s) instead of using Form 8853, consider the LTCGB or LTCAB reported.



- (9) PARAGRAPH 55 automatically generates when LTCGB is U/R and Form 8853 is not attached to the tax return. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) PARAGRAPH 187 automatically generates when LTCGB or LTCAB are U/R. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- 4.19.3.8.30  
(09-30-2014)  
**Reemployment Trade Adjustment Assistance (RTAA) Payments - General**
- (1) RTAA are payments received from a state agency under the Demonstration Project for Reemployment Trade Adjustments Assistance for older workers and must be included as income.
- (2) RTAA payments are reported on Form 1099-G.
- (3) RTAA payments are identified on the Case Analysis screen by the literal "1099G" in the DOC TYPE field and the literal "RTAA" in the INCOME TYPE field.
- 4.19.3.8.30.1  
(09-21-2020)  
**Reemployment Trade Adjustment Assistance (RTAA) Payments - Analysis**
- (1) Compare RTAA amounts with entries on Schedule 1, line 8 ( TY 2020), Schedule 1, line 8z (TY 2021 and subsequent) or an attachment to the return.
- The amount must match within \$1, or
  - Must be identified as RTAA payments
- (2) PARAGRAPH 132 automatically generates when RTAA is U/R. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- 4.19.3.8.31  
(09-30-2014)  
**Foreign Source Income**
- (1) Foreign source income is income derived from sources outside of the United States. Foreign source IRs are worked in AUR.
- (2) U.S. taxpayers must report income from all sources, including those sources outside (foreign source) the U.S., unless the income is exempt from U.S. tax.
- a. This is true whether or not the taxpayer received a Form(s) W-2 or a Form(s) 1099 from the foreign payer(s).
  - b. This applies to earned income (such as, wages and tips) and unearned income (such as, interest, dividends, capital gains, pensions, rents, royalties).
  - c. Under certain tax treaties, foreign governments supply the IRS with information regarding income U.S. taxpayers received from sources in their countries.
  - d. This information is converted into applicable IRs (Form W-2 and Form 1099) depending on the type(s) of income.
- 4.19.3.8.32  
(10-06-2022)  
**U.S. Citizens Living Abroad - General**
- (1) A U.S. citizen or resident alien's worldwide income is generally subject to U.S. income tax, regardless of where the taxpayer is living.
- (2) U.S. citizens and resident aliens living outside of the United States are generally allowed the same exemptions, deductions, and credits as those living in the United States. However, if the taxpayer chooses to exclude their foreign earned income and/or housing cost amounts, no deduction, exclusion, or credit is allowed for any exclusion, deduction, or credit that is associated with the amounts excluded.
- (3) If the taxpayer excludes their foreign earned income, the taxpayer cannot claim the additional child tax credit.

## 4.19.3.8.32.1

(09-21-2020)

**U. S. Citizens Living Abroad - Analysis**

- (4) If the taxpayer excludes their income on Form 2555, Foreign Earned Income, they cannot take a foreign tax credit (Form 1116, Foreign Tax Credit) for the foreign taxes paid on the same excluded income.

- (1) When there is an apparent wage discrepancy, compare the amount on Form 2555, line 19 with the entry for wages on Form 1040/1040-SR. See IRM 4.19.3.8.1.1, Wages - Analysis.

- a. If the reported wages shown on Form 1040/1040-SR is equal to or larger than the amount shown on Form 2555, line 19, consider the wages reported.
- b. If the reported wages shown on Form 1040/1040-SR is less than the amount shown on Form 2555, line 19, consider the difference U/R. Send a Special Paragraph informing the taxpayer that all income excluded as Foreign Earned Income must be included in total income first.

**Caution:** Taxpayers may receive non-cash income in addition to awards, bonuses, commissions, as allowances or reimbursements to cover expenses; all of these are considered earned income. This includes the fair market value of property or facilities provided for lodging, meals, use of car, cost of living, overseas differential. These items are reported on lines 21 a - d and lines 22 a - g of Form 2555. Any amounts shown here may account for the U/R income.

- (2) Wages received by employees of the United States government, or any of its agencies, do not qualify for the foreign earned income exclusion under Section 911. If the taxpayer does not report their earned income or only reports their income partially, pursue the issue. These employees include:

- Military personnel - including military personnel assigned to NATO or any other international organization
- State Department employees
- IRS employees
- DEA employees, etc.

- (3) Amounts paid by the U.S. government or its agencies to persons who are not their employees may qualify for foreign earned income exclusion or deduction. If unsure, correspond with the taxpayer for a clarification.

- (4) When there is an apparent NEC discrepancy, compare the amount on lines 20a, 20b, and/or 23 of Form 2555 with the entry for NEC on the Form 1040/1040-SR. See IRM 4.19.3.8.6.1, NEC - Analysis.

- a. If the amount of NEC reported on Form 1040/1040-SR is equal to or larger than the amount(s) shown on lines 20a, 20b, and/or 23 of Form 2555, consider NEC reported.
- b. If the amount of NEC reported on Form 1040/1040-SR is less than the amount(s) shown on lines 20a, 20b and/or 23 of Form 2555, consider the difference U/R. Send a Special Paragraph as stated in (1) b above.

**Caution:** If the taxpayer has received reimbursement for housing expenses compare any apparent U/R amount with the entry on line 34 of Form 2555. The amount shown here may account for the discrepancy.

- (5) Taking the foreign earned income exclusion does not eliminate the requirement to pay SE tax on NEC type income. See IRM 4.19.3.16.1, Self-Employment Tax, for further instructions. As a general rule, self-employed persons who are subject to dual taxation will only be covered by the social security system of the country where they reside.
- (6) The United States has entered into bilateral Social Security agreements with certain foreign countries to eliminate dual coverage and dual contributions to the social security system for the same work. A bilateral Social Security agreement generally makes sure that SS taxes (including SE tax) are only paid to one country. For a list of countries, see IRM 3.22.3.166.3, Correction Procedures - EC 209, Form 1040/1040-NR.
- (7) To establish exemption from U.S. SE tax, the taxpayer must obtain a statement from the authorized official or agency of the foreign country containing the following information:
- Name and address of taxpayer
  - Taxpayer identification number
  - The fact that the self-employment earnings (or employment earnings in the case of employed clergymen) are covered by an agreement between that country and the United States and are subject to the taxes or contributions of that country's social security system and
  - The effective date of the agreement
- (8) The taxpayer must attach a copy of the statement to the tax return for each year exemption from SE tax is claimed. The taxpayer must also enter **Exempt, see attached statement** on the line for SE tax on the return.
- (9) ONLY foreign earned income may be excluded under Section 911. If the taxpayer has not reported all non-earned income (such as, interest, dividends, #
- (10) In addition to the foreign earned income exclusion, taxpayers may take a foreign housing exclusion or foreign housing deduction. They cannot take both the foreign housing exclusion and foreign housing deduction unless they are self-employed.
- a. If the housing cost exclusion is claimed, the amount from Form 2555, line 36, is added to the foreign earned income exclusion claimed on Form 2555, line 42.
  - b. When the housing cost deduction is claimed, the taxpayer will enter the amount from Form 2555, line 50, to Schedule 1, line 22 (TY 2020), Schedule 1, line 24j (TY 2021 and subsequent). This amount should be used when entering an amount in the AGI window.
  - c. If the taxpayer has claimed the foreign earned income exclusion, the foreign housing cost exclusion, and the foreign housing deduction, disallow the housing deduction amount if the taxpayer is not self-employed. See IRM 4.19.3.5.9, Miscellaneous, for further instructions on how to disallow the deduction. Send a Special Paragraph to inform the taxpayer of the disallowance.
- (11) When both the foreign earned income exclusion **and** foreign housing exclusion are present, the amount claimed on Schedule 1, line 8 (TY 2020), Schedule 1, line 8d and 24j (TY 2021 and subsequent) may not exceed the amounts shown in the table below. Any amount identified on Schedule 1, line 8 (TY 2020),

Schedule 1, line 8d and 24j (TY 2021 and subsequent) as coming from Form 2555 MUST be considered when calculating the MAGI and base tax.

TY 2020	TY 2021	TY 2022
\$107,600 (\$215,200 if married filing jointly)	\$108,700 (\$217,400 if married filing jointly)	\$112,000 (\$224,000 if married filing jointly)

- (12) Income excluded cannot be taken into account when figuring non-refundable credits. When entering earned income on Form 2441, Child and Dependent Care Expenses, taxpayers should be entering total earned income minus the foreign earned income exclusion amount. If all earned income is excluded on Form 2555, then the credit cannot be taken. See IRM 4.19.3.15.2, Credit for Child and Dependent Care Expenses.

**Note:** For TY 2021, taxpayers who file Form 2555 cannot claim the refundable Child and Dependent Care Credit (refundable CDCC).

- (13) Taxpayers can take a credit for taxes paid to a foreign government on foreign income by filing a Form 1116, Foreign Tax Credit. However, they cannot take this credit on income that is excluded from tax under the foreign earned income exclusion, the foreign housing cost exclusion, or the possession exclusion, discussed later. If the taxpayer has paid tax on both earned and certain unearned income, a separate Form 1116 must be filed for each category of income. Also, if the taxpayer is filing a Form 6251, Alternative Minimum Tax - Individuals, a separate Form 1116 must be filed notating "Alt Min".
- To compute the foreign tax credit, the taxpayer should complete the top portion to indicate the category of income. If the tax was paid to only one country, then lines 1 - 6 in column A should contain entries as appropriate. If tax was paid to more than one country, then lines 1 - 6 in Columns B and C should be completed as appropriate.
  - The taxpayer is instructed to include gross foreign source income on line 1a of the Form 1116. Taxpayers **SHOULD NOT** include any excluded amounts here (Form 2555 amounts).
  - If the taxpayer has entered gross income minus excluded income on line 1a and has computed the rest of the form, allow the credit as shown on Form 1116, line 32.
  - If the taxpayer has entered gross income plus the excluded income on line 1a and has computed the rest of the form, disallow the excluded income amount and manually recompute the rest of the form. Enter the recomputed Schedule 3, line 1, amount in the recomputed side of the Form 1116 field on the Non-Refundable Credits window. Refer to IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Non-Refundable Credits, for further instructions.

4.19.3.8.32.2  
(09-21-2020)  
**Foreign Earned Income  
Exclusion**

- (1) Taxpayers claiming the foreign earned income exclusion cannot claim the earned income credit. See IRM 4.19.3.17.3, Earned Income Credit, for further instructions.
- (2) The foreign earned income exclusion allows taxpayers to exclude all of their earned income for personal services performed in a foreign country or countries, up to the amounts listed in the table below, during a period in which

their “tax home” is in a foreign country and they meet other requirements (either the bona fide residence test or the physical presence test). This exclusion is provided under section 911 of the Internal Revenue Code (IRC).

TY 2020	TY 2021	TY 2021
\$107,600, (\$215,200 if married filing jointly)	\$108,700, (\$217,400 if married filing jointly)	\$112,000, (\$224,000 if married filing jointly)

- (3) For this purpose, foreign earned income is compensation for personal services performed in a foreign country, such as:
- Salaries and wages
  - Commissions
  - Bonuses
  - Professional fees
  - Tips
- (4) Foreign unearned income that cannot be excluded is:
- Dividends
  - Interest
  - Capital Gains
  - Gambling Winnings
  - Alimony
  - Social Security Benefits
  - Pensions and annuities
- (5) Variable income that may or may not be excluded is:
- Business profits
  - Royalties
  - Rents
- (6) Taxpayers who excluded foreign earned income on Form 2555, must calculate their base tax at the same tax rate as if they did not exclude income. **PARAGRAPH 84** automatically generates if the case is virtual. Manually select if case is paper. Toggle off **PARAGRAPH 84** in the Summary Screen if not applicable. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (7) If the taxpayer excludes income on Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa, you must manually calculate the new base tax. Bona fide residents of American Samoa are not subject to the higher tax rate for excluding earned income. Enter the manually derived new base tax in the MANUAL SCHEDULE D TAX field in the Schedule D Tax window (if the taxpayer used the Schedule D tax method) or the MANUAL SCH J TAX field in the Schedule J Tax window.
- (8) When the taxpayer’s response includes the Foreign Earned Income Tax worksheet, it may be necessary to manually override the system derived base tax. If applicable, enter the manually derived new base tax in the:
- a. MANUAL SCHEDULE D TAX field in the Schedule D Tax window (if the taxpayer used the Schedule D tax method) or
  - b. MANUAL SCH J TAX field in the Schedule J Tax window.

4.19.3.8.33  
(10-07-2019)

**Resident/Non-Resident  
Aliens (R/NR)/(Dual  
Status)**

- (1) Under U.S. tax laws, resident aliens are generally taxed in the same manner as U.S. citizens. Accordingly, a resident alien's income is taxed from all sources, both within and outside the United States. Non-resident aliens, however, are generally taxed only on their income from sources within the United States.
- (2) Special rules apply to the taxation of a nonresident alien's income. A nonresident alien's income that is effectively connected with a U.S. trade or business (which generally includes personal services income) is taxed on a net basis at graduated rates. A nonresident alien's income that is not effectively connected with the U.S. trade or business (such as passive investment income) is taxed on a gross basis at a flat rate of 30 percent unless a lower treaty rate applies.
- (3) Under U.S. tax laws, lawful permanent residents (green card holders) are considered resident aliens until that status under the immigration laws is either taken away or is administratively or judicially determined to have been abandoned. Social security benefits paid to a lawful permanent resident/green card holder are not subject to 30 percent withholding, unless the taxpayer claims benefits for the tax year under an income tax treaty as a nonresident alien. The Social Security Administration (SSA) may erroneously withhold tax from the Social Security benefits paid to green card holders because they have a foreign address. The withholding is refundable by the SSA or IRS. The SSA will refund erroneously withheld taxes if the refund can be processed during the same calendar year that the taxes were withheld. Cases for which the SSA was unable to issue a timely refund or cases that were not identified during initial processing could surface in AUR. If the return includes all of the following, do not pursue apparent O/C W/H discrepancies:
  - a. A copy of the Form SSA-1042S, Social Security Benefit Statement.
  - b. A copy of the "green card".
  - c. A signed statement that indicates the taxpayer is a U.S. lawful permanent resident/green card holder, the SSA taxes were withheld erroneously, their green card status has not been revoked nor administratively or judicially determined to have been abandoned; and they did not claim benefits for the tax year as a non-resident alien under an existing income tax treaty.

**Note:** A U.S. lawful permanent resident who is also a resident of a treaty country (in other words, a dual resident) can claim to be treated as a resident of the treaty country under the "tie-breaker rules" of a treaty and claim treaty benefits as a nonresident alien of the United States. If such individuals elect to claim treaty benefits, they will be treated as nonresident aliens for purposes of computing their U.S. tax liability and for purposes of withholding. Nonresident aliens are subject to withholding on their social security benefits, unless they are exempt from tax under a treaty. See Pub 915, Social Security Benefits and Equivalent Railroad Retirement Benefits.

**Exception:** The copy of the green card and signed statement requirements in (b) and (c) above do not apply to bona fide residents of American Samoa.

**Note:** If the taxpayer filed a complete return, the W/H should have been allowed during initial processing.



## 4.19.3.9

(09-01-2013)

**Adjustments to Income**

- (1) The following sections contain instructions for recalculating adjustment action(s) taken on the taxpayer's individual tax return.
- (2) Screen adjustment(s) that are worked through a computation window after analyzing all other potentially discrepant income types. When subsequent analysis changes the total AGI field, reselect the windows.

## 4.19.3.9.1

(09-24-2021)

**Educator Expenses**

- (1) Educators who work at least 900 hours during a school year as a teacher, instructor, counselor, principal, or aide, may deduct up to \$250 of qualified out-of-pocket expenses for books and classroom supplies. If married filing jointly, and both were eligible educators, the maximum deduction is \$500. However, neither spouse can deduct more than \$250 of his or her qualified expenses.

**Note:** For TY 2020, qualified expenses may include amounts paid or incurred after March 12, 2020, for personal protective equipment, disinfectant and other supplies used for the prevention of the spread of coronavirus.

- (2) The deduction is reported on Schedule 1, line 10 ( TY 2020), Schedule 1, line 11 (TY 2021 and subsequent).
- (3) The deduction is available for those in public or private elementary or secondary schools (including kindergarten). Educators **must** reduce qualifying expenses by any non taxable earnings received from Coverdell ESAs, Qualified Tuition Programs or education savings bonds.

## 4.19.3.9.2

(03-17-2023)

**Health Savings Account (HSA) or Archer Medical Savings Account (AMSA) Deduction**

- (1) Generally contributions made to an Archer Medical Savings Account (AMSA) or Health Savings Account (HSA) are deductible if they are made by the taxpayer.
- (2) AMSA and HSA contributions are reported on Form 5498-SA.
- (3) AMSA and HSA contributions are identified on the Case Analysis screen by the literal "5498S" in the DOC TYPE field and one of the following literals in the INCOME TYPE field:
  - "SACON" - Contribution
  - "SACC" - Current Contribution
  - "SAFC" - Future Contribution
  - "SARLV" - Rollover (system deleted)
  - "SAFMV" - Fair Market Value (system deleted)
- (4) The 5498S IRs display a Type Indicator on the Case Analysis screen based on the information in Form 5498-SA box 6:
  - a. IND "1" - Health Savings Account (HSA)
  - b. IND "2" - Archer Medical Savings Account (AMSA)
  - c. IND "3" - Medicare Advantage MSA (MAMSA)
- (5) The taxpayer claims the allowable AMSA deduction on the dotted portion of Schedule 1, line 22 (TY 2020) and notates **MSA** and Schedule 1, line 23 (TY 2021 and subsequent). The taxpayer must complete Form 8853, Medical Savings Accounts and Long-term Care Insurance Contracts, Part I to calculate the amount entered on Schedule 1, line 22 (TY 2020), Schedule 1, line 23 (TY 2021 and subsequent). If Schedule 1 is not attached, refer to Form 8853, line 2.



- (6) The taxpayer claims the allowable HSA contribution/deduction on Schedule 1, line 12 (TY 2020), Schedule 1, line 13 (TY 2021 and subsequent). The taxpayer must complete Form 8889, Health Savings Accounts (HSAs), Part I to calculate the amount entered on Schedule 1, line 12 (TY 2020), Schedule 1, line 13 (TY 2021 and subsequent).
- (7) AMSA deductions must be substantiated. Substantiation is a 5498S IR with an AMSA amount (SACON, SACC and/or SAFC) or an attachment to the tax return (for example, Form 5498-SA or a bank statement).

**Note:** The taxpayer cannot deduct employer contributions to an AMSA, which are reflected as an “R” coded amount in box 12 of Form W-2.

- a. If no AMSA IR(s) is present, create a AMSA IR with a dollar amount of zero (0) and enter “2” in the PGR/COD IND field of the Create Information Return window.
  - b. PARAGRAPH 185 automatically generates when the AMSA amount is reduced/disallowed because the amount of AMSA does not match the amount claimed by the taxpayer or due to no substantiation. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (8) HSA deductions on Schedule 1, line 12 (TY 2020), Schedule 1, line 13 (TY 2021 and subsequent), must be substantiated. Substantiation is a 5498S IR with an HSA amount (SACON, SACC and/or SAFC) or an attachment to the tax return (for example, Form 5498-SA or a bank statement).
  - a. If no HSA IR(s) is present, create an HSA IR with a dollar amount of zero (0) and enter “1” in the PGR/COD IND field of the Create Information Return window.
  - b. The taxpayer cannot deduct employer contributions to an HSA, which are reflected as a “W” coded amount in box 12 of Form W-2. If the Form W-2 box 12 amount matches Form 8889 line 2, disallow the deduction.
  - c. PARAGRAPH 135 automatically generates when the HSA amount is reduced/disallowed because the amount of HSA does not match the amount claimed by the taxpayer or due to no substantiation. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** Toggle off PARAGRAPH 135 when the taxpayer deducted employer contributions to an HSA “W” coded amount in box 12 of Form W-2 and send a Special Paragraph using the following verbiage as an example, “Contributions through a cafeteria plan to an HSA, which are reflected as a “W” coded amount in box 12 of Form W-2, are treated as employer contributions and cannot be included on line 2 of Form 8889. Therefore, we have adjusted the amount allowed.”

- (9) A CP 2000 is issued for the deduction only if the taxpayer claims a larger deduction than they’re entitled to take. Do not allow any additional deduction if the HSA/AMSA contribution was not fully claimed.
- (10) If HSA/AMSA contribution/deduction and SS/RR are issues on the same case, compute the SS/RR after screening the HSA/AMSA issue.
- (11) If the HSA/AMSA is U/R, enter the return amount in the RETURN field on the Summary screen.

4.19.3.9.3  
(09-21-2020)

**Simplified Employee  
Pension (SEP)/SIMPLE -  
General**

- (1) SEP/SIMPLE (Savings Incentive Match Plan for Employees) contributions are reported to IRS on Form 5498.
- (2) SEP/SIMPLE contributions are identified on the Case Analysis screen by the literal "5498" in the DOC TYPE field and one of the following literals in the INCOME TYPE field.
  - a. "SEP"- the amount the taxpayer contributed to their SEP account.
  - b. "SIMPL"- the amount the taxpayer contributed to their SIMPLE account.
  - c. "FMV"- the fair market value of a SEP account. Disregard the FMV literal and amount. The system automatically assigns status code "X" to FMV amounts on 5498 IRs.
  - d. "ROLVR"- rollover. This amount cannot be claimed as a deduction by the taxpayer.
  - e. "LFINS"- life insurance. This amount cannot be claimed as a deduction by the taxpayer. Life insurance is not included in the CONTR amount on 5498 IRs. The system automatically assigns status code "X" to life insurance amounts on 5498 IRs.
- (3) Sole Proprietors deduct SIMPLE contributions they make for common-law employees on Form 1040, Schedule C and Schedule F. Partnerships deduct them on Form 1065 and Corporations deduct them on Form 1120, U.S. Corporation Income Tax Return, or Form 1120-S, U.S. Income Tax Return for an S Corporation. Sole Proprietors and partners deduct SIMPLE contributions for themselves on Schedule 1, line 15 (T TY 2020), Schedule 1, line 16 (TY 2021 and subsequent). A SIMPLE is a tax-favored retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees. ALL contributions under a SIMPLE IRA plan **MUST** be made to SIMPLE IRAs, not to any other type of IRA.
- (4) Compensation for the purpose of a SIMPLE IRA generally includes:
  - Wages, tips, and other pay from their employer that is subject to W/H.
  - Deferred amounts elected under any 401(k) plans, 403(b) plans, government (section 457(b)) plans, SEP plans, and SIMPLE plans.

4.19.3.9.3.1  
(10-25-2023)

**SEP/SIMPLE - Analysis**

- (1) SEP/SIMPLE plans allow sole-proprietors and small business owners to make contributions to a retirement plan for both themselves, and their employees.
  - a. Taxpayers deduct SEP/SIMPLE contributions for their employees as an expense on Schedule C or F.
  - b. Taxpayers deduct SEP/SIMPLE contributions for themselves on Schedule 1, line 15 (TY 2020), Schedule 1, line 16 (TY 2021 and subsequent).
- (2) **Only** pursue SEP/SIMPLE U/R issues when contributions are paid to themselves and the taxpayer deducts an amount on Schedule 1, line 15 (TY 2020), Schedule 1, line 16 (TY 2021 and subsequent) and the taxpayer **does not** report net earnings subject to SE tax (for example, Schedule C, F or SE is not present), or wages, tips and other pay from their employers, which is subject to W/H, or deferred amounts elected under 401(k) plans, 403(b) plans, government (section 457(b)) plans, SEP plans and SIMPLE plans:

**Note:** Taxpayers who report partnership income from Form 1065 Schedule K-1 are entitled to deduct SEP contributions provided that the partnership income is included on Schedule SE and/or the applicable SE tax has been reported.

- a. Manually select the SEP Adjustment window.
- b. Enter/Verify the original Schedule C line 31, Schedule F line 34, and/or Schedule SE Part I, line 3 amount(s) in the PRIMARY/SECONDARY SE INCOME field.
- c. Enter/Verify the Primary/Secondary portion of the original Form 1040 Schedule 1, line 15 (TY 2020), line 16 amount (TY 2021 and TY 2022) in the PRIMARY/SECONDARY SEP/KEOUGH DED field.
- d. If necessary, create a 5498 SEP IR for zero (0) in order to gain access to the window.
- e. The system computes the allowable SEP/SIMPLE deduction based on the entries in the SEP Adjustment window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - SEP Adjustment window.

**Reminder:** When pursuing SEP deduction, the SEP Adjustment window must be selected in the proper case analysis sequence as described in IRM 4.19.3.4.2, Case Analysis Screen. If the SEP Adjustment window is selected out of order, a message displays describing the proper sequence.

**Note:** If the SEP/SIMPLE deduction is not fully disallowed, ungroup the IR(s) and mark them with status code "N" or "D".

- (3) If the taxpayer does not report self-employment income **AND** the SEP/SIMPLE deduction corresponds to a 5498 CONTR IR(s), consider that the taxpayer reported their IRA deduction on the wrong line.
- (4) Payers identify only SEP and SIMPLE contributions on Form 5498. If 5498 IR is not present and the taxpayer is self-employed (Schedule C, F or SE is
 

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- (5) If the filing status is 2 and only one spouse reports self-employment income,
 

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- (6) If, after reviewing the return and any supporting documentation, the SEP deduction appears large, unusual or questionable, consult with the team leader. If necessary, consult with an Exam representative to decide the appropriate action(s) to take (such as, continue processing, refer to Exam). If Exam selects the case, follow normal Exam referral procedures.
- (7) PARAGRAPH 146 automatically generates when SEP/SIMPLE deductions are disallowed (the SEP per return is reduced to zero). See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (8) If SEP/SIMPLE is U/R enter the return amount in the RETURN field on the Summary screen.
- (9) For Responses, see IRM 4.19.3.9.6.3, Traditional IRA, or SEP Deduction - Responses.

4.19.3.9.4  
(09-21-2020)  
**Self-Employed Health  
Insurance Deduction  
(SEHID)**

- (1) A taxpayer may be able to deduct up to 100 percent of the amount paid for health insurance on: Schedule 1, line 16 ( TY 2020), Schedule 1, line 17 (TY 2021 and subsequent).
- (2) PARAGRAPH 147 automatically generates when there is an amount on: Schedule 1, line 16 (TY 2020), Schedule 1, line 17 (TY 2021 and subsequent), and due to U/R processing there is a change to self-employment income or SE tax. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.9.4.1  
(09-21-2020)  
**SEHID - Responses**

- (1) If the taxpayer responds that the SEHID needs to be adjusted AND provides the total amount they paid for health insurance coverage, take the following action:
  - a. Compare the amount the taxpayer paid for their health insurance coverage with the revised business profit and any other earned income (including wages from S Corporation), minus deductions claimed on Schedule 1, lines 14 and 15 ( TY 2020), Schedule 1, line 16 and 17 (TY 2021 and subsequent), as filed or adjusted due to U/R processing.
  - b. The smaller of the two amounts is the new SEHID.
  - c. Compare the new SEHID to the amount originally claimed. If the SEHID changed, use the Misc Adjust/Sch C Exp window to reflect the difference.
  - d. Advise the taxpayer of the change to SEHID with an appropriate paragraph.
- (2) If the taxpayer does not provide the amount they paid for self-employed health insurance coverage, correspond for this information.

4.19.3.9.5  
(09-30-2018)  
**Early Withdrawal Penalty  
(EWPEN) - General**

- (1) Early withdrawal penalty is a reduction of interest income due to premature withdrawal of capital on a time savings account. This penalty can exceed the amount of interest paid.
- (2) Early withdrawal penalty is reported on Form 1099-INT and Form 1099-OID.
- (3) Early withdrawal penalty is identified on the Case Analysis screen by the literal "99INT" in the DOC TYPE field and the literal "EWPEN" in the INCOME TYPE field.

4.19.3.9.5.1  
(09-21-2020)  
**EWPEN - Analysis**

- (1) Delete 99INT IRs when:
  - a. There is an EWPEN amount but no INT amount, or
  - b. There are EWPEN and W/H amounts, but no INT amount.
- (2) Group all EWPEN amounts and compare the total with entries on:
  - a. Schedule 1, line 17 ( TY 2020), Schedule 1, line 18 (TY 2021 and subsequent).
  - b. Schedule A, as an interest expense deduction.
  - c. Schedule C, Part II, line 16b if a deposit arrangement is entered into as part of a trade or business.
  - d. Schedule B, Part I.
- (3) The taxpayer may reduce the interest reported on Schedule B by the EWPEN amount and report the difference. The taxpayer might also reduce the interest income by the amount of EWPEN and report the net amount on Form 1040/ 1040-SR, line 2a. Consider the EWPEN fully claimed.

- (4) If the interest reported on the return matches the 99INT IR(s) and the taxpayer claims more early withdrawal penalty than EWPEN amounts shown on the 99INT IR(s),

**Note:** If none of the 99INT IR(s) contain EWPEN, create a 99INT IR for zero (0) amount of EWPEN.

1. Disallow the O/D amount.
  2. Mark the reported 99INT IR(s) with "S".
- (5) If the taxpayer claims a deduction for EWPEN and there is no IR to substantiate the EWPEN claimed, disallow the deduction. Create a 99INT IR for zero (0) amount of EWPEN.
- (6) If the taxpayer has not claimed the full amount of early withdrawal penalty, based on the EWPEN amounts shown on the 99INT IR(s), allow the balance **unless:**
- a. It can be clearly determined that the taxpayer netted the EWPEN, see (3) above.
  - b. The IR(s) show the income is jointly owned with someone other than the spouse or the filing status is 3, mark the EWPEN with status code "N", send the IR elements and **send PARAGRAPH 74**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (7) If a 99INT IR contains both INT and EWPEN, consider each income type separately.
- (8) If the taxpayer incorrectly claims the 10 percent early distribution tax as EWPEN, disallow that portion of the deduction. **Send PARAGRAPH 168**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) If the taxpayer reports EWPEN on Schedule 1, line 17 (TY 2020), Schedule 1, line 18 (TY 2021 and subsequent), or on Schedule B and also subtracted the EWPEN from interest reported on the return, this is a duplicate deduction.
1. Consider the amount of EWPEN O/D.
  2. To arrive at the amount to enter in the REPORTED AMOUNT field, subtract the double excluded amount from the IR amount.
  3. **Send PARAGRAPH 122**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) Enter the return amount in the RETURN field on the Summary screen.
- a. PARAGRAPH 8 automatically generates when EWPEN is U/C. See Exhibit 4.19.3-7, CP PARAGRAPHS.
  - b. PARAGRAPH 75 automatically generates when EWPEN is O/D. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.9.6  
(10-03-2017)  
**Traditional IRA and  
Coverdell ESA - General**

- (1) IRA contributions are reported to the IRS on Form 5498 and are identified on the Case Analysis screen by the literal "5498" in the DOC TYPE field and one of the following literals in the INCOME TYPE field.
- a. "CONTR" - the amount the taxpayer contributed to their IRA account.
  - b. "FMV" - the fair market value of an IRA account. Disregard the FMV literal and amount. The system automatically assigns status code "X" to FMV amounts on 5498 IRs.

- c. "ROLVR" - rollover. This amount cannot be claimed as a deduction by the taxpayer.
- d. "LFINS"- life insurance. This amount cannot be claimed as a deduction by the taxpayer. Life insurance is not included in the CONTR amount on 5498 IRs. The system automatically assigns status code "X" to life insurance amounts on 5498 IRs.
- e. "RCONT" - Roth IRA Contribution. This amount cannot be claimed as a deduction by the taxpayer.
- f. "RCONV"- Roth IRA conversions from a Traditional IRA. This amount cannot be claimed as a deduction by the taxpayer.

**Note:** Contributions to a Roth IRA (RCONT) or Roth IRA Conversions from a Traditional IRA (RCONV) cannot be claimed as a deduction on the return. Pursue the discrepancy. Mark the RCONT or RCONV element with Send Indicator "S".

- (2) Contributions to a Coverdell ESA (CESA) are reported on Form 5498-ESA and are identified on the Case Analysis screen by the literal **5498** in the DOC TYPE field and one of the following literals in the INCOME TYPE field:
  - a. "ESA" - The amount contributed to the CESA.
  - b. "EROLV" - Rollover amount. The system automatically assigns status code "X" to this income type.

**Note:** Contributions to a CESA cannot be claimed as a deduction on the return. Pursue the discrepancy. Mark the ESA element with Send Indicator "S".

- (3) PARAGRAPH 30 automatically generates when the UR IRA deduction amount is equal to the RCONT, RCONV or ESA element amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

#### 4.19.3.9.6.1 (10-25-2023)

#### IRA Deduction - Analysis

- (1) Taxpayers may claim the allowable IRA deduction on Schedule 1, line 19 (TY 2020), Schedule 1, line 20 (TY 2021 and subsequent). The maximum allowable IRA deduction is the lesser before phaseout limit of:
  - \$6,000 (\$7,000 if 50 or older) or taxable compensation (including non-taxable combat pay) for filing status single, head of household, or married filing separately.

**Note:** If a CONTR IR is present for more than \$6,000, check the PRIMARY/SECONDARY AGE fields on the Case Analysis screen. If the fields are blank, research the affected taxpayer's age and update the field(s) accordingly.

  - \$12,000 (\$13,000 if only one is 50 or older or \$14,000 if both are 50 or older) or taxable compensation (including non-taxable combat pay) for filing status married filing jointly.
  - When a spousal IRA is present, the IRA contributions are divided between the taxpayers, any way they choose, as long as the contributions do not exceed \$6,000 (\$7,000 if age 50 or over) for any one spouse.
- (2) Taxable compensation for purposes of establishing an IRA include: wages, salaries, tips, professional fees, bonuses and other amounts received from



providing personal services, taxable alimony, separate maintenance payments and NET earnings profit from self-employment income, minus the self-employment tax deduction.

- (3) Military personnel have the option of including nontaxable combat pay, along with any taxable compensation, when calculating the allowable IRA deduction.
- (4) An IRA contribution can be made **ONLY** if the taxpayer has taxable compensation (as defined in a and b above). In the case of a married couple filing a joint return, up \$6,000 (\$7,000 if 50 or older), can be contributed to IRAs (other than SIMPLE IRAs) on behalf of each spouse, even if one spouse has little or no compensation.
- (5) When the taxpayer is covered by a qualified pension plan, the IRA deduction begins to decrease (phaseout) when the Modified AGI (MAGI) exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below:

Filing status	TY 2020	TY 2021	TY 2022
1 or 4	\$65,000 - \$75,000	\$66,000 - \$76,000	\$68,000 - \$78,000
2 or 5	\$104,000 - \$124,000	\$105,000 - \$125,000	\$109,000 - \$129,000
3 or 6	\$0 - \$10,000	\$0 - \$10,000	\$0 - \$10,000

- (6) When the taxpayer is NOT covered by a qualified pension plan, but the spouse IS covered, the IRA deduction begins to decrease (phaseout) when the MAGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit. For filing status 3 or 6: \$0 - \$10,000, if the taxpayer did not live with their spouse (**D** is entered next to Form 1040/1040-SR, Schedule 1, line 20), the taxpayer is treated as filing status 1 (no spouse). Filing status 2 or 5 as shown in the table below:

Filing status	TY 2020	TY 2021	TY 2022
2 or 5	\$196,000 - \$206,000	\$198,000 - \$208,000	\$204,000 - \$214,000

- (7) Consider the taxpayer covered by a qualified pension plan if:

**Reminder:** Consider the IR more accurate than the ELF payer document.

- a. The Form W-2 is attached and the retirement plan box is checked, or
- b. Form W-2, box 12 has a code "D", "E", "F", or "S" with a corresponding contribution amount. See Exhibit 4.19.3-8, Form W-2 - box 12 Codes, or
- c. The taxpayer reports an unidentified wage amount (no Form W-2 is attached, nor corresponding WAGE IR) or,
- d. The Form W-2 is **not** attached to the return and the IND field on the WAGE IR is other than blank and/or contains the literal "DC", or
- e. An attached Form W-2 or WAGE IR is from a federal, state or local government, including any political subdivision. Reservist wages are NOT covered by a pension plan.



- f. The taxpayer is FS 3 or 6 and there is no indication that the taxpayer lived apart from the spouse (also enter a "Y" in the LIVED WITH SPOUSE field on the IRA window if either spouse is covered by a pension plan).
- g. The taxpayer takes a deduction for a SIMPLE Plan or SEP on Schedule 1, line 15 (TY 2020), Schedule 1, line 16 (TY 2021 and subsequent).

**Exception:** Section 457 Plans are NOT considered as coverage for calculations of IRA contributions. If only the Deferred Compensation box is checked and only code "G" appears in box 12 of the Form W-2, or there are other indications that the taxpayer has only Deferred Compensation in a Section 457 Plan, DO NOT consider the taxpayer covered by a pension plan. An "H" code in box 12 of Form W-2 identifies 501(c)(18)(D) Pension Plans. The taxpayer is instructed to report their allowable deduction on the dotted portion of Schedule 1, line 22 (TY 2020), Schedule 1, line 25 (TY 2021 and subsequent). However, the entry is often misplaced and entered on Schedule 1, line 19 (TY 2020), Schedule 1, line 24f (TY 2021 and subsequent). If there is an indication that the taxpayer has a 501(c)(18)(D) pension plan, allow the deduction.

- h. The taxpayer is a postal worker. The U.S. Postal Service has a Thrift Savings Plan.

(8) IRA deductions **must** be substantiated. Substantiation is a 5498 IR with a CONTR amount or an attachment to the tax return (for example, a Form 5498 or a bank statement).

- a. If no CONTR IR(s) is present, create a CONTR IR with a dollar amount of zero (0). See IRM 4.19.3.15.6, Qualified Retirement Savings Contributions Credit (QRSC), for additional information.
- b. If there is no substantiating IR(s), but a Form 5498 or statement for the same amount is attached to the return, create IR(s) for the attached Form 5498/ statement amount(s) for the applicable taxpayer.
- c. PARAGRAPH 70 automatically generates when the CONTR U/R is due to the taxpayer claiming a deduction that is larger than the 5498 IR(s). See Exhibit 4.19.3-7, CP PARAGRAPHS.

(9) If the taxpayer deducts an amount equal to the Deferred Compensation shown on Form W-2, (for example, the amount is included on Form 1040/ Form 1040-SR, line 1 or Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and

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GRAPHS.

(10) If the taxpayer reports Self-Employment income and the IRA deduction corresponds to a 5498 SEP/SIMPL IR(s), consider that the taxpayer reported the SEP/SIMPLE on the wrong line.

(11) The taxpayer may make contributions to an IRA during the AUR tax year or by the due date of the return (not including extensions).

- (12) Contributions may not be made to a traditional IRA during or after the year in which the taxpayer reaches age 70 1/2 (TY 2019 and prior). If the age for the primary and/or secondary taxpayer on the Case Analysis screen is 71 or older, enter a zero (0) in the PRIMARY and/or SECONDARY COMPENSATION field(s) as applicable (TY 2019 and prior). This suppresses any deduction from being computed and disallows any previously taken deduction for the applicable taxpayer.

**Note:** For TY 2020 and subsequent, there is no age restriction. taxpayer's can claim a deduction for their IRA contributions regardless of age.

- (13) Screen IRA IR(s) after all other potentially discrepant income types are analyzed. Any subsequent analysis that changes the TOTAL AGI CHANGE field **must** always be followed by reselecting the IRA window. See (14) below when SS/RR, SLID, Tuition and Fees (TY 2020 ), are also issues on the same case.
- (14) The system computes the allowable IRA deduction based on the appropriate entries in the Adjusted Gross Income window and the IRA window. To compute or recompute enter/verify the following entries:

**Caution:** Be alert to changes made during or after original processing when entering/verifying information in this window.

- (15) To compute or recompute the IRA window take the following actions:
1. Access the IRA window using one of the methods outlined in the table in (4) above.
  2. Enter “**P**” for primary taxpayer, “**S**” for spouse, or “**B**” for both in the PENSION PLAN field. Leave the field blank if unable to determine. See (3) above for when to consider taxpayer covered.
  3. Filing Status 3 or 6 only: Enter “**Y**” or “**N**” to indicate if the taxpayer lived with spouse in the LIVED WITH SPOUSE field. If no indication, enter “**Y**”. For any other filing status, leave blank.
  4. Enter the total reported amount of the primary and/or secondary taxpayer's taxable compensation in the PRIMARY and/or SECONDARY COMPENSATION field. Include taxable alimony, separate maintenance payments, and net earnings/profit from SE income. If a loss exists on Schedule C or F, see IRM 4.19.3, IMF Automated Underreporter (AUR).
  5. Enter the primary and/or secondary taxpayer's IRA deduction amount from Form 1040 in the IRA ADJUSTMENT PER RETURN field.
- (16) If the taxpayer has taken a SEP/Keogh deduction, the SEP/Keogh deduction amount from Form 1040 should display in the PRIMARY/SECONDARY SEP/KEOGH field of the IRA window. If the filing status is 2, and it can be determined both taxpayers contributed to a Keogh or SEP retirement plan, take the following actions:
1. Enter the amount contributed by the primary taxpayer in the PRIMARY SEP/KEOGH field.
  2. Enter the amount contributed by the secondary taxpayer in the SECONDARY SEP/KEOGH field.

**Note:** Enter the total SEP/Keogh deduction amount reported on Form 1040, in the PRIMARY SEP/KEOGH field, when unable to determine a breakdown of the amount.

- (17) The REQUEST FOR ADDL DEDUCTION field is used only during the Response phase. Enter “Y” if the taxpayer submits a response requesting additional IRA deduction amounts not originally taken.

**Note:** An IR must be created for the verified additional IRA deduction amount.

- (18) A net loss from self-employment income cannot be subtracted from salaries, wages, etc., when figuring total compensation. If U/R self-employment income (Income Identify Codes of “PB”, “PF”, “SB”, and “SF”)
- Is not present on the Case Analysis screen do not consider any net loss from self-employment income when determining the amount to enter in the PRIMARY and/or SECONDARY COMPENSATION field(s) in the IRA window.
  - Is present on the Case Analysis screen and a net loss from self-employment income is reported on the return, enter/verify the PRIMARY/SECONDARY REPORTED SE INCOME field(s) in the SE Tax window.
- (19) If IRA contributions, SS/RR, SLID, Tuition and Fees (TY 2020 ) are issues on the same case, then:
- Compute the SS/RR by selecting the SSA/RRB window.
  - Compute the IRA contribution by selecting the IRA window.

**Note:** After the IRA is computed, the system automatically recomputes the SSA/RRB window.

- Recompute the SLID.
- Recompute Tuition and Fees.
- Recompute DPAD

**Note:** See IRM 4.19.3.4.2, Case Analysis Screen, for the proper window sequence when these issues are present on the same case.

4.19.3.9.6.2  
(12-13-2021)  
**IRA Deduction**  
**Miscellaneous**

- (1) An IRA AUR issue exists when:
- The taxpayer claims a larger IRA deduction amount than is substantiated.
  - The taxpayer claims an IRA deduction amount larger than the allowable amount.
  - When the taxpayer is claiming more deduction than allowed based on age/filing status or taxable compensation (including non-taxable combat pay). PARAGRAPH 53 automatically generates. See Exhibit 4.19.3-7, CP PARAGRAPHS. See IRM 4.19.3.9.6.1, IRA Deduction - Analysis, for additional information regarding taxable compensation.
  - The taxpayer is covered by a pension plan and changes to AGI cause a change to the allowable IRA deduction amount (decreased or reduced to zero). PARAGRAPH 95 automatically generates. See Exhibit 4.19.3-7, CP PARAGRAPHS. Toggle off PARAGRAPH 95 for any other situation.

**Note:** If a 5498 ROLVR IR is asterisked as a part of the computer identified discrepancy, the IRA deduction the taxpayer claimed **MUST** be screened before closing the case PC 2X. When there is an asterisked 5498 ROLVR IR, it indicates an IRA contribution discrepancy and the system will not give the message to check the Income Comparison screen.

- (2) There may be a rollover amount present on the IRA IR(s). This amount cannot be claimed as a deduction by the taxpayer. PARAGRAPH 81 automatically generates when the U/R amount equals the IR(s) rollover amount(s). See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (3) A CP 2000 is issued for the deduction only if the taxpayer claims a larger deduction than entitled to take. Do not allow any additional deduction if the IRA/SEP contribution was not fully claimed.
- (4) When the IRA deduction is an issue, check for Form 8880, Credit for Qualified Retirement Savings Contributions, and adjust as appropriate.
- (5) If there is U/R income above tolerance, the IRA deduction needs to be recomputed if the following conditions apply:
  - a. The taxpayer takes an IRA deduction on Schedule 1, line 19 (TY 2020), Schedule 1, line 20 (TY 2021 and subsequent), and
  - b. The taxpayer is covered by a qualified pension plan. See IRM 4.19.3.9.6.1, IRA Deduction - Analysis, for further instructions.
- (6) If the IRA is O/D, enter the return amount in the RETURN field on the Summary screen.

4.19.3.9.6.3  
(09-24-2021)

**Traditional IRA, or SEP  
Deduction - Responses**

- (1) If an Adjusted Contribution Rate OTHER THAN 25 percent applies, enter this rate in the PRIMARY AND SECONDARY CONTRIBUTION RATE field in the SEP Adjustment window. The system computes the allowable deduction based on this entry.
- (2) If the taxpayer responded with information about an additional IRA deduction amount(s) that was not taken originally, use the IRA window to compute the allowable IRA deduction amount(s).
- (3) When the IRA deduction is an issue, check for Form 8880, Credit for Qualified Retirement Savings Contributions, and adjust as appropriate.
- (4) For TY 2019 and prior, if the IRA deduction was disallowed in screening because of an indication the taxpayer(s) had reached an age of 70 1/2, and it is now found that the taxpayer(s) age is less than 70 1/2, enter the correct amounts in the PRIMARY and/or SECONDARY COMPENSATION fields as applicable on the IRA window. The system computes the correct deduction.

**Note:** For TY 2020 and subsequent, there is no age restriction. taxpayer's can claim a deduction for their IRA contributions regardless of age.

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is checked on the Form W-2), UNLESS

- the attached Form W-2 shows the taxpayer contributed to a pension plan (for example, box 1 Wages are less than SSWAG by the box 12 amount and code D, E or F is present) **OR**
- the WAGES IR shows the taxpayer contributed to a pension plan (for example, WAGES are less than SSWAG and the WAGES IR contains literal "DC").

- (6) Section 457 plans (Code G) and 501(c)(18) plans (Code H) are not considered pension plans for determining allowable IRA contributions. See IRM 4.19.3.9.6.1, IRA Deduction - Analysis, for further information.
- (7) Members of Reserve Components of the Armed Services are not active participants unless they serve on active duty over 90 days. Refer to Notice 87-16, 1987-1 C. B. 446.
- (8) If accepting the explanation for IRA deduction, check the Retirement Saving Credit window to ensure entries are correct per the response.
- (9) Accept the response when documentation provided supports the contribution was intended for the AUR tax year in question and was made on or before April 15th or the postponed filing deadline of the subsequent year.
- (10) The response indicates the contribution was based on a rollover. Do not accept the explanation and advise the taxpayer that rollover(s) cannot be used as a deduction and refer to Pub 590-A, Contributions to Individual Retirement Arrangements (IRAs), for additional information.
- (11) Taxpayers who contribute to a Roth IRA may recharacterize those contributions to a traditional IRA before the due date, including extensions, of the tax return. Those contributions are treated as having been made to the second IRA. If the taxpayer indicates overclaimed IRA deduction was due to Roth IRA contributions that were recharacterized:
  1. Create a CONTR IR for the amount of the recharacterized contribution (whether or not there is a matching Form 5498 RCONT).
  2. Verify the appropriate entries in the IRA window.

4.19.3.9.7  
(09-01-2003)  
**Student Loan Interest  
Deduction (SLID) -  
General**

- (1) Student Loan Interest Deduction (SLID) is reported to the IRS on Form 1098-E, Student Loan Interest Statement.
- (2) SLID is identified on the Case Analysis screen by the literal "1098E" in the DOC TYPE field and "SLID" in the INCOME TYPE field.

4.19.3.9.7.1  
(09-21-2020)  
**SLID - Analysis**

- (1) The amount of SLID the taxpayer may claim cannot exceed \$2,500, and begins to decrease (phase-out) when the MAGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below:

**Exception:** SLID cannot be claimed if the taxpayer can be claimed as a dependent on someone else's tax return.

Filing Status	TY 2020 and TY 2021	TY 2022
1, 4 or 5	Less than \$85,000	Less than \$85,000
2	Less than \$170,000	Less than \$175,000
3 or 6	Taxpayer cannot claim a SLID deduction	Taxpayer cannot claim a SLID deduction

**Reminder:** Always disallow claimed SLID amounts for filing status 3 or 6. If necessary, create an IR for zero (0).

- (2) SLID amounts reported on the return are substantiated when 1098E IRs (or similar payer statement attached to the return) amounts are equal to or exceed the deduction claimed. Payers are not required to file Form 1098-E if they

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- 1098E IR with a SLID amount, or
- Similar payer statement attached to the return

- (3) Use the following chart to determine O/D SLID amounts:

If the total of all 1098E IR(s) (or attached payer statements are):	And	Then
Equal to or greater than the amount of SLID claimed on Form 1040/1040-SR Schedule 1, line 21 .	SLID was claimed on the tax return	<p>ALWAYS mark the SLID IR(s) with status code "U" and use the AUR system to compute the allowable SLID based on the appropriate entries in the Adjusted Gross Income (AGI) window and the Student Loan Interest Deduction window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures, Student Loan Interest Deduction.</p> <p><b>Note:</b> Be alert to changes made during or after original processing when entering/ verifying information in this window.</p>
Less than the amount of SLID claimed on Form 1040/ 1040-SR Schedule 1, line 21.	The SLID claimed on the tax return is less than \$600	<p>Allow the deduction. Mark the IR(s) with "R", "N", or "D". Do not create an IR.</p> <p><b>Exception:</b> If, due to additional U/R income, the proposed new MAGI is equal to or greater than the upper limit amounts listed in (1) above, disallow the deduction. If no SLID IRs are present, create an IR for zero (0), mark the SLID IR with status code "U" and use the AUR system to compute the allowable SLID based on the appropriate entries in the Adjusted Gross Income (AGI) window and the Student Loan Interest Deduction window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures, Student Loan Interest Deduction.</p>



If the total of all 1098E IR(s) (or attached payer statements are):	And	Then
Less than the amount of SLID claimed on the tax return	The SLID claimed on the tax return is \$600 or more	<p>ALWAYS mark the SLID IR(s) with status code "U" and use the AUR system to compute the allowable SLID based on the appropriate entries in the Adjusted Gross Income (AGI) window and the Student Loan Interest Deduction window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures, Student Loan Interest Deduction. If no SLID IRs are present, create a SLID IR for zero (0).</p> <p><b>Exception:</b> If the O/D SLID amount is less</p> <p>MAGI (including other U/R income) is less than the upper limit amounts listed in (1) above, do not pursue the issue.</p>

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**Note:** If SLID, Tuition and Fees and/or DPAD are issues on the same case, see IRM 4.19.3.4.2, Case Analysis Screen, for the proper window sequence.

4.19.3.9.7.2  
(11-20-2017)  
**SLID Miscellaneous**

- (1) A SLID AUR issue exists when the taxpayer claims a larger SLID amount than is substantiated. **Send PARAGRAPH 22**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (2) A CP 2000 is issued for the discrepant SLID only if the taxpayer claims a larger deduction than they are entitled to take. Do not allow any additional deduction if SLID was not fully claimed.
- (3) PARAGRAPH 23 automatically generates when an increase to the MAGI causes a decrease in the allowable SLID amount and/or when SLID is disallowed because the taxpayer is filing status 3 or 6, or can be claimed as a dependent on someone else's return. See Exhibit 4.19.3-7, CP PARAGRAPHS. If decreasing SLID due to lack of substantiation, toggle off PARAGRAPH 23 in the Summary Screen.
- (4) If SLID is O/D, enter the return amount in the RETURN field on the Summary screen.

4.19.3.9.7.3  
(10-25-2023)  
**SLID - Responses**

- (1) The taxpayer explanation is acceptable when they provide Form 1098-E or similar payer statement, for the amount claimed on the return.
- (2) If Form 1098-E, or similar payer statement, is for somebody other than the primary or secondary taxpayer, accept the explanation when the response states the student was enrolled at least half-time in a degree program and all of the following apply:

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- (3) If the taxpayer requests an additional deduction amount and provides acceptable documentation meeting the requirements, allow the deduction. Enter "Y" in the REQUEST FOR ADDITIONAL DEDUCTION field in the SLID window.

4.19.3.9.8  
(11-23-2022)

**Tuition and Fees  
Deduction (TUTFE)**

- (1) Taxpayers who paid tuition and fees expenses to an accredited educational institution (college, university or vocational school) for an eligible student may be eligible to deduct up to \$4,000.
- (2) Tuition and Fees Deduction is reported on Form 1098-T, Tuition Statement.
- (3) Tuition and Fees is identified on the Case Analysis screen by the literal "1098T" in the DOC TYPE field and "TUTFE" in the INCOME TYPE field.
- (4) The Tuition and Fees Deduction is claimed on Form 1040/ Form 1040-SR, Schedule 1, line 21.

**Note:** Beginning TY 2021 TUTFE IR's will only be used for information purpose for education credits. Mark TUTFE IR'S with "N" or "D" during screening.

- (5) Taxpayers can claim Tuition and Fees deduction if they meet the following conditions:
- They paid qualified tuition and fees for themselves, their spouses or dependents.
  - Their filing status is any status except Married Filing Separately (FS 3 or 6).
  - They cannot be claimed as a dependent on someone else's tax return.
  - They are not claiming Education Credits for the same student. See (15) below.
- (6) The amount of Tuition and Fees the taxpayer may claim begins to decrease (phase-out) when the MAGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below:

Filing status	TY 2020 and prior
1, 4, or 5	\$65,000 - \$80,000
2	\$130,000 - \$160,000
3 or 6	Taxpayer cannot claim a Tuition and Fees deduction

- (7) If, due to U/R income, the taxpayer's MAGI now exceeds the amounts listed in (6) above, use the TUITION AND FEES DEDUCTION window to adjust/ disallow the amount of Tuition and Fees deduction claimed. **PARAGRAPH 110** automatically generates when the MAGI exceeds the threshold amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

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take the following action:

1. Create an IR for zero (0).
2. Enter status code "U", the AGI window displays.
3. Enter/Verify the entries in the AGI window.
4. <F12>, the Tuition and Fees Deduction window displays.
5. Enter/Verify the entries in the Tuition and Fees Deduction window.
6. <F12>.
7. PARAGRAPH 112 automatically generates when tuition and fees deduction is not substantiated. Toggle off PARAGRAPH 110 when applicable, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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amount claimed on Form 8917 take the following actions:

1. Enter status code "U", the AGI window displays.
2. Enter/Verify the entries in the AGI window.
3. <F12>, the Tuition and Fees Deduction window displays.
4. Enter/Verify the entries in the Tuition and Fees Deduction window using the 1098T amount in the TUITION AND FEES DEDUCTION field.
5. <F12>.
6. **Send PARAGRAPH 112**, Toggle off PARAGRAPH 110 when applicable, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Caution:** The amount of Tuition and Fees claimed cannot exceed the amount in box 1 of Form 1098-T, unless the taxpayer has attached an explanation of the additional expenses.

- (10) If the Tuition and Fees claimed on the Form 8917 is for a dependent, determine if the child has been claimed for Child Tax Credit, Child Care Credit, EIC and/or Additional Child Tax Credit. If the child has **NOT** been claimed for one of these credits, see (12) - (14) below for additional instructions. If child **has been** claimed for any of these credits, take the following actions:

**Note:** If the dependent is claimed for EIC purposes, look at the child's year of birth to determine if the child is eligible (old enough to be attending a postsecondary education institute) before disallowing the deduction.

1. Create an IR for zero (0).
2. Enter status code "U", the AGI window displays.
3. Enter/Verify the entries in the AGI window.
4. <F12>, the Tuition and Fees Deduction window displays.
5. Enter/Verify the entries in the Tuition and Fees Deduction window.
6. <F12>.
7. **Send PARAGRAPH 183**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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adjust only if there is a change to AGI that would cause the credit to be phased out or eliminated. Create an IR for the amount of the Tuition and Fees claimed and work through the applicable windows.

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following actions:

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2. Enter status code "U", the AGI window displays.
3. Enter/Verify the entries in the AGI window.
4. <F12>, the Tuition and Fees Deduction window displays.
5. Enter/Verify the entries in the Tuition and Fees Deduction window.
6. <F12>.

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the amount claimed on Form 8917 take the following actions:

1. Enter status code "U", the AGI window displays.
2. Enter/Verify the entries in the AGI window.
3. <F12>, the Tuition and Fees Deduction window displays.
4. Enter/Verify the entries in the Tuition and Fees Deduction window.
5. <F12>.
6. PARAGRAPH 112 automatically generates, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Caution:** The amount of Tuition and Fees claimed cannot exceed the amount in box 1 of Form 1098-T, unless the taxpayer has attached an explanation of the additional expenses.

- (14) If the taxpayer erroneously claims both the Education Credit and the Tuition and Fees deduction **AND** the Form 8917, Tuition and Fees Deduction, indicates that the credits were for the same student, disallow Tuition and Fees. **Send PARAGRAPH 111**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (15) If Form 8917 is not attached to the return, disallow the Tuition and Fees deduction and **send PARAGRAPH 113**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (16) If Tuition and Fees and/or DPAD are issues on the same case, compute Tuition and Fees **BEFORE** DPAD. See IRM 4.19.3.4.2, Case Analysis Screen, for the proper window sequence.
- (17) If TUTFE is O/D, enter the return amount in the RETURN field of the Summary screen.

4.19.3.9.8.1  
(11-23-2022)

**TUTFE - Responses**

- (1) If the taxpayer responds with a completed Form 8917 claiming Tuition and Fees deduction for the first time, take the following action:

**Note:** Beginning TY 21 TUTFE IR's will only be used for information purpose for education credits.

If	Then
1098T IR is present	Allow the deduction. <b>Caution:</b> The amount of qualified expenses cannot exceed the 1098T IR amount, unless the taxpayer has attached an explanation of the additional expenses.
The taxpayer provides a copy of Form 1098-T or similar documentation	Allow the deduction. <b>Caution:</b> The amount of qualified expenses cannot exceed the amount in box 1 of Form 1098-T, unless the taxpayer has attached an explanation of the additional expenses.
1098T IR is NOT present or the taxpayer does not provide a copy of Form 1098-T or similar documentation	Do not allow the deduction. Correspond with the taxpayer for a copy of the Form 1098-T. 1. Attempt to call the taxpayer for the requested documentation. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for additional information on Out Calls. 2. Request verification for the amount claimed

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4.19.3.9.9  
(10-25-2023)  
**Charitable Contributions**  
**- TY 2020 and TY 2021**

- (1) Taxpayers who do not itemize deductions on Schedule A may take a deduction for charitable contributions on Form 1040/ Form 1040-SR, line 10b (TY 20), line 12b (TY 21).
- (2) Taxpayers are instructed to enter the total amount of the contribution:
  - \$300 if single, head of household, or qualifying surviving spouse;
  - \$300 (TY 20), \$600 , if married filing jointly (TY 21); or
  - \$150 if married filing separately

**Note:** Contributions carried forward from prior years do not qualify for this deduction.

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- (4) During the Response phase:

If	Then
Taxpayers response includes Charitable Contributions not originally reported or an increase to the deduction	<p><b>Note:</b> The deduction is limited, see (2) above.</p> <p>2. Make the adjustment to allow the difference using the MISC ADJUSTMENT/ SCHEDULE C EXPENSE window (TY 20), or in the CHARITABLE CONTRIBUTIONS PER RETURN FIELD of the TXI ADJUSTMENTS window (TY 21).</p>
Taxpayers response includes an increase to Charitable Contributions over the allowable amount	<p>1. Do not allow the increase.</p> <p>2. Send a <b>Special Paragraph</b> to explain why the adjustment will not be made.</p>

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4.19.3.9.10  
(10-25-2023)  
**Domestic Production  
Activity Deduction  
(DPAD)**

- (1) Taxpayers figure Domestic Production Activities Deduction (DPAD) on Form 8995-A, Qualified Business Income Deduction
- (2) Payments received from a specified agricultural or horticultural cooperative , may be deductible.
- (3) The DPAD is claimed on the dotted portion of Form 1040, Schedule 1, line 13 . Adjustments to the deduction are made based on changes to AGI.
- (4) Patrons of specified agricultural or horticultural cooperatives report any section 199A(g) DPAD that was passed through from a specified agricultural or horticultural cooperative on Form 8995-A, Qualified Business Income Deduction, Part IV, line 38.
- (5) If the taxpayer has claimed a deduction for DPAD and there are no IRs containing the DPAD element, create a 99PAT IR with a 199AD element for zero (0) and enter the amount identified as DPAD on Form 1040/1040-SR, line 13.
- (6) The deduction is limited to 9 percent of the lesser of the taxpayer's:

**Exception:** If the DPAD is oil related, the deduction is reduced by 3 percent.

- a. Qualified Production Activities income.
- b. AGI figured without the DPAD.

**Note:** The deduction is further limited to 50 percent of the Form W-2 wages the taxpayer pays to their employees.

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- (8) If the DPAD element is discrepant, enter the return amount in the RETURN field on the Summary screen. Include a Special Paragraph using the following

verbiage as an example: "Our records indicate that you have a domestic production activities deduction from cooperatives as shown on Form 1099-PATR, box 6. We used this information to revise your Form 995-A, Qualified Business Income Deduction."

4.19.3.10  
(09-24-2021)  
**Return Value Screen**

- (1) The Return Value screen is used to verify and enter the amounts from the tax return. It also performs calculations necessary to determine the correct tax increase or decrease. The AUR system is updated with the amounts from the originally processed tax return. Any subsequent adjustments to the taxpayer's return must be considered when verifying and entering amounts on the Return Value screen and windows.

**Note:** An AGI and/or TXI mismatch could be due to a taxpayer and/or processing error. AUR is responsible for issuing a notice (CP 2000/ CP 2501) to correct these types of errors.

- (2) Using the information from the original return, and amounts computed in Case Analysis, the system displays the appropriate windows and performs the necessary calculations. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Return Value Screen.

**Note:** Each window in Case Analysis MUST be accessed in the appropriate sequence before the Return Value screen is selected and calculations are completed.

- (3) Enter/Verify the filing status per return. Be sure to consider any changes to filing status. If the filing status (FS) displayed does not match the FS shown on the return or the information provided by the taxpayer, enter the correct FS prior to performing calculations.

**Note:** It may be necessary to update the filing status prior to performing Case Analysis functions such as: CREATE IR and MODIFY IR.

- (4) Enter/Verify the AGI PER RET field. This must be the amount reported on the original return, as adjusted by Error Resolution function, or a subsequent adjustment.

**Note:** The Misc Adjust/Sch C Exp window may be used to adjust the AGI when the taxpayer adjusts their Schedule C, E, F and/or any other allowable schedule or form during the response phase.

**Reminder:** When using the Misc Adjust field of the Misc Adjust/Sch C Exp window, include a special paragraph explaining the adjustment. Refer to IRM 4.19.3.5.9, Miscellaneous.

- (5) If the taxpayer writes "CCF" (Capital Construction Fund) on the dotted portion of Form 1040/ Form 1040-SR, line 15 and deducts an amount from the taxable income, include the amount in both the MISC TXI ADJ PER RETURN and the MISC TXI ADJ NOW fields.

**Note:** If the taxpayer responds to the CP 2000/ (CP 2501 with either a new CCF amount or a change to the previously claimed CCF amount, enter the

revised CCF amount in the MISC TXI ADJ NOW field. Include a Special Paragraph explaining that the revised CCF amount is accounted for in the taxable income shown on the notice.

- (6) If the AGI per return and AGI on Return Value match, but the TXI per return does not match the TXI PER RET field, the taxpayer/processing error may involve the Standard Deduction, Schedule A, and/or exemptions. Verify the Filing Status, Number of Exemptions, and Schedule A window fields. Be sure these fields account for any initial processing error or adjustments due to a subsequent filing of a Form 1040-X by the taxpayer.
- (7) When the TXI per return does not match the TXI COMPUTED PER RET field, the message **"TXI differs from original return. Send appropriate paragraph."** displays. This situation can be caused by:
  - a. The standard deduction for taxpayers that can be claimed as a dependent on someone else's return changes the TXI per return due to U/R earned income. See IRM 4.19.3.13, Standard Deduction, for further instructions.
  - b. The TXI PER RETURN shows zero (0) and the TXI RECOMPUTED PER RETURN is negative. PARAGRAPH 94 automatically generates when the new or original TXI is negative. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** If these conditions do not apply, verify that the Schedule A window entries are accurate.

- (8) Enter/Verify the BASE TAX PER RET field from Form 1040, line 16. The base tax is the amount of tax assessed prior to credits and other taxes. This amount may need to reflect any changes, math errors, subsequent adjustments (for example, TC 290, 291, 300, 301). The base tax per return plus or minus the

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**Caution:** Ensure that the entry in the BASE TAX PER RETURN field does not include Form 4972 tax, nor any O/C W/H adjusted as a TC 290 RC 051.

- (9) If the total TAX PER RET field on Return Value does not match the total tax on the return but there is both an AGI match and a TXI match (between the return and Return Value), the processing error may involve credits or other taxes. Access, verify, and correct window entries in Case Analysis and/or Return Value as appropriate. If necessary, perform IDRS research (such as, CC RTVUE) to complete the Return Value screen.
- (10) If a taxpayer or initial processing error is identified that results in U/R income and/or prepayment credits being adjusted, and no corresponding IRs are present, send a Special Paragraph to explain the adjustment to the taxpayer.
- (11) When amounts per return on the CP 2000 are different from those shown on the original return because of a processing change (Math Error Code present), amended return, or other adjustment, and:
  - a. The taxpayer is aware of the adjustment, **send PARAGRAPH 158**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

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**send PARAGRAPH 125**. See Exhibit 4.19.3-7, CP PARAGRAPHS.



- (12) By using the **<F12> key**, the windows display in a sequence determined by the system. If a necessary window does not display, it may be selected from the menu and information enter in the appropriate fields. If a window is selected from the menu, it displays by using the **<F12> key** only AFTER Return Value is committed and exited.

**Example:** If forms/schedules are not attached to the original return (they are filed with a Form 1040-X) or are not transcribed, the applicable windows must be manually selected.

- (13) The Return Value screen must be committed before a CP 2000/ CP 2501 Notice is issued. It is necessary that each window is accessed in the appropriate sequence before all calculations are completed. When Return Value is committed, the system verifies that the base tax per return plus or minus the credits and other taxes per return equals the tax assessed. If there is a dis-

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NOT EQUAL TO TAX ASSESSED. REWORK CASE.” If this message appears, take the appropriate following action(s).

1. If no changes were made to the original return, verify the amounts displayed in the PER RETURN fields of the Credits and Other Taxes windows.
2. In the BASE TAX PER RETURN field enter the amount from: Form 1040/ 1040-SR, line 16.
3. If SE TAX, TIP TAX, or Lump Sum is applicable, it may be necessary to return to Case Analysis to verify these per return amounts.

**Note:** If Form 8919 is attached see IRM 4.19.3.8.6.1, NEC - Analysis.

- (14) If a subsequent adjustment has been made to the tax return, use the following manual calculation to determine the base tax per return:

1. Use the amount from the TOTAL TAX PER RETURN field of the Return Value screen.
2. Subtract other taxes per return and any subsequent adjustments. See (10) above.
3. Add credits per return and any subsequent adjustments. See (10) above.
4. Enter the result in the BASE TAX PER RETURN field.
5. If SE TAX, TIP TAX, or Lump Sum is applicable, it may be necessary to return to Case Analysis to verify these per return amounts.

- (15) If changes were made due to a math error and an error correction notice was issued, determine the reason for the issuance of the notice. Also verify the amounts displayed in the PER RETURN fields of the Credits and Other Taxes windows. Include any applicable changes made by Error Resolution function. Use the following manual calculation to determine the base tax per return:

1. Use the amount from the TOTAL TAX PER RETURN field of the Return Value screen.
2. Subtract the other taxes per return or as corrected.
3. Add the credits per return or as corrected.
4. Enter the result in the BASE TAX PER RTN field.
5. If SE TAX, TIP TAX, or Lump Sum is applicable, it may be necessary to return to Case Analysis to verify these per return amounts.

- (16) If changes have been made due to a math error and an error correction notice was NOT issued use the following manual calculation to determine the base tax per return. Also verify the per return amounts in the credits and other taxes window.
  1. Use the amount from the TOTAL TAX PER RETURN field of the Return Value screen.
  2. Subtract the other taxes per return using the taxpayer's figures.
  3. Add the credits per return using the taxpayer's figures.
  4. Enter the result in the BASE TAX PER RETURN field.
  5. If SE TAX, TIP TAX, or Lump Sum, is applicable, it may be necessary to return to Case Analysis to verify these per return amounts.
- (17) Determine the correct tax based on the taxpayer's filing status and taxable income per return. The taxable income per return must include changes made by error resolution and any subsequent adjustments.
- (18) Enter the correct net operating loss (NOL). See IRM 4.19.3.5.9, Miscellaneous.
- (19) Certain conditions may require a manual interest computation. See IRM 4.19.3.4.3.2, Freeze Codes, IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000.

**Reminder:** During screening, cases requiring manual interest are closed with PC 27, **ONLY** if they are built in BT 61. If Freeze Code "G-", with TC 500 and Combat Indicator 1 is present, close the case with PC 15; see IRM 4.19.3.4.3.2, Freeze Codes, for additional information.

- a. Return Value must be completed and committed.

**Note:** If the Return Value screen reflects a refund, and **there is no "I-" freeze code present** continue processing. **Do not enter IPC "MI"**. If there is a "I-" freeze on the account see IRM 4.19.3.4.3.2, Freeze Codes, for additional information.

- b. On the Notice Summary screen, all RETURN fields must be updated, and all non-automatic paragraphs must be accounted for. The Notice Summary screen must be committed.
  - c. Enter IPC "MI" **ONLY** if a previous IPC "MI" is present, otherwise continue processing.
- (20) Cases rejected during the interest run process will be batched in BT 61 (Manual Interest batch) for manual interest computation. If the case is in BT 61 (Manual Interest batch) follow the instructions in IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, otherwise, leave the MANUAL FAILURE TO PAY PENALTY and/or MANUAL INTEREST fields blank.

4.19.3.11  
(09-21-2020)  
**Changes to Itemized  
Deductions**

- (1) These instructions are for changes to Form 1040, Schedule A caused by AUR processing.
- (2) The Tax Cuts and Jobs Act (TCJA) enacted in December 2017, eliminated and/or established new limitations on itemized deductions. In addition, taxpayers who do not itemize deductions can claim a larger standard deduction if they have a qualified disaster loss on Form 4684, line 18. If the taxpayer has a qualified disaster loss on Form 4684, line 18 an increased deduction will be claimed. Taxpayers will list the amount from Form 4684, line

18, on the dotted line next to Schedule A, line 15 as **Net Qualified Disaster Loss** and the standard deduction amount on the dotted line next to Schedule A, line 15 as **Standard Deduction claimed with Qualified Disaster Loss**. Taxpayers will combine the two amounts on Schedule A, line 15 and enter the total.

4.19.3.11.1  
(10-25-2023)  
**Schedule A Window**

- (1) When there are changes to AGI, the system computes the change to Medical and Dental Expenses, Casualty and Theft Losses, as applicable. Enter/Verify the appropriate per return and recomputed amounts in the Schedule A window of the Return Value screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Schedule A Deductions.

**Note:** If the taxpayer chose to itemize deductions even though the amount was less than the standard deduction, enter "Y" in the FS 3 ITEMIZED/DUAL STATUS ALIEN/IE box in the Standard Deduction window, prior to enter/verification of Schedule A window fields.

- (2) When a Schedule A is present, the amounts must be entered/verified from Schedule A:

1. Line 1, in the GROSS MEDICAL EXPENSE PER RETURN field.
2. Line 5d, in the TOTAL STATE AND LOCAL TAXES PER RETURN field.
3. Line 6, in the OTHER TAXES PER RETURN field.
4. Line 7, in the TOTAL TAXES PAID PER RETURN field.
5. Line 8a, in the MORTGAGE INTEREST PER RETURN field.
6. Line 8d, in the MORTGAGE INSURANCE PREMIUMS PER RETURN field.(TY 2020 and TY 2021)
7. Line 9, in the INVESTMENT INTEREST DED PER RETURN field.
8. Line 10, in the TOTAL INTEREST DED PER RETURN field.

**Note:** The RECOMPUTED field for TOTAL INTEREST DED doesn't require an entry.

9. Line 14, in the GIFTS TO CHARITY PER RETURN field.
10. Form 4684, line 18, in the GROSS CASUALTY AND THEFT LOSS PER RETURN field.
11. Line 16, in the GAMBLING LOSS OF OTHER MISC PER RETURN field.
12. Line 16, in the OTHER MISC DEDUCTIONS PER RETURN field (non-Gambling).
13. Line 17, in the TOTAL ITEMIZED DEDUCTIONS PER RETURN field.

- (3) **When taxpayers use dollars and cents on Schedule A, rounding errors can occur because the system records only dollar amounts. Ensure that any rounding errors are not added to the corrected TXI. Make the appropriate changes in the Schedule A window.**

- (4) The Schedule A change displays on the Summary screen in the MEDICAL DEDUCTION, MORTGAGE INTEREST DEDUCTION, CASUALTY LOSS DEDUCTION, and MISCELLANEOUS DEDUCTION INCREASE or DECREASE field(s) as appropriate. The TOTAL INCREASE/DECREASE field includes only the actual change to the Schedule A.

- (5) If the taxpayer's Schedule A charitable contributions, line 14 were limited to 60 percent of the AGI, during original processing and the AGI is increased due to U/R processing, **send PARAGRAPH 148**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (6) See IRM 4.19.3.8.19.2, Gambling Losses, for information on Gambling Losses.
- (7) PARAGRAPH 10 automatically generates when Medical and Dental Expenses are adjusted. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (8) PARAGRAPH 21 automatically generates when Casualty and Theft Losses are adjusted. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) PARAGRAPH 9 automatically generates when the standard deduction exceeds the itemized deductions. The system also alerts the tax examiner with a message indicating the Schedule A changes have been limited to the standard deduction. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) PARAGRAPH 33 automatically generates if there is an indication that the taxpayer claimed the General Sales Tax on Schedule A, line 5. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.11.1.1  
(10-07-2019)

**Schedule A - Responses**

- (1) If the taxpayer's response indicates a **NEW** Schedule A (the taxpayer used the Standard Deduction during original filing) or a revision to an existing Schedule A (for example, a notice was issued for unreported gambling income and the taxpayer responds with additional gambling losses on Schedule A, line 16, select the Schedule A window.
  - a. For a **NEW** Schedule A, follow the system prompts and enter all appropriate fields in the Schedule A window. Enter a zero (0) in the TOTAL DEDUCTION fields.
  - b. For a revision to an existing Schedule A, enter the updated amount(s) in the appropriate field(s) in the Schedule A window. DO NOT update the TOTAL DEDUCTION field.
  - c. Compare the recomputed Total Itemized Deductions amount to Schedule A, line 17 . If these amounts differ, recheck entries in the window for accuracy. If the difference is due to a taxpayer error in calculating the new Schedule A, inform them of the error with a Special Paragraph.
  - d. The changes due to revising Schedule A reflect in the INCREASE/DECREASE field of the Summary screen. Since there is no field in the Summary screen that displays an "overall change to Schedule A", **send PARAGRAPH 114**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.11.2  
(09-30-2014)

**Mortgage Interest  
Deduction and Points  
Paid**

- (1) Screen Mortgage Interest (MORT) ONLY in Categories 01, 36, or 67. If MORT is asterisked in categories other than "01", "36", or "67" mark the IR(s) with status code "D" or "N" (unless they have been system deleted with status code "X"). If appropriate, close the case with PC 2X. If the case is open for any other category, do not screen MORT.
- (2) Deductible MORT and/or points paid (PTSPD), for purposes of the AUR Program, is interest paid to a lender for a loan obligation secured by a qualified residence. This includes up to two personal residences, which could include a house, condominium, motor/mobile home, houseboat, or house trailer that contains a sleeping space, toilet and cooking facilities. Deductible MORT may be paid on an acquisition or home equity loan.
- (3) Mortgage interest payments are reported on Form 1098, Mortgage Interest Statement.

4.19.3.11.2.1  
(09-21-2020)  
**MORT - Analysis**

- (4) Mortgage interest and/or Points Paid are identified on the Case Analysis screen by the literal "1098" in the DOC TYPE field and the literal "MORT" and "PTSPD" in the INCOME TYPE field. Income Identity Code "MA" displays.

- (1) Mortgage Interest is a deduction used to reduce AGI and/or TXI and becomes an AUR issue when the taxpayer deducts more mortgage interest than is shown on the MORT IR(s).

- (2) Mortgage interest of \$600 or more must be substantiated with either:

- Form 1098 with a MORT and/or PTSPD amount, or
- A similar payer statement attached to the return

- (3) Lenders/Payers are not required to file a Form 1098 for amounts less than

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**Example:** The MORT IR is for \$7,000 and the taxpayer reports \$8,000 mortgage

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- (4) Taxpayers who own shares in a cooperative (co-op) may not receive individual Form 1098 statements. The Form 1098 is issued to the cooperative and then each taxpayer is allocated mortgage interest based on the number of shares owned. Whenever there is an indication that the mortgage interest claimed is derived from a co-op (for example, attachments list the name of the property and include such terms as "shares" or "SHS", etc. or may indicate a percentage of total shares),

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- (5) Compare MORT and/or PTSPD amounts with mortgage interest amount(s) claimed by the taxpayer on the following schedules or forms. If mortgage interest is claimed on schedules/forms other than Schedule A, modify the IR(s) in question to show the applicable Income Identity Code.

- a. Schedule A, line 8a (Income Identify Code "MA"). **Do not use Schedule A, line 8c when determining O/D MORT.**
- b. Schedule C, line 16a (Income Identify Code "PB" or "SB").
- c. Schedule E, line 12 (Income Identify Code "ME").

**Note:** Taxpayers with more than three rental properties file as many Schedules E as are needed to report all rental income, but are instructed to complete lines 23a - 26 on only one Schedule E. If multiple Schedules E were filed it may be necessary to compare MORT and/or PTSPD amounts to the total on Schedule E, line 23c.

- d. Schedule F, line 21a (Income Identify Code "PF" or "SF").
- e. Form 4835, line 19a (Income Identify Code "ME").
- f. Form 8829, line 10 (Income Identify Code "PB" or "SB").

- (6) If mortgage interest is claimed on the return and there are no MORT IRs present, create an IR for zero (0) and pursue the reported amount.
- (7) If MORT is marked with a status code "U", the Income Identify Code is MA, and the system determines a Schedule A was not filed, a warning message displays, "Verify Schedule A was used". Determine if a Schedule A was filed.
  1. If a Schedule A is attached and line 17 amount is greater than the standard deduction, verify the fields in the Schedule A window.
  2. If Schedule A is attached and was not used line 17 amount is less than the standard deduction, either mark the MORT IR(s) as reported or **change** the Income Identify Code as applicable.
  3. If Schedule A was not filed or line 17 amount is less than the standard deduction and the Income Identify Code remains MA you must access the Schedule A window in Return Value. IF THE SCHEDULE A WINDOW IS NOT ACCESSED AN INCORRECT NOTICE MAY BE SENT TO THE TAXPAYER.
- (8) MORT and/or PTSPD is O/D when the sum of mortgage interest and points paid (Form 1098, boxes 1 and 2) is less than the sum of mortgage interest and/or points paid on the return.
  - a. If the taxpayer attaches a breakdown of Schedule A, line 8a, and includes closing and/or settlement statement (for example, "Discount Points", "Loan Discount", "Points", etc.), allow the deduction. Do not allow the taxpayer to deduct fees paid for appraisal, inspection, title or attorneys.
  - b. Consider MORT O/D when the taxpayer has claimed the full MORT IR(s) on Schedule A and has also claimed a credit identified as Form 8396, Mortgage Interest Credit, on Schedule 3, line 6 (TY 2020), Schedule 3, line 6g (TY 2021 and subsequent).
- (9) When taxpayers rent a portion of their own residence, they may deduct only a portion of the expenses on Schedule E. They may indicate a percentage of personal use. Taxpayers generally report the entire mortgage interest amount on Schedule E, line 12, then reduce the overall expenses by the percentage of personal use. The balance of the mortgage interest is then claimed on Schedule A, line 8a.
  - a. Math verify the rental income on Schedule E, minus all the expenses and depreciation to determine whether the overall income/loss claimed is reduced. If the overall expenses were reduced and the balance of the mortgage interest is claimed on Schedule A, consider the MORT discrepancy resolved.
 

**Example:** The MORT IR is for \$10,000. The taxpayer claims \$10,000 on Schedule E, line 12 and \$5,000 on Schedule A, line 8a. Verifying the Schedule E expenses shows that the overall expenses (including mortgage interest) claimed were reduced by 50 percent. The taxpayer allocated the entire \$10,000 mortgage interest between Schedule E and Schedule A (\$5,000 on each schedule). The system identified MORT discrepancy is resolved.
  - b. The taxpayer may not indicate a percentage of personal use but may still reduce the net profit/loss. Always math verify the rental income less all



the expenses and depreciation to determine whether the taxpayer is claiming the full MORT amount before determining the U/R amount.

**Note:** The taxpayer's rental losses may be limited. When the overall loss is other than the math verified amount, determine if the taxpayer filed Form 8582, Passive Activity Loss Limitations. If the loss was limited, the mortgage interest claimed on Schedule E, line 12 for that property is the amount that is applied against the MORT IR.

- (10) When the mortgage account is jointly owned, the lender issues a single Form 1098 to the primary holder of the loan. Since any mortgage interest claimed by the secondary holder of the loan is not substantiated by a MORT IR, the system considers the MORT claimed potentially O/D. If the taxpayer reports mortgage interest for which there is no corresponding MORT IR and indicates joint ownership, consider the MORT discrepancy resolved when:

- a. Form 1098 or other payer statement is attached, showing the mortgage interest claimed is from a jointly held account, **or**
- b. The taxpayer provides the name and SSN **or** the name and address of the co-owner of the loan.

**Note:** If the taxpayer is the primary and deducts a portion of the MORT IR, do not apply the balance of the MORT against mortgage interest claimed on any other schedule/form.

**Caution:** If there is an indication of a percentage of ownership, determine the correct amount of mortgage interest deducted.

- (11) When comparing MORT IR(s) to amounts claimed on the return, always try to associate specific MORT IR amounts to specific Schedules/Forms (in the case of Schedule E, to specific properties). If unable to determine the specific schedule on which the mortgage interest was O/D (for example, the O/D amount does not match any schedule/forms mortgage interest, or the name or address on the IR does not offer an indication as to which schedule/form), group all MORT IRs and compare the total and offset it against the mortgage interest amount reported on the following schedules in the order shown.

1. Schedule C.
2. Schedule E.
3. Schedule F.
4. Form 4835.
5. Form 8829. If the taxpayer files Schedule C and is deducting expenses for business use of a home, all deductible mortgage interest should be reported on Form 8829, Expenses for Business Use of Your Home, line 10. The taxpayer should show, on line 7 of Form 8829, the percentage of their home used for business. To determine the allowable business part of the mortgage interest (and how mortgage interest should be allocated between Schedule A and Schedule C), multiply the percentage used for business by the amount on line 10 of Form 8829. The remainder is deductible on Schedule A, lines 8a and 8b. No portion of the business part is an allowable deduction on Schedule A. If the amount of interest deducted on Schedule A is limited, any excess should be entered on Form 8829, line 16.



**Note:** Mortgage interest on Schedule A and Form 8829 should equal Form 1098. However, taxpayers often take the allowable percentage deduction on Form 8829 and the full deduction on Schedule A. Follow the allocation procedures above to determine the O/D MORT and **send PARAGRAPH 169**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

6. Schedule A limit the O/D amount to line 8a amount.

**Example:** IR total is \$25,000. The taxpayer claims mortgage interest on Schedule C of \$10,000, Schedule E of \$10,000, and Schedule A of \$9,000. The O/D MORT is \$4,000, with Income Identity Code of "MA". Changes to these schedules/forms may also result in changes to other forms (for example, Form 2441), schedules, and computations (for example, SE tax). See the appropriate sections of the IRM.

7. When allocating MORT, **send PARAGRAPH 121**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (12) DO NOT pursue MORT IR(s) that are not fully claimed.
- (13) Do not pursue MORT/PTSPD when the system assigns a status code "X".

line 8c.

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4.19.3.11.2.2  
(10-07-2019)  
**MORT - Miscellaneous**

- (1) If there is an O/D Schedule A mortgage interest, ALWAYS enter the mortgage interest amount from Schedule A, line 8a in the MORTGAGE INTEREST PER RETURN field in the Schedule A window on the Return Value screen.
- (2) When pursuing O/D mortgage interest from Schedule(s) C, E, F, and/or Form 4835, enter the total mortgage interest amount from these schedule(s) or form(s) in the REPORTED field on the Summary screen.
- (3) If there are mortgage interest amounts for both taxpayers on a joint return and it is not possible to allocate the MORT IR(s) between schedules, refer to the lead.
- (4) When a change to mortgage interest claimed on Schedule C and/or F results in a change to SE tax **send PARAGRAPH 161**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) See IRM 4.19.3.8.26, Refund of Overpaid Mortgage Interest Deduction (ROMID) - General, for instructions when there is ROMID on the IR.
- (6) PARAGRAPH 40 automatically generates when MORT is O/D. Include all valid MORT IR elements (both reported and discrepant) on the notice. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.11.3  
(10-25-2023)  
**Mortgage Insurance  
Premiums (MIP) (TY  
2021 and Prior)**

- (1) Mortgage insurance premiums (MIP) are reported on Form 1098 and are identified on the Case Analysis screen by the literal "MIP" in the INCOME TYPE field.
- (2) Eligible taxpayers deduct qualified mortgage insurance premiums on Schedule A, line 8d. Since MIP can only be claimed on Schedule A, no Income Identify Code is required.
- (3) MIP of \$600 or more must be substantiated with either:
  - Form 1098 with a MIP amount, or
  - A similar lender/payer statement attached to the return.
- (4) Lenders/Payers are not required to file a Form 1098 for amounts less than
- (5) The qualified mortgage insurance premiums begin to phase-out when the AGI is greater than \$100,000 (\$50,000 for FS3). taxpayers cannot claim a mortgage insurance premium deduction when their AGI is greater than \$109,000 (\$54,500 for FS3). When the taxpayer has limited the qualified MIP deduction on line 8d based on the phase-out, follow the instructions in (6) or (7) below.
- (6) If the taxpayer claimed a MIP deduction on Schedule A, line 8d in categories **other than** 01, 36, or 67:

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If	And	Then
No MIP IR is present	The taxpayer is NOT subject to the phase-out per the amounts in (5) above	1. Create an IR for the amount claimed. 2. Mark the IR with a status code "R".
The amount reported is equal to the MIP IR	The taxpayer is NOT subject to the phase-out per the amounts in (5) above	Mark the IR with a status code "R".
The amount reported does not match the MIP IR - including discrepancy due to the \$1 rounding	The taxpayer is NOT subject to the phase-out per the amounts in (5) above	1. Create an IR for the amount claimed. 2. Mark the IR with a status code "R". 3. Delete the original MIP IR.
The amount reported is equal to or less than the MIP IR.	The taxpayer is subject to a phase-out per the amounts in (5) above.	1. Mark the IR with status code "R". 2. Allow the system to refigure the MIP deduction. 3. <b>Send PARAGRAPH 213</b> , see Exhibit 4.19.3-7, CP PARAGRAPHS

If	And	Then
The amount reported is more than the MIP IR, including discrepancy due to \$1 rounding.	The taxpayer is subject to a phase-out per the amounts in (5) above.	<ol style="list-style-type: none"> <li>1. Create an IR for the amount claimed.</li> <li>2. Mark the IR with status code "R".</li> <li>3. Delete the original MIP IR.</li> <li>4. Allow the system to refigure the MIP deduction.</li> <li>5. <b>Send PARAGRAPH 213</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS</li> </ol>

- a. **DO NOT ALLOW ADDITIONAL MIP DURING SCREENING.**
- b. If pursuing MIP, mark original MIP IR with a Send indicator "S".

- (7) If the taxpayer claimed a MIP deduction on Schedule A, line 8d in categories 01, 36, or 67:

If	Then
No MIP IR is present	<p>Create a MIP IR for zero, allow the system to refigure the MIP deduction. <b>Send PARAGRAPH 214</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</p> <p><b>Exception:</b> If the taxpayer claims less than \$600, create an IR for the amount claimed and mark with a status code "R".</p>
The amount reported is more than the MIP IR due to \$1 rounding	<ol style="list-style-type: none"> <li>1. Create an IR for the amount claimed.</li> <li>2. Mark the created IR with status code "R".</li> <li>3. Delete the original MIP IR.</li> </ol>
The amount reported is equal to or more than the MIP IR	<ol style="list-style-type: none"> <li>1. Mark the IR with status code "U".</li> <li>2. Allow the system to refigure the MIP deduction.</li> <li>3. <b>Send PARAGRAPH 214</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>
The amount reported is less than the MIP IR and the taxpayer is not subject to a phase out, per the amounts in (5) above	<ol style="list-style-type: none"> <li>1. Create an IR for the amount claimed.</li> <li>2. Mark the created IR with status code "R".</li> <li>3. Delete the original MIP IR.</li> </ol>
The amount reported is less than the MIP IR and the taxpayer is subject to a phase out, per the amounts in (5) above	<ol style="list-style-type: none"> <li>1. Mark the IR with status code "U".</li> <li>2. Allow the system to refigure the MIP deduction.</li> <li>3. <b>Send PARAGRAPH 213</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>

- a. **DO NOT ALLOW ADDITIONAL MIP DURING SCREENING.**
- b. If pursuing MIP, mark original MIP IR with a Send indicator "S".

4.19.3.11.3.1  
(10-25-2023)  
**MIP - Responses (TY  
2021 and Prior)**

- (1) Homeowners insurance premiums and hazard insurance premiums are not deductible as MIP. If the taxpayer claimed these amounts as MIP, disallow the deduction and **send PARAGRAPH 215**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (2) Use the table below to evaluate the taxpayer's response.

If	And	Then

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(3) Accept the taxpayer's explanation when:

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4.19.3.12  
(10-25-2023)  
**Qualified Business  
Income Deduction  
(QBID)**

- (1) Individuals, estates and certain trusts (but not corporations) are allowed a deduction up to 20 percent of net qualified business income (QBI) plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

**Note:** The total QBI deduction is limited to 20 percent of taxable income, calculated before QBI deduction, less net capital gain.

**Note:** The deduction can be taken in addition to the standard or itemized deduction.

- (2) QBI includes items of income, gain, deduction, and loss from qualified trades or businesses within the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, and certain trusts and estates that are included or allowed in determining taxable income for the year. Trades or businesses by C corporations and the performances of services as an employee are never qualified trades or businesses. Generally, certain specified services trades or businesses (SSTBs) are not qualified trades or businesses, but all or portion of the SSTBs may be qualified trade or business if the taxpayer's taxable income is below a threshold or within a phase-in range.
- (3) Eligible taxpayers claim the QBI deduction on Form 1040/1040-SR, line 13. Taxpayers are required to attach Form 8995, Qualified Business Income Deduction, Simplified Computation or Form 8995-A, Qualified Business Income Deduction to their return. Depending on the type of trade or business, the amount of wages paid by the trade or business, the unadjusted basis immediately after acquisition of qualified property held by the trade or business, and the taxable income, the QBI deduction may be limited:

Filing Status	TY 2020	TY 2021	TY 2022
1 or 4	\$163,300	\$164,900	\$170,050
3	\$163,300	\$164,925	\$170,050
2	\$326,600	\$329,800	\$340,100

- (4) During case analysis, AUR only adjusts the QBI deduction when, due to UR income, the taxpayers recomputed TXI exceeds the threshold.
- (5) Enter/Verify the QBI deduction amount from Form 1040/1040-SR, line 13 in the Return Value QBID PER RETURN field. If, due to UR income, a change to QBID is required, the system calculates the change and populates the LIMITED QBID field. Enter the MANUAL QBID amount when appropriate.
- (6) If issuing a notice and QBID is present on the return, Paragraph 200 automatically generates. Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.12.1  
(10-06-2022)  
**QBID Responses**

- (1) The taxpayer may respond they qualify for a QBID or indicate the QBID needs to be adjusted. If the taxpayer provides Form 8995, Form 8995-A, Form 1040-X, line 4b and/or Form 1040/ Form 1040-SR, line 13 adjusted amount, enter the QBID amount in the Return Value QBID RECOMPUTED field. If the amount entered is greater than 20 percent of the recomputed TXI, the deduction will be systemically limited. The maximum deduction amount will be shown in the LIMITED QBID field once the message is acknowledged. DO NOT adjust the limited QBID amount.

**Note:** If the taxpayer does not provide an adjusted QBID, continue normal AUR case processing.

**Caution:** The allowable amount cannot be more for the applicable Filing Status than the threshold listed in the table see IRM 4.19.3.12, Qualified Business Income Deduction (QBID).

- (2) When a revised QBID amount is used, is not limited, and a recomputed notice is being issued, send Paragraph 201. Toggle off Paragraph 200 in the Summary screen. Exhibit 4.19.3-7, CP PARAGRAPHS.
- (3) When the QBID worksheet amount is limited to 20 percent of the recomputed TXI, Paragraph 202 automatically generates. Toggle off Paragraph 200 in the Summary screen. Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.13  
(10-25-2023)  
**Standard Deduction**

- (1) The standard deduction is for taxpayers who do not itemize deductions on Form 1040, Schedule A. The amount of the standard deduction depends on filing status and whether the taxpayer is 65 years old or older or blind. The following are the basic standard deduction amounts:

Filing Status	TY 2020	TY 2021	TY 2022
1, 3, or 6	\$12,400	\$12,550	\$12,950
2 or 5	\$24,800	\$25,100	\$25,900

Filing Status	TY 2020	TY 2021	TY 2022
4	\$18,650	\$18,800	\$19,400

- (2) If any of the age/blindness or the **Spouse was born before January 2, 1958** boxes in the standard deduction or entity section of the return are checked, enter/verify the appropriate entries in the AGE/BLIND COUNT field.

- (3) Enter a "Y" in the FS3 ITEMIZED/DUAL STATUS ALIEN/IE field when:

- The filing status is 3 and the taxpayer has itemized deductions, or
- The box on Schedule A, line 18 is checked or

**Note:** Manually access the Schedule A window, enter/verify the entries.

- The **Spouse itemizes on a separate return or you were a dual-status alien** box in the entity portion of the return is checked.

**Note:** If the **Spouse itemizes on a separate return or you were a dual-status alien** box in the entity portion of the return is checked, the taxpayer's standard deduction is zero. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Standard Deduction.

- (4) If the taxpayer is claimed as a dependent on another person's tax return, the standard deduction is limited to the greater of \$1,150 OR the individual's earned income for the year plus \$400 .

- (5) The standard deduction and TXI per return for this type of individual may change due to U/R issues. The system computes the changed TXI per return, if applicable.

- Enter/Verify "Y" in the taxpayer CLAIMED ON ANOTHER'S RETURN? field of the Return Value screen.
- Enter the earned income in the PRIMARY and/or SECONDARY EARNED INCOME field(s) as applicable.

**Note:** Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services performed. It also includes any amount received as a scholarship that must be included in income. Generally earned income is the total of wages, Schedule C gain/loss, and Schedule F gain/loss.

- The system automatically subtracts Schedule 1, line 14 (TY 2020), Schedule 1, line 15 (TY 2021 and subsequent) from the amount in b above and adds any U/R earned income to compute the correct standard deduction.

**Note:** Be sure that all nontaxable earned income is included in the calculations as is appropriate.

- If the taxpayer's itemized deductions or earned income is larger than the appropriate standard deduction amount for their filing status, the TXI per return does not change.
- If the taxpayer's itemized deductions or earned income is less than \$1,100 and remains less than the amount listed in f below, the TXI per return does not change.
- If the taxpayer's itemized deductions or recomputed earned income plus \$350 is equal to or greater than the amount listed in the table below, but

less than the standard deduction amount for their filing status, and there is no U/R unearned income, the system alerts you that the case is below tolerance. Close the case using PC 22.

- g. Enter/verify the manually computed standard deduction amount, if applicable in the MANUAL STANDARD DEDUCTION AMT field.

4.19.3.14  
(09-21-2020)

#### Recomputation of Tax

- (1) There are several tax rates for ordinary income. The tax rate percentages 10, 12, 22, 24, 32, 35 and 37 are for TY 2020 and subsequent. Capital gains may be taxed at different rates, but no higher than 28 percent, even though the taxpayer may have other income taxed at the higher rates. See IRM 4.19.3.8.4.5, Capital Gain Distributions - Analysis.
- (2) The system automatically computes the tax if the taxpayer uses the tax tables and/or, the tax rate schedules. If the taxpayer uses the Schedule D computation, Schedule J computation, Form 8615, or Form 8814, Parents' Election To Report Child's Interest and Dividends, the system computes the tax after the necessary information is entered in the applicable windows. See IRM 4.19.3.14.1, 8615 Window, IRM 4.19.3.14.2, Sch D/8814/ECR Tax Window, and/or IRM 4.19.3.14.3, Schedule J (Farm Income Averaging), for further information.
- (3) If there is no Schedule D and capital gains are listed on line 7. See IRM 4.19.3.14.2, Sch D/8814/ECR Tax Window, for further instruction.

4.19.3.14.1  
(09-21-2020)  
**8615 Window**

- (1) A part of some children's investment income may be subject to tax at their parent's rate. This tax is computed on Form 8615, Tax for Certain Children Who Have Unearned Income. If data is present in the 8615 Tax window, it displays in Return Value.
- (2) A child with investment income over \$2,200 (TY 2020 and TY 2021) or \$2,300 (TY 2022) may use the Form 8615 to compute their tax. Investment income includes any income other than earned income.
- (3) The system uses the U/R income which does not have an Income Identify Code of "PE", "SE", "PF", "SF", "PB", "SB", or "MA", to compute the investment income. (Be sure to enter ONLY the investment income reported on the return in the CHILD'S INVESTMENT INCOME field on the Form 8615 Tax window.)
- (4) When the tax tables or tax rate schedules were used to figure both the child's and the parent's tax, enter/verify the appropriate entries in the 8615 TAX window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Form 8615 Tax.
- (5) If there is an indication that the child or the parents used the Qualified Dividend and Capital Gain worksheet, Schedule D or Schedule J (Farm Income Averaging) tax method to figure their tax, enter/verify the appropriate entries in the 8615 Tax window. Issue a CP 2501 Notice and **send PARAGRAPH 59**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (6) When the recomputed Form 8615 is received, update the 8615 Tax window as follows:
  - a. Enter/Verify the unearned amount from Form 8615, Line 1 in the UNEARNED INCOME field.



- b. Enter/Verify the deduction amount from Form 8615, line 2 in the DEDUCTION AMOUNT field.
  - c. Enter/Verify parents filing status using Form 8615, line C. Enter "1" for Single, "2" for MFJ, "3" for MFS, "4" for HOH, or "5" for qualifying widow in the PARENTS FILING STATUS field.
  - d. Enter/Verify the taxable income amount from Form 8615, line 6 in the PARENT'S TAXABLE INCOME field.
  - e. Enter/Verify Form 8615, line 7 amount in the TOTAL FROM ALL 8615 FORMS field.
  - f. Enter/Verify Form 8615, line 10 amount in the PARENT'S TAX field.
  - g. Enter/Verify Form 8615, line 18 amount in the 8615 tax field.
  - h. Enter/Verify the MANUAL 8615 TAX. In Case Analysis, leave field blank.
  - i. In Responses enter the amount from the recomputed Form 8615, line 18 in the MANUAL CHILD'S INVESTMENT TAX field.
- (7) The computed 8615 tax displays in the CORRECTED TAX field of the Return Value screen.

4.19.3.14.2  
(10-25-2023)  
**Sch D/8814/ECR Tax  
Window**

- (1) If there is no Schedule D and qualifying dividends are listed on Form 1040/1040-SR, line 3a:
- 1. Access the Sch D Tax window.
  - 2. Enter/verify the qualifying dividends from Form 1040 / Form 1040-SR, line 3a in the QUALIFIED DIVIDENDS field, even if there is no corresponding IR(s) showing the amount of QDIV.
  - 3. Enter/verify the short-term gain or loss amount from Schedule D, line 7 in the SHORT-TERM GAIN (LOSS) field.
  - 4. Enter/verify the net long term gain loss amount from Schedule D, Part II, line 15 in the LONG-TERM GAIN (LOSS) field. If there is no Schedule D, the system populates the amount from Form 1040/1040-SR, line 7 in the LONG-TERM GAIN(LOSS) field.
- Exception:** For **paper cases**, the amount from Form 1040/1040-SR line 7 **must** be manually entered into the LONG-TERM GAIN(LOSS) field.
- 5. Enter/verify the 28 percent rate gain from Schedule D, Part III, line 18 in the 28 percent GAIN (LOSS) field
  - 6. Enter/verify the unrecaptured 1250 gain amount from Schedule D, Part III, line 19, in the UNRECAPTURED 1250 GAIN field.
  - 7. Enter/verify the smaller of Form 4952, Investment Interest Expense Deduction, line 4e or the amount entered on the dotted line next to 4e in the FORM 4952 LINE 4e field.
  - 8. Enter/verify the investment interest expense amount from Form 4952, line 4g, in the FORM 4952 LINE 4g field.
  - 9. Enter/verify the manual Schedule D tax in the MANUAL SCHEDULE D TAX field, in applicable.
- (2) The ADDITIONAL TAXES window is used to enter any additional taxes included (from one or more of the check boxes) in the tax line. This does not include amounts from Form 8814. Enter/verify the additional taxes amount from Form 1040, line 16 in the ADDITIONAL TAXES PER RETURN field.
- (3) If Schedule D or Form 8814 is attached and/or the taxpayer indicates "ECR" on the dotted portion of Form 1040/1040-SR, line 14 enter/verify the amounts in the 8814/ECR field of the Additional Tax window in Return Value.

- (4) When the taxpayer owes tax from recapture of an education credit, the tax owed is included with the base tax and the taxpayer indicates "ECR" and the amount on the dotted portion of Form 1040/1040-SR, line 16 (TY 2020), line 16, with ECR notated in box 3 (TY 2021).
- (5) The system computes the tax using the Schedule D computation only if applicable.
- (6) PARAGRAPH 150 automatically generates when the recomputed tax is based on the Schedule D tax computation. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.14.3  
(10-25-2023)  
**Schedule J (Farm  
Income Averaging)**

- (1) Taxpayers who receive income from farming may choose to figure their base tax using Schedule J, Income Averaging for Farmers and Fisherman. These cases require special handling, refer to the lead.
- (2) Enter/verify the Schedule J tax in the MANUAL SCHEDULE J TAX field in the ADDITIONAL TAXES window if applicable.

4.19.3.14.4  
(09-04-2015)  
**Net Tax Increase/No Net  
Tax Increase/Tax  
Decrease Notices**

- (1) The Technical and Miscellaneous Revenue Act of 1988 (TAMRA) changed the definition of net tax deficiency to include a decrease to EIC. A notice must be issued if there is a proposed EIC decrease and the case meets balance due tolerance.
- (2) The Community Renewal Tax Relief Act of 2000 (CRTRA) changed the definition of net tax deficiency to include a decrease to Additional Child Tax Credit (ACTC). A notice must be issued if there is a proposed decrease to ACTC and the case meets balance due tolerance.
- (3) AUR defines the net tax change as basic income tax change, minus change to non-refundable credits, plus change to other taxes, plus or minus changes to EIC, Additional Child Tax Credit (ACTC), American Opportunity Credit (AOC), and/or Premium Tax Credit (PTC).
  - a. Net tax increase is defined as a net tax change greater than zero (0). A majority of AUR cases have a net tax increase.
  - b. No tax increase is defined as a net tax change of zero (0).

**Note:** The taxpayer's TXI remains negative even after the addition of U/R income.

  - c. Net tax decrease is defined as a net tax change less than zero (0).

4.19.3.15  
(10-07-2019)  
**Nonrefundable Credits**

- (1) The AUR program will not verify the eligibility/qualification issues relating to Nonrefundable Credits claimed on the tax return. As a general rule, Nonrefundable Credits allowed during original processing and/or after review by another program (for example, Exam, CI) are considered valid.
- (2) When the taxpayer does not claim a Nonrefundable Credit, AUR will:
  - a. Include the credit(s) as part of the processing of the case when eligibility/qualification issues are already included on the tax return AND U/R income now entitles the taxpayer to the credit(s).

- (3) AUR is responsible for adjusting the Nonrefundable Credits that are AGI dependent based on U/R income.

4.19.3.15.1  
(09-21-2020)  
**Changes to Credits**

- (1) When a CP 2000 is issued and there are credits on Schedule 3, lines 1-6 (TY 2020), Schedule 3, lines 1-6z (TY 2021 and subsequent) enter/verify the amount(s) in the Non-refundable Credit window of the Return Value screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Non-refundable Credits.
- (2) **ALWAYS** check the tax return for the presence of non-refundable credits when verifying entries on the Nonrefundable Credit window, WHETHER OR NOT THEY ARE BEING ADJUSTED DUE TO U/R PROCESSING.
- (3) If the nonrefundable credits are not entered, the taxpayer will receive an incorrect CP 2000.

4.19.3.15.2  
(10-25-2023)  
**Credit for Child and Dependent Care Expenses**

- (1) Form 2441, Credit for Child and Dependent Care Expenses, may be recomputed when:
- The original AGI is less than \$43,000(TY 2020), \$125,000 (TY 2021 and subsequent) or
  - The earned income changes, or
- Note:** Earned income is defined as wages, salaries, tips, other employee compensation and net earnings from self-employment. Earned income also includes the amount on Schedule SE, line 3 minus any deduction on Schedule 1, line 14 (TY 2020), Schedule 1, line 15 (TY 2021 and subsequent). A net self-employment loss reduces earned income. Statutory employee earned income (may be indicated by Form W-2, box 13 being checked) is the amount shown on Schedule C, line 31. The spouse is also considered to have earned income, if the spouse is a full-time student or is disabled. Their earned income for each month or part of a month is at least \$250 (\$500 if more than one qualifying person is cared for).
- The AGI changes, and/or
  - The Dependent Care Benefits (DCB) change. See IRM 4.19.3.8.2.1, Dependent Care Benefits (DCB), for further instructions on DCB.
- (2) The taxpayer may claim qualifying person(s) for the credit for child and dependent care expenses if any of the following is met:
- A qualifying child under the age of 13 whom the taxpayer can claim as a dependent.
  - A disabled person whom the taxpayer can claim as a dependent.
  - You (or your spouse, if MFJ) could be claimed as a dependent on another taxpayers return.
- (3) If the original AGI is less than \$43,000 (TY 2020), or \$125,000 (TY 2021 and subsequent), the credit may decrease if the AGI percentage changes. The

credit remains the same as filed or previously adjusted if the original AGI is \$43,000 (TY 2020), \$125,000 (TY 2021 and subsequent) or more, or if addition of the U/R amount does not cause the AGI percentage to change.

- (4) The system computes the correct amount of credit for child and dependent care expenses. Enter/Verify the appropriate amounts in the Child Care Credit window of the Return Value screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Child Care Credit.

**Caution:** When Math Error Codes are present that indicate the number of exemptions was changed additional research may be necessary to verify the number of qualifying children.

- (5) Whenever it is necessary to compute or recompute Child Care Credit, take the following actions and enter/verify:

1. U.S. residency from Form 2441 in the U.S. RESIDENT field. (TY 2021)
2. The original credit for child and dependent care expenses amount from Form 1040/1040-SR in the CHILD CARE CREDIT field (TY 2020 and TY 2022). **For TY 2021**, enter/verify Schedule 3, line 2 (Form 2441, box B is not checked) or Schedule 3, line 13g (Form 2441, box B is checked).
3. Number of qualifying dependents from Form 2441, line 2 in the QUALIFYING DEPENDENTS field.
4. Qualifying expenses amount from Form 2441, line 3 in the QUALIFYING EXPENSES field.
5. Excluded benefits amount from Form 2441, line 25 in the EXCLUDED BENEFITS field.
6. Amount of Prior Year Expenses reported on the Form 2441, line 9 (TY 2020 or line 9b (TY 2021 and TY 2022) identified as CPYE in the PRIOR YEAR EXPENSES field.
7. Primary taxpayer's original earned income as reported on Form 2441, line 4 in the PRIMARY EARNED INCOME field.

**Caution:** When earned income is from self-employment, enter the amount shown on Schedule SE, line 3.

8. Secondary taxpayer's earned income as reported on Form 2441, line 5 in the SECONDARY EARNED INCOME field.
9. For TY 2021, enter the manually computed refundable and/or non refundable child care credit in the MANUAL NON REFUNDABLE CHILD CARE CREDIT field, when applicable.
- (6) Taxpayers sometimes enter an incorrect amount on Form 2441, line 3. This most frequently occurs when DCB is an issue and Part III of the Child Care Credit was incorrectly calculated or was incomplete. When entering QUALIFYING EXPENSES in the Child Care Credit window, use the following procedures to determine the correct entry:
  - a. Review the taxpayer's entries in Part III, lines 12 through 31 of Form 2441. Prepare a mock Form 2441 to correct any errors and/or complete any omitted entries.
  - b. Carry the line 31 amount to line 3, Part II of Form 2441. This amount is also entered in the QUALIFYING EXPENSES field in the Child Care Credit window.

**Note:** See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Child Care Credit, to determine the correct entry on Form 2441, line 3.

- c. **Send PARAGRAPH 66** when Child Care Credit is adjusted due to DCB impact on the Qualifying Expenses. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (7) PARAGRAPH 48 automatically generates when an adjustment is made that impacts Child Care Credit. If the change to Child Care Credit is due to DCB, “toggle off” Paragraph 48 in the Summary screen. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.15.3  
(10-25-2023)

**Credit for the Elderly or Disabled**

- (1) Manually access the Credit for the Elderly or the Disabled window and recompute Schedule R, Credit for the Elderly or the Disabled when:
  - a. The AGI increases, and/or
  - b. The nontaxable portion of SS/RR benefits or pension/annuity/disability benefits either changes or was not originally reported on Schedule R, line 13a and/or 13b.

**Note:** Do not adjust the nontaxable pension amount on Schedule R, line 13b unless the taxpayer provides a new line 13b amount.

- (2) The system computes the correct amount of credit for the elderly.
- (3) Enter/Verify the appropriate entries in the Credit for the Elderly or Disabled window of the Return Value screen:
  - 1. Original Credit for the Elderly from Schedule 3, line 6d in the ORIGINAL CREDIT FOR ELDERLY field.
  - 2. Number of the box checked on Schedule R, Credit for the Elderly or the Disabled, Part I in the FILING STATUS AGE INDICATOR field.
 

**Note:** The cursor doesn’t leave this field until a valid number is entered, valid entries are single digits “1” through “9”.
  - 3. The **taxable** disability income amount from Schedule R, line 11 in the TAXABLE DISABILITY INCOME field.
  - 4. Amount computed by the system. Only enter the non-taxable part of Social Security benefits amount from Schedule R, line 13a in the NON-TAXABLE SSA/RRB/AMOUNT field, if needed.
  - 5. Non-taxable veterans’ pensions and other pension and annuity amount from Schedule R, line 13bin the OTHER NON-TAXABLE P/A AMOUNT field.
- (4) PARAGRAPH 13 automatically generates when an adjustment is made to the credit for the elderly. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.15.4  
(10-25-2023)

**Child Tax Credit**

- (1) The Child Tax Credit may be claimed by taxpayers who have a qualifying child. For TY 2021, Section 9611 of the American Rescue Plan Act (ARP) increased the Child Tax Credit (CTC) and made it fully refundable for qualifying taxpayers as the Refundable Child Tax Credit (RCTC). For tax year 2021, which is nonrefundable, is referred to as the Nonrefundable Child Tax Credit (NCTC). Taxpayers who do not qualify for the RCTC may still be eligible to claim the

NCTC and the refundable Additional Child Tax Credit (ACTC). The credit for each qualifying child may be as much as:

- \$2,000 (TY 2020 and TY 2022)
- \$3,600 per child age 5 and under (TY 2021)
- \$3,000 per child age 6 - 17 (TY 2021)

**Note:** Taxpayers had the option to unenroll from receiving the advanced payments and claim the credit partially or in full on their TY 2021.

- (2) For calendar year 2021, Section 9611 of ARP authorized qualified individuals to receive periodic advance payments (in equal amounts) of up to 50% of the RCTC the IRS estimated they were entitled to receive in TY 2021.
- (3) Taxpayers who received AdvCTC payments must reconcile the total amount of AdvCTC payments they received with the amount of RCTC (or NCTC if they received AdvCTC payments but didn't qualify for the RCTC) they are actually entitled to claim when filing their TY 2021 returns. The amount of RCTC taxpayers are entitled to claim is reduced by the amount of AdvCTC payments they receive. If a taxpayer received AdvCTC payments totaling more than the amount of RCTC the taxpayer is entitled to claim on their TY 2021 return, the taxpayer's tax will be increased by the amount of the excess. The amount of the tax increase may be reduced down to zero by a safe harbor if the taxpayer's modified adjusted gross income is below:
  - \$120,000 for MFJ and surviving spouse
  - \$100,000 for HOH
  - \$80,000 for Single and MFS
- (4) For TY 2021, Section 9611 of (ARP) modified provisions of the Child Tax Credit. Schedule 8812, Credits for Qualifying Children and Other Dependents is used to report the NCTC, RCTC, ACTC, Credit for Other Dependents, and to reconcile Adv CTC payments:
  - Part I- A, Child Tax Credit and Credit for Other Dependents
  - Part I- B, Credit for Other Dependents
  - Part I- B, Refundable Child Tax Credit
  - Part I- B, Advanced Child Tax Credit
  - Part I- C, Nonrefundable Child Tax Credit
  - Part I- C, Additional Child Tax Credit

**Note:** Taxpayers who file Form 2555, U.S. Citizens Living Abroad cannot claim the ACTC credit.

- (5) Taxpayers who claim a qualifying child may be eligible to claim an Additional Child Tax Credit. See IRM 4.19.3.17.4, Additional Child Tax Credit (ACTC), for further information.
- (6) For TY 2021, taxpayers who claim a qualifying child and have a principal place of abode in the United States for more than half the year or are bona fide residents of Puerto Rico may be eligible to claim a Refundable Child Tax. See IRM 4.19.3.17.5, Refundable Child Tax Credit, for more information. Taxpayers who have a qualifying child but do not meet the principal place of abode test in tax year 2021 may still be eligible to claim the Nonrefundable Child Tax Credit and the refundable Additional Child Tax Credit. See IRM 4.19.3.17.4, Additional Child Tax Credit (ACTC), for further information.



- (7) To claim the Child Tax Credit, the taxpayer must have a base tax larger than zero (0), have a qualifying child, and (for TY 2021) complete Schedule 8812, Credits for Qualifying Children and Other Dependents. Taxpayers who qualify for the Refundable Child Tax Credit do not need a base tax larger than zero. A qualifying child, for purposes of claiming the Child Tax Credit, is a child who:
- Is the taxpayer's son, daughter, stepchild, eligible foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example: grandchild, niece, or nephew) AND
  - Is under age 17 ( TY 2020 and TY 2022) or age 18 (TY 2021) at the end of the current AUR tax year; AND
  - Did not provide over one-half of their own support for the current AUR tax year, AND
  - Had the same principal place of abode as the taxpayer for more than half of the year AND
  - Does not file a joint return for the year or files it only to claim a refund of W/H or estimated tax paid AND
  - Is a United States citizen, U.S. national or resident alien.

**Note:** For each qualifying child, the taxpayer must place a "check mark" in the box on column (4) of the Dependents section of their return.

- (8) The maximum amount of allowable Child Tax Credit begins to decrease when the taxpayer's modified AGI exceeds:
- \$200,000 (TY 2020 and TY 2022) or \$75,000 (TY 2021) for filing status - Single, Married Filing Separately, and Qualifying Widow(er)
  - \$200,000 (TY 2020 and TY 2022) or \$112,500 (TY 2021) for filing status - Head of Household
  - \$400,000 (TY 2020 and TY 2022) or \$150,000 (TY 2021) for filing status - Married Filing Jointly
- (9) When the CTC recertification indicator (ACTC-RECERT-CD) field on the Tax Account screen is 2, 3, or 4 and CTC was disallowed during processing, the warning message "WARNING: EIC/CTC/ACTC/AOTC BAN" appears in the MESSAGE window. The AUR system will not allow a CTC calculation in this situation.

**Note:** DO NOT correspond for Form 8862, Information to Claim Certain Credits After Disallowance.

- (10) The system computes the correct amount of Child Tax Credit. Enter/Verify the appropriate amounts in the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window (TY 2021 and subsequent).

**Note:** The child tax credit may be limited because other credits have already reduced the taxpayer's tax liability.

- (11) Due to U/R income, taxpayers who were previously ineligible to claim Child Tax Credit, may now qualify for the credit.
- (12) When the taxpayer does not claim a Child Tax Credit, AUR will:



- a. INCLUDE the credit as part of the processing of the case when eligibility/qualification issues are already included on the tax return AND U/R income now entitles the taxpayer to the credit.

**Example:** A box in column (4) of the Dependents section of the return was checked to indicate a dependent claimed is a qualifying child for Child Tax Credit. The base tax per return was zero and Child Tax Credit was not claimed. The issue of Child Tax Credit and/or Additional Child Tax is addressed as part of the Case Analysis processing.

**Note:** The taxpayer does not qualify for the ACTC if they received the RCTC.

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- (13) When the BASE TAX PER RETURN is zero (0) and the NUMBER OF EXEMPTIONS is more than 1 (for filing status 1, 3, 4 or 5) or more than 2 (for filing status 2), the system displays a message that the taxpayer may qualify for Child Tax Credit.
- (14) When the taxpayer has previously claimed Child Tax Credit, the CHILD TAX CREDIT/CREDIT FOR OTHER DEP ( TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window automatically displays on the Return Value screen.

**Caution:** If the taxpayer did not claim the Child Tax Credit, it may be necessary to access the window when certain conditions exist, see (11) below.

- (15) If the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window does not automatically display, **manually access** the window when either of the following situations occur:
- a. The BASE TAX NOW on the Return Value screen is greater than zero (0) and the taxpayer checks a box on column (4) of the Dependents section of the return to indicate that a dependent claimed is a qualifying child for the Child Tax Credit **AND**
- b. The taxpayer is claiming Additional Child Tax Credit.

**Note:** For TY 2020, the CHILD TAX CREDIT/CREDIT FOR OTHER DEP window must be accessed **BEFORE** the Additional Child Tax Credit (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window, since the system uses the number of qualifying children from the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY

2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window to calculate changes to Additional Child Tax Credit.

**Note:** For TY 2021 and subsequent, the CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window includes entries for the Additional Child Tax Credit.

- (16) For TY 2021 and subsequent, the CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window will populate when a completed Schedule 8812, Credits for Qualifying Children and Other Dependents is attached. If Schedule 8812 is not attached and there are qualifying dependents on the return, allow the credit unless the address is foreign then do not allow the credit. Correspond for a completed Schedule 8812.
- (17) Enter/Verify the entries in the CHILD TAX CREDIT/CREDIT FOR OTHER DEP(TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window (TY 2021). Credit appears on the Tax Account screen as a TC 766 (with Reference Code 272) (TY 2021). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures:
- Verify the Child Tax Credit amount from Form 1040/1040-SR, line 19 in the RETURN AMT field.
  - Enter/verify the number of qualifying children (enter "0" if no qualifying children) indicated on Form 1040/1040-SR in the QUALIFYING CHILDREN field. (This is a required field)
  - Enter/verify the number of qualifying children age 5 and under in the QUALIFYING CHILDREN UNDER 6 field (TY 2021).
  - Enter/verify the number of qualifying other dependents indicated on Form 1040/1040-SR in the OTHER DEPENDENTS field. (TY 2021)
  - Enter/verify resident selection in the RESIDENT INDICATOR field (TY 2021).
  - For TY 2020 and TY 2022, enter/verify the total credits from Miscellaneous Credit (TY 2021).
  - Enter/Verify the amount from Tax Account in the ADVANCED CHILD TAX CREDIT PAYMENT field (TY 2021).

If Residency indicator box is checked use Form(s) (TY 2021)	If Residency indicator box is <b>not</b> checked use Form(s) (TY 2021)
<ul style="list-style-type: none"> <li>Schedule 3, lines, 6e, 6f and 6l</li> <li>Form 5695, line 15</li> </ul>	<ul style="list-style-type: none"> <li>Schedule 3, lines 6c, 6g and 6h</li> <li>Form 5695, line 30</li> </ul>

**Caution:** An error message will display **VERIFY PRIMARY AND SECONDARY TAXPAYER ADVANCE CHILD TAX PAYMENTS** when Return Value and Schedule 8812 does not match. If this message appears see (18) and (19) below.

**Note:** When a math error code is identified and the additional/refundable child tax credit has been adjusted, see caution in (18) below.

- Add'l/Refundable Child Tax credit (TY 2021) amounts. Both credits appear on the Tax Account screen as a TC 766 (with Reference Code 336) (TY 2021)

- i. SS/MED Taxes Withheld - Enter/verify the SST and Medicare Tax withheld, including any amounts withheld from U/R wage IRs, from Schedule 8812, Child Tax Credit, Part II, line 9 (TY 2020), or line 21 (TY 2021 and TY 2022) with the amount shown in the SS/MED TAXES WITHHELD field.
- j. 1/2 SE DED/TIP Tax - Enter/verify the total SET Deduction and Tip Tax amount(s) from Form 1040, Schedule 1, line 14 and Schedule 2, line 5 plus amount from Schedule 2, line 8 identified as **UT** (TY 2020) or Schedule 1, line 15, Schedule 2, lines 7 and 13 (TY 2021 and TY 2022) plus any amount identified as uncollected taxes with the amount shown in the SET DED/TIP TAX field.
- k. 6419 CHILD COUNT (TY 2021) Enter/verify number of qualifying children from Schedule 8812, line 30 (TY 2021).
- l. ADDITIONAL TAX field - Enter/verify the amount from Schedule 8812, line 40 (TY 2021). If a math error code is present, refer to (w) below.
- m. CTC Ban in effect, override (TY 2021)
- n. MANUAL CHILD TAX CREDIT/CREDIT OTHER DEP- Enter/verify the manually computed child tax credit based on taxpayer's response(TY 2020).
- o. MANUAL NON-REFUNDABLE CHILD TAX CREDIT field - Enter the manually computed non-refundable credit (TY 2021 and TY 2022).
- p. MANUAL ADD'L/REFUNDABLE CHILD TAX CREDIT - Enter the manually computed additional/refundable child tax credit (TY 2021) or additional child tax credit in the MANUAL ADD'L CHILD TAX CREDIT field (TY 2022).
- q. MANUAL ADDITIONAL TAX - Enter the manually computed additional tax (TY 2021).

**Note:** Enter the MANUAL ADDITIONAL TAX field when appropriate due to a math error code

**Note:** Access the Foreign Tax Credit, Child Care Credit, Credit for the Elderly, Education Credits, Retirement Savings Contribution Credit, and/or EIC windows BEFORE computing the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window.

- (18) Additional research may be necessary for Advanced Child Tax credit payment (AdvCTC) if the Filing Status is 1, 3, 4, or 5. If the amount on Schedule 8812, line 14f, differs from the amount in the ADVANCED CHILD TAX CREDIT PAYMENT field in Return Value, then enter the amount from Letter 6419 from the ENTITY window of Ref Tools in the PER RETURN AND RECOMPUTED FIELDS of the ADVANCE CHILD TAX CREDIT PAYMENT field.

**Caution:** When a math error code is identified that the additional/refundable child tax credit has been adjusted, verify Letter 6419 from the ENTITY window of Ref Tools and enter that amount in the ADVANCED CHILD TAX CREDIT PAYMENT field in Return Value.

EXAMPLE: When a math error code is identified or the Filing Status is 1,3,4 or 5, research IDRS CC RTVUE and update the credit based on the amounts that were corrected. Verify/Enter the L6419 amount from the ENTITY window (shown below) in the ADVANCED CHILD TAX CREDIT PAYMENT field in Return Value and **DO NOT** allow any additional credit.

TC	Trans Date	Action Code	Secondary Date	Misc	Type	Additional Information
971	XX/XX/XXXX	804	N/A	N/A	N/A	L6419 00 <b>27500 02</b>

In the example above 275 will be entered in the ADVANCED CHILD TAX CREDIT PAYMENT field in Return Value.

- (19) Additional research may be necessary for Advanced Child Tax credit payment (AdvCTC) if the account is Filing Status 2. Research IDRS CC IMFOLE for **both** taxpayers. This will provide Letter 6419 advanced payment information. Manually enter the combined amounts in the PER RETURN AND COMPUTED FIELDS of the ADVANCED CHILD TAX CREDIT PAYMENT field. EXAMPLE: Joint filers received a total of \$3,300 in joint AdvCTC in 2021 for two Qualifying Children (QC)  
 Spouse 1: TC 971 AC 804 MISC: L6419 01**65000 02**  
 Spouse 2: TC 971 AC 804 MISC: L6419 01**65000 02**  
 In the example above, each taxpayer received \$1,650 each for two qualifying children, equaling a total of \$3,300.

**Caution:** Further research using IDRS CC TXMODA may be necessary to identify if a payment has been reversed which will need to be factored in.

- (20) PARAGRAPH 120 automatically generates when the Child Tax Credit is adjusted. See Exhibit 4.19.3-7, CP PARAGRAPHS.

#### 4.19.3.15.4.1 (10-06-2022)

#### Other Dependent Credit (ODC)

- (1) The TCJA created a new nonrefundable credit that may allow taxpayers to claim a credit for other dependents. The maximum credit is \$500 for each dependent who does not qualify for the Child Tax Credit.
- (2) The Other Dependent Credit is calculated using the Child Tax Credit and Credit for Other Dependents (TY 2020) or Schedule 8812, Credits for Qualifying Children and Other Dependents. and is claimed on Form 1040/ Form 1040-SR, 28 or line (TY 2020).
- (3) To claim the Other Dependent Credit the taxpayer must have a base tax larger than zero (0) and have a qualifying dependent. A qualifying dependent, for purposes of claiming the Other Dependent Credit must meet all of the following conditions:
  - Have an SSN, ITIN or ATIN issued on or before the due date of the return (including extensions) **AND**
  - Be claimed as a dependent on the return **AND**
  - Can't be used to claim CTC, ACTC, or RCTC **AND**
  - Be a U.S citizen, U.S. national, U.S. resident alien.
- (4) The amount of allowable Other Dependent Credit begins to decrease when the taxpayer's modified AGI exceeds:

TY 2020	TY 2021	TY 2022
\$200,000 for filing status - Single, Married Filing Separately, Head of Household, and Qualifying Surviving Spouse \$400,000 for filing status - Married Filing Jointly	75,000 for filing status - Single, Married Filing Separately, and Qualifying Surviving Spouse \$112,500 for filing status - Head of Household \$150,000 for filing status - Married Filing Jointly	\$200,000 for filing status - Single, Married Filing Separately, Head of Household, and Qualifying Surviving Spouse \$400,000 for filing status - Married Filing Jointly

(5) When the taxpayer does not claim the Other Dependent Credit, AUR will:

- a. INCLUDE the credit as part of the processing of the case when eligibility/qualification issues are already included on the tax return AND U/R income now entitles the taxpayer to the credit ( TY 2020 and TY 2022). For TY 2021, only include when the taxpayer has a completed Schedule 8812, Credits for Qualifying Children and Other Dependents.

**Example:** The “Credit for other dependents” box in column (4) of the Dependents section of the return was checked to indicate a dependent claimed is a qualifying dependent for Other Dependent Credit. The base tax per return was zero and Other Dependent Credit was not claimed. The issue of Other Dependent Credit is addressed as part of the Case Analysis processing.

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(6) When the taxpayer has previously claimed Other Dependent Credit, CHILD TAX CREDIT/CREDIT FOR OTHER DEP ( TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window automatically displays on the Return Value screen.

**Caution:** If the taxpayer did not claim the Other Dependent Credit, it may be necessary to access the window when certain conditions exist, see (7) below. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures.

- (7) If the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window does not automatically display, **manually access** the window when the BASE TAX NOW on the Return Value screen is greater than zero (0) ( TY 2020) and the taxpayer checks a **Credit for other dependents** box in column (4) of the Dependents section of the return to indicate that a dependent claimed is a qualifying dependent for the Other Dependent Credit. For TY 2021 and subsequent, only include when a completed Schedule 8812, credits for Qualifying Children and Other Dependents is present.

4.19.3.15.5  
(10-25-2023)  
**Education Credits**

- (1) Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits), is recomputed when U/R income causes a change to the modified AGI or there is no Form 1098-T to substantiate the deduction.
- (2) Taxpayers **CANNOT** claim Education Credits when:
- The taxpayer is claimed as a dependent on someone else's tax return.
  - The taxpayer's filing status is Married Filing Separately (FS 3 or FS 6).
  - A deduction for Tuition and Fees is claimed on Schedule 1, line 21 ( TY 2020 and prior) for the same student.
  - The taxpayer is a nonresident alien.
- (3) **Lifetime Learning Credits** begins to decrease (phase out) when the modified AGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below.

Filing Status	TY 2020	TY 2021 and subsequent
1, 4 or 5	\$59,000 - \$69,000	\$80,000 - \$90,000
2	\$118,000 - \$138,000	\$160,000 - \$180,000

**Note:** Add excluded foreign earned income/housing cost amount to the AGI per return to determine MAGI.

- (4) **American Opportunity Education Credit** begins to decrease (phaseout) when the modified AGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below.

Filing Status	TY 2020 and subsequent
1, 4 or 5	\$80,000 - \$90,000
2	\$160,000 - \$180,000

**Note:** Add excluded foreign earned income/housing cost amount to the AGI per return to determine MAGI.

- (5) Form 8863 is used to determine education credits:
- Form 8863, Part I is used to determine the refundable portion of the American Opportunity Credit.
  - Form 8863, Part II is used to determine the nonrefundable Education Credits.

- c. Form 8863, Part III is Student and Educational Institution Information. A separate Part III must be completed for each student. To access the student information click in the "Student Count" box and use the arrow up/down keys to view each student's information.

**Note:** The student may qualify for the following higher education tax benefits: American Opportunity Credit, Lifetime Learning Credit, deduction for Tuition and Fees or tax-free withdrawal from a Coverdell ESA. For each student, the taxpayer can elect for any tax year only **one** of the credits **or** a deduction for Tuition and Fees. The taxpayer can claim either the American Opportunity or Lifetime Learning Credit even if the student excluded a distribution from a Coverdell ESA, as long as the same expenses are not used for both benefits.

**Note:** If the taxpayer erroneously claims both the American Opportunity Credit and the Lifetime Learning Credit for the same student, allow the taxpayer to claim the greater of the two credits if the taxpayer is otherwise eligible for both credits for the student.

If	Then
Based on the taxpayer's entries, Form 8863, Part III, lines 23 - 26 are not completed appropriately	<ol style="list-style-type: none"> <li>1. Disallow the related credits.</li> <li>2. <b>Send PARAGRAPH 128</b>, see Exhibit 4.19.3-7, CP Paragraphs.</li> </ol>

- (6) If the dependent is claimed for EIC purposes, verify the child's year of birth to determine if the child is eligible (old enough to be attending a postsecondary education institute) before disallowing the credit.
- (7) If it can be determined that the dependent does NOT qualify for the Education Credits (for example, has been claimed for Child Care Credit, Child Tax Credit, EIC and/or Additional Child Tax Credit) see (9) below.
- (8) If it can be determined that the dependent qualifies for the Education Credits see table below:



If the Education Credit	Then	
present	<p>For each student listed on Form 8863 Part III:</p> <ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</li> <li>2. Enter a zero (0) in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>3. Enter a zero (0) in the MANUAL EDUCATION CREDIT field.</li> </ol> <p><b>Note:</b> <b>PARAGRAPH 98</b> is automatic when there is no Form 1098-T and the credit is fully disallowed. Send <b>PARAGRAPH 98</b>, as appropriate; see Exhibit 4.19.3-7, CP PARAGRAPHS.</p>	# #
than the amount claimed on Form 8863, lines 27 or 31	<p>For each student listed on Form 8863 Part III:</p> <ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN (Form 8863, line 8) AMT fields in the EDUCATION CREDIT window.</li> </ol> <p><b>Caution:</b> Lifetime Learning credit is limited to a maximum of \$10,000 education expenses. If IR(s) are present for the taxpayer that equal or exceed the maximum allowable amount a Mock may not be necessary.</p> <ol style="list-style-type: none"> <li>2. Prepare a mock Form 8863 <b>using the 1098T IR amount</b> on Form 8863, lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any) and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.</li> <li>3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.</li> <li>5. Send the 1098T IR.</li> <li>6. <b>Send PARAGRAPH 98</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>	# #

If the Education Credit	Then
<b>NO</b> 1098T is present.	<div>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</div> <div><b>Caution:</b> Lifetime Learning credit is limited to a maximum of \$10,000 education expenses. If IR(s) are present for the taxpayer that equal or exceed the maximum allowable amount a Mock may not be necessary.</div> <div>8863, lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any) and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.</div> <div>3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.</div> <div>4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.</div> <div><b>Note:</b> <b>PARAGRAPH 98</b> is automatic when there is no Form 1098-T and the credit is fully disallowed. Send <b>PARAGRAPH 98</b>, as appropriate; see Exhibit 4.19.3-7, CP PARAGRAPHS.</div>

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If the Education Credit	Then	
present	<ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</li> <li>2. Prepare a mock Form 8863 <b>using the 1098T</b> lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any) and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.</li> <li>3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.</li> <li>5. Send the 1098T IR.</li> <li>6. <b>Send PARAGRAPH 98</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>	# # # # #  # #
	<p><b>Note:</b> <b>PARAGRAPH 98</b> is automatic when there is no Form 1098-T and the credit is fully disallowed. Send <b>PARAGRAPH 98</b>, when appropriate; see Exhibit 4.19.3-7, CP</p>	# # # #  # #

- (9) If it has been determined that the dependent DOES NOT qualify for education credits (for example, claimed for EIC or ACTC purposes), disallow the dependent's education credit amount.

If the Education Credit	Then
<b>NO</b> 1098-T is present.	<ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</li> <li>2. Enter a zero (0) in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>3. Enter a zero (0) in the MANUAL EDUCATION CREDIT field.</li> <li>4. <b>Send PARAGRAPH 175</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS</li> </ol> <p><b>Note:</b> <b>PARAGRAPH 98</b> is automatic when there is no Form 1098-T and the credit is fully disallowed. <b>Send PARAGRAPH 98</b>, when appropriate; see Exhibit 4.19.3-7, CP PARAGRAPHS.</p>
present	<ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</li> <li>2. Prepare a mock Form 8863 <b>using the 1098T IR amount</b> on Form 8863, lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any) and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.</li> <li>3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.</li> <li>5. Send the 1098T IR.</li> <li>6. <b>Send PARAGRAPH 98</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> <li>7. <b>Send PARAGRAPH 175</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS</li> </ol>

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If the Education Credit	Then
	<ol style="list-style-type: none"> <li>1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.</li> <li>2. Enter a zero (0) in the MANUAL RFNDBLE EDU CREDIT field.</li> <li>3. Enter a zero (0) in the MANUAL EDUCATION CREDIT field.</li> <li>4. <b>Send PARAGRAPH 175</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS</li> </ol> <p><b>Note:</b> <b>PARAGRAPH 98</b> is automatic when there is no Form 1098-T and the credit is fully disallowed. Send <b>PARAGRAPH 98</b>, when appropriate; see Exhibit 4.19.3-7, CP</p>

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- (10) If the taxpayer claimed a deduction for Tuition and Fees and the Education Credit, check Form 8917 to determine if the deduction and credit are for the same student. If the deduction and the credit **ARE** for the same student disallow the deduction for Tuition and Fees and **send PARAGRAPH 111**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (11) Enter/Verify the appropriate entries in the Education Credits window, which includes entries for the following fields:
- AOC QUAL EXPENSES - Form 8863, line 1
  - LIFETIME QUAL EXPENSE - Form 8863, line 10
  - NOT ELIGIBLE FOR EDU CR REFUND - Enter "Y" if box on Form 8863, line 7 is checked.
- (12) The amount of allowable Education Credits is determined after the Base Tax has been reduced by any Child Care Credit and/or Credit for the Elderly or Disabled claimed.
- (13) The Education Credits window **MUST** be accessed after the Child Care Credit and/or the Credit for the Elderly or Disabled window(s). Selecting the windows out of sequence may result in calculating an incorrect change to the Education Credits.
- (14) PARAGRAPH 58 automatically generates when Education Credits are adjusted, unless there is an amount enter in the MANUAL EDUCATION CREDIT field in the Education Credit window. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (15) PARAGRAPH 98 automatically generates when there is no Form 1098-T and

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4.19.3.15.5.1

(01-28-2022)

**Education Credits -  
Responses**

1098-T and/or a list of expenses, and correspond with the taxpayer. **Send PARAGRAPH 216**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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**Caution:** The Form 1098-T is not accurate when determining if the student is enrolled at least half time or is a graduate student.

- (2) If the taxpayer provides a copy of Form 1098-T with the amount in box 1 or similar documentation, or a written explanation of the amounts paid equal or
  1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.
  2. Prepare a mock Form 8863, using the taxpayer's information to complete Form 8863, lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any), Excess Advance PTC Repayment (if any), and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.
  3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.
  4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.
  5. Include a Special Paragraph on the notice using the following verbiage as an example: "We used the information you provided to recalculate your education credit."
- (3) If the taxpayer provides a copy of Form 1098-T with a lesser amount in box 1 and/or provides a written explanation of amounts paid which is less than originally claimed, take the following actions:
  1. Enter/verify the return amount in both the RETURN AMT (Form 8863, line 19 or Schedule 3, line 3) and RFNDBLE CREDIT RETURN AMT (Form 8863, line 8) fields in the EDUCATION CREDIT window.
  2. Prepare a mock Form 8863, using the taxpayer's information to complete Form 8863, lines 27 or 31. Use the BASE TAX NOW plus revised ALT MIN TAX (if any), Excess Advance PTC Repayment (if any), and revised Child Care Credit, Foreign Tax Credit and/or Credit for the Elderly to complete Form 8863, line 19. Use the AGI PER RET plus the TOTAL U/R AMT to complete the Form 8863, line 3 and 14.
  3. Enter new line 8 amount from the mock Form 8863 in the MANUAL RFNDBLE EDU CREDIT field.
  4. Enter new line 19 amount from the mock Form 8863 in the MANUAL EDUCATION CREDIT field.
  5. Include a Special Paragraph on the notice using the following verbiage as an example: "We used the information you provided to recalculate your education credit."
- (4) If the taxpayer responds with a completed Form 8863 claiming Education Credits (American Opportunity and Lifetime Learning Credits) for the first time (the credit was not claimed originally), take the following action:

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If	Then
<p>The taxpayer is not eligible to claim the credit because:</p> <ul style="list-style-type: none"> <li>• The taxpayer is claimed as a dependent on someone else's tax return</li> <li>• The taxpayer's filing status is Married Filing Separately (FS 3 or FS 6)</li> <li>• A deduction for Tuition and Fees is claimed on Schedule 1 line 21 (TY 2019 and TY 2020) for the same student</li> <li>• The taxpayer is a nonresident alien</li> </ul>	<ol style="list-style-type: none"> <li>1. Do not allow the credit.</li> <li>2. <b>Send PARAGRAPH 217</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>
<p>Based on the taxpayer's entries, Form 8863, Part III, lines 23 - 26 are not completed appropriately</p>	<ol style="list-style-type: none"> <li>1. Disallow the related credits.</li> <li>2. <b>Send PARAGRAPH 218</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol> <p><b>Note:</b> Attempt to call the taxpayer for the requested documentation. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for additional information on Out Calls.</p>
<p>Form 8863, lines 23 - 26 indicate the student is not eligible</p>	<ol style="list-style-type: none"> <li>1. Do not allow their portion of the credit.</li> <li>2. <b>Send PARAGRAPH 217</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS.</li> </ol>
<p>1098T IR is present</p>	<p>Allow the credit.</p> <p><b>Caution:</b> The amount of qualified expenses cannot exceed the 1098T IR amount, unless the taxpayer has attached an explanation of the additional expenses.</p>
<p>The taxpayer provides a copy of Form 1098-T or similar documentation</p> <p><b>Caution:</b> The amount of qualified expenses cannot exceed the amount in box 1 of Form 1098-T, unless the taxpayer has attached an explanation of the additional expenses.</p>	<p>Allow the credit.</p>



If	Then
1098T IR is NOT present or the taxpayer does not provide a copy of Form 1098-T, similar documentation, or a written explanation of amounts paid.	<p>Do not allow the credit. Correspond with the taxpayer for a copy of the Form 1098-T or an explanation of amounts paid. <b>Send Paragraph 98</b> if issuing a CP 2000.</p> <p>a. Attempt to call the taxpayer for the requested documentation. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for additional information on Out Calls.</p> <p>b. Request verification for the amount claimed</p>

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#4.19.3.15.6  
(10-25-2023)**Qualified Retirement Savings Contributions Credit (QRSC)**

- (1) Form 8880, Credit for Qualified Retirement Savings Contributions (QRSC), is recomputed when:
- U/R income causes a change to the AGI
  - Distributions are increased due to U/R
  - Contributions are disallowed
- (2) Taxpayers CANNOT claim the QRSC credit when:
- They are younger than 18 years old.
  - They are claimed as a dependent on someone's tax return.
  - They are a full-time student.
- (3) The QRSC begins to phase-out when the taxpayer's AGI exceeds the lower limit and is eliminated (disallowed) when the AGI exceeds the upper limit in the table below:

Filing Status	TY 2020	TY 2021	TY 2022
1, 3, 5 or 6	\$19,500 - \$32,500	\$19,750 - \$33,000	\$20,500 - \$33,000
4	\$29,250 - \$48,750	\$29,625 - \$49,500	\$30,750 - \$51,000
2	\$39,000 - \$65,000	\$39,500 - \$66,000	\$51,000 - \$68,000

- (4) Enter/Verify the appropriate entries in the Retirement Savings Credit window if Form 8880 is attached to the return.
- Enter/Verify the Retirement Savings Contribution Credit amount from Schedule 3, line 4 or Form 8880, line 12.
  - TOTAL IRA CONTR/ELECTIVE DEFERRALS - **Adjust ONLY when there is unsubstantiated traditional IRA contributions (no 5498 IR).** Correct the amount claimed on Form 8880, line 1a and/or 1b and add to the taxpayer entries from Form 8880, line 2a and/or 2b. **If not adjusting** the contributions deduction, use the sum of the taxpayer entries from Form 8880, lines 1a and /or 1b and 2a and/or 2b.

**Note:** Taxpayers are entitled to claim contributions to Roth IRAs on Form 8880, line 1a and/or 1b.

- c. **TOTAL DISTRIBUTIONS - Adjust ONLY when there are U/R retirement distributions.** If the taxpayer entry on Form 8880, line 4a and/or 4b, equals the total retirement distribution amount, use the taxpayers entry in the window; if not, enter the sum of Form 8880, line 4, plus the U/R distribution amount in both the TAXPAYER and SPOUSE fields for filing status 2; for all others enter only in the taxpayer field. **If not adjusting** retirement distributions use the taxpayer entries from Form 8880, line 4a and/or 4b.

**Exception:** Do not include distributions identified with COD "G", "H", "L", "M", "N", "R", "8", "P", "U", or military retirement distributions (DFAS) in the amount on line 4a and/or 4b, Form 8880.

- (5) The amount of allowable QRSC credits is determined after the Base Tax has been reduced by any: Foreign Tax Credit, Child Care Credit, Credit for the Elderly and/or Education Credits claimed.

**Caution:** The Retirement Savings Credit window **MUST** be accessed after the Child Care Credit, Credit for the Elderly and/or Education Credit window(s). Selecting the windows out of sequence may result in calculating an incorrect change to the QRSC credit.

- (6) PARAGRAPH 56 automatically generates when the QRSC credit is adjusted. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.15.7  
(10-25-2023)  
**Qualified Adoption  
Expenses Credit**

- (1) Form 8839, Qualified Adoption Expenses is recomputed when the taxpayer's modified AGI changes. A credit of up to the amounts listed in the table below may be claimed for qualifying expenses to adopt an eligible child.

TY 2020	TY 2021	TY 2022
\$14,300	\$14,440	\$14,890

- (2) The Credit for Qualified Adoption Expenses begins to phase-out when the taxpayer's MAGI exceeds the lower limit and is eliminated (disallowed) when the MAGI exceeds the upper limit in the table below:

TY 2020	TY 2021	TY 2022
\$214,521 - \$254,519	\$216,660 - \$256,660	\$223,410 - \$263,410

- (3) If due to U/R income, the taxpayer's MAGI is between the amounts listed in (2) above, PARAGRAPH 188 automatically generates when there is a decrease to the adoption credit.

**Note:** Toggle off PARAGRAPH 188 when the adoption credit increases.

- (4) If due to U/R income, the taxpayer's AGI exceeds the amounts in (2), PARAGRAPH 189 automatically generates when the adoption credit is disallowed. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (5) The system computes the correct amount of credit for qualified adoption expenses.
- (6) Enter/Verify the appropriate amounts in the ADOPTION CREDIT window:
  1. Total number of adopted children from Form 8839, Part I in the TOTAL NUMBER OF ADOPTED CHILDREN FROM FORM 8839, PART I.
  2. Enter the amount of qualified adoption expenses from Form 8839, line 6 as filed or previously adjusted, in the QUALIFYING ADOPTION EXPENSES field.
  3. Total amount of prior year carryforward credit from Form 8839, line 13 in the PRIOR YEAR CARRYFORWARD CREDIT field.
  4. Enter the adoption credit amount from Form 1040/1040-SR line 6 (TY 2020) or line 6c (TY 2021 and subsequent) or as adjusted in the ADOPTION CREDIT PER RETURN field.
  5. Enter the manually computed adoption credit amount, if applicable, in the MANUAL ADOPTION CREDIT field.

4.19.3.15.8  
(10-25-2023)

**Non-Refundable  
Carryback/Carryforward  
Credits**

- (1) If the remaining non-refundable credits are in excess of the tax liability, they may be carried forward or back to another year to offset tax.
- (2) The Non-Refundable Credits window is used to capture the following credits:
  1. **Foreign Tax Credit (Form 1116)** - Enter/Verify the amount of Foreign Tax Credit reported on Schedule 3, line 1, and line 35 (TY 2020 and subsequent).
  2. **Residential Energy Credit (Form 5695)** - Enter/Verify the amount of Residential Energy Credit included on Schedule 3, line 5, from Form 5695, lines 15 and 30 (TY 2021 and prior), or line 15 (TY 2022).
  3. **Non-Business Energy Property (Form 5695)** – Input/verify the amount of Non-Business Energy Property credit included on Schedule 3, Line 5, from Form 5695, line 30 (TY 2022).
  4. **General Business Credit (Form 3800)** – Enter/Verify the amount of General Business Credit included on Schedule 3, line 6a, from Form 3800, line 38 (TY 2022).
  5. **Credit for Prior Year Minimum Tax (Form 8801)** – Enter/Verify the amount of Prior Year Minimum Tax included on Schedule 3, line 6b, from Form 8801, line 25 (TY 2022).
  6. **Alternative Motor Vehicle Credit (Form 8910)** – Enter/Verify the amount of Alternative Motor Vehicle Credit included on Schedule 3, line 6e, from Form 8910, line 15 (TY 2022).
  7. **Qualified Plug In Motor Vehicle (Form 8936)** - Enter/Verify the amount of Qualified Plug In Motor Vehicle included on Schedule 3, line 6f, from Form 8936, line 23 (TY 2022).
  8. **Unidentified Credit** – These amounts are credit amounts from Schedule 3, Line 6h-6z. If there is a field in the Non-Refundable Credit window that corresponds, input the credit to the correct field and zero out in the Un-identified Credit window (TY 2022).
  9. **Carryforward of the District of Columbia First Time Home buyer Credit (Form 8859)** – Enter/Verify the amount of District of Columbia First Time Home buyer Credit amounts from Schedule 3, Line 6 (TY 2020), Schedule 3, line 6h (TY 2022) from Form 8859, line 3.
  10. **Qualified Electric Vehicle Credit (Form 8834)** – Enter/Verify the amount of Qualified Electric Vehicle Credit included on Schedule 3, line 6i from Form 8834, line 7 (TY 2022).

11. **Alternative Fuel Vehicle Refueling Property Credit (Form 8911)** – Enter/Verify the amount of Alternative Fuel Vehicle Refueling Property Credit included on Schedule 3, line 6j from Form 8911, line 11 (TY 2022).
12. **Credit to Holders of Tax Credit Bonds (Form 8912)** – Enter/Verify the amount of Credit to Holders of Tax Credit Bonds included on Schedule 3, line 6k from Form 8912, line 12 (TY 2022).
13. **Amount on Form 8978 (Partner's Additional Reporting Year Tax)** – Enter the amount of Form 8978, line 14 included on Schedule 3, line 6l (TY 2022).
14. **Miscellaneous Credits** Enter/Verify the amount of miscellaneous credit(s) included on Schedule 3, line 6 (TY 2020), Schedule 3, line 7 minus credits reported on line 6c and 6d (TY 2021 and subsequent).

**Note:** Although the Non-Refundable Credit window appears last in the sequence of credits windows, the AUR system applies the Foreign Tax credit first against the base tax.

- (3) If it is determined there may be unused non-refundable credits (even if the unused credits would offset the additional tax), issue a notice as appropriate.
- (4) PARAGRAPH 20 automatically generates when any entries (other than zero or the Foreign Tax Credit) are in the NON-REFUNDABLE CREDITS window. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) Ensure that the carryback/carryforward guidelines are followed if the taxpayer responds requesting change(s) to the amount of previously reported credits(s).

4.19.3.16  
(10-07-2019)

#### Changes to Other Taxes

- (1) The following instructions pertain to changes to certain other taxes claimed.
- (2) These other taxes may include:
  - SE tax
  - Social Security tax on tip income unreported to the employer
  - 10 percent tax on early distributions from qualified retirement plans
  - 10 percent additional tax on Qualified Education Program Payments (QTPs and CESAs)
  - 25 percent tax on early distributions from SIMPLE IRAs
  - 20 percent tax on medical savings account distributions
  - 20 percent Additional Tax for Health Saving Accounts
  - 50 percent Additional Tax for Medicare Advantage MSA distributions
  - Additional taxes on income received due to participation in a nonqualified deferred compensation plan that does not meet the requirements under IRC 409A
  - Alternative minimum tax
  - Net Investment Income Tax
  - Additional Medicare Tax and
  - Miscellaneous other taxes

4.19.3.16.1  
(10-25-2023)

#### Self-Employment Tax

- (1) The taxpayer must pay SE tax, which is a combination of social security tax and Medicare tax for individuals who work for themselves. Self-employed individuals must pay SE tax on the entire amount of their net earnings from self-employment of \$434 or more (\$108.28 or more of church employee income).
- (2) SE tax is computed on Schedule SE and entered on Schedule 2, line 4.

- (3) Schedule SE represents information for only one taxpayer (a maximum of two, one for each spouse, may be attached to a return). Underreported self-employment income must be associated with the appropriate taxpayer.
- (4) Verify that the correct Income Identify Code is displayed for U/R income that is subject to SE tax.
  - “PB” - business self-employment income for the primary taxpayer
  - “PF” - farm self-employment income for the primary taxpayer
  - “SB” - business self-employment income for the secondary taxpayer
  - “SF” - farm self-employment income for the secondary taxpayer

**Note:** Payee EIN IRs will not have an Income Identify code. An Income Identify code **must** be entered in order for the system to assess the SE tax.

- (5) SE tax must be computed/recomputed or evaluated (considered) when the following conditions apply:

- There is U/R self-employment income

**Note:** A fully U/R Interest and/or Dividend IR with a payee EIN is considered self-employment income.

- There is reported self-employment income that is not included on Schedule SE, see Exhibit 4.19.3-20, Examples of Self-Employment Income.
- If self-employment income and/or SELF EMPLOYMENT TAX field on Income Comparison is asterisked

**Note:** Unidentified income of \$400 or more reported Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent) is subject to SE tax. **Send PARAGRAPH 39**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** If the amount reported on Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent) is identified as Gulf Oil Spill (GOS or GCCF) payments, or Excess Business Losses (ELA), **DO NOT** assess SE tax.

- There is an increase to social security wages, Medicare wages, allocated tips, or tips from Form W-2
  - There is a change to Form 4137, line 10 (as filed or as adjusted during U/R processing)
  - There is a change to Form 8919, line 10 (as filed or adjusted during U/R processing).
  - There is a change to self-employment income using the Misc Adjust/ Schedule C Expense window
- (6) Be sure to follow Schedule SE line-by-line when computing or recomputing SE tax as certain limitations apply.
  - (7) When SE tax is computed or recomputed, enter/verify the appropriate entries in the SE Tax window of the Case Analysis screen.

**Caution:** If the SE Tax window computes a \$1 change, verify the amount from Schedule 2, line 4, or the SE tax amount on the Tax Account screen (consider dollars and cents), then adjust the SE Tax window accordingly.

**Reminder:** Enter the information for each taxpayer (primary and/or secondary), in the appropriate fields. Enter/Verify all fields, **DO NOT** just “Enter” through the fields:

If taxpayer computed SE tax using the	Then recompute SE tax by taking the following actions:
Regular method	<ol style="list-style-type: none"> <li>1. Enter/verify the amount(s) from Schedule SE, Self-Employment Tax, for the PRIMARY and/or SECONDARY SE TAX PER RETURN field(s).  <b>Note:</b> To allow the system to <b>recompute</b> the self-employment tax, the PRIMARY and/or SECONDARY SE TAX NOW field(s) must be blank. If an amount is entered, the system uses the amount entered. During responses, a zero must be entered in the primary and/or secondary SE TAX NOW field(s), as applicable, when computing FICA tax in lieu of self-employment tax.</li> <li>2. Enter/verify the amount(s) of total self-employment income from Schedule SE in the PRIMARY and/or SECONDARY REPORTED SE INCOME field(s).  <b>Note:</b> This amount must be verified, even if the optional method is used. Negative amounts are entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME fields(s) in the SELF EMPLOYMENT TAX window. This amount should include (but is not limited to) the net totals of Schedule C and Schedule F, Profit or Loss From Farming.  <b>Note:</b> The amount(s), shown in the PRIMARY and/or SECONDARY SCHEDULE C EXPENSE CHANGE fields of the MISC ADJUSTMENT/SCHEDULE C EXPENSE window, automatically carry over to the PRIMARY and/or SECONDARY SCH C EXPENSE CHANGE fields of the SELF-EMPLOYMENT TAX WINDOW.</li> <li>3. Enter/verify the amount(s) from Schedule SE as reported or corrected, in the PRIMARY and/or SECONDARY SS/RR WAGES/TIPS field(s) including U/R Social Security/Railroad Retirement wages.  <b>Note:</b> Do not include any U/R Social Security/Railroad Retirement (SS/RR) allocated tips, any unreported tips from Form 4137, Social Security and Medicare Tax on Unreported Tip Income, or SE income identified in responses as being subject to FICA tax; the system adds these amounts automatically.</li> <li>4. Enter/verify the amount(s) from Schedule SE in the PRIMARY and/or SECONDARY CHURCH WAGES field(s).</li> <li>5. Enter self-employment income reported elsewhere on the return, on which self-employment tax has not been paid and is not included in the other fields, in the PRIM and/or SEC REPRTD SE INC NOT ON SCH SE field.  <b>Note:</b> Include amounts from Schedule C or F (net profit) that were not previously subject to SE Tax since the total was less than \$400. Do not enter a negative amount.</li> <li>6. After entering/verifying the appropriated entries, click on “<b>COMPUTE</b>” (to view the changes before committing).</li> </ol>



If taxpayer computed SE tax using the	Then recompute SE tax by taking the following actions:
Optional method	<ol style="list-style-type: none"> <li>1. Enter “Y” in the OPTIONAL METHOD INDICATOR field(s).</li> <li>2. Enter the total reported net farm income from Schedule F and/or Schedule K-1 in the PRIMARY and/or SECONDARY NET FARM P/L field(s).</li> <li>3. Enter the total reported gross farm income from Schedule F and/or Schedule K-1 in the PRIMARY and/or SECONDARY GROSS FARM INCOME field(s).</li> <li>4. Enter the total reported net nonfarm income from Schedule C, and/or Schedule K-1 in the PRIMARY and/or SECONDARY NET NONFARM P/L field(s).</li> <li>5. Enter the total reported gross nonfarm income from Schedule C, and/or Schedule K-1 in the PRIMARY and/or SECONDARY GROSS NONFARM INCOME field(s).</li> </ol> <p><b>Note:</b> Verify PRIMARY and/or SECONDARY REPORTED SE INCOME field(s) with amounts from Schedule SE.</p> <ol style="list-style-type: none"> <li>6. Click on “<b>COMPUTE</b>” (to view the changes before committing).</li> </ol>
Optional method <b>BUT no longer qualifies</b>	<ol style="list-style-type: none"> <li>1. If present, clear the amount(s) in the applicable PRIMARY and/or SECONDARY SE TAX NOW field(s).</li> <li>2. Enter the reported net self-employment income in the applicable PRIMARY and/or SECONDARY SE INC NOT ON SCH SE field(s).</li> <li>3. If present, remove the “Y” from the PRIMARY and/or SECONDARY OPTIONAL METHOD IND field(s), leaving the field(s) blank.</li> <li>4. If present, remove any amount(s) from the PRIMARY and/or SECONDARY NET FARM P/L field(s), leaving field(s) blank.</li> <li>5. If present, remove any amount(s) from the PRIMARY and/or SECONDARY GROSS FARM INCOME field(s), leaving field(s) blank.</li> <li>6. Click “<b>COMPUTE</b>” (to view the changes before committing).</li> </ol>

- (8) The system computes the correct amount of SE tax for each taxpayer.
- (9) If there is U/R SE income or SE tax on the original return and the RETURN VALUE option is selected, the SE Tax window displays. The SE Tax window may also be selected from the menu.
  - a. Incorrect entries in the SE Tax window cause unpostable conditions.
  - b. The SE Tax window must be selected in the proper case analysis sequence as described in IRM 4.19.3.4.2, Case Analysis Screen. If SE Tax window is selected out of order, a message displays describing the proper sequence.
  - c. To allow the system to recompute the SE tax, the PRIMARY and/or SECONDARY SE TAX NOW field(s) must be blank.
  - d. Negative amounts **must** be entered in the PRIMARY and/or SECONDARY REPORTED SE INCOME field(s) in the SE Tax window. This amount should include (but is not limited to) the totals from Schedule C, line 31 and Schedule F, line 34.
  - e. Changes made to the PRIM/SEC SCH C EXPENSES in the MISC ADJUSTMENT/SCHEDULE C EXPENSE window displays on the SETAX window.



- f. Verify the taxpayer has reported the correct amount of social security wages and tips and railroad retirement (Tier 1) compensation, on the Schedule SE, Part 1, line 8a.
  - g. Enter the verified line 8a amount plus U/R SS/RR wages in the PRIMARY/SECONDARY SS WAGES/TIPS/RR field.
  - h. If Schedule SE is not present, enter the total REPORTED amount from self-employment income in the PRIM REPRTD SE INC NOT ON SE field and/or the SEC REPRTD SE INC NOT ON SE field. Do not enter negative amounts.
- (10) Do not include in the PRIMARY/SECONDARY SS WAGES/TIPS/RR field any U/R SS/RR, allocated tips, any changes to Form 8919 or U/R tips on Form 4137, or SE income identified as being subject to FICA tax, the system adds these amounts automatically.

**Note:** If the original SE tax from Schedule SE, Part 1, line 12 is over \$.50, round to the nearest dollar when entering the amount in the SE Tax window.

- (11) If the taxpayer reports NEC income on the wage line of Form 1040/1040-SR and attaches a Form 8919, Uncollected Social Security and Medicare Tax on Wages, to assess the employee share of FICA, the taxpayer is indicating he/she is NOT LIABLE for SET on NEC because he/she is an employee. Unless an employment status determination has been rendered by the SS-8 group to identify the taxpayer as an independent contractor or employee, SE Tax must be assessed. To ensure credit is given for the tax paid on Form 8919:
- 1. Do not change the Income Identify Code.
  - 2. Access the SE Tax window and enter the Primary/Secondary Form 8919 tax in the PRI/SEC 8919 INCOME SUBJECT TO SE TAX field.
  - 3. Enter the amount of reported NEC in the PRIM/SEC 8919 INCOME SUBJECT TO SE TAX field.
- Note:** DO NOT enter this amount in the "Reported SE Income not on Sch SE" field of the SE Tax window.
- 4. If necessary, adjust the PRI/SEC SS/RR WAGES/TIPS field so it doesn't include the NEC amount from Form 8919.
  - 5. Remove any amount from the ADDITIONAL FICA TAX window that is subject to SE Tax in the PRIMARY/SECONDARY INCOME SUBJECT TO FICA field.
- (12) The negligence and reasonable cause columns display **ONLY** if the Accuracy Penalty Indicator shows a penalty computation is required. If it is determined there is **NO CHANGE** to the currently assessed SE tax, enter the amount from the PRIMARY and/or SECONDARY SE TAX NOW field(s). When SE tax is the only issue and the negligence penalty applies, enter the amount from the PRIMARY and/or SECONDARY SE TAX PER RETURN field.
- (13) Leave the PRIMARY and/or SECONDARY SE TAX NOW field(s) blank to allow the system to compute the reasonable cause portion of the SE tax by taking the following actions:
- 1. Enter/verify the amount from the PRIMARY and/or SECONDARY REPORTED SE INCOME field(s), less reported SE income included in this field on which SET has not been paid and reasonable cause has not been established.

2. Enter/verify the amount from the PRIMARY and/or SECONDARY SS/RR WAGES/TIPS field(s), less the portion of U/R SS/RR wages included in this field on which reasonable cause has not been established.

(14) SE tax is not assessed for the following conditions:

- a. The payer name indicates that the PTK-1 income is from a limited partnership (for example, Smith and Jones, LTD, LLC, LLP, LC, or LP).

**Exception:** G-PAY income elements on a fully U/R PTK-1 from a limited partnership are subject to SE tax.

- b. Partially reported PTK-1 IR(s) that the taxpayer did not treat as self-employment income.
- c. The payer name indicates that the taxpayer works for their spouse or is under age 18 and works for their parents.
- d. The taxpayer writes "Exempt Form 4361" or "Exempt Form 4029" on Schedule 2, line 4, or there is some indication that they are exempt from SE tax.

**Caution:** If the taxpayer claims Exempt Form 4361 or Form 4029 on an ELF return, the applicable indicator is checked on the TRDB screen.

- e. The taxpayer writes "Exempt-Notary" on Schedule 2, line 4.

**Caution:** Only the income attributable to Notary Public is exempt from SE tax.

- f. The taxpayer is a Statutory employee (box 13 on Form W-2 is checked or IR indicates SEI).
- g. The taxpayer is a motor vehicle sales-person and is paid OTINC by an auto manufacturer.
- h. The taxpayer is a member of a federally recognized tribe and received income from tribal per capita distributions or from Indian gaming proceeds. See IRM 4.19.3.8.6.1, Nonemployee Compensation (NEC) - Analysis.
- i. The taxpayer is a newspaper carrier or magazine seller under the age of 18.
- j. Scholarship/stipend or fellowship income.
- k. Non-compete income.

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**Note:** To suppress the SE tax computation, the Income Identify Code for the U/R income should be blank. See Exhibit 4.19.3-9, Income Identify Codes.

(15) When Schedule C expenses are disallowed for a Non-Statutory Employee, do not adjust any SE tax claimed. To suppress a change to SE tax:

1. Manually access the SE Tax window.
2. Enter the SE tax per return in the PRIMARY and/or SECONDARY SE TAX NOW field(s).

(16) The taxpayer no longer qualifies for the optional method if the taxpayer originally computed SE tax using the farm or non-farm optional method, but because of AUR processing, now has:

TY	New gross farm income greater than	And new net farm profits equal to or greater than
2020	\$8,460	\$6,107
2021	\$8,820	\$6,367
2022	\$9,060	\$6,540

**OR** new net non-farm profits equal to or greater than the amounts listed in the table below or 72.189 percent of farm income

TY 2020	TY 2021	TY 2022
\$6,107	\$6,367	\$6,540

- (17) Send applicable IR elements when the SE tax is adjusted.
- (18) PARAGRAPH 17 automatically generates when SE tax is adjusted because of U/R self-employment income and/or reported income on which the taxpayer should have paid SE tax but did not. Toggle off Paragraph 17 when not applicable. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (19) PARAGRAPH 18 automatically generates when SE tax is adjusted because there is an increase to social security wages or tips from Form W-2. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (20) PARAGRAPH 29 automatically generates when SE tax is adjusted because the taxpayer no longer qualifies for the optional method. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (21) Taxpayers can claim the deductible part of SE tax on Schedule 1, line 14 ( TY 2020), Schedule 1, line 15 (TY 2021 and subsequent). Whenever there is a change to SE tax, the system automatically recomputes the SE tax deduction. This deduction must be figured separately when a joint return is filed.
- (22) When there is a change to SE tax, the TOTAL AGI CHANGE field on the Case Analysis screen will include the adjustment to the SE tax deduction.

4.19.3.16.2  
(09-21-2020)  
**Social Security Tax on  
Tip Income Unreported  
to the Employer**

- (1) If the taxpayer received tips of \$20 or more in any calendar month (working for one employer) but did not report all of them to their employer, social security tax must be figured on the tips not reported regardless of the category or the amount. This tax is computed on Form 4137, Social Security and Medicare Tax on Unreported Tip Income, and carried forward to Schedule 2, line 5. The income may or may not be reported on the return.
- (2) The SST on TIPS window displays upon selection of Return Value when Social Security tax on U/R income is present on the return.
- (3) When the taxpayer completes Form 4137, paying the TIP TAX, but does not report the Allocated Tips (ATIPS) on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021), or line 1c (TY 2022) take the following action:
  - 1. Enter a zero (0) in the PRIM/SEC A-TIP field(s).
  - 2. Enter a zero (0) in the PRIM/SEC UNREPORTED SSTIPS field(s).

3. See IRM 4.19.3.8.1.5, Wages Miscellaneous, for further instructions.
- (4) The system automatically computes the correct social security tax on unreported tip income based on the entries in the SST on TIPS window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Social Security Tax on Tips.
- (5) The SST on TIPS window must be selected in the proper case analysis sequence as described in IRM 4.19.3.4.2, Case Analysis Screen. If the SST on TIPS window is selected out of order, a message displays describing the proper sequence.
- (6) The REASONABLE CAUSE field(s) only displays when the Accuracy Related Penalty Due to Negligence applies.
- (7) **Send PARAGRAPH 68** when an increase in social security wages causes a change to Form 4137. See IRM 4.19.3-7, CP PARAGRAPHS.

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4.19.3.16.3  
(10-25-2023)  
**10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs**

- (1) The **taxable portion** of early distributions from qualified retirement plans may be subject to an additional tax equal to 10 percent. Taxpayers are required to include Form 5329 if they are claiming an exception of early distributions to qualified plans.
  - a. **SIMPLE IRA** - for early distributions from a SIMPLE IRA within the first two years, the additional tax is increased to 25 percent, (but is reduced to 10 percent for years thereafter).
  - b. **Roth distributions** that are a return of conversion contributions or rollover contributions from a qualified retirement plan may be subject to the additional 10 percent tax on early distributions from qualified retirement plans if taken within the 5-year period (early distribution) and an exception does not apply. This is true even if the distribution is not considered taxable income.
- (2) If an early withdrawal from a deferred annuity is otherwise subject to the 10 percent additional tax, a 5 percent rate may apply instead. A 5 percent early distribution tax could apply to distributions under a written election providing a specific schedule for the distribution of the taxpayer's interest in the contract if, as of March 1, 1986, the taxpayer began receiving payments under the election. The taxpayer will multiply the taxable portion of the eligible distribution by 5 percent (instead of 10 percent). The taxpayer must attach an explanation to the tax return. If the distribution is identified as being only subject to a 5 percent additional tax, see (16) d) below for further instructions.
- (3) Distributions issued before the taxpayer reaches age 59 1/2 are subject to the additional 10 percent tax or additional 25 percent tax for SIMPLE IRAs unless the distribution is subject to certain exceptions to the additional tax.
- (4) Qualified retirement plans include:
  - Section 401(k) plan
  - Section 403(a) annuity
  - Section 403(b) plan
  - Qualified employee retirement plans

- Qualified annuity plans
- Tax-sheltered annuity plans for employees of public schools or tax-exempt organizations
- IRAs (traditional, Roth, SEP or SIMPLE)

(5) Information returns display a check box if the payer checked Form 1099-R, box 7, for IRA/SEP/SIMPLE.

**Caution:** Form 1099-R, box 7 may not be checked to indicate the distribution is from an IRA account with COD J.

(6) The system computes the 10 percent tax on early distributions from qualified retirement plans (including IRAs) or the 25 percent tax on early distributions from SIMPLE IRA Plans when the taxpayer's age is less than 59 and:

- For the 10 percent tax on early distributions, the IND field on the Case Analysis screen has a Distribution Code of "J", "L", "M", "1", or "5".
- For the 25 percent tax on early distributions from SIMPLE IRA Plans, the IND field on the Case Analysis screen has a Distribution Code of "S".

**Note:** When an IR contains both GR/A and TX/A amounts, the IR Code of the GR/A amount must be "X" (system assigned), "D" or "N" to ensure the 10 percent or 25 percent tax is not assessed on the Gross Distribution amount.

(7) Suppress the system computed 10 percent tax on early distributions from qualified retirement plans (including IRAs) using the 5329 window before entering Return Value.

**Note:** **DO NOT MODIFY** or use Income Identify Code "RO" for the 10 percent early distribution tax. You must access the 5329 window and follow the system prompts to verify/enter figures.

**Caution:** Verify the ADDITIONAL TAX AMOUNT FIELD of the 5329 window when both taxpayers are subject to the early distribution tax. Math verification **MUST BE** done to ensure the appropriate early distribution tax amount is charged, take the \$1 rounding into consideration. Use the MANUAL TAX NOW AMOUNT field to enter the math verified amount.

(8) To suppress the system computed 5 percent or 25 percent on early distributions from qualified plans (including IRAs), see (13) below.

(9) DO NOT assert the 10 percent tax on an early distribution from qualified retirement plans (including IRAs), or the 25 percent tax on an early distribution from SIMPLE IRA Plans when there is an indication the taxpayer is age 59 1/2 or older:

**Exception:** If it can be **clearly determined** the Form 5329 exception code or explanation is not consistent with the distribution type (example: There is a **clear indication** the Form 1099-R distribution is an IRA distribution and the taxpayer uses Form 5329 exception code 01 which is not applicable to an IRA.), pursue the early distribution tax issue. **Send PARAGRAPH 26** explaining the reason for the disallowance. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** For exceptions to the 10 percent additional tax on Qualified Education Program distributions (QTP, EARN, and CESA), see IRM 4.19.3.16.5, 10 Percent Tax on Qualified Education Program Payments.

Exception Code	Exception Description
01	The distribution was from a qualified retirement plan other than an IRA (for example, a 401(k) or a 403(b) plan) and was made to an employee who separated from their employer in or after the year in which they reached age 55 (age 50 for qualified Public Safety Officers including federal law enforcement officers, customs and border protection officers, federal firefighters, and air traffic controllers).
02	The distribution is part of a series of substantially equal periodic payments over the owner's/taxpayer's life (an annuity).
03	The distribution was due to total and permanent disability. The taxpayer may indicate this by attaching a Schedule R to their return containing a Statement of Permanent and Total Disability, or there is an indication that a statement was filed previously.
04	The distribution is a death benefit.
05	The distribution was used to pay medical expenses in excess 7.5 percent of the AGI.
06	The distribution was from a qualified retirement plan other than an IRA and was paid to an alternate person under a qualified domestic relations order (divorce decree).
07	The distribution from an IRA was used by certain unemployed taxpayers to pay health insurance premiums.
08	The distribution from an IRA was used to pay for qualified higher education expenses.
09	The distribution (up to \$10,000 from each spouse's account) from a traditional, Simple or Roth IRA was used to buy, build or rebuild a first home.
10	The distribution is due to an IRS levy of a qualified plan.

Exception Code	Exception Description
11	The taxpayer indicates they are an active duty reservist. The Pension Protection Act of 2006 exempts active duty reservists from the early distribution tax that normally applies to retirement distributions received before age 59 1/2.
12	Distributions incorrectly indicated as early distributions by code 1, J, or S in box 7 of Form 1099-R. Include on line 2 the amount received when age 59 1/2 or older.
13	Distributions from a section 457 plan, which aren't from a rollover from a qualified retirement plan.
14	Distributions from a plan maintained by an employer if: <ul style="list-style-type: none"> <li>• Distributions from a plan maintained by an employer if:</li> <li>• As of March 1, 1986, your entire interest was in pay status under a written election that provides a specific schedule for the distribution of your entire interest; and</li> <li>• The distribution is actually being made under the written election</li> </ul>
15	Distributions that are dividends paid with respect to stock described in section 404(k).
16	Distributions from annuity contracts to the extent that the distributions are allocable to the investment in the contract before August 14, 1982. For additional exceptions that apply to annuities, see Tax on Early Distributions under Special Additional Taxes in Pub. 575.
17	Distributions that are phased retirement annuity payments made to federal employees. See Pub. 721 for more information on the phased retirement program
18	Permissible withdrawals under section 414(w).
19	Qualified birth or adoption distributions. Attach a statement that provides the name, age, and TIN of the child or eligible adoptee.
20	Exception distributions for terminal illness



Exception Code	Exception Description
21	Corrective distributions made on or after December 29, 2022, for excess contributions distributed before the due date of the tax return.
99	Exception for when more than one exception applies.

- (10) If the taxpayer filed the Form 8915-A, Form 8915-B, Form 8915-C, Form 8915-D, Form 8915-E or Form 8915-F, which are not subject to the 10 percent or 25 percent early distribution tax, see IRM 4.19.3.8.10.3.1, Qualified Disaster Retirement Plan Distributions and Repayments for further information.

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to the amount of the distribution(s) subject to the 10 percent or 25 percent tax on early distributions from IRAs, qualified retirement plans (including IRAs).

- (12) The 5329 window must be accessed to verify/enter the correct amounts in the 5329 window fields to allow the system to compute the correct 10 percent tax on early distributions.

**Caution:** Due to rounding, the amount of early distribution tax reported on the tax return may be \$1 more than the AUR system calculation. Use the MANUAL TAX AMOUNT field of the 5329 window to account for the \$1 difference per IR. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Form 5329 Premature Distribution Tax.

- (13) Verify the amounts in the PREMATURE DIST TAX (IRA) fields in the Total Other Tax window of the Return Value screen for 5 percent and 25 percent tax on early distributions. If the amount is incorrect, mark or modify the IR(s) on the Case Analysis screen, as needed, to allow the system to compute the correct tax on the early distribution.

- (14) Create an IR if:

- The taxpayer paid the 5 percent, 10 percent or 25 percent tax on a distribution for which there is no IR present on the Case Analysis screen.
- The Form 5329 or Form 1099-R are attached, use to determine the amount for the created IR.
- The taxpayer has a Form 1099-R attached which is subject to the 5 percent, 10 percent or 25 percent tax, the taxpayer did not pay the 5 percent, 10 percent or 25 percent tax on it, and there is no IR present on the Case Analysis screen.

- (15) Modify an IR if:

- The conditions in (6) above apply but the IR is not subject to the tax on early distributions.
- The IR is subject to tax on early distributions, but the Distribution Code is not "J", "L", "M", "1", "5" or "S". Enter the appropriate Distribution Code in the IND field.
- The IR was partially rolled over and only the taxable portion is subject to the tax on early distributions. Distribution Code "J", "L", "M", "1", "5" or "S" should be used only for the portion which was not rolled over.

- d. A Form 1099-R distribution is identified as being only subject to a 5 percent early distribution tax (as identified by the taxpayer's explanation), change the Income Identify Code to "5P". Enter/Verify Form 1040/1040-SR, Schedule 2, line 8 (TY 2022) See (2) above for further information.

- (16) To avoid the additional 25 percent tax on an early distribution from a SIMPLE IRA Plan, the distribution must be rolled over/transferred into another SIMPLE IRA Plan.
- (17) PARAGRAPH 11 automatically generates when the additional 10 percent tax is assessed. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (18) PARAGRAPH 194 automatically generates when the additional 25 percent tax is assessed. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (19) Send reported 1099R IR elements when the additional 10 percent or 25 percent tax is adjusted.

4.19.3.16.4  
(09-30-2014)  
**20 Percent Tax on  
Archer Medical Savings  
Account (AMSA) and  
Health Savings Account  
(HSA) Distributions**

- (1) Archer Medical Savings Account (AMSA) and Health Savings Account (HSA) distributions may be subject to an additional tax equal to 20 percent of the taxable portion of the distribution.
- (2) The system computes the 20 percent additional tax on the distribution when:
- The taxpayer's age is less than 65, and
  - The DIST CD field on the Case Analysis screen has a Distribution Code of 1 or 5
- (3) DO NOT assert the 20 percent additional tax if there is an indication:
- The taxpayer is age 65 or older
  - The taxpayer attaches a Schedule R containing a Statement of Permanent and Total Disability, or there is an indication that a statement was filed previously
  - The distributions were used to pay qualified medical expenses
  - The taxpayer rolled over the distributions
  - The distribution was received after the death of the owner/taxpayer
- (4) Enter Income Identify Code "RO" to suppress the system computed 20 percent additional tax on distributions.

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tax on MSA distributions. **Do not pursue** the 20 percent additional tax if the box on Form 8853, Part II line 9a is checked.

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tax on HSA distributions. **Do not pursue** the 20 percent additional tax if the box on Form 8889, Part II line 17a is checked.

- (7) Enter/Verify the amount in the ARCHER MSA/HSA field in the Other Taxes window of the Return Value screen.
- (8) Because the system only computes the 20 percent additional tax when all the conditions in (2) above apply, an IR may need to be created or modified. See

IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Modifying Information Returns, for additional information.

- (9) If the conditions in (2) above apply but the IR is not subject to the 20 percent additional tax (see (3) above to determine when the 20 percent additional tax does not apply), enter Income Identify Code "RO" to suppress the 20 percent additional tax.
- (10) Create an IR if:
  - a. The taxpayer paid the 20 percent additional tax on a distribution for which there is no IR present on the Case Analysis screen. Use the Form 8853, Form 8889 or Form 1099-SA if attached, to determine the amount for the created IR.
  - b. The taxpayer has a Form 1099-SA attached which is subject to the 20 percent additional tax, the taxpayer did not pay the 20 percent additional tax on it, and there is no IR present on the Case Analysis screen.
  - c. The IR is subject to the 20 percent additional tax but the Distribution Code is not "1" or "5". enter Distribution Code "1" in the DIST CD field.
  - d. The IR was partially rolled over and only the taxable portion is subject to the 20 percent additional tax. Distribution Code 1 or 5 should be used only for the portion which is not rolled over.

**Reminder:** Mark the 99-SA IR element(s) with Send Indicator "S" when adjusting the 20 percent additional tax.

- (11) PARAGRAPH 196 automatically generates when the 20 percent additional tax on AMSA applies. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (12) PARAGRAPH 140 automatically generates when the 20 percent additional tax on HSA applies. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.16.5  
(09-24-2021)  
**10 Percent Tax on  
Qualified Education  
Program Payments**

- (1) Taxable EARN is subject to a 10 percent additional tax on the amount included as income. Taxpayers report the distribution subject to the 10 percent tax on Form 5329, Part II, line 7.
- (2) The system will compute the 10 percent additional tax and enter the amount in the RECOMPUTED PREMATURE DIST TAX (EDU) field in the Total Other Taxes window. Include any reported 10 percent additional tax from Form 5329, Part II, line 8, in the PER RETURN PREMATURE DIST TAX (EDU) field.
  - a. It may be necessary to create or modify an IR to allow the system to compute the correct amount of additional tax.
  - b. Mark the 1099Q IR element(s) with Send Indicator "S" when adjusting the 10 percent additional tax.
- (3) If the EARN is reported and the taxpayer should have paid the 10 percent additional tax but did not, **send PARAGRAPH 219**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (4) Do not charge the 10 percent additional tax if there is an indication that the QTP/CESA distribution was paid to a beneficiary (or the estate of the designated beneficiary) on or after the death of the designated beneficiary. Do not charge the 10 percent additional tax if there is an indication that the QTP/CESA distribution was made because the designated beneficiary:

**Note:** When applicable, Income Identify Code “RO” must be entered to suppress the 10 percent additional tax.

- a. Is disabled.
- b. Received a qualified scholarship, Veterans educational assistance, Employer-provided educational assistance or any other nontaxable payments received for educational expenses.
- c. Included in income because of attendance at a U.S. military academy (such as West Point).
- d. Included in income only because the qualified education expenses were taken into account in determining the American Opportunity or Lifetime Learning Credit.
- e. The CESA distribution was a return of excess contributions.

4.19.3.16.6  
(10-25-2023)

**Alternative Minimum Tax (AMT)**

- (1) **Enter/Verify** the entries in the Alt Min Tax (Form 6251) window. Taxpayers filing 1040/1040-SR may pay Alternative Minimum Tax. If the taxpayer paid AMT on Schedule 2, line 1 enter/verify the entries the entries in the Alt Min Tax (Form 6251) window. Alternative Minimum Tax may also apply due to U/R income and displays the following message: **Alt Min Tax is included in the Total Tax for this case.**
- (2) If the taxpayer is under age 24, manually compute the Form 6251 and enter the result in the MANUAL ALT MIN TAX field. If the Manual Accuracy Penalty applies, see IRM 4.19.3.18.5, Accuracy-Related Penalty Due to Substantial Understatement of Tax, and IRM 4.19.3.18.6, Accuracy-Related Penalty Due to Negligence or Disregard of Rules or Regulations (Negligence Disregard Penalty).
- (3) To compute/recompute the Alternative Minimum Tax, take the following actions:
  1. Enter/Verify the total Taxes You Paid amount from Schedule A, line or Form 6251, line 2a in the SCH A TOTAL TAXES field.
 

**Note:** For TY2021 and TY2022, if the taxpayer did not file a Schedule A, the taxpayer’s standard deduction will automatically populate. For TY 2020, if the taxpayer did not file a Schedule A, enter the taxpayer’s standard deduction.
  2. Enter/Verify the Tax Refund amount from Form 6251, line 2b or Schedule 1, line 1 or line 8z in the REFUND OF TAXES field. (Enter as a positive amount).
  3. Enter/Verify the Investment Interest Expense amount from Form 6251, line 2c in the INVESTMENT INT EXP field.
  4. Enter/Verify the Depletion amount from Form 6251, line 2d in the DEPLETION field.
  5. Enter/Verify the Net Operating Loss deduction amount (as a positive amount) from Form 6251, line 2e in the NOL (F6251 LN 10) field.
  6. Enter/Verify the Alternative tax net operating loss deduction (as a positive amount) from Form 6251, line 2f in the ALT TAX NOL DEDUCTION field.
  7. Enter/Verify the Interest from Specified Private Activity Bonds Exemption amount from Form 6251, line 2g in the TAX-EXEMPT BOND INT field.
  8. Enter/Verify the Qualified Small Business Stock amount from Form 6251, line 2h in the QUALIFIED SMALL BUSINESS STOCK field.
  9. Enter/Verify the Exercise of Incentive Stock Options amount from Form 6251, line 2i in the INCENTIVE STOCKS field.

10. Enter/Verify the Estates and Trust amount from Form 6251, 2j in the ESTATES/TRUSTS field.
  11. Enter/Verify the Disposition of Property amount from Form 6251, line 2k in the DISP OF PROPERTY field.
  12. Enter/Verify the Depreciation of Assets amount from Form 6251, line 2l in the DEPRECIATION field.
  13. Enter/Verify the Passive Activities amount from Form 6251, line 2m in the PASSIVE ACTIVITIES field.
  14. Enter/Verify the Loss Limitations amount from Form 6251, 2n in the LOSS LIMITATIONS field.
  15. Enter/Verify the Circulation Costs amount from Form 6251, 2o in the CIRCULATION COSTS field.
  16. Enter/Verify the Long-Term Contracts amount from Form 6251, 2p in the LONG-TERM CONTRACTS field.
  17. Enter/Verify Mining Costs amount from Form 6251, 2q in the MINING COSTS field.
  18. Enter/Verify the Research and Experimental Costs amount from Form 6251, line 2r in the RESEARCH/EXPERIMENTAL field.
  19. Enter/Verify the Income from Certain Installment Sales amount from Form 6251, 2s in the INSTALLMENT SALES field. (Enter as a positive amount).
  20. Enter/Verify the Intangible Drilling Costs amount from Form 6251, 2t in the INTANGIBLE DRILLING COSTS field.
  21. Enter/Verify the Other Adjustments amount from Form 6251, line 3 in the OTHER ADJUSTMENTS field.
  22. Enter/Verify the Alternative Minimum Tax Foreign Tax Credit amount from Form 6251, line 8 in the ALT MIN FOREIGN TAX CR field.
  23. Enter/Verify the Alternative Minimum Tax amount from Form 6251, line 11 in the ALTERNATIVE MINIMUM TAX field.
  24. If the taxpayer is under age 24, enter a "Y", in the TAXPAYER UNDER AGE 24 field. (This information can be found Form 8814).
  25. Enter the manually computed Alternative Minimum Tax amount, if applicable, in the MANUAL ALT MIN TAX field.
- (4) If the taxpayer was not originally subject to AMT but due to UR income AMT is being proposed, **send PARAGRAPH 220**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) PARAGRAPH 76 automatically generates when there is a change to Form 6251. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.16.7  
(09-04-2015)

**Additional Taxes on  
Income from  
Nonqualified Deferred  
Compensation Plan (IRC  
Section 409A)**

- (1) Income received due to participation in a nonqualified deferred compensation plan that does not meet the requirements under IRC 409A is identified as "NQDC" in the INCOME TYPE field on Form W-2 and "409AI" in the Nonemployee Compensation field on Form 1099-MISC.
- Note:** IRC 409A(a)(1)(B)(i) imposes additional taxes that consist of two parts: One part consists of 20 percent of the deferred compensation required to be included as income (the "NQDC" or "409AI" amount) and the other is an interest calculation based on when the underpayment would have occurred had the deferred compensation been includible in gross income for the tax year in which it was first deferred or, if later, is not subject to a substantial risk of forfeiture. The interest is an additional 1 percent above the current

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- (2) Enter status code "R" on the "NQDC" or "409AI" element(s).
- (3) The system computes the additional tax based on the "NQDC" or "409AI" amount.
- (4) Verify the amounts in the NQDC fields in the Total Other Taxes window of the Return Value screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Other Taxes.
- (5) If the taxpayer reports additional taxes identified as "NQDC" on Form 1040/  
  
or "409AI" IR(s) with status code "N" or "D" and update the OTHER MISCELLANEOUS TAXES PER RETURN (update with the new per return field information) and RECOMPUTED fields to show the amount the taxpayer reported. DO NOT change the amounts in the NQDC fields in the Total Other Taxes window.
- (6) PARAGRAPH 174 automatically generates when the additional tax is assessed. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (7) Mark "NQDC" or "409AI" elements with Send Indicator "S" when the additional tax is being adjusted.

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4.19.3.16.8  
(03-17-2023)  
**Net Investment Income  
Tax (NIIT) - Form 8960**

- (1) The Net Investment Income Tax (NIIT) applies at a rate of 3.8 percent to certain net investment income of individuals, estates, and trusts. In general, net investment income means interest, dividends, annuities, royalties, rents, net gain from the disposition of property derived in the ordinary course of a trade or business that is not a passive activity, other gross income from a trade or business that is a passive activity and of trading in financial instruments or commodities, and over allowable deductions allocable to such gross income or net gain.
- (2) Taxpayers file Form 8960, Net Investment Income Tax - Individual, Estates, and Trusts, to report the NIIT.
- (3) The NIIT is computed/recomputed when the taxpayer has net investment income and their modified adjusted gross income (MAGI) exceeds the following:
  - \$200,000 for single or head of household
  - \$250,000 for married filing jointly or qualifying widow(er)
  - \$125,000 for married filing separately
- (4) If Form 8960 was filed with the return, **enter/verify** the following entries in the Net Investment Income Tax window.  
NET INVEST TAX PER RETURN
  - Form 8960, line 17
 TOTAL INVEST INCOME PER RETURN
  - Form 8960, line 8



**Note:** The AUR system populates the “TOTAL INVEST INCOME PER RETURN” field. When entering/verifying Form 8960, line 8 (TY 19 and subsequent), **do not include** net non-passive income (Schedule E Part II columns i, j and k and Part III, columns e and f). If the taxpayer includes non-passive income on Form 8960, line 8, follow the taxpayer’s intent.

**Note:** Taxpayers may not correctly include their annuities from a nonqualified plan on Form 8960. If the taxpayer reports a 1099R IR that contains a COD “D” in box 7 but does not include the amount on Form 8960, line 3, ensure the amount is included in the TOTAL INVEST INCOME PER RETURN field of the Net Investment Income Tax window.

#### TOTAL DEDUCTIONS

- Form 8960, line 11. Ensure this amount includes EWPEN claimed on Schedule 1, line 17 (TY 2020), Schedule 1, line 18 (TY 2021 and subsequent).

**Note:** If the taxpayer responds with a new or revised Form 8960, enter/verify revised amounts.

Per return amounts should be manually adjusted when necessary, to exclude reported investment income on which the taxpayer paid SE tax.

- (5) If Form 8960 was not filed with the return, enter/verify the following entries in the Net Investment Tax window:

#### NET INVEST TAX PER RETURN

- Schedule 2, line 8 (and TY 2020)
- Schedule 2, line 12 (TY 2021 and subsequent)

#### TOTAL INVEST INCOME PER RETURN

- 1040/1040-SR, 2b, 3b and 7
- Schedule 1, line 4
- Schedule 1, line 5

**Note:** Do not include net non-passive income from Schedule E Part II columns i, j, k and Part III columns e and f.

- Other items of net investment income and/or tax items for period of U.S. residency reported on Schedule 1, line 8, (TY 2020) or line 8z (TY 2021 and subsequent)
- Form 1041, line 8
- Form 1041-QFT, lines 4 and 9
- Form 8814, line 12

**Note:** Taxpayers may not correctly include their annuities from a nonqualified plan on Form 8960. If the taxpayer reports a 1099R IR that contains a COD “D” in box 7 but does not include the amount on Form 8960, line 3 (TY 19 and subsequent), ensure the amount is included in the TOTAL INVEST INCOME PER RETURN field of the Net Investment Income Tax window.

#### TOTAL DEDUCTIONS

- Schedule 1, line 17 (TY 2020)
- Schedule 1, line 18 (TY 2021)



**Note:** DO NOT include reported investment income on which the taxpayer paid SE tax.

- (6) If a manual computation of the NIIT is required, enter the manually computed NIIT in the MANUAL NET INVEST INCOME TAX field (Form 8960, line 17).
- (7) PARAGRAPH 173 automatically generates when there is a change to the NIIT.

4.19.3.16.9  
(10-25-2023)  
**Additional Medicare Tax  
(AdMT)**

- (1) Taxpayers are subject to an additional 0.9 percent Medicare Tax when the total of an individual's Medicare wages, Railroad Retirement Tax Act compensation and self-employment income exceeds the following:
  - \$250,000 for married taxpayers who file jointly
  - \$125,000 for married taxpayers who file separately
  - \$200,000 for taxpayers who file single, head of household, or qualifying surviving spouse
- (2) Additional Medicare Tax is calculated by completing Form 8959, Additional Medicare Tax. The additional tax is computed using Form 8959 Parts I, II, III and IV and is reported on Schedule 2, line 8 (TY 2020), Schedule 2, line 7 (TY 2021 and subsequent).
- (3) If the employer withheld too much Medicare Tax, the overpayment is claimed as a prepayment credit, see IRM 4.19.3.17.1.4, Additional Medicare Tax (Withholding Reconciliation), for additional information.
- (4) Additional Medicare Tax needs to be computed/recomputed if Medicare wages, Railroad Retirement Tax Act compensation and self-employment income are U/R.
- (5) The Additional Medicare Tax window automatically displays when there is a Form 8959 attached to the return or when no Form 8959 is present and the total of an individual's Medicare wages, Railroad Retirement Tax Act compensation and self-employment income exceeds the amounts in (1) above.

**Note:** If the Additional Medicare Tax window does not automatically display, **manually access** the window when either of the conditions in (5) are present.

- (6) Create an IR(s) for the AdMT calculation when:
  - a. There is a Form W-2 attached (paper or ELF), for which there is no IR. Create all elements (income types and EIN field) of the Form W-2.
  - b. There is an amount(s) on a Form W-2 (paper or ELF) in box 12, coded "B" for Uncollected Medicare tax on tips, or coded "N" for Uncollected Medicare tax on the taxable cost of group-term life insurance over \$50,000.
  - c. An ELF payer document reflects more MCWGE than the IR, create a MCWGE IR for the difference, (for example, the IR shows MCWGE of \$29,000 and the ELF payer document reflects \$32,000 a MCWGE should be created for \$3,000). Enter status code "R" to allow the system to accurately compute the AdMT.

**Reminder:** Entry in the EIN field is required to calculate AdMT correctly.

- (7) Enter/Verify the following entries on the Additional Medicare Tax window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Additional Medicare Tax window. Ensure the taxpayer's intent is followed when AdMT is computed/recomputed as to rounding, dropping cents, or using dollars and cents. Always verify that the system computes the correct excess AdMT in accordance with the taxpayer's intent.

- MEDICARE WAGES AND TIPS - Form 8959, line 1

**Caution:** If the taxpayer includes amounts from Form W-2, box 12 on Form 8959, line 19, see (6) above.

**Note:** The system populates the MEDICARE WAGES AND TIPS field and can't be changed

- UNREPORTED TIPS FORM 4137 - Form 4137, line 6
- WAGES FROM 8919 - Form 8919, line 6
- ADD'L TAX ON WAGES - Form 8959, line 7
- SELF EMPLOYMENT INCOME – This field is populated by the system and can't be changed
- ADD'L TAX ON SE INCOME – Form 8959, line 13
- RRTA COMPENSATION & TIPS - Form 8959, line 14 plus any amounts from Form W-2, box 14 identified as RRTA
- ADD'L TAX ON SE INCOME – Form 8959, line 13

- (8) Although Additional Medicare Tax is figured separately for each type of income, the threshold amount for self-employment income in Part II is reduced by the total wages in Part I (but not below zero), which results in the total wage and self-employment income being subject to the 0.9 percent AdMT. However, the threshold for railroad retirement compensation is not reduced by other income, which can result in total earnings that are over the threshold but not subject to the 0.9 percent tax.

- (9) If the AdMT window computes a \$1 change (following taxpayer's intent), create a MCWGE IR so the total MCWGE IR amounts match the Medicare Wage amount on Form 8959, line 1.

- (10) PARAGRAPH 172 automatically generates when there is a change to Additional Medicare Tax. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (11) When the change to Additional Medicare Tax is due to an incorrectly completed Form 8959 send PARAGRAPH 143.

4.19.3.16.10  
(02-27-2023)

**Excess Advance  
Premium Tax Credit  
(EAPTC)**

- (1) Health Insurance Marketplaces report advance payments of the Premium Tax Credit (APTC) to the IRS on Form 1095-A, Health Insurance Marketplace Statement.
- (2) Eligible taxpayers can choose to receive the benefit of APTC, which helps to cover the cost of insurance premiums. Taxpayers who receive the benefit of APTC must reconcile the APTC paid on their behalf with the amount of the premium tax credit (PTC) they are allowed. The computation of the PTC and the reconciliation of PTC and APTC are done using Form 8962, Premium Tax Credit (PTC).
- (3) TPs whose PTC exceeds their APTC have a net premium tax credit. Net premium tax credit reduces a TP's tax liability and, if more than the tax liability,

results in a refundable credit. Refer to IRM 4.19.3.17.8, Net Premium Tax Credit (PTC), for additional information.

- (4) Taxpayers whose APTC is more than their PTC have excess APTC (EAPTC). Taxpayers report EAPTC on Schedule 2, line 2 .
- (5) The American Rescue Plan (ARP) ACT of 2021 waived the repayment requirement for TY 2020.
- (6) If the taxpayer has already filed their TY 2020 tax return and had excess APTC, they didn't need to file an amended tax return:
  - The IRS reduced the EAPTC repayment to zero with no further action needed by the taxpayer.
  - The IRS reimbursed the taxpayer for the EAPTC they paid on their TY 2020 return.

**Note:** AUR will **NOT** pursue or refund the amounts.

- (7) When AMS is utilized to compute the Net Premium Tax Credit (PTC) and there is an amount of calculated EAPTC, enter/verify the amounts in the Per Return and AMS Amounts fields of the PTC window in Return Value:

If	Then
The Excess APTC (EATPC) Repay amount is the same in the PER RETURN and AMS AMOUNT field	Continue processing.
The AMS AMOUNT field is greater or less than the PER RETURN (TY 20)	Change the AMS amount to the PER RETURN amount. <b>Note:</b> The amounts should be the same so the system does not calculate a refund, or additional tax.
The AMS AMOUNT field is greater or less than the PER RETURN ( TY 2021 and subsequent)	Include the new EAPTC figure in the AMS AMOUNT field and continue processing.

If	Then
The Excess APTC (EAPTC) Repay amount is zero in the PER RETURN and AMS AMOUNT field	<p>Continue processing.</p> <p><b>Note:</b> The system identified the IRS reimbursed the taxpayer for EAPTC.</p> <p><b>Note:</b> Tax Account Screen will show a TC 290-0 or TC 291 with the Reason Code (RC)152 for the amount reimbursed.</p> <p><b>Caution:</b> Ensure all other tax account changes are reflected in Return Value.</p>

- (8) PARAGRAPH 153 automatically generates when the EAPTC repayment is adjusted due to a change to the modified adjusted gross income. Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) During the response phase, If the taxpayer requests an adjustment to EAPTC, advise the taxpayer the request must be submitted on Form 1040-X. Include a Special Paragraph using following verbiage as an example: Your response included a request for reimbursement of Excess Advanced Premium Tax credit. To claim the credit, you need to file Form 1040-X, Amended U.S. Individual Tax Return. Send the amended return to the processing center for your state. The information is located on [irs.gov/filing/-where-to-file-paper-tax-returns-with-or-without-a-payment](https://irs.gov/filing/-where-to-file-paper-tax-returns-with-or-without-a-payment). If your response included Form 1040-X, we will forward the Form 1040-X to the processing center once the issues on this notice has been resolved.
- (10) If the taxpayer's response includes a Form 1040-X and is requesting an adjustment to EAPTC, work all AUR issues included on Form 1040-X and then forward the Form 1040-X to AM to process the EAPTC. See IRM 4.19.3.22.7.4, Referrals. Include a statement informing AM the AUR issues have been addressed.

4.19.3.16.11  
(10-25-2023)

#### Miscellaneous Other Taxes

- (1) The Total Other Taxes window is used to capture the following additional taxes:
- Lump Sum Distribution Tax from Form 4972.
  - Premature Distribution Taxes (for example, IRAs, MSAs, HSAs). See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans/25 Percent Tax on Early Distributions from SIMPLE IRAs, for premature distribution taxes from Qualified Retirement Plans. See IRM 4.19.3.16.4, 20 Percent Tax on Archer Medical Savings Account (AMSA) and Health Savings Account (HSA) Distributions, for additional taxes from Archer Medical Savings Accounts or Health Savings Accounts.
  - Additional taxes on income received due to participation in a nonqualified deferred compensation plan that does not meet the requirements under IRC 409A. See IRM 4.19.3.16.7, Additional Taxes on Income from Non-qualified Deferred Compensation Plan (IRC Section 409A), for additional information.

- d. Excess Contributions Taxes (Form 5329, Parts III through VIII).
  - e. Household Employment Tax.
  - f. Net Investment Income Tax (NIIT). See IRM 4.19.3.16.8, Net Investment Income Tax (NIIT) for additional information.
  - g. Additional Medicare Tax. See IRM 4.19.3.16.9, Additional Medicare Tax (AdMT) for additional information.
  - h. Other Miscellaneous Taxes.
- (2) **Additional Tax from Lump Sum Distributions (Form 4972)** included on Form 1040/1040-SR, line 16 (TY 2020 and subsequent):
- If the amount of additional tax reported on the return remains the same: Enter/Verify the lump sum tax from Form 4972, Part III in the 4972 TAX field. No other entries are required.  
  
**Note:** When the Lump Sum Tax is to be recomputed, DO NOT make an entry in the PRIMARY and/or SECONDARY LUMP SUM TAX fields (must be blank, not zero). When recomputing the Lump Sum Tax, address all other fields in the Primary and/or Secondary sections, as applicable.
  - Enter the per return amount in the ADDITIONAL TAX RECOMPUTED field.
- (3) Enter the amount in the PRIMARY LUMP SUM TAX and/or SECONDARY LUMP SUM TAX fields as appropriate:
1. Enter the averaging method: 2 for Part II only, 3 for Part III only.
  2. Enter capital gain from Form 4972, Part II or the amount that qualifies from Form(s) 1099-R.
  3. Enter ordinary income from Form 4972, Part III or the amount that qualifies from Form(s) 1099-R.
  4. Enter the death benefit exclusion from Form 4972, Part III. Do not make an entry if the death benefit exclusion has already been deducted from the amount entered in the ORDINARY INCOME field.
  5. Enter the current actuarial value from Form 4972, Part III, line 11.
  6. Enter the Federal Estate Tax from Form 4972, Part III, line 18.
  7. Enter a “Y” in the MULTIPLE RECIPIENT IND field if Form 4972 is for multiple recipients; otherwise leave blank.
  8. Enter the multiple recipient percentage from box(es) 8 and/or 9a of Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., or the percentage indicated from the taxpayer’s response. It must be entered as a decimal amount (e.g., “.10”).
  9. Enter the tax on lump-sum distribution amount(s) from Form 4972, Tax on Lump-Sum Distributions.
- (4) After computing the Lump Sum Tax window: enter/verify the amount in the ADDITIONAL TAX PER RETURN field of the Total Other Tax window.
- (5) Delete the amount in the ADDITIONAL TAX RECOMPUTED field (Do not enter zero (0); leave field blank). When the Total Other Tax is computed, the NEW recomputed additional tax displays in the ADDITIONAL TAX RECOMPUTED field.
- (6) **Excess Contributions/Accumulation Tax (Form 5329, Parts III - IX)** - Enter/Verify the sum of Form 5329, Part III, line 17; Part IV, line 25; Part V, line 33;

Part VI, line 41; Part VII, line 49, Part VIII, line 51, Part IX, line 55, included on Schedule 2, line 6 (TY 2020), Schedule 2, line 8 (TY 2021 and subsequent)

**Note:** These additional taxes on excess contributions are posted to the MFT 29 account and correspond to the TC 896 with the literal "OFF to IRA" shown on the Tax Account screen. During case analysis phase, ensure that the PER RETURN and RECOMPUTED fields reflect the same amount. See (6) below if a change to the RECOMPUTED field is needed.

- (7) Enter/Verify the amount of the tax listed in the table below reported on Form 1040,

Other Tax	TY 2020	TY 2021 and subsequent
Household Employment Tax (Schedule H)	Schedule 2, line 7a	Schedule 2, line 9
First Time Home Buyer Credit Repayment (Form 5405)	Schedule 2, line 7b	Schedule 2, line 10

- (8) **Other Miscellaneous Taxes** - Use these fields to capture any additional taxes included in the Form 1040/1040-SR, the dotted portion of the line, not already accounted for with its own field in the Total Other Taxes window. Examples of additional taxes not accounted for with its own field include:

TY 2020	TY 2021 and subsequent
Schedule 2, line 8	Schedule 2, lines 11 and 12

- a. Additional tax from Qualified Tuition Plans and/or Coverdell ESAs.
- b. Additional tax on Medicare Advantage MSA distributions.
- c. Recapture of certain credits.
- d. Recapture of federal mortgage subsidy.
- e. Section 72(m)(5) excess benefits tax.
- f. Uncollected Social Security and Medicare or RRT tax on tips (UT) or group-term life insurance.

**Note:** This tax may impact the determination of excess SSTAX. See IRM 4.19.3.17.2, Social Security Tax/Tier I Railroad Retirement Tax, for further information.

- g. Golden Parachute Payments.
- h. Tax on accumulation distribution of trusts.
- i. Excise tax on insider stock compensation from an expatriated corporation.
- j. Additional Tax from Form 8889, Health Savings Account, Part III.

- (9) Enter/Verify the PER RETURN and RECOMPUTED amounts in the appropriate fields. It may be necessary to enter an amount in the RECOMPUTED field that differs from the PER RETURN amount. This may be due to:

- An original processing error,
- A taxpayer error that is discovered during Analysis, and/or
- The taxpayer provides information during response phase that changes the tax.

**Caution:** Changes were made in the Total Other Taxes window to add PER RETURN fields for SIMPLE, ARCHER MSA, HSA, 5 percent, and NQDC. The AUR system is unable to determine what type of miscellaneous tax was reported, in order to correctly display amounts in the appropriate PER RETURN and/or RECOMPUTED fields for SIMPLE, ARCHER MSA, HSA, 5 percent, and/or NQDC. If an amount was reported for any of these taxes, delete that amount from the OTHER MISCELLANEOUS TAXES field and move it to the appropriate PER RETURN and/or RECOMPUTED field(s).

- (10) If the system computes a negative amount for Total Other Taxes, an error message displays: "Computation resulted in a negative amount for Total Other Taxes. Return to Case Analysis and rework the case." Take the following action to correct the case:
1. Verify the amounts in the Total Other Taxes window.
  2. Verify the IR(s) that are subject to the tax on early distributions have been correctly screened.
  3. See IRM 4.19.3.16.3, 10 Percent Tax on Early Distributions from Qualified Retirement Plans or 25 Percent Tax on Early Distributions from SIMPLE IRAs, and/or IRM 4.19.3.8.28.1, HSA, AMSA and MAMSA Distributions - Analysis, for further instructions.

4.19.3.17  
(09-21-2020)

#### Changes to Payments

- (1) Payments are refundable credits that are applied against the tax liability and are reported by the taxpayer on Forms and line numbers below:

Form	TY 2020	TY 2021 and subsequent
1040/1040-SR	Schedule 3, lines 8 - 12f	Schedule 3, lines 9-13z

- (2) Payments which may require adjusting in AUR processing are:

- a. **Federal Income Tax withheld** - commonly referred to as Withholding (W/H). This amount is withheld from a taxpayer's wages, pensions and annuities, gambling winnings, etc., and is deposited with IRS by the payer to ensure payment of the taxpayer's income tax liability.
- b. **Excess Social Security Tax or Tier 1 Railroad Retirement Tax withheld (SSTAX)** - These taxes are withheld from a taxpayer's wages and are deposited directly by the employer. The taxpayer may, if certain conditions are met, claim a credit for amounts withheld in excess of the amounts listed in the table below.

TY 2020	TY 2021	TY 2022
\$8,537.40	\$8,853.60	\$9,114

- c. **Additional Medicare Tax withheld (Form 8959)** - This amount may be claimed if the employer withheld too much Medicare Tax.



- d. **Earned income credit (EIC)** - there are specific conditions that must be met to qualify. Depending on the number of children and if specified conditions are met, the taxpayer may claim up to a maximum of the amounts listed in the table below.

Number of children	TY 2020	TY 2021	TY 2022
3 or more	\$6,660	\$6,728	\$6,935
2	\$5,920	\$5,980	\$6,164
1	\$3,584	\$3,618	\$3,733
0	\$538	\$1,502	\$560

- e. **Additional Child Tax Credit (Schedule 8812)** - the taxpayer may be able to claim this credit if they have qualifying children and certain conditions are met.
- f. **American Opportunity Credit (Form 8863)** - the credit is claimed when the taxpayer has qualified education expenses.

4.19.3.17.1  
(09-24-2021)

#### Withholding - General

- (1) Withholding may be reported by payers on Form W-2 and Form 1099 series and appear on these IRs with the literal "W/H" in the INCOME TYPE field.

- (2) W/H appears as TC 806 on the Tax Account screen.

**Caution:** Changes to W/H can also post as TC 807, TC 802 and as TC 290 with RC 051. If the change to W/H posts as TC 290 with RC 051 send a Special Paragraph using the following verbiage as an example "The other taxes as shown on this notice include the previous change made to your federal income tax withheld."

- (3) W/H payments are claimed on Form 1040/1040-SR, line 25d.

**Caution:** Additional Medicare Tax as computed on Form 8959 may be included with the W/H amount on Form 1040/1040-SR.

- (4) 99INT, 99DIV, 1099MISC, 1099NEC or 1099B IRs may reflect W/H. If there is an indication that the amount is jointly owned with someone other than the taxpayer's spouse or the filing status is "3":

2. **Send PARAGRAPH 6**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

- (5) When payer documents are attached (for example, Form W-2, Form 1099-MISC) to a paper return, consider them more accurate than the IR UNLESS:

**Note:** Use the IR as the most accurate information even if the case does not meet referral criteria or if the referral is returned.

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- b. An amended indicator is displayed in the AMD IND field on the Case Analysis screen. Consider an amended IR the most accurate information.

- (6) For ELF returns, the income amounts on ELF payer documents displayed in

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- (7) When there is a system identified W/H discrepancy, math verify W/H from all Form W-2 and Form 1099 documents attached to the return, making sure that each information document is used only once.

**Caution:** Be alert for erroneous refunds. See IRM 4.19.3.5.13.1.3, Recovering Erroneous Refunds - Category B, for additional information.

- (8) If the total W/H discrepancy is less than \$1, drop the W/H issue. This instruc-

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whether they have rounded, dropped cents, or used dollars and cents.

4.19.3.17.1.1  
(10-25-2023)

**Withholding - Analysis**

- a. Another IR from the same payer is present showing income, or
- b. The W/H amount in question is shown on an information document attached to the return.

- (2) Do not allow any W/H changes that result from the taxpayer not claiming W/H from a Conduit (SBK-1, TRK-1 or PTK-1) IRs. See IRM 4.19.3.8.12.1, Conduit Income - Analysis, for further information. If, after accessing the Withholding

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- 1. Ungroup the W/H.
- 3. Access the Withholding window.

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- (4) Schedules K-1 may contain BWH. If the taxpayer attaches a Form 1041 - Schedule K-1 showing BWH identified on line 13 with a code "B" or a Form 1065 - Schedule K-1 and an amount on line 15 with a code "O" **OR** a Form 1120S - Schedule K-1 and an amount on line 13 with code "O" consider the Schedule K-1 as documentation to support the additional W/H amount claimed on the return.

- (5) If the taxpayer attaches Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, *Form 8288-A*, Statement of Withholding on Dispositions by Foreign Persons of US Real Property Interests, and/or Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, ensure that the system accounts for any federal income tax withheld from these sources, when determining any overall changes to W/H.
- (6) 1042S IRs are systemically marked with status code "X". If, after going through the W/H window, any O/C W/H matches the W/H element(s) from Form 1042-S (within tolerance) remove the status code "X" from the corresponding W/H element(s) and re-access the W/H window.

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- (9) When the taxpayer is claiming additional W/H and/or excess FICA and attaching a Stock Option Transaction statement to support the additional amount(s) claimed, take the following action:
  - a. The W/H and/or FICA shown on these documents are already included in the Form W-2 and cannot be claimed again.
  - b. **DO NOT** accept any Stock Option Transaction Statements as documentation to account for the W/H and/or excess FICA discrepancy.
  - c. When disallowing the additional amounts claimed, **send PARAGRAPH 221**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

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4.19.3.5.8.1, Identifying and Developing Fraud in AUR, for additional information.

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- (12) If the W/H amounts exceeds 50 percent of the income shown on the same IR or the related income on another IR or other payer document for which there is no IR (paper or ELF), complete the Form 13549, Campus Fraud Lead Sheet, to be forwarded to the Campus Fraud Coordinator (CFC) to determine the validity of the payer information.
- (13) If there are no IRs with W/H, wages are U/R, and there is a TC 806/807 present on the Tax Account screen, the Withholding window must be completed. Create an IR for zero (0) to access the Withholding window.
- (14) Ensure that the taxpayer's intent is followed when W/H is computed as to rounding, dropped cents, used dollars and cents. Always verify that the system has computed the correct W/H in accordance with the taxpayer's intent.

**Example:** The system shows U/C W/H amount as \$997, due to rounding, and the IR amount is \$1,000. Add the \$1,000 to the W/H per return and enter the sum in the VERIFIED WITHHOLDING field.

- (15) The net change to W/H is computed by the system and is displayed in the W/H SST ADJ field on the Case Analysis screen:

**Note:** The Withholding window must be accessed when an IR with U/R income reflects W/H or the conditions in (4) through (6) above exist.

1. Access the WITHHOLDING window using one of the methods in the table in (2) above. The WITHHOLDING window displays with the cursor in the EXCESS SST/RRT field.
2. Enter/verify the amount of excess Social Security Tax/Railroad Retirement Tax (SST/RRT) claimed by the taxpayer in the EXCESS SST/RRT field.
3. Enter/verify the amount of Medicare tax withheld claimed by the taxpayer in the MEDICARE TAX WITHHELD field and press **<Enter>**. The cursor moves to the W/H VERIFIED INDICATOR field.
4. Enter a **"Y"** in the W/H VERIFIED INDICATOR field to override a system computed change to W/H and allow an entry in the VERIFIED WITHHOLDING field. This field is used when the verified W/H amount differs from the W/H per return amount (i.e., additional W-2s, rounding, etc.). If the W/H per return is correct, leave these fields blank.

**Note:** When there is a change to the additional Medicare tax withheld, see IRM 4.19.7.10.11.21, Additional Medicare Tax Withheld, for additional information.

5. Enter/verify the correct amount of allowable W/H.
6. Press **<F12>** to commit and exit the window.

- (16) If the system does not compute W/H correctly:

**Caution:** If O/C W/H was adjusted using a TC 290 RC 051, the system cannot calculate the W/H change correctly.

1. Enter a **"Y"** in the W/H VERIFIED INDICATOR field.
2. Enter the total amount of W/H to allow in the VERIFIED WITHHOLDING field.

**Note:** If there should be no change to W/H, the WITHHOLDING PER RETURN and VERIFIED WITHHOLDING fields must be the same. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Withholding.

- (17) If W/H per return differs from W/H on the Tax Account screen and there are equal numbers of IRs on the Case Analysis screen and information documents attached to the return, and the payers and the income type are the same, use the W/H window to determine the change. Reasons contributing to this condition are:

- a. A math error, transposition of figures, illegible information document(s), displaced decimal point, and/or transcription error, etc.

- b. The taxpayer may have claimed an amount from the Social Security Tax Withheld box of the information documents instead of the Federal Income Tax Withheld box on Form W-2.
- c. The taxpayer may have claimed an amount from the Form 8959, line 24.
- d. The payer(s) may have been identified as having submitted erroneous information and are included in Payer Agent data.
- e. The taxpayer may have received a corrected information document that is not identified as amended on the Case Analysis screen.

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there are instances when information documents attached to the return do not appear as IRs on the Case Analysis screen.

- a. If income and/or W/H shown on the information documents attached to the return is not reported, pursue the issue(s).
  - b. **Send PARAGRAPH 139**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- (19) Do not adjust W/H when the taxpayer claims it correctly, but indicates on the return that the income is not reported because it was not received until the subsequent year. W/H is deductible when reported to IRS by the payer, while income is taxable when received by the taxpayer.

4.19.3.17.1.2  
(12-13-2021)  
**Withholding -  
Miscellaneous**

- (1) If the system computes a tax change above tolerance and W/H is an issue, a notice **MUST BE** issued.
- (2) If W/H is the only issue **and** the W/H change is **confirmed** and **appropriate**, an adjustment should be made without issuing a notice. W/H changes due to the following conditions are considered **confirmed** and **appropriate**:

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further instructions.

**Note:** If the IR contains unemployment compensation, see IRM 4.19.3.8.16.1, Unemployment Compensation - Analysis for additional information.

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- a. Paper Form(s) W-2, and/or 1099, attached to the tax return, verify the correct W/H amounts.
- c. Based on attached documents, the taxpayer claimed an amount from the wrong box.
- d. Based on attached statements, the taxpayer **clearly** made a math error in determining the total amount of allowable W/H.

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- e. There is U/C W/H on an SSA IR and the taxpayer correctly reported the gross benefits amount on Form 1040/1040-SR, line 6a.
- f. Overclaimed W/H is due to the TC 806 amount equaling the amount of Estimated Payments (TC 660) shown on the Tax Account screen and the taxpayer reported the ES payment amount on the line designated for W/H.

**Note:** If the discrepancy is due to IRS Data Transcription error, see IRM 4.19.3.5.13, Erroneous Refunds, for further information.

- g. W/H was disallowed during Original Processing because Form(s) W-2 and/or 1099 were not attached to the return **AND** the W/H on the IRs,

lowed.

- (3) If the change to W/H is not **confirmed** and **appropriate**, as a general rule, issue:

- a. A CP 2501 (PC 30) for cases with questionable U/C W/H **and** an overall refund.
- b. A CP 2000 (PC 55) for any other situation.

- (4) In order to adjust **confirmed** and **appropriate** changes to W/H, without issuing a notice (PC 20) take the following actions:

- 3. Complete and commit the Return Value screen. The system will prompt the user that a PC 20 may be used to close the case.
- 4. Enter the appropriate entries on the Assessment window (steps 5-13). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Assessments - Case Analysis/Responses.

**Note:** Penalties (for example, Failure to File (FTF), Failure to Pay (FTP) based on adjustments to withholding are not subject to deficiency procedures because the adjustments themselves are not included on the Statutory Notice.

- 5. Blocking Series 5X.
- 6. Leave the IRS RECD DATE field blank.

**Note:** Do not enter a CREDIT INTEREST DATE on W/H adjustments with a TC 290-.00 (zero). Delete if present.

- 7. TC 290-.00.
- 8. Source Code "2".
- 9. Reason Code "051" for W/H.
- 10. Priority Code "3" must be entered when making refund adjustments.
- 11. Reference Code 806 (amount) for U/C W/H or Reference Code 807 (amount) for O/C W/H.
- 12. Source document attached - "Y" or "N", as appropriate. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.
- 13. Enter three characters or more in the REMARKS field.
- 14. Commit the Assessment window after all fields are verified as correct.

15. After committing and exiting the Assessment window, issue a Letter 2893-C (using dollars only) including appropriate paragraphs to inform the taxpayer of the adjustment.
16. Close the case using PC 20.

**Reminder:** If a subsequent review of the case determines that a notice should be issued (for example, the PC 20 action was incorrect), the user **MUST** manually delete the Letter 2893-C.

- (5) If the taxpayer partially reports income and/or W/H, based on attached payer documents, **send PARAGRAPH 139**. However, if the IR is fully U/R for both income and W/H, PARAGRAPH 139 is not needed. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (6) When it appears the taxpayer claimed a W/H amount from the wrong box on Form W-2, **send PARAGRAPH 106**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (7) PARAGRAPH 43 automatically generates when the net result of changes to W/H, excess SSTAX, MCTXW, EIC and Additional Child Tax Credit is a NEGATIVE amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (8) PARAGRAPH 28 automatically generates when allowing additional U/C W/H. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) PARAGRAPH 27 automatically generates when disallowing O/C W/H. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) If W/H from Social Security benefits is an issue and there is an indication that the taxpayer is a resident alien, see IRM 4.19.3.8.33, Resident/Non-Resident Aliens (R/NR)/(Dual Status), for additional instructions.

#### 4.19.3.17.1.3

(02-11-2014)

#### Withholding and ITIN Filers

- (1) A taxpayer not eligible for an SSN must use an individual taxpayer identification number (ITIN) when filing their return. The taxpayer provides an SSN to the employer in order to obtain employment. Thus, the employer withholds income tax on the taxpayer's wages under the SSN the taxpayer provided, and any Form W-2 (and possibly Form 1099) filed with the IRS will contain the SSN.

**Note:** These cases should **NOT** be sent to either the IDTVA (the SSN should have been updated with a TC 971 AC 525 during processing) or Fraud, as the Internal Revenue Code recognizes these as legal tax returns.

- a. When the taxpayer files their return and claims credit for income tax withheld, the taxpayer will need to demonstrate they truly earned wages for which the W/H is being claimed before the IRS can allow the credit, see (2) below for what documentation to accept.
- b. When the name on the return doesn't match the name on the W-2, allow the W-2 if the wages can be verified. If the wages cannot be verified, continue normal processing.
- c. When the W-2 or other information return does not contain an SSN; such as all zero's or "applied for" is reflected, allow the W/H if the name on the return matches the name on the Form W-2 and the wage income is reported.
- d. When the taxpayer used an SSN that is invalid and the W/H for the taxpayer has been reported under the invalid SSN, research IDRS CC



IRPTR, both validation codes 1 and 2, and IDRS CC IRPTRI (use TIN type 4 and Doc code 21) to determine if the wages and W/H are reported. If you are able to verify the wages and W/H have been reported, allow the W/H. If the wages and W/H cannot be verified, continue normal processing.

**Note:** IDRS CC IRPTRI allows you to query a case by payer TIN (EIN) and displays all the information returns the payer filed. Currently IRPTRI displays Form W-2, Form 1099-R and Form 1099-MISC.

- (2) The taxpayer can document the W/H by providing the following:
  - Form W-2, Wage and Tax Statement, or
  - Form W-2 G, Certain Gambling Winnings, or
  - Form 1099-R, Distribution from Pensions, Annuities, Retirement, or Profit Sharing Plans, IRAs, Insurance Contracts, etc, or
  - Similar documentation (such as, year ending pay stub).
- (3) If the W/H amount appears to be altered, see IRM 4.19.3.5.8.1, Identifying and Developing Fraud in AUR.
- (4) Examine all documents and related information before making adjustments or answering inquiries.
- (5) If allowing the W/H on the ITIN holders return, prepare **Form 9409**, IRS/SSA Wage Worksheet, (for the SSN) to remove the information from the true SSN owners account. See IRM 4.19.3.22.7.4, Referrals to prepare a Form 9409.

4.19.3.17.1.4  
(09-21-2020)  
**Additional Medicare Tax  
(Withholding  
Reconciliation)**

- (1) The Affordable Care Act requires employers to withhold an Additional Medicare Tax of 0.9 percent in the pay period in which an employees wages or compensation for the year exceeded \$250,000 for married filing joint, \$125,000 for married filing separate or \$200,000 in any other filing. The Additional Medicare Tax applies to wages, compensation, and self-employment income above a threshold amount.
- (2) Medicare Tax is reported by payers on Form W-2 and appears with the literal "MCTXW" in the INCOME TYPE field on the IR. Income Identify Code "MT" displays on the Case Analysis screen for Medicare Tax amounts.
- (3) If the employer withheld too much Medicare Tax, the taxpayer may claim the overpayment by completing Form 8959, Part V, and including the amount with the W/H amount on Form 1040/1040-SR, line 25c.
- (4) Additional Medicare Tax withheld needs to be computed when MCTXW is a discrepant item. The net change to excess MCTXW is computed by the system and is displayed in the W/H SST ADJ field of the Case Analysis screen.

**Caution:** Do not use status code "N" or "D" in the SSWAG, MCWGE or SSTIP literal when screening valid Wage IRs. Use of status code "N" or "D" may result in an incorrect Additional Medicare Tax withheld calculation.

- (5) Create an IR(s) for all elements (income types and EIN field) when there is MCTXW on an attached Form W-2 (paper or ELF) but there is no IR present.

- a. Entry in the EIN field is required to calculate the Additional Medicare Tax Withheld window correctly.
- b. If the taxpayer includes an ELF payer document for which there is no IR,

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(6) Enter a status code of "U" on the MCTXW element. The Additional Medicare Tax Withheld window displays.

(7) Enter/Verify the following entries in the Additional Medicare Tax Withheld window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Additional Medicare Tax Withheld window.

- MEDICARE TAX WITHHELD WAGES - Form 8959, line 19
- ADD'L MEDICARE TAX WITHHELD RRTA - Form 8959, line 23
- ADD'L MEDICARE TAX WITHHELD PER RETURN - Form 8959, line 24
- VERIFIED ADD'L MEDICARE TAX WITHHOLDING

**Note:** VERIFIED ADD'L MEDICARE TAX WITHHOLDING field can only be accessed if the VERIFIED INDICATOR is set to "Y".

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(9) Ensure that the taxpayer's intent is followed when Additional Medicare Tax withheld is computed/recomputed as to rounding, dropping cents, or using dollars and cents. Always verify that the system computes the correct Additional Medicare Tax withheld in accordance with the taxpayer's intent.

(10) If the system is not computing Additional Medicare Tax withheld and a change needs to be allowed, do the following:

- a. Enter a "Y" in the VERIFIED INDICATOR field of the Additional Medicare Tax Withheld window.
- b. Enter the total amount of Additional Medicare Tax withheld to allow in the VERIFIED MEDICARE TAX WITHHOLDING field.

(11) If the system computes an excess change when no change should be made, enter a "Y" in the VERIFIED INDICATOR field and verify that the MEDICARE TAX WITHHELD PER RETURN field and VERIFIED MEDICARE TAX WITHHOLDING fields are the same.

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(13) If an Additional Medicare Tax withheld increase/decrease is the only issue

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be completed before accessing the Assessment window for the system to allow input of PC 20. For additional instructions on inputting PC 20, see (15) below.

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(14) When Additional Medicare Tax withheld is the only issue and the taxpayer files

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information. Take the following action:

- a. **O/C Additional Medicare Tax withheld:** Follow the procedures for paper in (13) above, if it can be clearly determined the taxpayer O/C Additional Medicare Tax withheld. If not, issue a CP 2000.
- b. **U/C Additional Medicare Tax withheld:** Issue a CP 2501. Include a Special Paragraph using the following verbiage as an example: "Please provide us with copies of Form(s) W-2 to support the amount of Additional Medicare Tax withheld."

- (15) In order to adjust MCTXW without issuing a notice (PC 20) take the following actions:

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3. Complete and commit the Return Value screen. The system will prompt the user that a PC 20 may be used to close the case.
4. Enter the appropriate entries on the Assessment window (steps 5-13). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Assessments - Case Analysis/Responses.

**Note:** Any adjustments to penalties (for example, Failure to File (FTF), Failure to Pay (FTP) would not be subject to deficiency procedures since adjustments to MCTXW are not included on the Statutory Notice.

5. Blocking Series 5X.
6. Leave the IRS RECD DATE field blank.

**Note:** Do not enter a CREDIT INTEREST DATE on MCTXW adjustments with a TC 290-.00 (zero). Delete if present.

7. TC 290-.00.
8. Source Code "2".
9. Reason Code "136" for Additional Medicare Tax from Form 8959.
10. Priority Code "3" must be entered when making refund adjustments.
11. Reference Code 806 (amount) for U/C MCTXW or Reference Code 807 (amount) for O/C MCTXW.
12. Source document attached - "Y" or "N", as appropriate. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.
13. Enter three characters or more in the REMARKS field.
14. Commit the Assessment window after all fields are verified as correct.
15. After committing and exiting the Assessment window, issue a Letter 2893-C (using dollars only) including appropriate paragraphs to inform the taxpayer of the adjustment.
16. Close the case using PC 20.

**Reminder:** If a subsequent review of the case determines that a notice should be issued (for example, the PC 20 action was incorrect), the user **MUST** manually delete the Letter 2893-C.

- (16) When there is a change to Additional Medicare Tax withheld and a notice is issued, PARAGRAPH 27 automatically generates. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.17.2  
(10-25-2023)

**Social Security Tax/Tier 1 Railroad Retirement Tax**

- (1) Social Security Tax/Tier 1 Railroad Retirement Tax are reported by payers on Form W-2 and is identified on the Case Analysis screen by the literal "W-2" in the DOC TYPE field and appear on the W-2 IR with the literal "SSTAX" in the INCOME TYPE field. Income Identify Code "FT" displays on the Case Analysis screen for SSTAX amounts. If it is determined that the amount is for (Tier 2) railroad retirement tax, change the Income Identify Code to "RT".

**Note:** Excess Tier 2 Railroad Retirement tax cannot be claimed as a credit on the return. The taxpayer must use Form 843, Claim For Refund and Request for Abatement.

- (2) Excess SSTAX amounts appear as TC 766 with CRN 252 on the Tax Account screen.
- (3) Taxpayers claim excess SSTAX withheld on Form 1040,

TY 2020	TY 2021 and subsequent
Schedule 3, line 10	Schedule 3, line 11

- (4) Excess SSTAX may be claimed as a prepayment credit if ALL of the following conditions are met (joint filers must be considered separately).

- a. The taxpayer worked for two or more employers.
- b. The taxpayer received Social Security wages or Railroad wages of the amount listed in the table below or more (the maximum wage base for both social security and RRT). If the SSWAG is less than the maximum social security wage base amount, the system displays the following message: "An Employer may have withheld social security tax at an incorrect rate. Do not refund excess SST to the taxpayer".

TY 2020	TY 2021	TY 2022
\$137,700	\$142,800	\$147,000

- c. The taxpayer has SST and/or RRT Tier 1 withholding plus any uncollected SSTAX on Tips or Group-Term Life insurance in excess of the amounts listed in the table below.

TY 2020	TY 2021	TY 2022
\$8,537	\$8,854	\$9,114

**Note:** The taxpayer must include any Uncollected SSTAX on Tips (Form W-2, box 12 Code A) or Uncollected SSTAX on Group-Term Insurance (Form W-2, box 12 Code "M") in the total tax on Form 1040/1040-SR, (identified on the dotted line portion with "UT", Schedule 2, line 8c(TY 2020) Schedule 2, line 13 (TY 2021 and subsequent) before this amount can be considered in determining any excess SSTAX. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Excess Social Security Tax and Railroad Retirement Tax (SSTAX), for further information.

**Note:** Any SSTAX withheld in excess of the above amounts from the same employer does not qualify as excess SSTAX. However, if there is an indication that the employer used "Reporting Agent", see (13) below for further instructions.

- (5) SSTAX needs to be computed if the conditions in (3) above are present or if SSTAX is a discrepant item. The net change to excess SSTAX is computed by the system and is displayed in the W/H SST ADJ field of the Case Analysis screen.

**Caution:** Do not use status code "N" or "D" in the SSWAG, MCWGE or SSTIP literal when screening valid WAGES IRs. Use of status code "N" or "D" may result in an incorrect excess SSTAX calculation.

- (6) Create an IR(s) for all elements (income types and EIN field) when there is SSTAX on an attached Form W-2 (paper or ELF) but there is no IR present.

- (7) Enter/Verify the appropriate entries on the Excess SST window as follows:

1. Enter/Verify Excess SST/RRT amount from Schedule 3 line 11 in the EXCESS SST/RRT FIELD.
2. Enter a "Y" in the VERIFIED INDICATOR field to override a system computed change to the excess SST/RRT amount if a change needs to be allowed.
3. Enter/verify the uncollected tax included on Schedule 2, line 13 and identified on Form W-2(s) in the PRIMARY/SECONDARY TIER 1/SS TIP TAX field(s).
4. Enter/Verify the amounts in the VERIFIED EXCESS SST/RRT field when the override indicator was used.

**Caution:** If the taxpayer claimed **UT** tax on the dotted portion for Form 1040, see table below for line number, ensure **ONLY** the Form W-2, box 12 Code(s) A and M are included in the PRIMARY TIER 1/SS TIP TAX and/or SECONDARY TIER 1/SS TIP TAX fields of the Excess SST window.

TY 2020	TY 2021 and subsequent
Schedule 2, line 8c	Schedule 2, line 13

- (8) Ensure that the taxpayer's intent is followed when excess SSTAX is computed/recomputed as to rounding, dropping cents, or using dollars and cents. Always verify that the system computes the correct excess SSTAX in accordance with the taxpayer's intent.
- (9) If excess SSTAX is an issue and a Form W-2 is attached to the return from a Railroad, create an IR for the Tier 1 RRT (use Income Identify Code "FT") amount in box 14, Form W-2, so the system can correctly compute the excess amount.
- (10) If the system is not computing an excess SSTAX and a change needs to be allowed, do the following:
- a. Enter a "Y" in the EXCESS SST/RRT VERIFIED INDICATOR field.

- b. Enter the total amount of excess SSTAX to allow in the VERIFIED EXCESS field.
- (11) If the system computes an excess change when no change should be made, enter a "Y" in the EXCESS SST/RRT VERIFIED field and verify that the EXCESS SST/RRT field and VERIFIED EXCESS SST/RRT fields are the same.
- (12) If the taxpayer is claiming additional excess SSTAX and attaching a Stock Option Transaction statement to support the additional amount(s) claimed, disallow the deduction. See IRM 4.19.3.17.1.1, Withholding - Analysis, for further instructions.
- (13) When it appears that a Parent Company and one or more of its subsidiaries
  - a. Two or more WAGES IRs with similar payer names AND different TINs OR
  - b. An indication that the payer utilized different/multiple payroll/reporting agents. This information is often included along with the payer name on the Form W-2. The payer name and TIN could be identical.

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when determining if an adjustment is necessary. A Parent Company or a subsidiary can generally be identified by:

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the EXCESS SST window so that the taxpayer's intent is followed.

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the SSTAX change is **confirmed** and **appropriate**, an adjustment should be made without issuing a notice. See (17) below for additional instructions for entering PC 20. SSTAX changes due to the following conditions are considered **confirmed** and **appropriate**:

**Note:** Be aware of tax preparation software problems that may lead to reporting inconsistencies on ELF returns. For example, ELF Form W-2, box 12 shows Code "A" amount, but the occupation is not TIPS related or the ELF Form W-2, box 12 Code "A" or "M" amount matches another item (such as deferred compensation).

- a. The taxpayer did not claim excess SSTAX AND meets the eligibility requirements in (4) above AND paper Forms W-2 attached to the return
  - an excess SSTAX amount.
- b. The taxpayer claimed excess SSTAX and meets the eligibility requirements in (4) above however, Forms W-2 attached to the return do not verify the excess SSTAX amount claimed.
- c. The taxpayer claimed excess SSTAX but does not meet the eligibility requirements in (4) above.

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**Reminder:** When it appears a Parent Company and one or more of its subsidiaries are responsible for the excess amount of SSTAX, is necessary; see (13) above.

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- (16) If the change to SSTAX does not meet one of the conditions above, as a general rule, issue:
- a. A CP 2501 (PC 30) for cases with questionable U/C excess SSTAX and an overall refund.
  - b. A CP 2000 (PC 55) for any other situation. Include a Special Paragraph on the notice using the following verbiage as an example: "Our records indicate the credit for excess social security tax/railroad retirement tax claimed on your return is not substantiated by information on your Forms W-2, Wage and Tax Statement. Please send us a copy of your Forms W-2, to verify the credit claimed on your tax."
- (17) In order to adjust excess SSTAX without issuing a notice (PC 20) take the following actions:

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- 3. Complete and commit the Return Value screen.
- 4. Enter the appropriate entries on the Assessment window (steps 5-13). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Assessments - Case Analysis/Responses.  
**Note:** Any adjustments to penalties (for example, Failure to File (FTF), Failure to Pay (FTP) would not be subject to deficiency procedures since adjustments to SSTAX are not included on the Statutory Notice.
- 5. Blocking Series 5X.
- 6. Leave the IRS RECD DATE field blank.  
**Note:** Do not enter a CREDIT INTEREST DATE on SSTAX adjustments with a TC 290-.00 (zero). Delete if present.
- 7. TC 290-.00.
- 8. Source Code "2".
- 9. Reason Code "055" for excess SSTAX.
- 10. Priority Code "3" must be entered when making refund adjustments.
- 11. CRN 252 as a positive money amount for U/C excess SSTAX or a negative money amount for O/C SSTAX.
- 12. Source document attached "Y". If it is an ELF return and the only issue is excess SSTAX enter "N".
- 13. Enter three characters or more in the REMARKS field.
- 14. Commit the Assessment window after all fields are verified as correct.
- 15. After committing and exiting the Assessment window, issue a Letter 2893-C (using dollars only) including appropriate paragraphs to inform the taxpayer of the adjustment.



16. Close the case using PC 20.

**Reminder:** If a subsequent review of the case determines that a notice should be issued (for example, the PC 20 action was incorrect), the user **MUST** manually delete the Letter 2893-C.

(18) When there is a change to excess SSTAX and a notice is issued:

- a. PARAGRAPH 151 automatically generates. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- b. If disallowing excess SSTAX withheld from a single employer, **send PARAGRAPH 137**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

(19) PARAGRAPH 43 automatically generates when the net result of changes to W/H, excess SSTAX, EIC and Additional Child Tax Credit is a NEGATIVE amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.17.3  
(02-27-2023)  
**Earned Income Credit  
(EIC)**

- (1) EIC enables certain eligible taxpayers to offset tax liability or to get a refund even if no tax was withheld from their pay.
- (2) Previously allowed EIC appears on the Tax Account screen as TC 764 or TC 768.

**Note:** If the credit was partially or fully reversed, the reversed amount appears with TC 765.

(3) Exam has a Revenue Protection Strategy to validate EIC on returns where the eligibility issue is questioned. When the EIC recertification indicator (EIC-RECERT-CD) field on the Tax Account screen is 2, 3, or 4 and EIC was disallowed during processing, the warning message "EIC credit problem" appears in the MESSAGE window. When EIC-RECERT-CD field shows an entry and:

- a. The taxpayer either did not claim EIC (no TC 768 is present) or the EIC was disallowed (TC 768 reversed by TC 765) enter a "Y" in the TP NOT QUALIFIED field of the EIC window to prevent the system from allowing any EIC.

**Note:** If the EIC-RECERT-CD field is 2, 3, or 4 and the TC 768 was fully reversed with a TC 765, the system displays the following error message: "EIC disallowed - enter "Y" in the TP NOT QUALIFIED field."

- b. The taxpayer claimed EIC (TC 768) that was fully allowed, follow system prompts to make any changes to EIC, based on U/R income. Ensure that the TP NOT QUALIFIED field is blank. DO NOT correspond for the missing Form 8862, Information To Claim Certain Credits After Disallowance.

(4) When the EIC recertification indicator (EIC-RECERT-CD) is 2, 3 or 4 and the tax year shown in the EIC-RECERT-ELIGIBLE-TAX-PRD is subsequent to the tax year of the AUR case, the warning message "WARNING: EIC/CTC/ACTC/AOTC BAN" appears in the MESSAGE window. The AUR system will not allow an EIC calculation in these situations.

(5) The Disaster Tax Relief and Airport and Airway Extension Act of 2017, as amended by the Bipartisan Budget Act of 2018, and Taxpayer Certainty and

Disaster Relief Act of 2019, added a special rule for certain taxpayers impacted by certain federally declared disasters. Qualified taxpayers whose current year earned income was less than their prior year earned income could elect to use their prior year earned income when figuring EIC. Taxpayers are instructed to enter "PYEI" (Prior Year Earned Income) and the amount of their prior year earned income on the dotted line for EIC. When recomputing EIC, enter the PYEI amount in the PRIOR YEAR EARNED INCOME field in the EARNED INCOME CREDIT window in Return Value.

**Note:** Taxpayers can elect to use TY 2019 earned income to figure the TY 2021 earned income credit if the amount is more than the TY 2021 earned income.

- (6) If the taxpayer elects to use their "PYEI" and are no longer eligible due to UR income, send a SPECIAL PARAGRAPH with the suggested verbiage: "Based on the proposed changes, your tax year 2021 Earned Income is now more than your tax year 2019 Earned Income. We used your tax year 2021 Earned Income to recalculate the Earned Income Credit (EIC) amount in the "Changes to your tax return" section of this notice".
- (7) The system computes the Schedule EIC based on the assigned Income Identify Code and certain income types.
- (8) Verify that the correct Income Identify Code is in the INC CD field for all income types that qualify as earned income. See Exhibit 4.19.3-9, Income Identify Codes. Earned income includes anything of value (money, goods, or services) received from an employer for services performed, regardless of whether it is taxable. If taxpayer reports unearned income as earned income follow the instructions in (17) below. **Examples of earned income** are:
  - Wages, salaries, tips and other employee compensation
  - Net earnings from self-employment, even if less than \$434

**Note:** Net losses from self-employment reduce earned income and the deductible part of SE tax reduces AGI and earned income.

  - Gross income received as a statutory employee
  - Strike benefits reported on Form W-2
  - Disability retirement benefits (until taxpayer reaches minimum retirement age). See (17) below.
  - Gulf Oil Spill Payments (GOS or GCCF) as earned income on Schedule EIC.
- (9) The taxpayer has the option of including nontaxable combat pay in their earned income when computing EIC. Nontaxable combat pay can be identified with a **Q** in box 12 of Form W-2. The taxpayer makes this election by entering their nontaxable combat pay on Form 1040/1040-SR, line 27 with **NCP** notated and the amount in the space to the left of line 27 (TY 2020), line 27b (TY 2021), line 1i (TY 2022). If the taxpayer elects to include nontaxable combat pay in their EIC determination, take the following action:

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**Caution:** Ensure that the election was not disallowed during original processing. If it was disallowed, notice code 165 should be present in the MATH ERROR CODE field on the Tax Account screen.

- a. If the election was disallowed, follow system prompts in the Earned Income Credit window to calculate the change to EIC. See (17) below for conditions requiring the verification of the TAXABLE EARNED INCOME field.
- b. If the election was allowed, include the amount of nontaxable Combat pay with other taxable earned income in the TOTAL EARNED INCOME field.

**Caution:** Follow the taxpayer's intent with regard to the election. Do not recalculate the new EIC amount with and without the non-taxable combat pay amount to determine the better option.

**Note:** If the taxpayer used TY 2019 earned income to calculate their TY 2021 EIC and elected to include nontaxable combat pay, they must use their TY 2019 nontaxable combat pay and enter the amount on Form 1040/1040-SR, line 27b.

(10) Earned income does NOT include the following:

- Interest or dividends
- Welfare benefits
- Veteran's benefits
- Pensions and annuities, except certain disability pensions received before minimum retirement age and reported on line 1 of Form 1040/1040-SR.
- Social Security and Railroad Retirement benefits
- Workers' compensation
- Unemployment compensation
- Income exempt from SE tax as a result of filing and approval of Form 4029 (relating to members of certain religious faiths)

**Note:** Wages, salaries, tips, and other employee compensation received by these taxpayers are earned income, even if they are exempt from Social Security (FICA) taxes.

- Alimony
- Child support

(11) To qualify for EIC the taxpayer must be other than FS 3 and have earned income and AGI totaling less than:

Number of qualifying children	TY 2020	TY 2021	TY 2022
1	\$41,756 (\$47,646 if married filing jointly)	\$42,158 (\$48,100 if married filing jointly)	\$43,492 (\$49,622 if married filing jointly)
2	\$47,440 (\$53,330 if married filing jointly)	\$47,915 (\$53,865 if married filing jointly)	\$49,399 (\$55,529 if married filing jointly)

Number of qualifying children	TY 2020	TY 2021	TY 2022
3 or more	\$50,954 (\$56,844 if married filing jointly)	\$51,464 (\$57,414 if married filing jointly)	\$53,057 (\$59,187 if married filing jointly)
0	\$15,820 (\$21,710 if married filing jointly)	\$21,430 (\$27,380 if married filing jointly)	\$16,480 (\$22,610 if married filing jointly)

For taxpayers with no qualifying children they must also meet all of the following conditions:

- Be at least age 25 but under age 65 at the end of the tax year
- Be at least 19 years of age at the end of the tax year (TY 2022)
- Not entitled to be claimed as a dependent on parent's or someone else's return
- Not a full-time student under the age of 24 (TY 2022)
- Main home must have been in the U.S. for more than one-half of the tax year

**Note:** U.S. military personnel on extended active duty outside the U.S. are considered to live in the U.S. during that duty period for EIC purposes.

- (12) When Schedule EIC is not attached to the original return (EIC was allowed based on the filing of Schedule EIC with the Form 1040-X), it may be necessary to match the EIC claimed against the EIC Table, to determine the correct entry in the NUMBER OF QUALIFYING CHILDREN field in the EIC window (0, 1, 2 or 3).
- (13) If taxpayer did not claim EIC on the original return and any of the following conditions exist, enter a "Y" in the TP NOT QUALIFIED field.
- The taxpayer's principal home is outside the United States, unless on extended active duty in the U.S. military.
  - The taxpayer does not have a full 12-month tax year (unless the taxpayer died during the year).
  - The taxpayer excludes or deducts amounts earned in a foreign country (Form 2555).
  - The taxpayer filed Form 4563, Exclusion of Income from Bona Fide Residents of American Samoa.
  - There is an indication the taxpayer was contacted during original processing and was asked to provide a completed Schedule EIC and TC 764 or TC 768 is not present on the Tax Account screen, or a completed Schedule EIC is not attached.
  - EIC was disallowed during processing due to the Revenue Protection Strategy.
- (14) Earned income tax credit must be recomputed when there is U/R income and the investment income is:

TY 2020	TY 2021	TY 2022
\$3,650 or less	\$10,000 or less	\$10,300 or less

The INVESTMENT INCOME PER RETURN displays the total investment income as computed by the system. This is a required field.

**Note:** Manual Calculation must always be used when the taxpayer files a Schedule E and/or Form 4797.

Income type	TY 2020	TY 2021	TY 2022
Taxable interest	Form 1040 / 1040-SR, line 2b	Form 1040/ Form 1040-SR, line 2b	Form 1040 / Form 1040-SR , line 2b
Tax-exempt interest	Form 1040 / 1040-SR, line 2a.	Form 1040 / 1040-SR, line 2a.	Form 1040 / 1040-SR, line 2a
Dividend income	Form 1040 / 1040-SR, line 3b.	Form 1040 / 1040-SR, line 3b.	Form 1040 / 1040-SR, line 3b.
Capital gain net income	Form 1040 / 1040-SR, line 7, if greater than zero (0). Any gain reported on Form 4797, line 7, (or line 9, if an amount appears there) should be subtracted from the Schedule D total.	Form 1040 / 1040-SR, line 7, if greater than zero (0). Any gain reported on Form 4797, line 7, (or line 9, if an amount appears there) should be subtracted from the Schedule D total.	Form 1040 / 1040-SR, line 7, if greater than zero (0). Any gain reported on Form 4797, line 7, (or line 9, if an amount appears there) should be subtracted from the Schedule D total.
Net income from rentals of personal property not used in a business	Form 1040 / 1040-SR, Schedule 1, line 8 minus the“PPR” amount deducted on Form 1040 / 1040-SR, Schedule 1, line 22.	Form 1040 / 1040-SR, Schedule 1, line 8k minus thePPR amount deducted on Form 1040 / 1040-SR, Schedule 1, line 24b.	Form 1040 / 1040-SR , Schedule 1, line 8l minus thePPR amount deducted on Form 1040 / 1040-SR , Schedule 1, line 24b.

**Caution:** Do not include U/R amounts in the manual calculation.

- Royalty income - Schedule E, line 4 in excess of the total related expenses on line 20 of Schedule E.
- Income from passive activities - Schedule E, line(s) 26, 29a (column h), 34a (column d), and 40 in excess of the losses from passive activities included on Schedule E, line(s) 26, 29b (column g), 34b (column c), and 40.

**Note:** See Schedule E instructions to determine if Schedule E, line 26 or 40 income is from a passive activity.

- (15) The AGI used in calculating EIC is the amount from 1040/1040-SR, line 8b (TY 2019) or line, 11 (TY 2020 and subsequent).
- (16) When EIC needs to be recomputed, and the taxpayer has not used the optional method to figure their SE tax, enter the appropriate entries in the Earned Income Credit window of the Return Value screen. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Earned Income Credit.

**Note:** If the taxpayer used the optional method to figure SE tax see (18) below.

- (17) The TOTAL EARNED INCOME field displays the total earned income as computed by the system. The system determines earned income per return by combining the following items:

- a. Amount reported from Form 1040/1040-SR, line 1 PLUS,

**Caution:** If the taxpayer reports unemployment as earned income (for example, reported as wages) and the amount is shown in the EIC window AND there are no WAGES IRs present, create a WAGES IR for ZERO. This will allow the system to accurately calculate the EIC.

- b. Amount reported on Schedule SE, line 3 (for both taxpayers), MINUS,
- c. The deductible part of SE tax.

- (18) The TOTAL EARNED INCOME is a required field. If any of the following conditions exist, the system derived field must be verified:

**Note:** Manual calculation may be completed to verify. **Do not** include U/R amounts in the manual calculation.

- a. The taxpayer reports earned income on a line other than;

TY 2020	TY 2021 and subsequent
Form 1040/ 1040-SR, line 1 (ex: Wages on Form 1040/ 1040-SR, Schedule 1, line 8 or disability pensions (COD 3) on Form 1040/ Form 1040-SR , line 5b etc.)	Form 1040/ 1040-SR, line 1 (ex: Wages on Form 1040/ 1040-SR, Schedule 1, line 8z or disability pensions (COD 3) on Form 1040/ Form 1040-SR , line 5b etc.)

- b. Taxpayer includes unearned income on Form 1040/1040-SR, line 1, (for example: UNEMP, IRA). **Send PARAGRAPH 7**, . See Exhibit 4.19.3-7, CP PARAGRAPHS.

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**Note:** See IRM 4.19.3.5.2, Comparison of IRP Information Returns With Return Information, for additional information.

- c. Taxable scholarship or fellowship grant not reported on Form W-2 but included on Form 1040/1040-SR, line 1 .

- d. Income earned by an inmate ("PRI" and amount on the dotted line portion of Form 1040/1040-SR, line 1 .
- e. Amount received as a non-qualified deferred compensation ("DFC" and amount on the dotted line portion of Form 1040/1040-SR, line 1 .
- f. Nontaxable Combat pay.
- g. Schedule SE includes either the Optional method or includes church employee income.
- h. Net Schedule C or F gain or loss and Schedule SE was not filed.
- i. Statutory Wages reported on Schedule C .
- j. Ministers Housing allowance reported on Schedule SE.
- k. Earned Income on a subsequently processed Form 1040-X, Amended Return.

(19) If either/both taxpayers used the optional method to figure SE income and SE tax, claimed EIC, and there is U/R SE income a special calculation may be necessary to determine the correct entry for the TOTAL EARNED INCOME field. Use the U/R SE income and Schedule SE, Part II to determine if the taxpayer is still eligible to use the optional method. If the taxpayer is still eligible to use the optional method:

- 1. Manually recompute the new Schedule SE, line 4b amount using the U/R SE income.
- 2. Add any other reported earned income (include the spouse's earned income if applicable) to the amount from Section B, Long Schedule SE, line 4b (TY 2019) or Part I Self-Employment Tax, line 4b (TY 2020 and subsequent) as filed or as adjusted.
- 3. Subtract the U/R SE income from the amount in step 2 above and enter the result in the TOTAL EARNED INCOME field.

(20) If the taxpayer is no longer eligible to use the optional method:

- 1. Add the amount(s) from Schedule C, line 31 or Schedule F, line 34.
- 2. Add any other reported earned income for the primary/secondary taxpayer as applicable (see (17) above), Part I Self-Employment Tax, line 4b (TY 2020 and subsequent) as filed or as adjusted.
- 3. Enter the result in the TOTAL EARNED INCOME field.

(21) The maximum allowable amount of EIC

Number of children	TY 2020	TY 2021	TY 2022
3 or more	\$6,660	\$6,728	\$6,935
2	\$5,920	\$5,980	\$6,164
1	\$3,584	\$3,618	\$3,733
0	\$538	\$1,502	\$560

(22) A notice must be issued for all changes to EIC unless the case is closed below tolerance.

(23) PC 20 is not valid for EIC adjustments.

(24) PARAGRAPH 19 automatically generates when there is a change to EIC. See Exhibit 4.19.3-7, CP PARAGRAPHS.



- (25) PARAGRAPH 184 automatically generates when investment income exceeds the maximum allowable amount. See Exhibit 4.19.3-7, CP PARAGRAPHS
- (26) PARAGRAPH 43 automatically generates when the net result of changes to W/H, excess SSTAX, EIC, Additional Child Tax Credit and AOC is a NEGATIVE amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.17.4  
(10-06-2022)  
**Additional Child Tax Credit (ACTC)**

- (1) Additional Child Tax Credit (ACTC) enables certain qualifying taxpayers to offset tax liability or to get a refund if no tax is owed.
  - (2) Previously allowed ACTC appears on the Tax Account screen as a TC 766 (with Reference Code 336).
  - (3) If the credit was partially or fully reversed, it shows as a TC 767 (with Reference Code 336).
  - (4) The taxpayer is eligible for the credit if the following apply:
    - 1. The taxpayer claims qualifying child(ren).
 

**Note:** For each qualifying child, a “check mark” must be placed in the box in column (4) of the Dependents section of the return . For TY 2021, Schedule 8812, Credits for Qualifying Children and Other Dependents must be attached to claim the credit.
    - 2. The taxpayer does not claim the full allowable amount of Child Tax Credit on Form 1040/1040-SR, line 19.
  - (5) When the ACTC recertification indicator (ACTC-RECERT-CD) field on the Tax Account screen is 2, 3, or 4 and ACTC was disallowed during processing, the warning message “WARNING: EIC/CTC/ACTC/AOTC BAN” appears in the MESSAGE window. The AUR system will not allow an ACTC calculation in this situation.
- Note:** DO NOT Correspond for missing Form 8862, Information To Claim Certain Credits After Disallowance.
- (6) If U/R income results in the taxpayer being eligible for the full allowable amount of Child Tax Credit, the previously allowed ACTC is adjusted accordingly.
  - (7) If U/R income change results in full disallowance of the Child Tax Credit, verify the ACTC is correct.
  - (8) If ACTC was previously claimed or allowed during original processing, and
 

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 follow system prompts to allow AUR to compute the appropriate amount of credit.
  - (9) If the taxpayer did not qualify for ACTC during original processing and U/R income now makes the taxpayer eligible, manually select the ADDITIONAL CHILD TAX CREDIT window after the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2019 and TY 2020) window - whether or not a Schedule 8812 has been submitted. For TY 2021, the CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window includes line entries for the Additional Child Tax Credit. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures.

**Reminder:** For TY 2021, taxpayer must provide a completed Schedule 8812, Credits for Qualifying Children and Other Dependents to receive the credit.

- (10) Additional Child Tax Credit can be affected by U/R income that changes:
- Amounts of Social Security Tax, Railroad Retirement Tax and Medicare Tax withheld
  - Deductible part of SE tax
  - Social Security Tax on Tips
  - Uncollected Social Security and Medicare Tax on Wages
  - Earned Income Credit
  - Child Tax Credit
- (11) The CHILD TAX CREDIT/CREDIT FOR OTHER DEP ( TY 2020) window must be accessed before the Additional Child Tax Credit ( TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021) window, to ensure the number of qualifying children are correct. See IRM 4.19.3.15.4, Child Tax Credit, for further information.
- Caution:** If the taxpayer claimed the Residential Energy Credit, Adoption Credit and the Additional Child Tax Credit, use the MANUAL CHILD TAX CREDIT/CREDIT FOR OTHER DEP ( TY 2020), MANUAL NON-REFUNDABLE CHILD TAX CREDIT field in the CHILD TAX CREDIT/CREDIT FOR OTHER DEP (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window to ensure the taxpayer receives the correct amount.
- (12) Taxpayers are instructed to include nontaxable combat pay in earned income on Schedule 8812, Credits for Qualifying Children and Other Dependents when they either did not elect to include this pay in computing EIC or did not claim EIC and to include the nontaxable combat pay. If Schedule 8812, Credits for Qualifying Children and Other Dependents contains an amount for nontaxable combat pay, manually determine the Additional Child Tax Credit Now amount and enter in the MANUAL ADDL CHILD TAX CREDIT (TY 2020), MANUAL ADDITIONAL TAX CREDIT (TY 2021 and subsequent) field.

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- (13) Taxpayers with nontaxable Medicaid Waiver Payments (MWP) are instructed to include nontaxable MWP on Schedule 8812, Credits for Qualifying Children and Other Dependents when they either did not elect to include this pay in computing EIC or did not claim EIC and include the nontaxable MWP. If Schedule 8812, Credits for Qualifying Children and Other Dependents contains an amount, manually determine the Additional Child Tax Credit Now amount and enter in the MANUAL ADDL CHILD TAX CREDIT (TY 2020), MANUAL ADDITIONAL TAX CREDIT (TY 2021 and subsequent) field.

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- (14) Certain federally declared disasters qualify taxpayer's whose current year earned income was less than their prior year earned income could elect to use their prior year earned income when figuring ACTC. Taxpayers are instructed

to enter "PYEI"(Prior Year Earned Income) and the amount of their prior year earned income on the dotted line for ACTC. When recomputing ACTC, enter the PYEI amount in the PRIOR YEAR EARNED INCOME field in the EARNED INCOME TAX CREDIT window in Return Value TY 2020 and TY 2021).

- (15) Enter/Verify the RETURN AMT field of the Additional Child Tax Credit (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window using the TC 766 (reference code 336) amount from the Tax Account screen. Enter dollar amount ONLY - drop the cents, do not round. Enter/Verify the remaining fields. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Additional Child Tax Credit. **Failure to follow this instruction will cause an Unpostable condition.** There may be a \$1 difference on the Summary screen, DO NOT adjust this amount.

**Note:** The Additional Child Tax Credit (TY 2020), CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS (TY 2021 and subsequent) window MUST be accessed after the EIC window. If the window is accessed out of sequence, a warning message displays.

- (16) A notice must be issued for all adjustments to ACTC unless the case is closed below tolerance. PC 20 is not valid for adjustments to ACTC.
- (17) PARAGRAPH 36 automatically generates when the ACTC is disallowed because the taxpayer becomes eligible for the full amount of Child Tax Credit. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (18) PARAGRAPH 37 automatically generates when the taxpayer originally claimed ACTC and there is a change to the ACTC. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (19) PARAGRAPH 43 automatically generates when the net result of changes to W/H, excess SSTAX, EIC, ACTC and AOC is a NEGATIVE amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.17.5  
(03-17-2023)  
**Refundable Child Tax  
Credit (RCTC) (TY 2021)**

- (1) For TY 2021, the American Rescue Plan (ARP) expanded the Child Tax Credit by making it fully refundable for qualifying taxpayers who have a principal place of abode in the United States for more than half the year or are bona fide residents of Puerto Rico. Taxpayers who do not qualify for the Refundable Child Tax Credit (RCTC) may still qualify for the Nonrefundable Child Tax Credit (NCTC) and the Additional Child Tax Credit (ACTC). To claim the RCTC, taxpayers must submit a completed Schedule 8812, Credits for Qualifying Children and Other Dependents.
- (2) To claim the Refundable Child Tax Credit (RCTC) the taxpayer must have a qualifying child, check line 13, box A of Schedule 8812, Credits for Qualifying Children and Other Dependents, for the credit to be refundable.
- (3) The maximum credit amount of allowable RCTC begins to decrease when the Modified Adjusted Gross Income (MAGI) exceeds:
- \$75,000 for filing status - Single, MFS, or Qualified surviving spouse
  - \$112,500 for filing status - HOH
  - \$150,000 for filing status - MFJ

- (4) The system computes the correct amount of Refundable Child Tax Credit (RCTC). Enter/Verify the appropriate amounts in the CREDITS FOR QUALIFYING CHILDREN AND OTHER DEPENDENTS window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures.
- (5) The RCTC begins a limited phase out or decrease due to U/R income and the taxpayer will no longer qualify for the credit. Send a special paragraph using the following verbiage as an example: "The Refundable Child Tax Credit claimed on your tax return has been decreased or eliminated because the proposed tax increase met the threshold. The credit begins a limited phase out when the Modified Adjusted Gross Income exceeds \$75,000 (\$150,000 married filing jointly) and will begin further phasing out towards zero when the Modified Adjusted Gross Income exceeds \$200,000 (\$400,000 married filing jointly)." When sending a special paragraph, toggle off **PARAGRAPHS 36 and 37**.

4.19.3.17.6  
(09-21-2020)  
**American Opportunity  
Credit (AOTC)**

- (1) The American Opportunity Credit is refundable. The maximum credit is \$2,500 per student.
- (2) Previously allowed AOC appears on the Tax Account screen as a TC 766 (with reference code 260).
- (3) The credit is computed using Form 8863 and is reported on Form 1040/1040-SR, line 29.
- (4) The taxpayer is not entitled to any of the credit when:
  - a. They are claimed as a dependent on someone else's tax return.
  - b. The filing status is Married Filing Separately (FS 3 or FS 6).
  - c. A deduction for Tuition and Fees is claimed on / Form 1040/1040-SR, Schedule 1, line 21 (TY 2020) for the same student.
  - d. They are a non-resident alien.
  - e. They are a graduate student for the entire AUR year. See IRM 4.19.3.15.5.1, Education Credits - Responses for additional information.
  - f. If the MAGI is equal to or greater than the upper limit listed in the table in (5) below.
- (5) The amount of the credit begins to decrease (phase out) when the MAGI exceeds the lower limit of \$80,000 (FS 1, 4, 5), \$160,000 (FS 2) and is eliminated (disallowed) when the MAGI equals or exceeds the upper limit of \$90,000 (FS 1, 4, 5), \$180,000 (FS 2).
- (6) When the AOTC recertification indicator (AOTC-RECERT-CD) field on the Tax Account screen is 2, 3, or 4 and AOTC was disallowed during processing, the warning message "WARNING: EIC/CTC/ACTC/AOTC BAN" appears in the MESSAGE window. The AUR system will not allow an AOTC calculation in this situation.
- (7) PARAGRAPH 38 automatically generates when there is a change to American Opportunity Credit, unless there is an amount entered in the MANUAL RFNDBLE EDU CREDIT field in the Education Credit window. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** If decreasing American Opportunity Credit due to lack of substantiation, **toggle off** PARAGRAPH 38 in the Summary screen.

- (8) PARAGRAPH 43 automatically generates when the net result of changes to W/H, excess SSTAX, EIC, ACTC and AOC is a NEGATIVE amount. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.17.7  
(11-23-2022)  
**Refundable Child and  
Dependent Care Credit  
(TY 2021)**

- (1) The American Rescue Plan 2021 Act (ARP) Section 9631, enacted on March 11, 2021 amended the Child and Dependent Care Credit (CDCC), making it fully refundable for TY 2021 and increasing the maximum percentage rate to 50 percent.
- (2) To qualify for the refundable portion of the credit, the taxpayer or spouse (MFJ), must have lived in the United States for more than half of 2021. The taxpayer must check box B on Form 2441, Child and Dependent Care Expenses to qualify for the refundable portion of the credit. If the box is not checked, the credit is nonrefundable and limited by the amount of their tax.
- (3) When the adjusted gross income (AGI) is \$125,000, the credit percentage begins to phase out, and plateaus at 20 percent. The 20 percent credit rate phases out when the AGI is in excess of \$400,000. Taxpayers with an AGI in excess of \$438,000 are not eligible for the credit.
- Exception:** See (7) below when the taxpayer had qualified expenses for TY 2020 that wasn't paid until TY 2021.
- (4) The maximum allowable credit for one person is \$4,000 and \$8,000 for two or more qualifying people.
- (5) Previously allowed CDCC appears on the Tax Account Screen as a TC 766 (with reference code 273).
- (6) CDCC will appear on the Tax Account Screen as a TC 767 (with a reference code 273) when the credit was partially or fully reversed.
- (7) If the taxpayer had qualified expenses for TY 2020 that were paid in TY 2021 and they didn't claim the CDCC maximum amount of qualified expenses, the amount of the credit taken in TY 2021 may be increased. Accept the amount on Form 2441, Child and Dependent Care Expenses line 9b as the refundable credit when box on line B is checked.
- (8) Enter/Verify entries in the Child Care Credit window using the following:

1. TC 766 (reference code 273) amount from the Tax Account Screen or
2. Schedule 3, line 2 (Form 2441, box B is not checked) (TY 21) or
3. Schedule 3, line 13g (Form 2441, box B is checked) (TY 21)

**Note:** Child Care Credit window MUST be accessed AFTER EIC window.

- (9) A notice must be issued for any adjustments to refundable CDCC that are over tolerance. PC 20 is not valid for adjustments only to refundable CDCC.
- (10) If due to U/R income the refundable CDCC is partially or fully disallowed because the taxpayer becomes ineligible for the full amount of the Child Care Credit send a special paragraph using the following verbiage as an example, "Based on the proposed changes included in this notice, we adjusted the allowable amount of credit for the Child and Dependent Care expenses."

4.19.3.17.8  
(10-25-2023)  
**Net Premium Tax Credit  
(PTC)**

- (1) Taxpayer's who enroll themselves or any family member in health insurance through the Health Insurance Marketplace may be eligible to claim the premium tax credit.
- (2) The refundable credit claimed as shown below is the amount of Premium Tax Credit (PTC) minus the amount of Advance Premium Tax Credit (APTC):

TY	Form and line number
2020	Form 1040/ Form 1040-SR, Schedule 3, line 8
2021 and subsequent	Form 1040/ Form 1040-SR, Schedule 3, line 9

- (3) Taxpayer's complete Form 8962, Premium Tax Credit (PTC), to determine the amount of eligible credit:
  - Be alert for processing changes which added APTC/PTC. Math Error Code 558 may be present on these cases although Form 8962 was not filed with the return. Take actions to recalculate APTC/PTC and include on the notice, when appropriate.
  - Telephone assistants may request that the taxpayer respond in writing if a recomputed notice is needed and a recalculation of PTC (there is a change to AGI) is required.
- (4) AUR will adjust per changes to MAGI. If there is no AGI change, do not recalculate PTC. Enter "PER RETURN" amounts from the Premium Tax Credit window in the corresponding fields in the "AMS AMOUNTS" column.
- (5) To recalculate PTC take the following actions:
  1. Screen the case to Return Value.
  2. Access the Premium Tax Credit window. The amount shown in the "MODIFIED AGI" field will be needed to recalculate PTC.
  3. Access IDRS.
  4. Access AMS.
  5. From the AMS Message Center Screen, enter the "SSN" in the TIN field box, and press enter, the account screen appears.
  6. Select "Tools" at the top of the screen.
  7. Select the "8962 PTC Calculator" listed under ACA.
  8. For TY 2021, if the taxpayer received unemployment, ensure the box is checked under Part I: Annual & Monthly Contribution Amount in the 8962 PTC Calculator.
  9. Once AMS populates the PTC calculator worksheet with the taxpayer's information, verify all AMS pre-populated fields. Make corrections as needed.
  10. Enter the **MODIFIED AGI** amount from AUR in the **Adjusted Gross Income** field of the PTC calculator worksheet and change all other amounts present in the income section of the PTC calculator to zero.

**Note:** If the field amounts are not changed to zeroes the AUR MAGI will duplicate amounts.



**Reminder:** If the taxpayer reports SS/RR, the SS/RR window **MUST** be worked (even if SS/RR is not an issue) in order for the MAGI to be correct.

**Note:** If the taxpayer provides new annual or monthly premium amounts or if there is a change to the filing status or number of exemptions, enter the correct amount(s) in the PTC calculator worksheet.

11. Scroll to the bottom of the worksheet, check the “calculate without CDR validation box” and click the “Calculate” button.
12. Print the calculation, reset the PTC Calculator worksheet, and return to AUR.

**Exception:** In some cases the change to MAGI does not cause a change to APTC/PTC. If there is no change to APTC/PTC, do not print the calculation. Select the following standard case note to document the case: Change to AGI. Accessed AMS to recalculate PTC/APTC. No change to PTC or APTC.

13. In the Premium Tax Credit window, enter/verify the “PER RETURN” amounts for “TOTAL PTC”, “TOTAL ADVANCE PYMT OF PTC”, “NET PTC” and “EXCESS APTC REPAY”, as appropriate.
14. Using the printed calculation from the AMS PTC calculator, enter amounts in the “AMS Amounts” column of the AUR Premium Tax Credit window for “TOTAL PTC”, “TOTAL ADVANCE PYMT OF PTC”, **NET PTC**, “EXCESS ADVANCE PYMT OF PTC”, “REPYMT LIMITATION”, “EXCESS ADVANCE PYMT ABOVE LIMITATION” and **EXCESS ADVANCE PTC REPAYMENT**.

**Caution:** These end results or “AMS Amounts” are the amounts from the AVS column.

**Reminder:** TY 2020 Only, The American Rescue Plan (ARP) ACT of 2021 waived the repayment requirement for EAPTC. AUR will **NOT** pursue or refund EAPTC amounts. See IRM 4.19.3.16.10, Excess Advanced Premium Tax Credit (EAPTC) for appropriate EAPTC “AMS Amount” entries.

15. Continue with Return Value calculations. AUR will calculate the PTC change amount and include it in the Summary screen.
16. Leave the printed AMS PTC calculation as part of the AUR case file.

**Note:** If there is no change to the PTC calculations, do not print the worksheet, leave a case note as an action trail.

**Note:** For virtual cases print a Form 4251 as cover for AMS worksheet.

- (6) PTC allowed on the original return posts with TC 766, credit reference 262. Recalculate Form 8962, Premium Tax Credit (PTC), using the “8962 PTC Calc”, found in the AMS ACA tools. When adjusting PTC related data, use the following reference numbers, as appropriate:

- **262** - adjusts the PTC refundable credit (Form 8962, line 26)
- **865** - adjusts the Advance Payment of Premium Tax Credit (TOTAL APTC as shown on IDRS) (Form 8962, line 25)
- **866** - adjusts the Total PTC (Form 8962, line 24)



- **867** - adjusts the Excess Advance PTC Repayment (APTC TX LIAB as shown on IDRS) (Form 8962, line 29)
  - **868** - adjusts the Repayment Limitation (LIMIT AMT as shown on IDRS) (This is to record the amount being waived. Form 8962, the difference between line 27 and line 28 if line 27 is greater than 28.)
- (7) When adjusting PTC related data, use the following reason codes, as appropriate:
- a. **151** - PTC
  - b. **152** - Excess Advance PTC Repayment
- (8) PARAGRAPH 62 automatically generates when PTC is adjusted due to a change to modified adjusted gross income. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- Note:** Currently AUR will only adjust PTC based on AGI changes, therefore, PARAGRAPH 90 will not be used.

4.19.3.18  
(06-01-2023)  
**Penalties and Interest**

- (1) The following instructions are used in calculating the various penalties and interest amounts for AUR processing.
- (2) An administrative waiver for certain penalties was implemented in 2001 for tax periods with ending dates after December 31, 2000. It is referred to as First Time Abate (FTA) and is available for penalty relief the first time a taxpayer is subject to certain penalties for a single return filed by the taxpayer. The AUR program **DOES NOT** grant penalty relief under FTA. If the taxpayer is requesting FTA for the failure to file, failure to pay, or other penalties and submitted Form 843, Claim for Refund and Request for Abatement, forward the request to Accounts Management.

4.19.3.18.1  
(10-06-2022)  
**Failure to File (FTF)  
Penalty**

- (1) Individual income tax returns are generally due by April 15 of the year following the close of the calendar year or by the approved extension date unless April 15 or the approved extension date falls on a Saturday, Sunday, or a legal holiday; then, the return is due on the next succeeding day that is not a

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due if there is a deficiency.

**Note:** Due to COVID-19 Pandemic the due date for TY 2020 tax returns was postponed to May 17, 2021.

**Note:** Due to certain holidays the due date for TY 2021 tax returns is April 18, 2022, or April 19, 2022.

**Note:** Due to Emancipation Day holiday the due date for TY 2022 tax return is April 18, 2023.

**Note:** See IRM 20.1.2, Failure to File/Failure to Pay Penalties, for procedures regarding the recomputation of FTF penalty.

- (2) The AUR system does not compute additional FTF penalty if there was a prior full or partial abatement (TC 161 or TC 167). TC 167 is a computer generated abatement of the penalty. Master File recomputes a TC 167. Only a TC 160/161 manual computation of the penalty restricts recomputation.

**Exception:** Additional FTF penalty is computed if the original FTF penalty was abated amount is added to the additional FTF penalty.

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- (3) The AUR system does not compute FTF penalty if the original return was "R" coded. This code appears in the filing status area of the return, and indicates the taxpayer was not subject to FTF penalty because they have proved reasonable cause for filing late.
- (4) If a FTF penalty was assessed, it appears on the Tax Account screen as a TC 160 or TC 166. If the penalty was partially or fully reversed, it shows as TC 161 or TC 167.

**Note:** If the tax on a late filed balance due return is decreased or if the net result of changes to W/H, excess SSTAX, EIC, and/or other credits is a decrease in balance due, any unpaid balance is reduced and the FTF penalty is also reduced. If the return is adjusted to become a refund return, and TC 160/166 is present on the Tax Account screen, it is reversed with a TC 161.

- (5) The FTF penalty percentage is generally 5 percent of the unpaid balance, with an additional 5 percent for each month or part of a month that the return is filed late, but not to exceed 25 percent. The unpaid balance is the difference between the amount required to be shown on the return and the amount paid (including W/H payments and estimated tax) on or before the due date plus any credit to which the taxpayer is entitled. For returns filed more than 60 days after the due date, a minimum penalty is assessed. The minimum penalty is not less than \$435 or 100 percent of the unpaid balance, whichever is less.

**Exception:** If the failure to file was determined to be fraudulent, the FTF penalty percentage is 15 percent per month, not to exceed 75 percent. DO NOT adjust this amount.

- (6) The FTF penalty for a month is reduced by the amount of any FTP for the return for that month. When the FTF penalty is based **only** on the unpaid balance on the return and when no payments are made after the date prescribed for payment of tax, the effect is that the FTF penalty is limited to 4.5 percent a month. (Payments made after the prescribed date reduce the FTP but not the FTF penalty.)
- (7) The system computes or recomputes the FTF penalty when applicable. See IRM 20.1.2.3.7.3, Limitation Under IRC 6651(c)(1), for additional information.

**Exception:** If certain conditions are present, the AUR system is unable to compute the additional FTF penalty. When these conditions are present, the system displays the following message: "Warning: Manual Failure to File Penalty Calculation Required. Transfer Case to designated SEID for Manual Computation." The FTF Penalty Worksheet and FTF Job Aid are available on the AUR Portal at <http://serp.enterprise.irs.gov/databases/portals/aur/imf/aur.html>.

**Note:** The FTF penalty is automatically corrected on IDRS when there is a change to pre-payments on a late-filed return. If a pre-payment change is confirmed and appropriate (PC 20 closure), no other action is needed to adjust the FTF penalty.

- (8) It may be necessary to limit the penalty to an amount, including zero (0), other than what the system computes. Manually enter the limited penalty in the ADDITIONAL FAILURE TO FILE PENALTY field. See IRM 4.19.3.18.8, Limited Penalties, for further instructions.
- (9) PARAGRAPH 35 automatically generates when FTF penalty is proposed. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) When a manual assessment is done and the FTF penalty is decreased, see IRM 4.19.3.22.10.1, The Assessment Window, for special instructions.

4.19.3.18.2  
(09-21-2020)  
**Failure to Pay (FTP)  
Penalty**

- (1) If FTP penalty was assessed, it appears on the Tax Account screen as TC 270 or TC 276. If the penalty was partially or fully reversed, it shows as TC 271 or TC 277.
- (2) FTP penalty must be manually adjusted when a TC 270/271, TC 500 or TC 780 is on the tax module and a notice must be issued.
- (3) The AUR system does not recompute the penalty. IDRS uses a common code to recompute the penalty, if applicable. PARAGRAPH 43 automatically generates to advise the taxpayer they may receive a separate notice with the recomputed FTP. Exhibit 4.19.3-7
- (4) If the Freeze Code "G-" is due to TC 780, see IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes.
- (5) The FTP penalty must be restricted with a
  - TC 270 for zero if W/H and excess SSTAX are not being adjusted, but one of the other refundable credits is being adjusted, and the net AUR adjustment is an increase in liability.
  - TC 270 or 271 for the appropriate amount after manually recomputing the FTP penalty if withholding or excess FICA/RRTA is being adjusted, and any other refundable credit (see (6) below for a list of refundable credits) is also being adjusted, unless the net AUR adjustment is a decrease in liability.
- (6) The following refundable credits may affect the FTP:
  - W/H
  - Excess SST/RRT
  - EIC
  - Additional Child Tax Credit
  - American Opportunity Credit
  - Fuel Tax Credit
  - Health Coverage Tax Credit (TY 2021)
  - Net Premium Tax Credit
  - Notice to Shareholder of Undistributed Long-Term Capital Gains
- (7) In response phase:

1. Work the case through Return Value, commit the Return Value screen.
  2. On the Notice Summary screen, all RETURN fields **must** be updated, and all non-automatic paragraphs must be accounted for. The Notice Summary screen **must** be committed.
  3. Enter the appropriate process code and continue processing.
- (8) PARAGRAPH 43 automatically generates when the total of changes to W/H and excess SSTAX are less than zero. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.18.3  
(10-06-2022)  
**Estimated Tax (ES)  
Penalty**

- (1) If an ES penalty was assessed, it appears on the Tax Account screen as TC 170 or TC 176. If the penalty was partially or fully reversed, it shows as TC 171 or TC 177.
- (2) The AUR system does not recompute the ES penalty. The Estimated Tax

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**Caution:** If the module contains a TC 171, or a TC 170 with a DLN other than the return DLN and there is a change to W/H or excess SST, the ES Penalty **MUST** be addressed in the Assessment Window with a priority code 8. Failure to address the ES penalty in this situation will cause the adjustment to unpost (UPC 158-0).

- (3) PARAGRAPH 77 automatically generates when an ES penalty was previously charged and has not been fully reversed and there is a change to W/H or excess SSTAX. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.18.4  
(09-21-2020)  
**Social Security (SS) Tip  
Tax Penalty**

- (1) Cash and charge tips of \$20 or more received in any month (working for one employer) are subject to social security tax.
- (2) If the taxpayer did not report any or all of these tips to the employer, they must file Form 4137, Social Security Tax and Medicare Tax on Unreported Tip Income, attach it to their return, and pay the SS tax. The taxpayer must also file Form 4137 if reporting any part of the allocated tips shown on their Form W-2 as income on Form 1040/1040-SR, line 1 (TY 2020 and TY 2021), line 1c (TY 2022).
- (3) In addition, if a taxpayer fails to report any or all of these tips to the employer, they may be liable for a SS tip tax penalty equal to 50 percent of the SS tax on Tips.
- (4) Do not issue a CP 2000 solely for SS Tip Tax and/or SS Tip Tax Penalty.
- (5) If a CP 2000 is issued, the system automatically generates the 50 percent penalty on social security tax on unreported tip income.
- (6) It may be necessary to limit the penalty to an amount, including zero (0), other than what the system computes. Manually enter the limited penalty in the SS TIP TAX PENALTY field. See IRM 4.19.3.18.8, Limited Penalties, and IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - SST on Tips window, for further instructions.
- (7) PARAGRAPH 15 automatically generates when the system generates the 50

percent penalty on social security tax on unreported tip income. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.18.5  
(09-21-2020)  
**Accuracy-Related  
Penalty Due to  
Substantial  
Understatement of Tax**

- (1) If the taxpayer substantially understates their tax liability, they may be liable for the substantial understatement penalty. An understatement is the EXCESS amount of tax required to be shown on the return over the actual amount shown on the return as reduced by any rebate. An item for which the taxpayer either has substantial authority or has a reasonable basis and has made an adequate disclosure is treated as if it were shown on the return. Substantial authority is discussed in (8) below, and adequate disclosure is discussed in (9) below.

**Note:** The Substantial Understatement Penalty may be proposed on returns that are also subject to the Failure to File Penalty.

- (2) An understatement is substantial if it exceeds the greater of 10 percent of the tax required to be shown on the return **OR** is over \$5,000.

**Example:** The amount of tax required to be shown on the return (new Total Tax) is \$125,500 and the amount of the understatement (new Total Tax minus amount shown on return) is \$8,500. 10 percent of the tax required to be shown on the return is \$12,550 (\$125,500 x .1). The Substantial Understatement Penalty DOES NOT apply because, while the understatement exceeds \$5,000 it DOES NOT exceed 10 percent of the tax required to be shown on the return, which in this case is \$12,550.

**Example:** The amount of tax required to be shown on the return (new Total Tax) is \$15,500 and the amount of the understatement (new Total Tax minus amount shown on return) is \$6,500. 10 percent of the tax required to be shown on the return is \$1,550 (\$15,500 x .1). The Substantial Understatement Penalty DOES apply because the understatement exceeds both \$5,000 and \$1,550, which is 10 percent of the tax required to be shown on the return in this case.

- (3) The substantial understatement penalty is 20 percent of the portion of the underpayment due to a substantial understatement of income taxes required to be shown on the return.
- (4) Any portion of an underpayment may be subject to only one accuracy penalty even though that portion may be attributable to both a substantial understatement of tax and negligence. However, one portion of an underpayment may be attributable to a substantial understatement of tax and a different portion to negligence or disregard of rules or regulations. See IRM 4.19.3.18.6, Accuracy-Related Penalty Due to Negligence or Disregard of Rules or Regulations (Negligence Disregard Penalty).
  - a. If both penalties apply to the same underpayment, only one 20 percent penalty is imposed.
  - b. The system determines the greater of the two penalties and displays it on the CP 2000.
  - c. The system selects the appropriate notice paragraph(s) when penalties apply.

- (5) The substantial understatement penalty displays on the system prior to issuance of the CP 2000. After a CP 2000 is issued, the substantial understatement penalty displays on the CP 2000 History window in the ACCURACY RELATED PENALTY field.
- (6) Reference IRM 20.1.5, Return Related Penalties, for procedures regarding the computation of the penalty.
- (7) When the taxpayer's account is assessed through the Assessment window, a Reference Code 680 displays for the substantial understatement penalty. In certain situations it may be necessary to enter or delete the Reference Code 680. See IRM 4.19.3.22.10.1, The Assessment Window, for more information.
- (8) The penalty does not apply if the taxpayer attaches evidence of SUBSTANTIAL AUTHORITY as a basis for the tax treatment of an item that resulted in an understatement of their tax liability. Examples of substantial authority are:
  - Internal Revenue Code
  - Temporary, Proposed and Final Regulations
  - Court Cases
  - Revenue Rulings
  - Revenue Procedures
  - Tax Treaties with Accompanying Regulations and Official Explanations
  - Committee Reports (Congressional Intent)
  - Blue Book (Joint Committee Explanations)
  - Private Letter Rulings
  - Technical Advice Memoranda and Expedited Technical Advice Memoranda
  - Actions on Decisions
  - General Counsel Memoranda
  - IRS information including press releases, notices, announcements and other administrative pronouncements published in the Internal Revenue Bulletin

**Note:** See IRM 20.1.5, Return Related Penalties, for additional information.

- (9) The Substantial Understatement penalty does not apply if the taxpayer has a reasonable basis for the treatment of the item and has made an **Adequate Disclosure** on the tax return or in a statement attached to the return. The following are situations where the understatement is considered adequately disclosed:
  - a. A taxpayer who is disputing the tax liability or treatment of income and has REASONABLE BASIS for the treatment of the issue and completes Form 8275, Disclosure Statement, or if the position is contrary to regulation, completes Form 8275-R, Regulation Disclosure Statement.

**Note:** For definition of reasonable basis see Treasury Regulation 1.6662-3(b)(3). IRC 6664(c) also provides an exception to the imposition of any accuracy-related penalty if the taxpayer shows there was reasonable cause and acted in good faith. See IRM 20.1.5.7.1, Reasonable Cause, and Exhibit 20.1.5-6, Determining Reasonable Cause and Good Faith.
  - b. The item at issue is disclosed on the taxpayer's return and is listed in Rev. Proc. 2014-15 (or its successor). If the revenue procedure does not



include an item, disclosure is adequate with respect to that item only if made on a properly completed Form 8275, Disclosure Statement, or Form 8275-R, Regulation Disclosure Statement.

- (10) If the tax examiner determines to suppress the substantial understatement penalty in full (for example, income reported, reasonable cause), enter a zero (0) in the SUBSTANTIAL UNDERSTATEMENT PENALTY field on the Limit Penalties window. If the tax examiner determines to suppress the penalty in part (for example, income reported, reasonable cause), enter the applicable amount in the SUBSTANTIAL UNDERSTATEMENT PENALTY field on the Limit Penalties window.
- (11) After entering PC, the Process Code window auto populates the Penalty Waived/Not Waived/No Request window. This allows for tracking instances where the **TP requests waiver** of the Substantial Underpayment Penalty and whether the request has been waived, not waived or no request.
- (12) Waiver requests **MUST** be in writing and signed by the taxpayer or valid POA. When the taxpayer makes this request and the tax examiner determines:
  - a. The request is granted, select the WAIVED button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).
  - b. The request is denied or partially waived, select the Not Waived button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).
  - c. The penalty is not addressed, select the No Request button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).

**Note:** Only check the box when the penalty is still applicable, but is being suppressed (see (10) above). Do **not** check the box if the penalty is no longer applicable (for example, recomputed notice and the revised tax increase is now \$5,000 or less or less than 10 percent of the tax required to be shown on the notice).

**Note:** The SUBSTANTIAL UNDERSTATEMENT PENALTY field must contain a value greater than zero in order to check the PENALTY NOT WAIVED field. A case note to record managerial penalty assertion approval is required when denying the taxpayer's request. See IRM 4.19.3.22.1.4, Accuracy-Related Penalties, for additional information.

- (13) See IRM 4.19.3.18.6, Accuracy-Related Penalty Due to Negligence or Disregard of Rules or Regulations (Negligence Disregard Penalty), for reasonable cause criteria. Also see IRM 20.1.1, Introduction and Penalty Relief, for more information regarding reasonable cause criteria in general, and IRM 20.1.5, Return Related Penalties, for exceptions to the Substantial Understatement Penalty.
- (14) PARAGRAPH 91 automatically generates when the substantial understatement penalty applies. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (15) PARAGRAPH 92 automatically generates when both penalties apply. See Exhibit 4.19.3-7, CP PARAGRAPHS.



4.19.3.18.6

(05-19-2017)

**Accuracy-Related  
Penalty Due to  
Negligence or Disregard  
of Rules or Regulations  
(Negligence Disregard  
Penalty)**

- (1) The negligence or disregard penalty is 20 percent of the portion of the underpayment attributable to negligence or disregard of rules or regulations. The AUR system checks for certain characteristics of the case before applying the penalty. The penalty applies when there is a prior year TC 922 **and** the case is selected for the **same income category** as the prior year. Cases that meet the  
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or any other Subfile with a secondary Subfile G or L. The AUR program  
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922 HIST field of the Tax Account screen. For instructions on completing the Negligence screen, see IRM 4.19.3.18.7, Determine Negligence Status Screen.
- (2) The Negligent disregard penalty is proposed as applicable on ALL U/R income or O/C deduction issues, if the issues result in an underpayment of tax.
- (3) Any portion of an underpayment may be subject to only one accuracy penalty even though that portion may be attributable to both negligence and a substantial understatement of tax. However, one portion of an underpayment may be attributable to negligence and a different portion to a substantial understatement of tax. See IRM 4.19.3.18.5, Accuracy-Related Penalty Due to Substantial Understatement of Tax.
  - a. If both penalties apply to a given underpayment, only one 20 percent penalty may be imposed.
  - b. The system determines the greater of the two penalties and displays it on the notice.
- (4) The amount of an underpayment attributable to disregard of rules or regulations is reduced by any portion of the underpayment for which the taxpayer has made an adequate disclosure. A disclosure can be adequate only if it is made on Form 8275 or, if the position is contrary to a regulation, on Form 8275-R.
- (5) The negligence or disregard penalty is NOT assessed if reasonable cause

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The determination of whether the taxpayer acted with reasonable cause and in good faith should be made on a case-by-case basis, taking into account all the relevant facts and circumstances. See IRM 20.1, Penalty Handbook, for further information.

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MANUAL NEGLIGENCE PENALTY field on the Limited Penalty window and in the ACCURACY-RELATED PENALTY field on the Notice Summary screen.

- (7) When the taxpayer's account is assessed through the Assessment window, a Reference Code of "680" displays for the negligence penalty. In certain situations it may be necessary to change or delete the Reference Code 680. See IRM 4.19.3.22.10.1, The Assessment Window, for more information.

- (8) PARAGRAPH 92 automatically generates when both substantial understatement and negligence apply. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (9) PARAGRAPH 86 automatically generates when the negligence penalty applies. See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.18.7  
(09-21-2020)  
**Determine Negligence  
Status Screen**

- (1) The AUR system identifies cases on which the Accuracy-Related Penalty Due to Negligence may be assessed. After all IRs are marked with a status code and the Return Value option is selected, the Determine Negligence Status screen displays if applicable. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Penalties.
- (2) The IRs displayed here are the IRs that have a status code of "U" entered on the Case Analysis screen. The total U/R of each IR displays in the TOTAL U/R AMOUNT field. IRs that are grouped in Case Analysis display only one IR from the group, but the group U/R total displays in the TOTAL U/R AMOUNT field.
- (3) The NEGLIGENCE U/R AMOUNT field shows the total U/R for each IR. If reasonable cause applies, the displayed amount needs to be changed to reflect only the U/R attributable to negligence. Use the criteria in IRM 20.1.5.7.1, Reasonable Cause, to determine if reasonable cause applies. See (8) below when the taxpayer requests waiver of the Accuracy Related Penalty due to Negligence.
  - a. If the taxpayer did not provide reasonable cause for ANY of the U/R IRs, the TOTAL U/R AMOUNT field must equal the NEGLIGENCE U/R AMOUNT field.
  - b. If the taxpayer provided reasonable cause for ALL of the U/R IRs, enter a "Y" in the ACCURACY PENALTY OVERRIDE field.
  - c. If the taxpayer provided reasonable cause for SOME of the U/R IRs, determine the negligence amount for each income type by subtracting the reasonable cause amount from the TOTAL UR AMOUNT field and enter the result in the NEGLIGENCE UR AMOUNT field.
- (4) Based on the information entered on the Determine Negligence Status screen, the system computes the accuracy penalties and PARAGRAPH 86 or 91 automatically generates, as appropriate. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (5) When the Determine Negligence Status screen is initially displayed and the U/R income is marked as either ALL negligent or ALL subject to reasonable cause, the Determine Negligence Status screen does not automatically display again. To display the Determine Negligence Status screen again, manually select it from the menu. This action is not necessary unless you changed your initial determination and need the Determine Negligence Status screen to display for a second (or more) time(s) while in the same working session of a case.
- (6) Reference IRM 20.1.5, Return Related Penalties, for procedures regarding the computation of the penalty.
- (7) After entering PC the Process Code window auto populates the Penalty Waived/Not Waived/No Request window. This allows for tracking instances where the **TP requests waiver** of the Negligence Penalty and whether the request has been waived, not waived or no request.

- (8) Waiver requests **MUST** be in writing and signed by the taxpayer or valid POA. When the taxpayer makes this request and the tax examiner determines:
- The request is granted, select the WAIVED button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).
  - The request is denied or partially waived, select the Not Waived button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).
  - The penalty is not addressed, select the No Request button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).

**Note:** Only check the box when the penalty is still applicable, but is being suppressed (see (5) above). Do **not** check the box if the penalty is no longer applicable (for example, recomputed notice and the revised tax increase is now \$5,000 or less or less than 10 percent of the tax required to be shown on the notice).

**Note:** The NEGLIGENCE PENALTY field must contain a value greater than zero in order to check the PENALTY NOT WAIVED field. A case note to record managerial penalty assertion approval is required when denying the taxpayer's request. See IRM 4.19.3.22.1.4, Accuracy-Related Penalties, for additional information.

4.19.3.18.8  
(07-01-2020)  
**Limited Penalties**

- The Limit Penalties window is used to fully or partially abate the Social Security Tip Tax Penalty, the Failure to File Penalty, when appropriate. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Penalties. This window is used only in special circumstances.
- Manually select the Limit Penalties window only after all other applicable windows in Return Value are assessed. The system computed penalties display in the appropriate fields. If the amounts are incorrect or need to be abated, make the necessary changes.
- Once a penalty is manually limited, it stays limited if the manually entered amount is present. To allow the system to compute the penalty, the manually computed penalty must be deleted, leaving the field blank.
- If the only action being taken is to fully or partially abate a penalty, a recomputed notice must be issued.

**Caution:** Failure to send a recomputed notice will result in an incorrect assessment.

4.19.3.18.9  
(09-30-2014)  
**Computer Generated  
Interest for CP 2000**

- Interest on CP 2000 Notices is generated by the IDRS interest program.
- Interest is charged on the portion of the deficiency that exceeds the refund amount from the original due date of the return.
- Certain conditions require the interest be computed manually. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for further instructions.

- (4) Interest is suspended from the day after the close of the 36-month period and resumes on the 21st day after a notice is sent, if the IRS fails to notify the taxpayer of additional taxes within 36 months of the later of:

- The original statutory due date of the return (for example, April 15th) or,
- The date of a timely filed return (including extensions).

**Note:** This provision DOES NOT apply to late filed returns.

4.19.3.18.10  
(09-21-2020)  
**Manually Computed  
Interest for the CP 2000**

- (1) There are certain restrictive conditions on an account which cause the IDRS interest program to reject the CP 2000 without computing the interest. When these conditions are present, cases are batched in BT 61 and interest may need to be computed manually or the case may need to be closed. See IRM 4.19.3.4.3.2, Freeze Codes, for additional information and appropriate closing PCs.
- (2) If case is in BT 61 is in the screening phase (a notice has not been issued), close case with PC 27. If the case is in another phase follow the instructions in (3) - (8) below.
- (3) The following conditions may require Manual Interest computation.
- a. Freeze Code "I-" on the account,  
**Note:** If the above condition exists and a previous IPC "MI" is present **AND** the case is in BT 61, close PC 27, otherwise continue processing. The system displays an alert in the Return Value screen.
  - b. TC 971 AC 064 is present.  
**Note:** This condition does not generate a "I-" freeze, therefore no system message displays.
  - c. Freeze Code "-C" with a **Combat Zone Indicator 2**, including refund cases.
  - d. Two agreement dates. See IRM 20.2.5.6.1, Reasons to Manually Compute Interest, for an extended list.
- (4) Enter IPC MI, if applicable. See IRM 4.19.3.10, Return Value Screen, for further instructions.

If	Then
There is no response to the CP 2000	See IRM 4.19.3.21.1, No Response to BT 84, for further instructions.
The Return Value screen reflects a refund and <b>there is no "I-" freeze present</b>	Enter zero (0) in the MANUAL INTEREST field and continue processing. <b>Do not enter IPC "MI".</b>

- (5) Cases with IPC MI are batched in BT 61 (Manual Interest batch). These cases are worked by designated tax examiners.

- (6) Compute interest **ONLY** when a previous IPC “MI” is present **AND** the case is in BT 61 on the proposed balance due (refund **ONLY** when “I-” freeze code is present). As necessary, refer to IRM 20.2, Interest.

- (7) The interest is computed to reflect 30 days from the notice date.

**Note:** If the TC 776 is reversed and there is no “G-” freeze code, process the case normally. An entry is not required in the MANUAL INTEREST field.

- (8) If a notice is issued (PC 55, 57, 59, 95, IPC CR, RN, SR or DR), enter the manually computed interest in the MANUAL INTEREST field of the Return Value screen or the Summary screen. Ensure Manual Interest calculation complies with IRC 6404(g). See IRM 4.19.3.18.9, Computer Generated Interest for the CP 2000.

- (9) Per IRC 6631 at the point of assessment, manual interest must be recomputed and a letter providing the taxpayer with a breakdown of how the interest is calculated must be sent. Interest is generally computed to the full paid date, 30 days from the agreement date, or the 23C date of the assessment, whichever is the earliest.

1. Prepare Letter 3535.
2. Compute the manual interest.
3. Print the computation and attach to Letter 3535.

**Note:** Users of command code (CC) COMPA may only send COMPAD prints to taxpayers as an explanation of the manual interest computation.

4. Access the assessment window.
5. Make the appropriate entries in the assessment window. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340, for additional information on what entries are required.
6. Use PC 68, 88, or 94 as appropriate.

- (10) If case requires a recomputed notice (IPC CR, RN, SR or DR) take the following actions:

1. Prepare Letter 3535.
2. Compute the manual interest.
3. Print the computation and attach to Letter 3535.

**Note:** Users of command code (CC) COMPA may only send COMPAD prints to taxpayers as an explanation of the manual interest computation.

4. Prepare the letter for mailing (address and stuff envelope), leave in the case file for clerical to mail.
5. Enter IPC CR/DR, RN/SR as appropriate.

- (11) All reject conditions are listed in IRM 2.3, IDRS Terminal Responses, under Command Code INTST or ICOMP.

- 4.19.3.19  
(09-01-2009)  
**Automated Underreporter (AUR) Rejects**
- (1) For reject cases, AUR generates a weekly listing with the SSN and Reject Code.
  - (2) These cases are worked based on the reject condition codes listed in IRM 4.19.2.10.20, Reject Listings.
- 4.19.3.19.1  
(09-30-2014)  
**Batch Type 84001 - 299 (Screening Cases with New Actions)**
- (1) During batch assembly by the control function, the system identifies cases with new Payer Agent information and new transactions received from Master File subsequent to the tax examiner's evaluation of the case.
  - (2) Each of these cases should be reviewed for possible closure. More than one condition may exist on the case.
  - (3) If the case contains new Payer Agent information, review new Payer Agent information and rework the case as necessary.
  - (4) If the case contains new transactions (from Master File) which may affect the case, rework the case if necessary.
  - (5) If a new address is present for the spouse and the last address change cycle is 201X52 or later (the address change cycle is located next to the STREET/CITY field), use the Update Address window to enter the spouse's address. Rework the case to generate another CP 2000.
  - (6) For No Response BT 84300-499, see IRM 4.19.3.21.1, No Response BT 84.
- 4.19.3.19.2  
(09-01-2008)  
**Letter Rejects**
- (1) When letters are sent to the taxpayer (for example, Letter 2626C, Letter 4314C) and errors are discovered during review, or IDRS incompatibility causes the letter to reject, the letters or cases are returned to the tax examiner who issued the letter.
- 4.19.3.19.3  
(09-01-2004)  
**Stop Notice Functionality**
- (1) Use the Stop Notice window if it is determined that a notice should not be mailed to the taxpayer. When an SSN is entered on the Stop Notice window, the system automatically assigns the appropriate "not mailed" PC.
    - a. This option **MUST** be used no later than 2 Fridays before the scheduled notice date.
    - b. PCs 34, 54, 58, 60, 79, and 81 (notice not mailed PCs) are systemically assigned when SSNs are committed to the Stop Notice window.
  - (2) Correct the information on the Case Analysis screen and/or the Return Value window.
    - a. Make the necessary changes, for example, U/R amount, paragraphs, IRs that need to be included on the notice, etc.
    - b. If a notice is being amended, enter an "A" in the AMENDED field on the Summary screen.
    - c. Re-enter the PC.
  - (3) PCs 34, 54, 58, 60, 79, or 81 (the stop notice/notice-not-mailed PCs) moves the case(s) into the appropriate Unit Suspense batch.
  - (4) The notice-not-mailed PCs 34, 54, 58, 60, 79, and 81 must be followed by an appropriate PC in order to release the case(s).



4.19.3.20  
(09-01-2004)  
**CP 2501 and CP 2000  
Information**

- (1) The following instructions are used to process a taxpayer response to the CP 2000/CP 2501 in the AUR Program.

4.19.3.20.1  
(09-30-2014)  
**CP 2501**

- (1) The CP 2501 is the notice sent to a taxpayer to obtain additional information prior to issuing a CP 2000.
- (2) Publication 1, Your Rights as a Taxpayer, is mailed as an enclosure with all CP 2501s.
- (3) There is a single Summary screen. All cases are worked through Return Value and the Notice Summary screen must be completed through entering all necessary return amounts and all applicable PARAGRAPHS. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (4) When PC 55 is committed and the U/R amount is \$100,000 or more, the system displays a prompt to issue a CP 2501. See IRM 4.19.3.7, Determination of CP 2501 Issuance, for more information on when to issue a CP 2501.

4.19.3.20.2  
(06-28-2021)  
**CP 2000**

- (1) The CP 2000 is sent to the taxpayer to propose a change to income tax liability because of income that is not identified or does not appear to be fully reported on the tax return. It is also sent due to a difference in W/H, EIC, ACTC, or excess SSTAX.
- (2) Publication 1, Your Rights as a Taxpayer, and Notice 1445, Tax Help in Other Languages are mailed as an enclosure with all CP 2000s.
- (3) See Exhibit 4.19.3-7, CP PARAGRAPHS.

4.19.3.20.3  
(10-07-2019)  
**Notice Summary Screen**

- (1) For cases requiring a notice, the system compiles the data from the screens and windows used in the analysis of the case and displays it on the Notice Summary screen. The system does not allow entry of an applicable PC until the Notice Summary screen is accessed and committed.
  - a. Select the Notice Summary screen.
  - b. Review the displayed data. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Using the Summary Screen.
  - c. If any data is incorrect, return to the applicable screen or window and make the appropriate corrections.
  - d. Paragraphs are added or deleted on the Notice Summary screen by accessing the Paragraphs window.
  - e. All data must be accurate, since the information on the Notice Summary screen is used to create the CP 2000 that is sent to the taxpayer. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Using the Summary Screen.
  - f. Enter the amount reported on the taxpayer's return for each discrepant income type in the RETURN field. (This is a required field.)
  - g. The system uses the amount entered to compute the REPORTED TO IRS field.
  - h. The system does not allow a negative amount in RETURN and REPORTED TO IRS fields (except for income type IRA, EWPEN, MORT INT, Conduit, Security Sales, Dividend Capital Gains, Savings Bond Exclusion, and deductible part of SE tax discrepancies).



**Note:** The AUR system does not allow amounts over \$999,999,999 to be entered. Cases with amounts of this size are referred to the manager or Technical Lead since they require special review and processing.

- i. If the REPORTED TO IRS and/or RETURN field(s) should be negative but the system will not allow a negative amount, use the following procedures: if the INCREASE OR DECREASE field is a positive amount (U/R income), enter zero (0) in the RETURN field; if the INCREASE OR DECREASE field is a negative amount (O/R income), enter the O/R amount (as a positive) in the RETURN field.
  - j. If unable to issue a notice showing the exact figures reported on the return, a Special Paragraph must be sent to the taxpayer explaining the adjustment.
- (2) The Notice Indicator is used to identify the type of CP 2000 issued, and is blank for an initial contact.
- a. Use Indicator "2" to generate a CP 2000 that follows a CP 2501 to which the taxpayer has responded.
  - b. Use Indicator "3" to generate a CP 2000 that follows a CP 2501 to which the taxpayer has not responded.
  - c. Use Indicator "4" to generate a recomputed CP 2000 that displays a paragraph which explains to the taxpayer that we used information supplied by them to refigure the amount of tax now owed to IRS.
  - d. Use Indicator "5" to generate a recomputed CP 2000 that displays a paragraph which informs the taxpayer that the documentation or explanation provided was not sufficient to allow us to waive the Accuracy-Related Penalty Due to Negligence/Substantial Understatement of Tax.
  - e. Use Indicator "7" to generate a recomputed CP 2000 that displays a paragraph which applies when the taxpayer refigures the amount of tax that is owed and provides either a signature (with or without full payment) or submits a payment for the revised tax increase and penalties in full. This paragraph indicates our agreement with the taxpayer's calculations and informs them that the notice has been sent for informational purposes only.
  - f. Use Indicator "8" for those instances when the taxpayer partially agrees to the CP 2000 or Statutory Notice, explains the other discrepancies to our satisfaction, **AND the Non-Refundable Credit window** is used to make

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Notice Indicator "8" suppresses the generation of a subsequent notice to the taxpayer and allows an assessment to be automatically generated.

**Caution:** Notice Indicator "8" should **only be used when the Non-Refundable Credit window** is used to make the system match the taxpayer's figures

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firming that we used the information/computation they provided to make the assessment to their account.

- g. Use Indicator "1" to generate a recomputed CP 2000 following a Statutory Notice. In this instance, the taxpayer sent us additional information to refigure the tax. The taxpayer's 90-day period for petitioning the U.S. Tax Court has not expired.
- h. Use Indicator "0" (zero) to generate a recomputed CP 2000 following a Statutory Notice. Indicator "0" notices are sent to the taxpayer as infor-

mation only notices. The taxpayer's 90-day period for petitioning the U.S. Tax Court has expired and we have concluded our inquiry. For additional information see IRM 4.19.3.22.6, Partially Agreed Responses, and IRM 4.19.3.22.6.1, Recomputation Notice/Supplemental Report.

**Note:** Use IPC DR when using Indicator "0"

- (3) Use the Amended Indicator "A" to indicate that a notice is amended.
- (4) Notices requiring special handling are sorted into groups when a Sort Indicator displays or is entered in the SORT field. Up to five (5) Sort Codes may be used.

**Note:** Valid Sort Codes are 1, 2, 3, 4 and 5.

- a. Enter Sort Code "1" for cases requiring enclosures. If sending a recomputed notice and a Sort Code was on the notice, remove the Sort Code if it no longer applies.

**Exception:** If sending enclosures under separate cover from the notice send **PARAGRAPH 61**. See Exhibit 4.19.3-7, CP PARAGRAPHS - DO NOT USE SORT CODE 1.

- b. Provide specific details for required clerical actions.

**Note:** Use a single digit numeric Sort Code (other than "1").

- (5) Enter/Verify the total of all payments credited toward the taxpayer's current AUR account received after the initial contact notice in the AMOUNT PREVIOUSLY PAID field on the Notice Summary screen.
- (6) When working cases in BT 61, Manual Interest, enter/verify the manually computed interest in the MANUAL INTEREST field on the Notice Summary screen.
- (7) When the Notice Summary screen is completed and committed, access the Process Code window and enter the appropriate PC. If the notice should not be sent and another action is necessary, access the Process Code window and enter the appropriate PC. See Exhibit 4.19.3-4, AUR Process Codes. For a list of Internal Process Codes (IPC), see Exhibit 4.19.3-3, AUR Internal Process Codes. Enter these codes on the Process Code window when you complete all actions necessary for the current situation of the case (for example, enter a research IPC if you are requesting research).
  - The system validates that proper actions have been taken before a PC or IPC is entered.
  - Entering a PC is required to complete working a case, except when a case is transferred to another user or yourself in the Unit Suspense batch.
  - The system does not allow you to release a work unit if a case that needs a PC is in the work unit.

4.19.3.20.4  
(09-01-2008)

**Amended/Corrected CP  
2000/2501 Notices**

- (1) If a notice is incorrect, an amended/corrected notice can be generated. Multiple amended/corrected notices can be generated if necessary.
- (2) If corrections are necessary, return to the applicable screen(s) or window(s) and make the appropriate correction(s).

- (3) Enter an "A" in the AMENDED INDICATOR field on the Notice Summary screen.
- (4) The system is updated to reflect the new amount(s) so any subsequent notices or disclosure records are correct.
- (5) A new notice date is assigned by the system.
- (6) IR elements not sent on the original notice can be selected for inclusion on the amended/corrected notice. Mark the IR elements with Send Indicator "S".
- (7) A code "A" prints in the transaction code line on the response page of the notice to indicate that it is an amended notice.
- (8) The amended notice capability is also used to update the interest computation if the original CP 2000 Notice was not mailed within five (5) days of the notice date.

4.19.3.20.5  
(09-04-2015)  
**CP 2000/2501 History  
Screens**

- (1) The CP 2000/CP 2501 History screens display all the information contained on the notice sent to the taxpayer. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Viewing Notice History Screen.
- (2) Select the Unit Case History from the Case Analysis menu to view the history of a case assigned to your unit.
- (3) Select the Unit Case History from the Case History window from the Main menu to view the history of a case assigned to another unit.
- (4) No update is allowed in any field on these screens.
- (5) The CP 2000/CP 2501 History screen (as applicable) can only be used to view the notice history of a case.
- (6) The CP 2000 History screen is the only screen that provides the total tax due plus interest (the bottom line, balance due/refund amount) as it appears on the notice.

4.19.3.21  
(09-01-2003)  
**No Response/  
Undeliverables**

- (1) Generally, when there is no taxpayer response to an AUR Notice, the case is systemically updated to the next phase.
- (2) Prior to updating the case, if certain conditions are present, the system alerts the Clerical Function to build the case into a Batch that requires additional tax examiner review.

4.19.3.21.1  
(11-23-2022)  
**No Response BT 84**

- (1) There may be multiple reasons a case is built into BT 84 so thorough research of the entire case is required to ensure all conditions and issues are resolved.
- (2) For **screening cases with new transactions (Batch Type 84001 - 84299)**, see IRM 4.19.3.19.1, Batch Type 84001-299 (Screening Cases with New Actions).
- (3) The following instructions apply to all subsections of BT 84 unless otherwise specified.

- (4) When there is an indication of identity theft in the message window, review IDRS CC ENMOD for IDT indicators. Consider the following when determining appropriate action:

If there are multiple current IDT indicators	Then
Enter on various dates	Process the case based on the most recent IDT indicator.
Enter on the same date, and these are the most recent IDT indicators	<ol style="list-style-type: none"> <li>1. Consider all these IDT indicators.</li> <li>2. If one indicates the case should be closed no change but another indicates some other action should be taken, for example, transfer the case to the AUR IDT Liaison; take the other action. DO NOT close the case no change.</li> </ol>

- (5) When there is an indication of identity theft in the message window, take the following actions:

**Caution:** If the TC 971 AC 501, 504, 505, 506 or 522 has been reversed with a corresponding TC 972 - continue normal AUR processing, DO NOT TRANSFER TO IDTVA.

If TC 971 has an AC of	Then
<b>501</b>	Continue normal AUR processing.
<b>522 with the literal UNWORK</b> <b>Note:</b> If the IDT claim was made prior to April 3, 2017, also consider INCOME, MULTFL, INCMUL, NODCRQ, NOFR or OTHER	<ol style="list-style-type: none"> <li>1. Leave a case note.</li> <li>2. Transfer to the designated SEID.</li> <li>3. Place in the designated area for the AUR IDT liaison.</li> </ol>
<b>522 with the literal PNDCLM</b>	<ol style="list-style-type: none"> <li>1. Research AMS/CII to check for Form 14039 or a police/law enforcement incident report.  <b>Note:</b> It may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.  <b>Note:</b> Research AMS/CII for IDT documents.</li> <li>2. If AMS/CII includes a copy of a Form 14039 or a police/law enforcement incident report, transfer to the designated SEID.</li> <li>3. Place in the designated area for the AUR IDT liaison.            If AMS/CII does not include a copy of a Form 14039 or police/law enforcement incident report, continue normal processing.</li> </ol>
<b>504 with the literal RPM on the AUR tax year</b>	Close no change PC 52, 71 or 92. <b>Do not</b> send a Letter 1802-C.

If TC 971 has an AC of	Then
<b>AC 504 with the literal RPM (not on the AUR tax year) or with literals SPCL1, SPCL2 or EAFAIL</b> does not indicate identity theft.	<ol style="list-style-type: none"> <li>1. Continue normal AUR processing.</li> <li>2. Leave a case note acknowledging the AC 504 - SPCL1, SPCL2 or EAFAIL.</li> </ol>
<b>504 with literals ACCT, BOTH, NKI or EMPL</b>	Continue normal AUR processing.
<b>505</b>	Continue normal AUR processing.
<b>506 on the AUR tax year</b> <b>Caution:</b> AC 506 with literals WI AMTAP (RFND, OTHER, OMM, OMMGB or DDB) or WI PRP OTHER1 or WI PRP DDB is an indication of IVO involvement. The account may also contain a "P-" or "-R" Freeze Code Do NOT release any credit.	<b>If there is no credit on the account:</b> <ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Close the case using PC 52, 71 or 92, as appropriate.</li> </ol> <b>If there is a credit on the account:</b> <ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window.</li> <li>2. Enter/Verify TC 290 .00.</li> <li>3. Enter Hold Code 4.</li> <li>4. Remove all other transaction/reference codes.</li> <li>5. Enter "N" in the SOURCE DOCUMENT ATTACHED field.</li> <li>6. Enter remarks: No change.</li> <li>7. Change the AUTO/MANUAL IND field to "M".</li> <li>8. Commit the Assessment window.</li> <li>9. Leave a detailed case note.</li> <li>10. Enter PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> <li>11. Using the IAT "xMend" or "REQ54" tool, enter a TC 290.00 and include Hold Code 4.</li> </ol>
<b>506 on other than the AUR tax year</b> <b>Caution:</b> If the tax return in question meets the criteria outlined in the Refund Scheme Listing, IRP data, IRM 25.23.4-1, IRTPTR/IDRS Data Decision Tree, for example, the only UR income is social security benefits that do not indicate a filing requirement, it may be an indication that the return is bad (not filed by the SSN owner) and the address on the module may not be that of the actual taxpayer. It may be necessary to research the taxpayer's address against prior year returns or IDRS CC ENMOD and reissue the notice/letter accordingly. Refer to  <b>Note:</b> Use the address from the SS/RR IR when the only UR income is social security benefits that do not indicate a filing requirement.	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C.</li> <li>2. Include a paragraph to request Form 14039 or a police/law enforcement incident report.</li> <li>3. Include a paragraph to request a statement identifying the issues related to IDT.</li> <li>4. If the income issue(s) is affiliated with the secondary SSN which does not have the IDRS IDT indicator, include a paragraph to request Form 14039 or a police/law enforcement incident report and identification of the issues related to IDT.</li> <li>5. Inform the taxpayer they should contact the Federal Trade Commission at (877)438-4338 or <a href="http://www.ftc.gov/">http://www.ftc.gov/</a> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <a href="http://www.irs.gov/">http://www.irs.gov/</a> keyword <i>Identity Theft</i> or see Pub 5027, Identity Theft Information for Taxpayers.</li> <li>6. Enter IPC 6L, or 8L as appropriate.</li> </ol> <b>Note:</b> The instructions in steps 1 - 6 above apply even if the case is ready to default.

If TC 971 has an AC of	Then
523	Continue normal AUR processing. DO NOT TRANSFER TO IDTVA.
524	Continue AUR processing following IRM 4.19.3.5.5, Deceased Taxpayers, and/or IRM 4.19.3.22.1.14, Decedents. DO NOT TRANSFER TO IDTVA.
525	Close no change PC 52, 71 or 92. <b>Do not</b> send a Letter 1802-C.

- (6) AUR will make one written request to secure the needed information (IDT documentation and/or the specific issues related to the IDT claim). If not provided, research IDRS CC ENMOD for a current AUR initiated TC 971 AC 522 UNWORK or PNDCLM for the tax year in question. If present, reverse per IRM 4.19.3.22.1.26.3, IDT Claims - Responses, using NORPLY and continue normal AUR processing.

- (7) If new transactions are present, the case has a new TC from Master File which may affect the case.

**Caution:** Be alert for erroneous refund conditions. See IRM 4.19.3.5.13.1, Recovering Erroneous Refunds, for further information.

- a. If the taxpayer submitted a full payment for the tax and related penalties, before issuance of a Statutory Notice, and there was no balance due prior to the notice, assume the payment was related to the proposed U/R assessment and enter PC 53, 67 or 87, as appropriate, **UNLESS** the payment has a blocking series of 990-999 (IRC 6603 deposit). See IRM 4.19.3.22.1.15, Deposits to Stop the Accrual of Interest - Section 6603, for further information on IRC 6603 deposits.

**Caution:** Full payment received after issuance of a Statutory Notice cannot be accepted as agreement to the tax increase. When sufficient time is left in the suspense period, issue a Letter 2626C to acknowledge payment and request missing signatures. If the suspense time frame has expired, enter PC 90 to default the case.

- b. If the taxpayer submitted a partial payment, do not request the payment document. Assume the payment relates to the proposed adjustment if the account was in Zero Balance prior to the notice, or the payment blocking series is 300-399. Issue a CP 2000 if the case is from a CP 2501 Cases with New Actions (BT 84300 - 499). Issue one Letter 2626C requesting taxpayer's signature to consent if the case is a CP 2000 Cases with New Actions (BT 84500-799). If a Letter 2626C has already been issued for a partial payment, continue normal processing. Enter the appropriate PC.
- c. If the partial payment new transaction is indicated during the Statutory Notice Default process (BT 84800 - 999), use PC 90 to assess by Default.

**Note:** The following batch types are designated for processing identity theft cases with new transactions: BT 84449 - 84499, BT 84749 - 84799, and BT 84949 - 84999.

- d. If a Form 1040-X was processed, order the Form 1040-X, if necessary.



- e. If Tax Account screen shows a TC 976/977 or TC 971 AC 010, 012 through 016 or 120 with no corresponding TC 290, research AMS and EUP for the duplicate/amended return. If after performing AMS/EUP research the amended/duplicate return is not located, correspond with the taxpayer to request a signed copy of the Form 1040-X. See IRM 4.19.3.22.1.19, Form 1040-X/Amended Return.

**Note:** If there is an indication on Tax Account screen that the TC 977 is a CII document, view the document using AMS.

- f. If the new TC contains a corresponding Freeze Code -A, -C, -F, -I, -L, -U, Y-, -Z or Z-, see IRM 4.19.3.4.3.2, Freeze Codes, for instructions.
- (8) If a Freeze Code “-V” or “-W” with cc of 81 or 84 is present (not reversed by TC 521 or 522), see IRM 4.19.3.22.1.10.1, Bankruptcy Procedures - Tax Examiner Instructions, for instructions.
- (9) If there is a previous IPC MI on the account:

If case is in	And	Then	
CP 2501 phase		Continue processing.	#
CP 2501 phase		Continue processing.	#
CP 2000 phase		Continue processing.	#
CP 2000 phase		Continue processing.	#
CP 2000 phase		Close case with PC 73.	#
Stat phase		Continue Processing.	#
Stat phase		Close case with PC 93.	#

- (10) If a **TC 604** is present:
- and TC 971, AC 065, see IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases.
  - all others, refer to the Bankruptcy Coordinator.
- (11) If a **Letter 2625C** (payer contact letter) was issued to the payer and no response was received, see IRM 4.19.3.22.7.6, Payer Contacts.

**Reminder:** When deleting wages see IRM 4.19.3.22.7.4, Referrals, to prepare Form 9409.

- (12) If new **Payer Agent** information was received, review new Payer Agent information and rework the case as necessary.



- (13) If a **new address is present for the spouse**, use the following procedures.
1. Use the Update Address window to enter the spouse's address.
  2. Rework the case to generate an amended CP 2000.
  3. Enter an Amended Indicator on the Summary screen, or if the latest PC on the Case History is PC 79, enter PC 75 to generate a Statutory Notice.
- (14) If the **CP 2000 History data is incomplete**, an auto assessment for fully agreed is not possible. Enter assessment on the Assessment window. Close the case using PC 68, 88, or 94. (PC 67, 87, or 90 cannot be used on these cases.)
- (15) If the tax increase is \$1 million or more, review, and rework if necessary, to ensure the accuracy of the case. If the balance due is over **\$10 million dollars**, at case closing:
1. Photocopy **ALL** case contents.
  2. Print the Tax Account, Information Returns, Case Notes, Case History and CP 2000/CP 2501 Notice(s).
  3. Send the copies/prints to the Chief Financial Office staff at the following address:

Internal Revenue Service

CFO, Business Analysis and Support Section

Stop S-2, 1035

333 W. Pershing Rd.

Kansas City, MO 64108

**Reminder:** Include a case note that the case information was sent to CFO.

Decrease Notices, for additional information. Use the following procedures:

**Exception:** The following batch types are designated for processing identity theft cases with new transactions: BTs 84449 - 84499.

1. Check the Case History for an indication of an undeliverable Action Code. If the Case History shows Action Code "U", a newer address is available. Reissue the notice (PC 30A for CP 2501 or PC 55A for CP 2000) to the newer address. If the Action Code is blank or "T" (true undeliverable) follow the steps below.

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**Note:** Do not issue a Statutory Notice of Deficiency to address increases to EIC and/or ACTC. If PC 75 is entered, the system displays a warning message.

- (17) When working **BT 84300 - 499**, if a CP 2501 was issued for questionable U/C

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information.

1. Check the Case History for an indication of an undeliverable Action Code. If the Case History shows Action Code "U", a newer address is available. Reissue the CP 2501 Notice using an amended indicator "A", to the newer address. If the Action Code is blank or "T" (true undeliverable) follow the steps below.

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3. Close the case with PC 52.

**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, enter "N" in the SOURCE DOC field in the Process Code window.

- (18) When working **BT 84500 - 799**, if a CP 2000 was issued for questionable O/C

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**Exception:** The following batch types are designated for processing identity theft cases with new transactions: BTs 84749 - 84799.

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1. Check the Case History for an indication of an undeliverable Action Code. If the Case History shows Action Code "U", a newer address is available. Reissue the CP 2000 Notice using an amended indicator "A", to the newer address. If the Action Code is blank or "T" (true undeliverable) follow the steps below.

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3. Complete Return Value screen. If necessary adjust the Other Credits/ Other Taxes window(s) so that the net tax increase is now zero (0). The only remaining issue should be the O/C W/H.
4. Enter/Verify the appropriate entries on the Assessment window.
5. Blocking Series 5X.
6. TC 290-0.
7. Reference Code 807 for the amount of O/C W/H.
8. Close the case with PC 68.

**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, access the Assessment window, enter the TC 290-0 and enter "N" in the SOURCE DOCUMENT ATTACHED? field.

- (19) If a notice was issued for questionable O/C SSTAX or for O/C SSTAX and not respond:

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1. Check the Case History for an indication of an undeliverable Action Code. If the Case History shows Action Code "U", a newer address is available. Reissue the CP 2000 Notice using an amended indicator "A", to the newer address. If the Action Code is blank or "T" (true undeliverable) follow the steps below.

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SSTAX.

4. Commit the Return Value screen.
5. Enter/Verify the appropriate entries on the Assessment window.
6. Leave the IRS RECD DATE field blank.

**Note:** Do not enter a CREDIT INTEREST DATE on SSTAX adjustments with a TC 290-.00 (zero). Delete if present.

7. TC 290-.00.
8. Source Code "2".
9. Reason Code "055" for excess SSTAX.
10. CRN 252 as a negative money amount for O/C SSTAX.
11. Source document attached "Y" unless it is an ELF return, then enter "N" instead.
12. Close the case with PC 68.

- (20) If a review of the **splitting of the taxpayers' names** on a joint account is needed, see IRM 4.19.3.22.11, Instructions Specific to Statutory Notices/ Responses, to make the proper adjustments to the UPDATE ADDRESS window.

- (21) When working **BT 84800 - 84999**, do not enter PC 75 after a Notice of Deficiency has been issued.

- (22) When working **BT 84800 - 84999** cases with Freeze Code “-C”, research the case for the combat zone exit date. DO NOT default a case if the combat zone exit date is not available. See IRM 4.19.3.22.1.11.1, Combat Zone Cases and IRC 7508.

4.19.3.21.2  
(09-04-2015)  
**Undeliverables**

- (1) The Address File updates weekly on the AUR system. New addresses loaded onto the system between the time a case is worked and the time the notice is printed automatically reflect the new address.
- (2) The control function handles most undeliverable notices. However, when re-computed notices or additional correspondence are returned undeliverable, the cases can be assigned to a tax examiner for further review.
- (3) The Case History Screen contains information about notice status.

Field Description	Indicator Description
<b>ACTION CODE</b> - Indicates whether correspondence is remailed with a new address, is undeliverable and should be cancelled, or the notice was rejected.	<ul style="list-style-type: none"> <li>• T - True Undeliverable</li> <li>• M - Remail with new address</li> <li>• R - Rejected</li> <li>• U - New address/actions exist</li> <li>• C - Cancelled CP 2000 (notice information maintained)</li> <li>• S - Stat not mailed</li> <li>• D - Notice information deleted</li> </ul>
<b>DELIVERY STATUS CODE</b> - Indicates a response from United States Postal Service (USPS) concerning the status of the certified mailing (Stat notice).	<ul style="list-style-type: none"> <li>• A - Notice has been delivered by USPS and it has been signed for by the intended recipient or agent approved by the recipient.</li> <li>• BLANK -CPS has not delivered any status update to AUR.</li> <li>• N - USPS delivery status for the mailed notice has not been received by CPS within a specified time period.</li> <li>• P - The notice has been surrendered to the USPS. Notice is pending delivery by USPS. This status updates in two (or more) weeks to one of the other delivery status codes listed.</li> <li>• S - The notice has been suppressed and not mailed by CPS.</li> <li>• U - Notice was Undeliverable by USPS.</li> <li>• X - Taxpayer refused delivery of the notice or it was unclaimed.</li> </ul>

- (4) If a new address is found from previous correspondence, enter the appropriate change on the Update Address window (Undeliverables). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information.

**Note:** Use CAUTION when entering an address change because both the primary and secondary taxpayer may have received a notice. Make sure to update the address for the proper taxpayer (primary/secondary).

1. Enter an "A" in the AMENDED field on the Notice Summary screen, if issuing a new CP notice.
  2. Re-enter the PC.
- (5) If a new address is NOT found for an undeliverable notice, enter the appropriate PC.

**Caution:** Do not issue status/interim letters on undeliverable cases.

- (6) If the Post Office returns certified mail as "unclaimed" or "refused" rather than undeliverable, continue processing the case using normal procedures. An additional address check is not necessary.

**Note:** As the IRS receives weekly address update information from the Post Office, special instructions for forwarding orders expired are no longer needed.

4.19.3.22  
(09-30-2014)  
**Taxpayer Responses**

- (1) Most taxpayer explanations are self-explanatory. All returns in the AUR inventory were previously evaluated for unallowable items and audit potential. They were not selected for action in either event.
- a. When evaluating a taxpayer's explanation for unreported income it is not necessary to verify everything the taxpayer says. As a general rule, the issue of questionable items (those not clearly unallowable) will not be raised.
  - b. The taxpayer's explanation will generally be taken at face value, including schedules of expense submitted by the taxpayer to offset unreported income. Consider the reasonableness of the explanation.
  - c. If Exam issues are discovered during AUR processing, consult with the team lead. Then, if necessary, consult with an Exam representative to decide the appropriate action(s) to take.
- (2) Tax examiners analyzing a case worked in response phase will confine them-
- (4) Status code "J" displays on all IR elements not pursued on auto-generated notice cases.

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4.19.3.22.1  
(10-06-2022)

**Taxpayer Responses -  
Overview**

- (1) The primary purpose of the AUR Program is to account for discrepancies between amounts on IRs and amounts on the tax return.

**Note:** Due to virtual case processing some AUR cases will not have folders. When reference is made to “folders” be aware that a listing and/or other transmittal may be present.

- (2) A taxpayer’s response to an AUR notice can be:

- a. A copy of the AUR notice (CP 2000/CP 2501).
- b. The taxpayer response page (CP 2000/CP 2501).
- c. A signed Form 9465, Installment Agreement Request, or Form 433-D, Installment Agreement.
- d. A copy of the Notice of Deficiency (Statutory Notice).

**Caution:** THE STATUTORY NOTICE IS A LEGAL DOCUMENT. If the taxpayer sends the original Statutory Notice OR the CP 2000 DO NOT make any marks or corrections on either.

**Note:** The taxpayer is allowed 90 days (150 days if the notice is addressed to a person outside the U.S.) to petition the Tax Court. The taxpayer cannot receive an extension of this statutory period. However, if a response is received after the time to petition has expired but before an assessment is made, the IRS will continue to try to resolve issues. For information on responses received after an assessment is made see IRM 4.19.3.26, AUR Reconsideration (RECON) Cases.

- e. A letter, note, or fax.
- f. A letter from a third-party.
- g. A Form 1040-X or amended return.
- h. Form 3244, Payment Posting Voucher. Form 3244, is completed by Receipt and Control to record payment(s) received from the taxpayer and posts a TC 640 payment.
- i. A telephone call.
- j. A Form 4442, Inquiry Referral, from Customer Service.

- (3) **TDC Responses** - Secure Messaging cases (TDC) are worked by a selected group of tax examiners. Cases are identified by the presence of the RCC “T” or “H” located on the top ribbon of the AUR screen next to the process code, and/or the presence of PARAGRAPH 211, TDC Invitation. Cases are identified by the presence of a “Y”, in the TDC indicator field of the summary screen and/or the presence of RCC “T” or “H” located on the top ribbon of the AUR screen next to the process code. When a response to a TDC notice is received, take the following actions:

**Note:** **PARAGRAPH 211** is designated for TDC cases.

If	Then
There is no presence of RCC	<ol style="list-style-type: none"> <li>1. Continue normal response procedures, the case <b>does not</b> require special handling.</li> <li>2. For responses requiring a recomputed notice for TY 2019, <b>Send PARAGRAPH 211</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS. For TY 2020, enter a Y in the TDC indicator field in summary screen.</li> <li>3. Direct the taxpayer to the invitation on the link for questions regarding Secure Messaging.</li> </ol>
The RCC is "T" or "H".	Transfer the case to the designated TDC tax examiner.

- (4) If the taxpayer's response indicates the taxpayer's attorney submitted a **qualified offer**, uses the words "**qualified offer**" or mentions "**IRC 7430(g)**", immediately fax the offer to "Chief, Branch 5, Office of the Associate Chief Counsel (Procedure & Administration)," at 855-592-8972, requesting a determination of whether the offer is a qualified offer under IRC 7430. Along with the offer document include the following:

**Note:** If during a phone call the taxpayer/representative mentions they have filed a qualified offer, notify the AUR Coordinator immediately so that they can obtain the case file and take the necessary actions.

**Caution:** Do not confuse a Qualified Offer with an Offer in Compromise.

- a cover sheet with the name of the taxpayer,
  - a brief description of the issue(s),
  - the type of tax and
  - the name and telephone number of a person in the campus who is the point of contact
- (5) The subject line of the fax cover sheet should be "**Purported Qualified Offer under Section 7430**". For more information about qualified offers, see IRC 7430(g), Treas. Reg. § 301.7430-7, and CCDM *IRM 35.10.1*, Qualified Offer Rule. Awards of Litigation and Administration Costs and Fees. In general, a taxpayer who submits a qualified offer and meets the other requirements of section 7430 may recover reasonable administrative and litigation costs from the IRS if the IRS does not accept the offer and the taxpayer's liability pursuant to a judgment in a court proceeding is equal to or less than the liability the taxpayer would have incurred if the Service had accepted the offer.
- (6) If the taxpayer provides an explanation that allows the case to be closed, issue a Letter 1802-C and close the case with the appropriate PC:



Notice	Process Code	And
CP 2501	52	Attach a copy of the Letter 1802-C to the qualified offer that is being sent to Counsel.
CP 2000	71	Attach a copy of the Letter 1802-C to the qualified offer that is being sent to Counsel.
Statutory Notice	92	Attach a copy of the Letter 1802-C to the qualified offer that is being sent to Counsel.

- (7) Digital assets (Virtual currency) may be used to pay for rent, royalties, or any type of goods or services and is to be treated as ordinary income by the recipient if received as part of operating a trade or business. An employer may use it as payment for wages, salaries and compensation. If the taxpayer engaged in certain transactions involving digital assets (virtual currency), the check box of Form 1040/1040-SR (TY 2020 and TY 2021) or the digital asset check box at the top of Form 1040/1040 entity section will be checked "Yes". Follow the appropriate response procedures, based on the type of document the payer used to report the income.

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- (8) The taxpayer's response (and all attachments) should be retained as part of the case file. If it can be determined that the taxpayer has submitted original documents (such as, birth certificate, death certificates, marriage license) make a copy for the case file and mail the originals to the taxpayer with Form 14219, Return of Documents to Taxpayer, or a cover letter.

**Exception:** Do not return original Form W-2, Form W-2C, and/or Form 1099-R that are required at the time of filing.

**Exception:** Cases returned from IDTVA to AUR to continue processing may contain correspondence on AMS. Review AMS when related correspondence is indicated in the AUR case note. It is not necessary to print and maintain the imaged correspondence as part of the case file.

- (9) IDTVA scans all correspondence into AMS/CII. It may be necessary to access AMS/CII to review the information when working cases previously referred then reintroduced in the AUR Program.

**Note:** Printing information from CII is not required.

**Caution:** Some original paper tax returns were scanned by IDTVA into AMS/CII. If the paper return is missing from the case file, if necessary, access AMS/CII to view the return when working the case.

- (10) If the taxpayer includes their telephone number in the response to any notice (CP 2000/CP 2501, or Statutory Notice) take the following actions:
1. Enter/update the telephone number.
  2. If appropriate, call them to resolve the outstanding U/R issue(s) before sending any written correspondence. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for additional information.

**Note:** Only one attempt is required. An attempt must be made even when the taxpayer provides only an evening phone number for a day shift tax examiner or a day phone number for a swing (night) shift tax examiner.

3. See IRM 4.19.3.22.2.2, Disclosure, IRM 4.19.3.22.2.2.1, Disclosure Verify Screen, and guidelines regarding answering machines in IRM 11.3.2.6, Methods for Communication of Confidential Information.
4. Always identify yourself by title (for example, Mr., Mrs. or Ms.) and last name or first and last name, employee identification (ID) Number, and as an IRS employee during telephone contact with the taxpayer. Provide the taxpayer with a telephone number to contact the Service about their case if needed. Always use courteous behavior when speaking to a taxpayer via the telephone. See IRM 4.19.3.22.2, Telephone Responses, for additional telephone and mandatory Disclosure procedures that must be followed.

**Caution:** **DO NOT** provide your first and last name when identifying yourself, use one of the examples shown above.

5. Leave a case note to document action taken or when a phone call is attempted.
- (11) When evaluating responses, review the Payer Agent information if Payer Agent Indicators are present on the Case Analysis screen for the IR(s) in question.
- (12) If the taxpayer indicates receipt of an AUR notice/letter but there is no record on the AUR system of any notice/letter issuance for the tax year in question (fake CP 2000), see IRM 4.19.3.5.8.1.1, Online Fraud and Other Scams (PHISHING), for additional information.
- (13) While evaluating the taxpayer's response, make changes to the Case Analysis and Return Value screens when appropriate. The system uses data from the screens and windows to display on the Summary screen. This action verifies that revised calculations of the U/R amount, adjustments, tax, credits, and balance due/refund amounts are accurate. It also leaves an audit trail of your actions and will make assessment information correct, if needed.

**Note:** The following suggested method may be used for processing a No Change case: All taxpayer addressed IRs that are now resolved (in other words, no longer U/R) should be marked with status code "R", "D" or "N", and the Return Value screen should be committed (to account for any "other taxes or credits" issues), before entering a PC.

- (14) If additional returns or adjustment documents were requested during case analysis and:
- The case is being closed **with an assessment** in the Underreporter blocking series, leave the documents with the AUR case file.
  - The case is being closed **without an assessment**, refile them separately.
- (15) If the taxpayer writes in with a question or requests assistance on a non-AUR related matter:
- Photocopy the question/request.
  - Notate taxpayer name, SSN, and address on the photocopy.
  - Forward the photocopy to the appropriate area for response.
  - Follow Policy Statement P-21-3 guidelines for responding to the taxpayer. See IRM 4.19.3.22.1.5, Policy Statement P-21-3.
- (16) Any response may require a new address be entered on the Update Address window. The Clerical Function may update the address. See IRM 4.19.3.22.1.6, Address Updates.

**Caution:** Because both the primary and secondary taxpayer may have received a notice, use caution when entering an address. Make sure to update the proper taxpayer (primary/secondary) address.

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- (17) If a notice is generated, but NOT YET MAILED to the taxpayer, and information from the response makes it necessary to prevent the notice from being mailed, use the Stop Notice option. **THIS OPTION MUST BE USED NO LATER THAN TWO FRIDAYS BEFORE THE SCHEDULED NOTICE DATE.** See IRM 4.19.3.19.3, Stop Notice Functionality, for additional information.
- (18) For any remittances received with responses, see IRM 4.19.3.22.1.17, Discovered Remittance and Voided Checks.
- (19) When working with correspondence that has not been processed through the Clerical Function (for example, a faxed response sent directly to a specific tax examiner), ensure that an IRS Received Date is entered on the AUR system.

**Exception:** A faxed Form 2848, Power of Attorney and Declaration of Representative, with no explanation is not considered correspondence for purposes of updating the AUR Received Date.

To enter a received date, select the RCVD DATE option under the CONTROL and CASE options. Enter the SSN of the case followed by the IRS Received Date. The AUR Received Date automatically displays the current date. Commit the window. It is possible to enter multiple received dates.

**Caution:** When entering an IRS RECD DATE for cases to be refiled, do not assign IPC RF, use IPC 6S or 8S to ensure the system retains the entered IRS Received date.

4.19.3.22.1.1  
(09-01-2007)  
**Controlling Responses**

- (1) In the response phase, certain situations require specific procedures. The following instructions cover responses that need special handling, Lost Responses, and Refiling Cases.

**Note:** See IRM 4.19.3.3.2, Lost Cases, for additional information on handling Lost Cases.

4.19.3.22.1.1.1  
(09-30-2014)  
**Responses - Special Handling**

- (1) **Responses associated with the wrong case folder** - If the SSN on the response is assigned to the batch, but is enclosed in the wrong folder, take the following action:
1. Remove the response from the case file (folder).
  2. Check Case History to see if the folder belongs in the batch. If yes, associate it to the correct work unit. If no, route the incorrect case file to the Clerical Function to refile.
  3. Contact clerical to obtain the correct case file for that response.
- (2) If the case file is not obtained and the response cannot be worked (processing cannot continue) until the case file is located:

**Note:** Ensure Policy Statement P-21-3 requirements are followed.

1. Print the Case History screen and attach it to the response.
  2. Enter IPC "LC" (Lost Case) on the Process Code window.
  3. Route the response to the Clerical Function.
- (3) If the response is in the correct folder, the tax return is missing and appropriate **action can be determined** without the tax return continue normal processing.
- (4) If the response is in the correct folder, the tax return is missing and appropriate **action cannot be determined** without the tax return:

**Note:** Ensure Policy Statement P-21-3 requirements are followed.

1. Print the Case History screen.
2. Notate "No Return" on the case folder.
3. Enter IPC "LC" on the Process Code window.
4. Route the folder to the Clerical Function.

**Note:** The instructions in (4) above do not apply to Virtual returns.

4.19.3.22.1.1.2  
(10-06-2022)  
**Lost Responses**

- (1) During the Response phase, a taxpayer's response may be missing from the case file, the case may contain the wrong response or the case may contain an extra response.
- (2) If the **Taxpayers response is missing**, notify the lead (who will search for the response in the batch).
- (3) If the lead is unable to locate the response, attempt an out call to obtain a copy of the correspondence. If unable to reach taxpayer by phone:
1. Issue a Letter 2626C, apologize for the inconvenience and request the taxpayer resubmit their response.
  2. Assign IPC 6L or 8L as appropriate.

**Note:** For CP 2501, enter PC 57.

(4) If the case contains the **wrong response**:

1. Remove the wrong response and check the Case History to see if the response belongs to another case in the batch.
2. If the response belongs in the batch, associate the response.
3. If the response does not belong in the batch, print and attach the Case History and route to the assigned location or to clerical, as appropriate.
4. See (2) above when the response for your case is not located.

(5) If the case contains an **extra response**:

1. Remove the extra response and check the Case History to see if the response belongs to another case in the batch.
2. If the response belongs in the batch, associate the response.
3. If the response does not belong in the batch, print and attach the Case History and route to the assigned location or to clerical, as appropriate.

4.19.3.22.1.1.3  
(10-25-2023)

**Refiling Cases (Internal  
Process Code RF)**

- (1) Refile cases to the previous AUR suspense batch (except for Lost Case and all Unit Suspense type batches) using IPC "RF".

**Note:** If the suspense batch has aged (time frame expired/passed) a message displays "Invalid Process Code - Batch is aged". Take necessary actions to issue a letter or move the case to the next phase.

**Caution:** When entering an IRS RECD DATE for cases to be refiled, use the appropriate IPC 6S or 8S to ensure the system retains the entered IRS Received date **DO NOT assign IPC RF.**

4.19.3.22.1.2  
(06-19-2018)

**Abatement of Interest**

- (1) IRC 6404(e)(1) provides information for abatement of interest on deficiencies or payments of deficiencies attributable to any unreasonable error or delay by the Service in performing a ministerial or managerial act.
- (2) A **ministerial act** is a procedural or mechanical action that does not involve the exercise of judgment or discretion, and that occurs during the processing of a taxpayer's case after all prerequisites to the act have taken place.
- (3) A **managerial act** is an administrative action that occurs during the processing of a taxpayer's case and that involves the temporary or permanent loss of records or the exercise of judgment or discretion relating to management of personnel. Interest attributable to a general administrative decision, such as the Service's decision on how to organize the processing of tax returns, may not be abated.
- (4) IRC 6404 also provides several exceptions to the IRC 6601 general requirement that interest be charged from the due date of the return until the balance due is paid in full. Interest can also be abated if there was an IRS computational error. Annotate the case folder/Form 4251/Campus cover sheet and route taxpayer requests and claims for abatement of interest to the Interest Abatement Coordinator (IAC) for processing.

- (5) Do not request Form 843, Claim for Refund and Request for Abatement. If Form is received send Letter 1802-C include paragraph "V".

**Reminder:** AUR does not abate interest.

- (6) Interest cannot be abated for reasonable cause.

4.19.3.22.1.3  
(06-19-2018)  
**Accounts Receivable  
Guidelines**

- (1) Due to the adverse impact on Accounts Receivable (A/R), the Service must strive to minimize the volume of unresolved large dollar debit and credit modules/issues in the inventory. Therefore, in accordance with prevailing guidelines and in tandem with all other processing timeliness requirements (first in, first out, etc.), it is necessary to ensure that all modules/issues involving a balance of \$100,000 and over are expeditiously resolved.
- (2) When monitoring large dollar cases identified on the Large Dollar Accounts Receivable system, if cases include the Large Corporation code; contact the Technical Unit (or designated function) to determine the current status of the account/module.
- (3) Most of the cases that meet the large dollar case criteria (the proposed assessment is \$100,000 or more) are identified by the system (prior to the assessment being entered) and the required special case processing initiated by the AUR Control Function.
- (4) Cases not identified by AUR system checks (including fully agreed cases), the tax examiner should:
- Indicate "ARDI" on the case folder/Form 4251/ Campus cover sheet.
  - Enter a case note to make the case audit trail complete.
  - Transfer the case to designated SEID for specialized processing.
  - If necessary, issue an interim letter to the taxpayer, see IRM 4.19.3.22.1.5, Policy Statement P-21-3 guidelines.
- (5) The Tax Examiners (TE) designated to work Accounts Receivable Dollar Inventory (ARDI) cases, take the following actions:
- Review the proposed assessment for technical and mathematical accuracy.
  - Analyze the taxpayer's account to ensure that all affected tax periods process appropriately.
  - Verify that the payer information is accurate.
- Note:** For disagreed cases, telephone contact with the taxpayer **MUST** be made as part of the case resolution when a telephone number is available.
- Leave a case note to indicate the disposition of the case review.
  - When the case evaluation is completed, take the appropriate case action, enter the assessment, revise the proposal and issue a Recomputed Notice, or close the case No Change, using standard processing procedures.
- (6) If the taxpayer agrees to over \$100,000 in tax, penalties, and interest, but does **not** full pay, then the deficiency needs to be assessed (23C date) within 30 days from receipt of the agreement. If a quick assessment is made, the interest computation must be mailed to the taxpayer.

- (7) If the case is being closed with an assessment of over **\$10 million dollars**: photocopy the **entire AUR case contents**, make prints of the: Tax Account, Information Returns, Case Notes, Case History and CP 2000/ CP 2501 Notices and send the copies/prints to the Chief Financial Office Staff at the following address:

IRS

CFO, Business Analysis and Support Section

Stop S-2, 1035

333 W. Pershing Rd.

Kansas City, MO 64108

**Reminder:** Include a case note that the case information was sent to CFO.

4.19.3.22.1.4  
(09-21-2020)

**Accuracy-Related  
Penalties**

- (1) IRC 6751(b)(1) provides that, in general, no Accuracy-Related Penalties shall be assessed without prior written managerial approval. However, even though the Code refers to assessment, managerial approval is needed at the time the penalty is being asserted unless an exception in (2) and/or (3) below, apply.
- (2) The AUR system electronically calculates the Accuracy Related penalties; therefore, a penalty notice may be issued in the initial letter to the taxpayer proposing a deficiency for Substantial Understatement, if the taxpayer did not attach evidence of substantial authority or attached unacceptable evidence to the tax return and did not make an adequate disclosure on that return. If the taxpayer does not provide a response, written or otherwise, that challenges the proposed penalty or the amount of tax to which the penalty relates, the penalty may be assessed without written managerial approval.
- (3) The AUR system electronically calculates the Accuracy Related penalties; therefore, a penalty notice may be issued (in the initial letter to the taxpayer proposing a deficiency) for negligent conduct when the determination is automatically made because the taxpayer failed to report income reported on a third-party IR for a second tax year. If the taxpayer does not provide a response, written or otherwise, that challenges the proposed penalty or the amount of tax to which the penalty relates, the penalty may be assessed without written managerial approval.
- (4) If the taxpayer provides a response, written or otherwise, that challenges the proposed penalty or the amount of tax to which the penalty relates, managerial approval is needed at the time the tax examiner determines to continue processing the case. Take the following actions:
  1. Refer the case to the manager. The manager must select the appropriate standard case note to record managerial penalty assertion approval to continue to assert the penalty.
  2. Issue Letter 2626C explaining why the taxpayer's request for penalty waiver was denied.



**Caution:** Only a manager is authorized to approve the penalty assertion.

**Note:** If a Recomputed CP 2000 is issued and the penalty waiver is denied, **send PARAGRAPH 170** for negligence penalty or **send PARAGRAPH 179** for substantial understatement. See Exhibit 4.19.3-7, CP PARAGRAPHS.

(5) Depending on the taxpayer's response, the Accuracy-Related Penalty Due to Negligence or Disregard of Rules or Regulations and/or the Accuracy-Related Penalty Due to Substantial Understatement of Tax could be:

- Assessed
- Determined to be not applicable
- Waived for reasonable cause, or

**Note:** See IRM 4.19.3.18.7, Determine Negligence Status Screen, if the penalty is being suppressed due to reasonable cause.

- One penalty may be replaced by the other

Use the Determine Negligent Status screen to indicate if the IR(s) are considered negligent. See IRM 4.19.3.18.7, Determine Negligence Status Screen, and IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Penalties.

(6) If the taxpayer's response claims/cites substantial authority, see IRM 4.19.3.18.5, Accuracy-Related Penalty Due to Substantial Understatement of Tax.

(7) Waive the penalty if the taxpayer provides a signed explanation that meets reasonable cause criteria. Consider ALL facts and circumstances of each case on an IR by IR basis in determining reasonable cause. Refer to IRM 20.1, Penalty Handbook, for uniform application of reasonable cause criteria. See IRM 20.1.1.3, Criteria for Relief From Penalties, in general.

**Note:** If the penalty is being waived see IRM 4.19.3.18.8, Limited Penalties.

(8) If reasonable cause is established for only some of the IRs, all additional taxes, tax credits, and prepayment credits must be allocated between the IRs with reasonable cause and those without.

(9) If a CP 2000 is issued and the substantial understatement penalty is waived, enter a zero (0) in the SUBSTANTIAL UNDERSTATEMENT PENALTY field on the Limit Penalty window.

**Note:** See IRM 4.19.3.18.5, Accuracy-Related Penalty Due to Substantial Understatement of Tax, if the penalty is being suppressed due to reasonable cause.

**Send PARAGRAPH 101**, see Exhibit 4.19.3-7, CP PARAGRAPHS.

(10) After entering PC the Process Code window auto populates the Penalty Waived/Not Waived/No Request window. This allows for tracking instances where the **TP requests waiver** of the Accuracy Related penalty due to Negligence or Substantial Underpayment and whether the request has been waived, not waived or no request.

- (11) Waiver request **MUST** be in writing and signed by the taxpayer or valid POA. When the taxpayer makes this request and the tax examiner determines:
- The request is granted, select the WAIVED button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).
  - The request is denied or partially waived, select the Not Waived button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).

**Note:** The NEGLIGENCE PENALTY or SUBSTANTIAL UNDERSTATEMENT PENALTY field must contain a value greater than zero in order to check the PENALTY NOT WAIVED field. A case note to record managerial penalty assertion approval is required when denying the taxpayer's request. See IRM 4.19.3.22.1.4, Accuracy-Related Penalties, for additional information.

- The penalty is not addressed, select the No Request button on the Penalty Waived/Not Waived/No Request window after entering the appropriate Process Code (PC) or Internal Process Code (IPC).

**Note:** Only check the box when the penalty is still applicable, but is being suppressed (see (9) above). Do **not** check the box if the penalty is no longer applicable, for example, the case is being close No Change or the threshold for applying the penalty is no longer applicable.

4.19.3.22.1.5  
(10-25-2023)

**Policy Statement P-21-3**

- (1) Policy Statement P-21-3 are the result of a task force initiated to provide timely and quality responses to taxpayer correspondence. The general guidelines are:
- A quality response is an accurate and professional communication which, based on information provided, resolves the taxpayer's issues, requests additional information from the taxpayer, or notifies the taxpayer we have requested information from outside the IRS.
  - A quality response is timely when initiated within 30 calendar days of the IRS received date.
  - When a quality response cannot be issued timely, an interim response is initiated by the 30th calendar day from the IRS received date. Issue a Letter 4314C.

**Reminder:** Ensure all responses to AUR notices received are worked on a first in, first out basis. Control AUR RECON cases on IDRS (or on AUR for TY 2013 and subsequent) with the IRS received date no later than 14 days from the AUR received date (and send an interim letter if the 30-day criteria outlined above cannot be met). See IRM 4.19.3.26, AUR Reconsideration Cases, for additional information about AUR RECON cases.

- All interim letters should inform the taxpayer when a final response can be expected and should give a name/number to contact to resolve additional inquiries.
- (2) When a response batch is in "AB" or "BF" status, the AUR system automatically generates a Letter 4314C on any case where the most recent IRS Received Date is beyond the Policy Statement P-21-3 Age Date entered by the AUR Coordinator. Ensure Policy Statement P-21-3 guidelines are met in all other situations.

**Note:** Monitor cases in suspense to determine if a manual Letter 4314C should be sent.

4.19.3.22.1.6  
(12-20-2016)  
**Address Updates**

- (1) When a taxpayer contact includes clear and concise notification of an address change, including foreign address change, enter the appropriate entries on the Update Address window to update Master File (use Address Type Code I). See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information.
  - Information regarding state and address abbreviations, and Major City Codes can be found in Document 7475, State Abbreviations, Major City Codes and Address Abbreviations. Standard address abbreviations, state abbreviations and major city codes can also be found in IRM 3.24.37-5, State Codes for States, IRM 3.24.37-3, Major City Codes, and IRM 3.24.37-1, Standard Address Abbreviations.
  - Changes to a name line due to a spelling error can be entered on AUR by selecting ADDRESS TYPE "N" (name line change), but must ALSO be entered on IDRS.
- (2) For certain notices, such as the Statutory Notice of Deficiency, the Internal Revenue Code provides that when the notice is sent to the taxpayer's last known address (LKA), the notice is legally effective even if the taxpayer never receives it.

**Note:** As a point of reasonable diligence, if there is taxpayer correspondence with a different address mail a copy of the Statutory Notice to that address, using the Address Update window to enter a Temporary Address, see (6) below. Do not update Master File without clear and concise notification from the taxpayer.

- (3) Contacts that are considered clear and concise notification of an address change include the following:
  - a. The taxpayer returns an IRS initiated correspondence (including notices) that solicits or requires a response to IRS with corrections marked on their address information. The taxpayer's signature on the correspondence (for this purpose) is not required.
  - b. A return (including an amended return, Form 1040-X) filed by a taxpayer with new address information. Update the Master File for address changes on any amended returns, including Form 1040-X, that bypass normal pipeline processing and are processed as a response.
  - c. Form 8822, Change of Address, when received in conjunction with an AUR case. Use the Address Update window with Address Type I to update the Master File.
  - d. Oral notification made in response to an AUR notice which meets appropriate disclosure guidelines or if a taxpayer is contacted by phone by an IRS employee in connection with the taxpayer's account (not related to an address change). The taxpayer may provide a change of address to the IRS employee who responded to the phone call or initiated the phone contact. See IRM 4.19.3.22.2, Telephone Responses, for additional information regarding telephone responses.

**Caution:** If the notification for an address update is made on a closed AUR case, update the address on AUR and on IDRS, using IDRS CC ENMOD, if taking another account action, such as,

correcting/removing the AUR assessment. If no account action is being taken do not change the address; advise the taxpayer to send Form 8822, Change of Address, to change their address.

**Caution:** If the account is marked with a TC 971 AC 504 SPCL1 or EFAIL, there have been unsuccessful attempts to obtain an IP PIN. Use high risk disclosure procedures, see IRM 4.19.3.22.2.2, Disclosure, for additional information.

- e. Notification of an address change made by the U.S. Postal Service.

**Caution:** Always verify the name on the Post Office notification with the name on the notice before updating the address.

**Note:** A new address indicated as a return address on the envelope or in the letter-head of taxpayer correspondence is not, by itself, clear and concise notification and is not sufficient to change a taxpayer's address of record.

- (4) Clear and concise notification, whether written or oral, must contain the following:

- a. The taxpayer's full name.

**Note:** Individuals who have changed last names should provide the last name shown on the most recently filed return and the new last name. Joint filers should provide both names.

- b. For written requests, the taxpayer's signature (both signatures for jointly filed returns) or the signature of an authorized representative.
- c. For oral requests, successful completion of the disclosure notification when calling in reference to a CP notice.

**Note:** An address change is made upon a taxpayer's request, even if only one of the taxpayers from a joint return requested it.

**Caution:** If either taxpayer has established a separate residence after filing a joint return, the spouse who has moved from the joint return address, must provide clear and concise written or oral notification of a new address to the Service.

- d. The taxpayer's new address.
- e. The taxpayer's old address, unless you can determine it from the posted data. Do not request the old address from the taxpayer.
- f. The taxpayer's social security number (for joint filers, the social security numbers of both taxpayers).

- (5) If any of the information from (3) or (4) above is missing from the taxpayer's request, do not update Master File. Enter the appropriate entries on the Update Address window to make a temporary address change (use Address Type "T"). Send the appropriate letter/notice to the taxpayer, at the new address, using a Special Paragraph to advise them of the information needed. Enclose 8822, Change of Address.

- (6) If the taxpayer provides a temporary address, a beginning and ending date of when the taxpayer will be using that address should be given. Enter the temporary address on the Update Address window, using Address Type T. Do

not update Master File. If the taxpayer does not provide an ending date, enter a date that is 60 days from the current date.

- (7) Any time doubt exists as to whether an address should be changed, discuss it with your lead/manager who will either provide an answer or refer the question to the Disclosure Office.
- (8) If a document is received containing a name or address change which does not meet the specific requirements for updating Master File, the information should be noted and maintained in the AUR case file. If a notice is returned, the Service is required to use due diligence in locating the taxpayer, which includes a search of existing records to locate any updated information supplied by the taxpayer.

4.19.3.22.1.7  
(12-15-2015)  
**Adjustment Cases  
Relating to AUR**

- (1) Adjustment function frequently receives Form 1040-X or correspondence from taxpayers who received AUR notices. Multiple assessments could result if both Adjustments and AUR simultaneously work these cases.
- (2) To eliminate multiple assessments, Accounts Management will:
  - a. Route cases related to an OPEN AUR case to AUR at the Campus that issued the notice. AUR will work these cases following normal AUR procedures.
  - b. Work responses or Form 1040-X related to a CLOSED AUR case as part of the subsequent adjustment or RECON process for prior AUR assessments. See IRM 21.3.1.6.53, Status of IMF Underreporter Cases, for additional information.
- (3) Responses that deal with multiple tax years are treated as separate responses whenever feasible. In such instances, photocopy the response so each tax year has the appropriate response to resolve the case. Route copies of the responses that are non-AUR to Accounts Management.

**Exception: Coordinate Net Operating Losses (NOL) and carryback/ carryforward (CB/CF) issues between Accounts Management and AUR.** Exercise caution with regard to Statute of Limitations and payment of interest. The program redistribution may impact working cases with NOL and CB/CF issues.

- (4) If it is evident from a taxpayer response that the case involves a scrambled SSN or mixed entity, use the IAT "aMend" tool, research portion, to determine Scrambled SSN or Mixed Entity. If yes, prepare Form 4442, for referral to AM and close PC 52, 71, or 92 or IPC 9R, as appropriate. See IRM 21.6.2, Adjusting TIN-Related Problems.

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4.19.3.22.1.8  
(09-24-2021)  
**Independent Office of  
Appeals**

- (1) If the taxpayer makes a non-docketed appeals request (i.e., specifically requests a hearing with an Appeals Officer or submits a Form 12203, Request for Appeals Review or otherwise submits an adequate protest as required in Pub 5, Your Appeal Rights and How to Prepare a Protest if You Disagree), take the following actions:

If	Then
<b>Prior</b> to issuance of a Statutory Notice AND there are less than 365 days left on the ASED	<ol style="list-style-type: none"> <li>1. Attempt to resolve the issue(s) by telephone. Document the call(s) with a case note(s).</li> <li>2. Advise the taxpayer (either verbally or using a Letter 2626C) that Appeals does not accept non-docketed cases when there are less than 365 days left on the statute.</li> <li>3. If the taxpayer still wants to file a petition with the U.S. Tax Court, inform the taxpayer that they will receive a Statutory Notice of Deficiency that will allow them to appeal their case to the U.S. Tax Court.</li> <li>4. Issue a Stat Notice to the taxpayer.</li> </ol>
<b>Prior</b> to issuance of a Statutory Notice AND there are more than 365 days left on the ASED	<ol style="list-style-type: none"> <li>1. Attempt to resolve the issue(s) by telephone. Document the call(s) with a case note(s).</li> <li>2. If it is still necessary to transfer the case to Appeals, research : <i>Case Routing into the Independent Office of Appeals</i> to find the appropriate Campus Appeals office based on the IRS Campus source of the case.</li> <li>3. Prepare a Form 3210, Document Transmittal. Print Tax Account, Information Returns, Case History, CP 2000 Notice, CP 2501 Notice, if applicable, and attach to Form 3210.</li> <li>4. Close the case with PC 66.</li> </ol> <p><b>Note:</b> If Appeals denies the request and returns a case to AUR that was closed using PC 66, DO NOT manually control or initiate any further AUR actions. See IRM 4.19.3.26.11, Document Disposition, if there is anything in the Appeals package that should be maintained as part of the case file.</p>
<b>After</b> the issuance of a Statutory Notice	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C advising the taxpayer that their request cannot be honored and that they need to follow the instructions in Statutory Notice they received and file a petition with the U. S. Tax Court within the period specified (usually 90 days).</li> </ol> <p><b>Note:</b> If less than 30 days remains on the 90-day period, the tax examiner must attempt to contact the taxpayer by telephone to advise him/her that their request has been denied. Leave a case note documenting the contact.</p> <ol style="list-style-type: none"> <li>2. Inform the taxpayer that a case petitioned to the U.S. Tax Court will usually be considered for settlement by Appeals before their trial date.</li> <li>3. Continue processing, refiling the case as necessary for the remainder of the Statutory Notice suspense period or until you are notified to pull the case from suspense because the taxpayer filed a U.S. Tax Court petition.</li> </ol> <p><b>Note:</b> See IRM 4.19.3.2.2, Statute Awareness Program, for Statute guidelines. See IRM 4.19.3.22.2, Telephone Responses, for telephone procedures. If the case also involves Innocent Spouse related issues, see IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases.</p> <p><b>Note:</b> DO NOT USE PC 80 FOR NON-DOCKETED CASES.</p>



If	Then
In Recon	<ol style="list-style-type: none"> <li>1. Attempt to resolve the issue(s) by telephone. Document the call(s) with a case note(s).</li> <li>2. If it is still necessary to transfer the request to Appeals, research : <i>Case Routing into the Independent Office of Appeals</i> to find the appropriate Campus Appeals office based on the IRS Campus source of the case.</li> <li>3. Prepare a Form 3210, Document Transmittal. Print Tax Account, Information Returns, Case History, CP 2000 Notice, CP 2501 Notice, if applicable, and attach to Form 3210.</li> <li>4. Send Letter 86C to advise the taxpayer their request has been forwarded to Appeals.</li> <li>5. Close the case with PC 9R.</li> </ol>

- (2) Communications between AUR and Appeals regarding ministerial, administrative or procedural matters at any stage of a case are permissible without involving the taxpayer/representative. If communications between AUR and Appeals extend beyond ministerial, administrative or procedural matters in that the substance of proposed adjustments or issues of the case are addressed, those communications are prohibited unless the taxpayer/representative is given an opportunity to participate. Refer to Rev. Proc. 2012-18, Ex Parte Communications Between Appeals and Other Internal Revenue Service Employees, (and IRM 4.2.7, Ex Parte Communication Procedures, or IRM 4.2, General Examining Procedures, as applicable) for additional information regarding ex parte communications with Appeals.

**Exception:** Appeals may send the AUR Coordinator an Examination Assistance (EA) request for AUR technical advice if new information is received, the tax increase is \$5,000 or more and the time needed for Appeals to review the information is more than four hours. Appeals retains jurisdiction over docketed cases and is responsible for any revised tax computations and any required taxpayer contact.

- (3) Communications between AUR and Appeals are referred to as ex parte and are covered in sections 2.02(6) and 2.03(3) of Revenue Procedure 2012-18, Ex Parte Communications Between Appeals and Other Internal Revenue Service Employees, and IRM 4.2.7, Ex Parte Communications Procedures, or IRM 4.2, General Examining Procedures, as applicable.
- a. Communications that address the strengths and weaknesses of the issues and positions of the parties, accuracy of the facts, credibility or cooperation of the taxpayer, etc. are prohibited unless the information communicated has been shared with the taxpayer.
  - b. Communications between AUR and Appeals that relate to ministerial, administrative or procedural matters are permissible.
- (4) If the taxpayer's response indicates "**qualified offer**" or mentions "**IRC 7430(g)**" see IRM 4.19.3.22.1, Taxpayer Responses Overview, for additional information.

**Caution:** Do not confuse Qualified Offer with Offer in Compromise.



4.19.3.22.1.8.1  
(07-31-2023)  
**Docketed Cases**

- (1) When the taxpayer files a petition with the U.S. Tax Court, the newly docketed Tax Court cases are uploaded and is used to create the Docketed Information Management System (DIMS).
- (2) Docketed cases are **high priority** and must be worked upon receipt and returned to the clerical function for immediate processing. The case will be transferred to the designated tax examiner who will perform a thorough review of the case contents and take the following actions:

If	Then
Correspondence is received, and it is determined further change is needed to the case.	<ol style="list-style-type: none"> <li>1. The designated tax examiner will determine if case actions (6) through (8) below are applicable.</li> <li>2. Leave a detailed case note</li> <li>3. Close case with PC 80</li> </ol>
Correspondence is received, and it is determined that the case can be closed no change to the original tax liability, see IRM 4.19.3.22.4, Discrepancy Explained/No Change-General.	<ol style="list-style-type: none"> <li>1. Complete Form 14121, No Change Certification</li> <li>2. Access <i>Appeals Electronic Case Receipts</i></li> <li>3. For Business Unit - Select "SBSE"</li> <li>4. For Type of Cases - Select "DKT No-Change F14121"</li> <li>5. Enter Taxpayer's Name</li> <li>6. Enter TIN (SSN)</li> <li>7. Enter MFT(s)</li> <li>8. Enter Tax Period(s)</li> <li>9. Enter Docket Number (if applicable)</li> <li>10. Requestor - Auto populates</li> <li>11. Click - Add Attachment and upload completed Form 14121</li> <li>12. Click - Submit</li> <li>13. Leave a detailed case note</li> <li>14. Close the case using the appropriate process code.</li> </ol>

If	Then
<p>Appeals sends a Docketed Examination Assistance (EA) request through the SBSE CEA Appeals Distribution listing for AUR technical advice on Form 14361 when new information is received.</p> <p><b>Note:</b> Appeals retains jurisdiction over docketed cases and is responsible for any revised tax computations and any required taxpayer contact.</p> <p><b>Caution:</b> Use Form 14362, to reject the request if it is not related to the Notice Deficiency or addresses penalties only.</p>	<ol style="list-style-type: none"> <li>1. The designated tax examiner will provide a recommendation per AUR guidelines. See IRM 4.19.3.22, Taxpayer Responses.</li> <li>2. Leave a detailed case note.</li> <li>3. Respond with case recommendations within 14 days on Form 14362, to the originator from the Appeals email.</li> </ol>

- (3) The Clerical Function is responsible for monitoring the daily DIMS listing and preparing identified cases for transfer to Appeals.
- (4) If the case is MFJ, refer to IRM 4.19.3.22.1.8.1.1, Responses – Petitioning Spouse (PS) and Non-petitioning Spouse (NPS) - Docketed Cases, for additional information.
- (5) The Tax Court does not have jurisdiction over certain underpayments of tax/penalties and overstatements of payments/credits (non-statutory items). Therefore, when these non-statutory items exist in a case, an assessment or adjustment **must** be made prior to ASED expiration (see below). (IRC 31, IRC 6211 and IRC 6652(b)).

**Note:** When a Statutory Notice is issued, and a TC 560 is entered to extend the ASED, it does not extend the non-statutory items ASED.

- (6) If non-statutory items are an issue, a partial assessment on AUR or IAT **REQ54** tool is required for the following items before transferring the docketed case to Appeals:
  - W/H
  - Excess SSTAX
  - Additional Medicare Tax withheld
  - Additional Medicare tax on wages or RRTA compensation
  - FICA tax on tip income and tip penalty under IRC 6652(b)
  - FICA tax on other income (such as, NEC)
  - Shared Responsibility Payment (SRP)
- (7) If W/H, excess SSTAX, Additional Medicare Tax withheld is the issue:

1. Enter the assessment, using the IAT "REQ54" tool, for the credit adjustment, NOT the tax and use HC 2.
  2. Send the taxpayer a Letter 2626C, using the IAT "Letters" tool, explaining the partial assessment and advise them that the remaining issues will be addressed as part of the docketed case process. Include a copy of the letter in the case file.
  3. Leave a case note documenting the actions taken.
  4. Enter PC 80 and release the case.
- (8) If FICA tax, SS Tip tax or Additional Medicare tax on wages or RRTA compensation is an issue:
1. Enter the assessment, using the IAT "REQ54" tool, with a TC 290 and the appropriate reference number, blocking series "05" and HC 2. The hold code is released when the next TC 290 posts.
  2. Send the taxpayer a Letter 2626C, using the IAT "Letters" tool, explaining the partial assessment and advise them that the remaining issues will be addressed as part of the docketed case process. Include a copy of the letter in the case file.
  3. Leave a case note documenting the actions taken.
  4. Enter PC 80.

4.19.3.22.1.8.1.1  
(07-11-2022)

**Responses - Petitioning  
Spouse (PS) and  
Non-petitioning Spouse  
(NPS) - Docketed Cases**

- (1) Married Filing Joint (MFJ) docketed cases require research to determine if:
  - both taxpayers' names are reflected on the petition, or
  - both taxpayers filed their own petition, or
  - only one taxpayer filed a petition.
- (2) Perform the research as follows:
  1. Access the U.S. Tax Court Website at *ustaxcourt.gov*, using Microsoft Edge.
  2. Hover over "Efiling and Case Maintenance", select SEARCH (Case, Order, Opinion).
  3. Select either Docket Number or Individual Party Name.
  4. Enter the required information to access the case.
  5. Once accessed, view the petition and/or party's names. If only one taxpayer name is reflected on the petition, refer to (3) – (18) below. If both taxpayer's names are reflected or both taxpayers filed a separate petition, continue normal processing; see IRM 4.19.3.22.1.8.1, Docketed Cases, for additional information.
- (3) A non-petitioning spouse (NPS) case occurs on a MFJ account when ONLY one taxpayer files a petition with the Tax Court. A MFT 31 module must be established on the non-petitioning taxpayer. The petitioning spouse's (PS) case is referred to Appeals.
- (4) If the NPS is deceased close the case with PC 80 and follow procedures for docketed cases; see IRM 4.19.3.22.1.8.1, Docketed Cases. Leave a detailed case note indicating the NPS is deceased, the case has been closed to

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case to clerical. Include the following information on Form 3210:

- Remarks: This is the case file for the petitioning spouse. The non-
- Petitioning spouse's name and TIN
- Deceased spouse's name and TIN

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- (5) Establish the MFT 31 module for the NPS and attempt to secure the NPS' consent to the tax, as follows:

**Reminder:** If non-statutory items are an issue see (6) below before transferring the docketed case to Appeals.

1. Issue Letter 2626C to ONLY the NPS; see IRM 4.19.7.18, Updating Address Information, for instructions. Request the signed consent, advise that both taxpayers are jointly and separately liable for the tax, and that the letter does not extend the time to file a petition with Tax Court, if they choose to do so.
2. Leave a detailed case note and include which taxpayer filed a petition, for example, primary taxpayer petitioned.
3. Refer to the table below to determine if Entity contact is needed:

If the NPS is	Then
The primary taxpayer	Go to step 4 below
The secondary taxpayer	<ol style="list-style-type: none"> <li>1. Research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if it is invalid).</li> <li>2. If the SSN is valid, go to step 4 below.</li> <li>3. If the SSN is invalid, send Form 3210 to Entity to request SSN validation; see the Invalid SSN Job Aid on the AUR Portal for additional information at <i>AUR Research Portal IMF</i>.</li> <li>4. Leave a detailed case note.</li> <li>5. Once the invalid situation is resolved, go to step 4 below.</li> </ol> <p><b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an unpostable condition.</p>

4. Access the Process Code window and enter "P" in the MFT 31 field, if the primary taxpayer is the NPS (primary taxpayer **DID NOT** file a petition). Enter "S" in the MFT 31 field, if the secondary taxpayer is the NPS (secondary taxpayer **DID NOT** file a petition).

**Caution:** Ensure the entry in the MFT 31 field is correct.

5. Enter IPC S8. The case is moved to BT 89006.

**Caution:** If a case needs to be refiled to BT 89006, enter IPC S8. DO NOT enter IPC RF to refile cases to BT 89006.

**Note:** When “P” or “S” is present in the MFT 31 field, at disassembly the AUR system uploads TC 971 AC 103 to create the MFT 31 module for the appropriate taxpayer. This process cannot be reversed, once the disassembly process is complete.

6. Prepare a duplicate case file for the NPS containing photocopies of all case contents. The duplicate file will be retained in AUR.
7. Prepare the PS referral package and send to Appeals:

Include	Also Provide
All original correspondence	If Letter 2626C was issued to the PS to explain a partial assessment of non-statutory items, include a copy of that letter.
Completed Form 3210, Document Transmittal	On Form 3210 notate the following: <ol style="list-style-type: none"> <li>1. REMARKS: “This is a non-petitioning spouse case. AUR retained a duplicate case file for the non-petitioning spouse, awaiting the conclusion of the 90 day suspense period. If the non-petitioning spouse does not petition the Tax Court within the 90 period. AUR will assess the non-petitioning spouse when an agreement is received or when defaulted. After assessing the non-petitioning spouse case, AUR will forward the assessment documents and duplicate case file to your office.”</li> <li>2. Petitioning spouse’s name and TIN.</li> <li>3. Non-petitioning spouse’s name and TIN.</li> <li>4. Default date of the Stat notice.</li> </ol>

8. Use the batch listing for batch 89006 or Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the NPS case to await expiration of the Stat suspense time frame (default). If additional correspondence or a recomputed notice is necessary, see (10) below. Once the Stat suspense time frame expires, request the case; see (16) below.
- (6) The Tax Court does not have jurisdiction over certain underpayments of tax/penalties and overstatements of payments/credits (non-statutory items). Therefore, when these non-statutory items exist in a case, an assessment or adjustment **must** be made prior to ASED expiration (see below). (IRC 31, IRC 6211 and IRC 6652(b)).

**Note:** When a Statutory Notice is issued, and a TC 560 is entered to extend the ASED, it does not extend the non-statutory items ASED.

- (7) If non-statutory items are an issue, a partial assessment on the MFT 30 module on IDRS is required for the following items before transferring the docketed case to Appeals:
- W/H, see (8)
  - Excess SSTAX, see (8)
  - Additional Medicare Tax withheld, see (8)

- Additional Medicare tax on wages or RRTA compensation, see (9)
- FICA tax on tip income and tip penalty under IRC 6652(b), see (9)
- FICA tax on other income (such as, NEC), see (9)
- Shared Responsibility Payment (SRP), see (10)

(8) If W/H, excess SSTAX, Additional Medicare Tax withheld, is the issue:

1. Enter the assessment, using the IAT "REQ54" tool, for the credit adjustment, NOT the tax and use HC 2.
2. Send the PS a Letter 2626C, explaining the partial assessment and advise them that the remaining issues will be addressed as part of the docketed case process and/or once the time frame to file a petition with the United States Tax Court expires. Include a copy of the letter in the case file.

**Note:** No other AUR correspondence will be issued to the PS.

3. Leave a detailed case note.

(9) If FICA tax, SS Tip tax, Additional Medicare tax on wages or RRTA compensation is an issue:

1. Enter the assessment, using the IAT "REQ54" tool, with a TC 290 and the appropriate reference number, blocking series "05" and HC 2. The hold code is released when the next TC 290 posts.
2. Send the taxpayer a Letter 2626C, explaining the partial assessment and advise them that the remaining issues will be addressed as part of the docketed case process and/or once the time frame to file a petition with the United States Tax Court expires. Include a copy of the letter in the case file.

**Note:** No other AUR correspondence will be issued to the PS.

3. Leave a detailed case note.

(10) If additional correspondence or a recomputed notice is necessary, see the table below:

If	Then
Additional correspondence is necessary	<ol style="list-style-type: none"> <li>1. Issue Letter 2626C ONLY to the NPS; see IRM 4.19.7., IMF AUR Technical System Procedures. Address all response issues, advise that both taxpayers are jointly and separately liable for the tax, and that the letter does not extend the time period to file a petition with Tax Court, if they choose to do so.</li> <li>2. Enter IPC S8 and release the case; the case is moved to BT 89006.</li> <li>3. Use the batch listing for batch 89006 or Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the NPS case and take action, as appropriate.</li> </ol>

If	Then
A recomputed notice is required (Stat suspense time frame NOT expired)	<ol style="list-style-type: none"> <li>1. Re-work the case following normal procedures.</li> <li>2. Enter PC 95.</li> <li>3. Monitor the case for the PC to post. Once posted, request the case.</li> <li>4. Print a copy of the recomputed notice and send to Appeals on Form 3210. Include: REMARKS: "This is a supplemental notice to the STAT for the non-petitioning spouse case. The petitioning spouse case file was sent to Appeals on (date)."; petitioning spouse name and TIN; non-petitioning spouse name and TIN.</li> <li>5. Enter IPC S8 and release the case; the case is moved to BT 89006.</li> <li>6. Use the batch listing for batch 89006 or Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the NPS case and take action, as appropriate.</li> </ol>

(11) If a response is received from the PS, forward to Appeals.

(12) If the NPS later files a separate petition or joins the existing petition, take the following actions:

On	Enter/Verify or Include
MFT 31 Assessment Window	<ol style="list-style-type: none"> <li>1. BLOCK NUM – 6X.</li> <li>2. Remove the date from the IRS-RCVD- DT field and leave the field blank.</li> <li>3. HOLD CD - 4.</li> <li>4. TRANS CODE - 290.00.</li> <li>5. REMARKS – "AUR NPS Filed Petition".</li> <li>6. Commit the MFT 31 Assessment Window.</li> </ol> <p><b>Caution:</b> The AUR system prepopulates a Y in the "Send Primary Taxpayer Assessment" or "Send Secondary Taxpayer Assessment" depending on the "P" or "S" indicator. Do not remove the Y.</p>



On	Enter/Verify or Include
MFT 30 Assessment Window	<ol style="list-style-type: none"> <li>1. Correct to 290.00.</li> <li>2. Remove all other transaction and reference codes.</li> <li>3. REMARKS - "AUR NPS Filed Petition".</li> <li>4. SOURCE DOCUMENT ATTACHED? – "Y".</li> <li>5. Leave a detailed case note.</li> <li>6. Enter PC 80.</li> </ol> <p><b>Reminder:</b> A copy of the NPS case file is sent with the MFT 30 adjustment.</p>
Form 3210, Document Transmittal	<ol style="list-style-type: none"> <li>1. REMARKS: "This is the duplicate file for a non-petitioning spouse case. The non-petitioning spouse has now filed a petition. The petitioning spouse case file was sent to Appeals on (date)."</li> <li>2. Petitioning spouse name and TIN.</li> <li>3. Non-petitioning spouse name and TIN.</li> <li>4. Attach NPS case file contents, including any original correspondence.</li> </ol>

- (13) If information provided allows the case to be closed no change, delete all UR issues, work the case through Return Value then take the following actions:

For the	Enter/Verify or Include
MFT 31 Assessment Window	<ol style="list-style-type: none"> <li>1. BLOCK NUM – 6X.</li> <li>2. Remove the date from the IRS-RCVD- DT field and leave the field blank.</li> <li>3. HOLD CD - 4.</li> <li>4. TRANS CODE - 290.00.</li> <li>5. REMARKS – "AUR NPS No Change".</li> <li>6. Commit the MFT 31 Assessment Window.</li> </ol> <p><b>Caution:</b> The AUR system prepopulates a Y in the "Send Primary Taxpayer Assessment" or "Send Secondary Taxpayer Assessment" depending on the "P" or "S" indicator. Do not remove the Y.</p>
MFT 30 Assessment Window	<ol style="list-style-type: none"> <li>1. Change the REMARKS to "NPS No Change".</li> <li>2. Issue Letter 1802-C to the NPS to advise the case was closed no change.</li> <li>3. Leave a detailed case note.</li> <li>4. Enter PC 92.</li> </ol>

For the	Enter/Verify or Include
Form 3210, Document Transmittal	<ol style="list-style-type: none"> <li>1. REMARKS: "This is the duplicate file for a non-petitioning spouse case. The non-petitioning spouse provided information that allowed the case to be closed no change. The petitioning spouse case file was sent to Appeals on (date)."</li> <li>2. Petitioning spouse name and TIN.</li> <li>3. Non-petitioning spouse name and TIN.</li> <li>4. Attach NPS case file contents, including any original correspondence.</li> <li>5. Complete and attach Letter 14121, No Change Certification.</li> </ol> <p><b>Reminder:</b> A copy of the NPS case file must be sent with the MFT 30 adjustment.</p>

(14) If an agreed NPS assessment is needed:

If	Then
MFT 31	<p>Enter/Verify the following:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• IRS-RCVD-DT.</li> <li>• CORSP-DT.</li> <li>• CREDIT INTEREST DT – see IRM 4.19.3.22.10.1, The Assessment Window.</li> <li>• SOURCE CD.</li> <li>• REASON CD – as appropriate.</li> </ul> <p><b>Caution:</b> RC 138 MUST be entered when there is a change to EITC and/or refundable credits.</p> <ul style="list-style-type: none"> <li>• PRIORITY CD – as appropriate.</li> </ul> <p><b>Note:</b> Anytime there is a change to EITC and/or refundable credits or a combination of them, Priority Code 9 MUST be used.</p> <ul style="list-style-type: none"> <li>• HOLD CD – 0.</li> <li>• TRANS CODE – 290 for the appropriate amount.</li> <li>• Penalty (for example, TC 680, TC 170/171, 160/161).</li> <li>• EITC (TC 764/765).</li> <li>• Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be entered with TC 766/767. For example, if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• REMARKS – “NPS agreed”.</li> </ul> <p><b>Caution:</b> The AUR system prepopulates a Y in the “Send Primary Taxpayer Assessment” or “Send Secondary Taxpayer Assessment” depending on the “P” or “S” indicator. Do not remove the Y.</p>

If	Then
MFT 30	<ol style="list-style-type: none"> <li>1. Correct entries to ensure none of the items included on the MFT 31 Assessment Window are included on the MFT 30 Assessment Window; change the 290 amount to zero (.00) and remove any adjustments to EITC or refundable credits.</li> <li>2. REASON CD – use the same Reason Codes as on the MFT 31 assessment. <b>Exception:</b> Do not use RC 138 on MFT 30.</li> <li>3. HOLD CD – 4.</li> <li>4. SOURCE DOCUMENT ATTACHED? – “Y”.</li> <li>5. REMARKS - “NPS agreed”.</li> <li>6. Leave a detailed case note.</li> <li>7. Enter PC 62.</li> </ol>

Prepare Form 3210, Document Transmittal, and send the duplicate NPS file, including any original correspondence, to Appeals. Include the following information on the form:

- REMARKS: “This is the duplicate file for a non-petitioning spouse case. The non-petitioning spouse agreed and was assessed on MFT 31. The petitioning spouse case file was sent to Appeals on (date).”
- Petitioning spouse’s name and TIN.
- Non-petitioning spouse’s name and TIN.

**Reminder:** A copy of the NPS case file is sent with the MFT 30 adjustment.

- (15) If the NPS provides information for the case to be closed partially agreed (see IRM 4.19.3.22.6, Partially Agreed Responses); **IPC SR/DR cannot be used**. Rework the case through Return Value and complete the Summary screen, then:

If	Then
MFT 31	<p>Enter/Verify the following:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• IRS-RCVD-DT.</li> <li>• CORSP-DT.</li> <li>• CREDIT INTEREST DT – see IRM 4.19.3.22.10.1, The Assessment Window.</li> <li>• SOURCE CD.</li> <li>• REASON CD – as appropriate.</li> </ul> <p><b>Caution:</b> RC 138 MUST be entered when there is a change to EITC and/or refundable credits.</p> <ul style="list-style-type: none"> <li>• PRIORITY CD – as appropriate.</li> </ul> <p><b>Note:</b> Anytime there is a change to EITC and/or refundable credits or a combination of them, Priority Code 9 MUST be used.</p> <ul style="list-style-type: none"> <li>• HOLD CD – 0.</li> <li>• TRANS CODE – 290 for the appropriate amount.</li> <li>• Penalty (for example, TC 680, TC 170/171, 160/161).</li> <li>• EITC (TC 764/765).</li> <li>• Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be entered with TC 766/767. For example, if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• REMARKS – “NPS partially agreed”.</li> </ul> <p><b>Caution:</b> The AUR system prepopulates a Y in the “Send Primary Taxpayer Assessment” or “Send Secondary Taxpayer Assessment” depending on the “P” or “S” indicator. Do not remove the Y.</p>

If	Then
MFT 30	<ol style="list-style-type: none"> <li>1. Correct entries to ensure none of the items included on the MFT 31 Assessment Window are included on the MFT 30 Assessment Window; change the 290 amount to zero (.00) and remove any adjustments to EITC or refundable credits.</li> <li>2. REASON CD – use the same Reason Codes as on the MFT 31 assessment. <b>Exception:</b> Do not use RC 138 on MFT 30.</li> <li>3. HOLD CD – 4.</li> <li>4. SOURCE DOCUMENT ATTACHED? – “Y”.</li> <li>5. REMARKS - “NPS partially agreed”.</li> <li>6. Leave a detailed case note.</li> <li>7. Issue Letter 1802-C to inform the NPS that the case was closed based on the information provided.</li> <li>8. Enter PC 88.</li> </ol>

Prepare Form 3210, Document Transmittal, and send the duplicate NPS file, including any original correspondence, to Appeals. Include the following information on/with the form:

- REMARKS: “This is the duplicate file for a non-petitioning spouse case. The non-petitioning spouse provided information that allowed the case to be recomputed and assessed. The petitioning spouse case file was sent to Appeals on (date).”
- Petitioning spouse’s name and TIN.
- Non-petitioning spouse’s name and TIN.
- A print of the Summary Screen.

**Reminder:** A copy of the NPS case file is sent with the MFT 30 adjustment.

(16) If a default assessment is needed:

If	Then
MFT 31	<p>Enter/Verify the following:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• IRS-RCVD-DT – the date the assessment is entered.</li> <li>• CREDIT INTEREST DT – leave blank.</li> <li>• SOURCE CD.</li> <li>• REASON CD (Reason Code).</li> </ul> <p><b>Caution:</b> RC 138 MUST be entered when there is a change to W/H, excess SST, EITC and or refundable credits.</p> <ul style="list-style-type: none"> <li>• PRIORITY CD (Priority Code).</li> </ul> <p><b>Caution:</b> Priority Code 9 MUST be entered when there is a change to W/H, excess SST, EITC and/or refundable credits, or a combination of these).</p> <ul style="list-style-type: none"> <li>• HOLD CD (Hold Code) – “0”.</li> <li>• TC 290.</li> <li>• Penalty (for example, TC 680, TC 170/171, TC 160/161), if applicable.</li> <li>• Withholding (TC 806/807), if applicable.</li> <li>• EITC (TC 764/765), if applicable.</li> <li>• Excess SST adjustments (CRN 252), if applicable.</li> <li>• Refundable credits: Additional Child Tax Credit, American Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be entered with TC 766/767. For example: if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• Remove any transaction codes, reference codes, etc., applicable to MFT 30.</li> <li>• REMARKS - “AUR split/spousal default”.</li> </ul> <p><b>Caution:</b> The AUR system will prepopulate a Y in the “Send Primary Taxpayer Assessment” or “Send Secondary Taxpayer Assessment” depending on the “P” or “S” indicator. Do not remove the Y.</p> <ul style="list-style-type: none"> <li>• Commit the MFT 31 Assessment Window.</li> </ul>



If	Then
MFT 30	<p>Access the MFT 30 Assessment window and enter/verify/correct the following:</p> <p><b>Caution:</b> DO NOT change the entries in the CREDIT INTEREST DATE or IRS RECEIVED DT fields.</p> <ul style="list-style-type: none"> <li>Remove all items included on the MFT 31 assessments.</li> <li>BLOCK NUM – 6X.</li> <li>TRANS CODE – 290.00.</li> <li>SRCE CD (Source Code) - 2.</li> <li>REFERENCE CD (Reference Codes).</li> <li>SOURCE DOCUMENT ATTACHED? field – “Y”.</li> <li>REMARKS - “AUR split/spousal default”.</li> <li>Commit the MFT 30 Assessment window.</li> <li>Leave a detailed case note of actions taken, including which taxpayer agreed and which taxpayer defaulted.</li> <li>Enter PC 82.</li> </ul>

Prepare Form 3210, Document Transmittal, and send the duplicate NPS file, including any original correspondence, to Appeals. Include the following information on the form:

- REMARKS: “This is the duplicate file for a non-petitioning spouse case. The non-petitioning spouse case was assessed on MFT 31. The petitioning spouse case file was sent to Appeals on (date).”
- Petitioning spouse’s name and TIN.
- Non-petitioning spouse’s name and TIN.

**Reminder:** A copy of the NPS case file is sent with the MFT 30 adjustment.

- (17) If there is a payment(s) on the MFT 30 account, determine who is the non-petitioning spouse (NPS) and move/cross reference the payment(s) accordingly. If the primary taxpayer is the NPS, then use the credit transfer tool to move the payment(s) from the MFT 30 to the NPS MFT 31 account. If the NPS is the secondary taxpayer, then the payment(s) will need to be cross referenced to the NPS MFT 31 account. These actions will be taken when the assessment PC is entered in AUR. See the MFT 31 credit transfer and cross referencing help available on the AUR Portal at *AUR Research Portal IMF*.
- (18) The AUR system displays the following messages when there is an MFT 31 module present for NPS:
- “MFT31 Present on IDRS” displays when MFT 31 accounts modules are present on IDRS due to Bankruptcy, Innocent Spouse or AUR system initiated MFT 31 modules, due to only one spouse signing consent.
  - “MFT 31 PRESENT PER PETITION NON-PETITION FOR PRIMARY; SEE IRM 4.19.3” displays when the AUR System set the indicator “P”. This message displays even if the MFT 31 modules have not yet posted to IDRS.

- “MFT 31 PRESENT PER PETITION NON-PETITION FOR SECONDARY; SEE IRM 4.19.3” displays when the AUR System set the indicator “S”. This message displays even if the MFT 31 modules have not yet posted to IDRS.

4.19.3.22.1.9  
(10-25-2023)

**Backup Withholding  
(BWH)**

- (1) The BWH status will not update unless an assessment was made and the change to the AGI includes the income types listed in paragraph (2) below.
- (2) BWH applies primarily to income reported on forms in the 1099 series. A taxpayer who fails to report interest, dividend, or patronage dividend income is subject to BWH prior to payment. The rate for payments made is 24 percent.
- (3) The following indicators are located on the Master File to reflect the taxpayer's BWH status and display on the Tax Account screen in the BACKUP W/H field:
  - 0 - No BWH consideration
  - 1 - Potentially liable
  - 2 - Subject to BWH
  - 4 - BWH satisfied/manual stop
  - 8 - Suspended
  - M - Multiple periods
- (4) When the taxpayer submits additional information (for example, a second reply after the case is closed) and indicates they are no longer subject to BWH, take the following action:
  1. Prepare Form 4442.
  2. Attach a copy of the response to the Form 4442.
  3. Send the Form 4442 to the Collection Branch. See (6) and (7) below for the appropriate address.
  4. Send the taxpayer a Special Paragraph to inform them the response will be reviewed and they will be notified of the decision.
- (5) When the taxpayer calls and provides additional information after the case is closed, and indicates they are no longer subject to BWH, take the following action:
  1. Prepare Form 4442, list in detail the information provided to indicate no underreporting exists or has been corrected.
  2. Send the completed Form 4442 to the Collection Branch. See (6) and (7) below for the appropriate address.
  3. Inform the taxpayer the response will be reviewed and they will be notified of the decision.

- (6) Send the Form 4442 or correspondence to:

Internal Revenue Service

Mail Stop 4-N-31.142

2970 Market St.

Philadelphia, PA 19104

Or fax the Form 4442 or correspondence to 1-855-235-6786

(7) For International BWH issues, send the Form 4442 or correspondence to:

Internal Revenue Service

Mail Stop 4-N-31.143

2970 Market St.

Philadelphia, PA 19104

4.19.3.22.1.10  
(09-01-2012)

**Bankruptcy Procedures -  
Responses**

- (1) Once the taxpayer has been contacted by AUR and there is an indication that the taxpayer has filed bankruptcy or the taxpayer states they have filed for bankruptcy, see IRM 4.19.3.22.1.10.1, Bankruptcy Procedures - Tax Examiner Instructions, for further instructions.
- (2) The following Freeze Codes and/or Transaction Codes, present on the Tax Account screen indicates that the taxpayer filed for Bankruptcy:
  - Freeze Code “-V”
  - Freeze Code “-W” and an unreversed TC 520 with cc 81 or cc 84 only
- (3) An unreversed TC 604 may be an indication that the taxpayer has filed bankruptcy, see IRM 4.19.3.22.1.10.2, Bankruptcy Procedures- AUR Bankruptcy Coordinator Instructions, for additional information.

4.19.3.22.1.10.1  
(10-10-2018)

**Bankruptcy Procedures -  
Tax Examiner  
Instructions**

- (1) If the taxpayer states Bankruptcy was filed (or there is an indication of bankruptcy on the Tax Account), transfer the case to the AUR Bankruptcy Coordinator when:
  - a. The taxpayer’s response does not result in either a No Change or Agree/Partial Agree or
  - b. TC 604 is present on the Tax Account screen, which is not due to Innocent Spouse (indicated by TC 971 AC 065).
- (2) If the taxpayer states BANKRUPTCY was filed (or there is an indication of bankruptcy on the Tax Account), the case can be closed as a No Change or Agree/Partial Agree and TC 604 is not present:
  1. Close the case with the appropriate PC.
  2. Provide the AUR Bankruptcy Coordinator with a print of the Case History screen showing the closing PC.
- (3) Do not transfer cases to the AUR Bankruptcy coordinator when the taxpayer states Bankruptcy or there are bankruptcy indicators present and DBTCN is the only issue. See IRM 4.19.3.22.3.16, Cancellation of Debt, for further information to resolve the DBTCN issue(s).

**Note:** If closing the case as No Change or Agree/Partial Agree, provide the AUR Bankruptcy Coordinator with a print of the Case History screen showing the closing PC.

4.19.3.22.1.10.2  
(06-28-2021)

**Bankruptcy Procedures -  
AUR Bankruptcy  
Coordinator Instructions**

- (1) If, based on the instructions in this section, contact with insolvency is required go to *Centralized Insolvency Operation (CIO) Team Assignment* and obtain the phone or fax number. Click on the state in question listed in the Table. A list of Internal Use Only phone and fax numbers displays.
- (2) Tax examiners transfer cases with bankruptcy indicators (including taxpayer statements that bankruptcy has been filed without the presence of bankruptcy indicators on Tax Account) when:

- a. The response does not result in either a no change or agree/partial agree closing and/or
- b. TC 604 is present on the Tax Account screen, which is not due to Innocent Spouse.

**Caution:** If the TC 604 is due to reasons other than Bankruptcy or Innocent Spouse, close with the appropriate PC (71 for CP 2000 or 96 for Stat) and assess on MFT 31 accounts. If the case is closed with a PC 71 leave a case note indicating that the closure is not a "No Change".

**Note:** If the taxpayer's response results in an assessment and TC 604 is present on the Tax Account screen, post the assessment on the appropriate existing MFT 31 account(s) or contact the Centralized Insolvency Operation to request a temporary reversal of the TC 604 if MFT 31 account(s) have not been established.

- (3) When a TC 604 and TC 971 AC 031 **due to Bankruptcy are present**, close the case with the appropriate PC (71 for CP 2000 or 96 for Stat).

**Note:** If the TC 604 is due to reasons other than Bankruptcy or Innocent Spouse, contact the appropriate Collections Office to request a temporary reversal of the TC 604 if MFT 31 account(s) have not been established. If the MFT 31 account is established, close case with PC 71 for CP 2000 or PC 96 for Stat and assess on the MFT 31 account. When closing a case with PC 71, leave a case note indicating the closure is not a No Change.

- (4) If the taxpayer states Bankruptcy was filed, does not provide bankruptcy paperwork and there are no bankruptcy indicators on the Tax Account screen, research AIS (Automated Insolvency System) and/or PACER (Public Access Court Electronic Records) to determine if a bankruptcy petition was filed.
  - a. If there is no indication that a bankruptcy petition was filed, issue a Letter 2626C. Advise the taxpayer to address the AUR issues and provide a copy of the bankruptcy petition.
  - b. If there is an indication that a bankruptcy petition was filed, determine whether the AUR issues are pre-petition or post-petition.

**Note:** If the bankruptcy was filed before December 31st of the AUR tax year, the AUR issues are considered post-petition. For example, if the taxpayer files for bankruptcy on 07/28/20, any issues raised on a TY 2020 CP 2000 Notice are considered post-petition.

- (5) If the AUR tax year is post-petition:

1. Contact the appropriate Insolvency office within 48 hours and advise them of the status of the AUR case in order for them to determine if a Proof of Claim should be filed.
2. Leave AUR case note(s) to document contact with Insolvency.
3. Continue normal AUR processing.

(6) When the AUR tax year is pre-petition and

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an AUR case note(s) to document contact with Insolvency.

**Exception:** If the taxpayer's response acknowledges/indicates that the AUR liability has been added to the Proof of Claim (POC), issue a Letter 2626C to request signature on the consent to tax and continue processing. If a signature is not secured,

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them of the action taken. Leave AUR case note(s) to document contact with Insolvency.

**Note:** When working BT 84, if full payment has been received and case is in CP 2000 phase, follow agreed procedures. See IRM 4.19.3.22.5, Agree Responses. If a Statutory Notice has been issued send a

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**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence) to be associated with the refile DLN, enter "N" in the SOURCE DOC field in the Process Code window.

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contact the appropriate Insolvency office within 48 hours and advise them of the status of the AUR case in order for them to determine if a Proof of Claim should be filed. Leave AUR case note(s) to document contact with Insolvency.

- c. The taxpayer has made any payments, issue a Letter 2626C using the IAT **Letters** tool to obtain the taxpayer's signature. Send a Special Paragraph using the following verbiage as an example: "We have received full payment or partial payment from you regarding [the notice of deficiency or Letter XXX] regarding income tax year XXXX. However, while you are in bankruptcy, we need to honor the bankruptcy automatic stay that is in place until your bankruptcy has been closed, discharged or dismissed. Your payment appears to indicate that you may agree to the proposed changes on your tax return. If this is true, please sign and return the consent form below. If you filed a joint return, both spouses must sign."

**Note:** Payments made by the Bankruptcy trustee are posted as either a TC 670, 680 or 690 with designated payment code (DPC) 03 or 11.

- d. The taxpayer has not made any payments, issue a Letter 2626C using the IAT "Letters" tool. Send a Special Paragraph using the following verbiage as an example: "Although you are currently in bankruptcy and the bankruptcy automatic stay is in place until your bankruptcy has been closed, discharged or dismissed, we require additional information to indicate your agreement or disagreement regarding the proposed changes. If you disagree, please provide an explanation. If you agree, please sign the notice and return it for processing. You may be able to pay the amount owed through your bankruptcy. Please refer to IRS Publication 908 for additional information."
- (7) Insolvency contacts the AUR Bankruptcy Coordinator when they identify impacted account(s) through the AIS system and a TC 922 is present, to request information to assist them in establishing or updating the Proof of Claim. The AUR Bankruptcy Coordinator will provide the proposed tax deficiency and any other requested information within 48 hours of contact. Leave AUR case note(s) to document contact with Insolvency.
- a. If the Insolvency contact occurs before a notice has been issued (during screening phase), or on a pre-petition case after a notice has been
- b. If Insolvency informs AUR they are requesting a signed consent to tax from the taxpayer, suspend the case for 45 days. If the suspense time frame expires and Insolvency was unable to obtain a signed consent
- notes on AUR to document the call.
- (8) Some conditions require contact with Insolvency, see the table below for additional information:

If	Then
Mirroring is needed	Send an email request to *CIO Issues.
TC 520 and/or freeze condition is not present, there is an indication of an open bankruptcy filing and the bankruptcy is open on PACER <b>Note:</b> The most common reasons TC 520 or a freeze condition is not present, even though the taxpayer has filed for bankruptcy, are the Service was not listed as a creditor when the bankruptcy was originally filed or there were no balances due when notice of filing was received.	Check AIS: If the case is open or is closed as "No Liability": 1. Determine case assignment (or last case assignment, if the case is closed). 2. Contact the appropriate individual/CIO by phone or email to request a TC 520 be entered on IDRS for the AUR tax year. Contact may be with Field or Campus Insolvency, depending on where the case is or was assigned. Include the AUR proposed assessment information. <b>Note:</b> If contacting by phone, see (1) above. If the case is not on AIS, contact the appropriate individual in CIO via email.
Insolvency guidance or clarification is needed	Contact Insolvency by phone or fax; see (1) above.

- (9) MFT 31 modules must be established for **EACH** taxpayer when taxpayers file jointly, only one taxpayer files for bankruptcy and CIO can't mirror the module. Take the following actions to establish the MFT 31 module for each taxpayer:

**Note:** Master file will not create the MFT 31 account when the SSN for the secondary spouse is invalid. Prior to establishing the MFT 31 module(s), research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the spousal social security number). If invalid, send a request for SSN validation to Entity via Form 3210.

1. Access the primary taxpayer's MFT 30 account using IDRS cc TXMODA.
  2. Use the IAT "REQ 77" tool to establish the MFT 31 account for both the primary and secondary taxpayer.
  3. **TC:** Enter "971".
  4. **TRANS DT:** Date the TC 971 was entered.
  5. **TC 971/151-CD:** Enter "103".
  6. **XREF-TIN:** Enter SSN (create a module for both SSNs).
  7. **Leave remarks:** for example, "Bankruptcy Spousal MFT 31 established".
- (10) Monitor to ensure MFT 31 accounts were established for both taxpayers. Once the MFT 31 accounts have been created use the IAT "REQ 77" tool to enter TC 971 AC 110 on EACH MFT 31 account:

**Note:** TC 971 AC 103 generally posts within 3 - 4 weeks after input.

1. **TC:** Enter "971".
  2. **TRANS DT:** Date the TC 971 was entered.
  3. **TC971/151-CD:** Enter "110".
  4. **XREF-TIN:** Enter the SSN of the spouse (on the primary's account enter the secondary SSN; on the secondary's account enter the primary SSN).
  5. **Leave remarks:** for example, "TC 971 AC 110".
- (11) If there are payments on the MFT 30 account wait until the TC 971 AC 110 posts then move the payments to the primary taxpayer's MFT 31 account. Once the payment posts to the primary taxpayer's MFT 31 account cross reference the payment to the secondary taxpayer's MFT 31 account.

**Note:** Payments which posted to either MFT 31 module prior to TC 971 AC 110 posting require cross-referencing so both MFT 31 accounts reflect the payments.

- (12) When the petitioning and/or non-petitioning spouse is ready for assessment/default, use the IAT "REQ 54" tool to enter the adjustment on the appropriate account.
- (13) If information needs to be mailed to Insolvency, send the information to the following address:



Internal Revenue Service

P.O. Box 7346

Philadelphia, PA 19101-7346

or for overnight

Internal Revenue Service

2970 Market Street

Stop 5-Q30.133

Philadelphia, PA 19104-5016

- (14) When more than one bankruptcy petition is filed within 12 months of the previous dismissal, the automatic stay may terminate or not go into effect at all. If AIS or PACER reflects a subsequent bankruptcy filing (serial filer case) and the previous case was dismissed, contact Insolvency to request the status of the automatic stay as follows:
- If the case is assigned to the Centralized Insolvency Operation (CIO) on AIS, contact CIO. Contact information can be found on the SERP Who/Where tab (<http://serp.enterprise.irs.gov/databases/who-where.dr/insolvency/national-field-centralized-site-directory.html>). Select the state which the bankruptcy was filed, the number is listed in the "POTENTIAL STAY VIOLATIONS" section. These cases are identified by 85000 in the Org1 field on the Taxpayer screen on AIS. The CIO will refer the case to the appropriate Field Insolvency caseworker based on the Case Assignment Tool.
  - If the case is assigned to Field Insolvency, contact the assigned caseworker directly. These cases are identified by 26000 or 27000 in the Org1 field on the Taxpayer screen on AIS.

**Note:** If the sequential filing(s) are deemed by the court to not be in good faith, the automatic stay may terminate 30 days after the petition was filed or may not arise at all. PACER and/or AIS generally does not contain a history item stating the stay is or is not in place and, depending on the court, there may be no order granting a motion to indicate the stay is or is not in effect. If the AUR Bankruptcy Coordinator has concerns with the information provided by Insolvency, elevate the issue to the caseworker's manager.

- (15) If the taxpayer provides a subsequent response(s), that reduces the proposed AUR balance due (including closing the case a No Change), contact Insolvency and advise them of the change in status so the proof of claim can be adjusted accordingly. Leave AUR case note(s) to document contact with Insolvency.

**Note:** Do not issue a recomputed notice when the taxpayer has provided an ac-

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vency and advise them of the action taken. Leave AUR case notes to document contact with Insolvency.

- (16) The AUR Bankruptcy Status listing is available to assist the AUR Bankruptcy Coordinator identify and manage Bankruptcy inventory cases. This report provides a listing of SSNs with bankruptcy indicators: “-V”, “-W”, and the current CSN of the case. Running a New Transaction Report for Batch Type 89001 will show indicators of recent changes in Bankruptcy status (ex: the posting of a TC 521).

**Note:** These reports/listings are available to assist the AUR Bankruptcy Coordinator remain current with their inventory and **MUST** be reviewed on a weekly basis.

- a. Cases identified with bankruptcy indicators in pre-notice phase should be assigned and closed with PC 27.
- b. Cases identified with bankruptcy indicators after a notice has been issued

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- e below.

- c. Review AIS/PACER for an indication of the automatic stay lifting; case is closed, dismissed, discharged or discharge was denied.

**Note:** If the taxpayer is in Chapter 11 bankruptcy, contact the Field Insolvency caseworker to determine if the automatic stay has been lifted.

- d. Determine if contact with Insolvency is necessary.
- e. Leave AUR case note(s) to document contact with Insolvency.

**Note:** The bankruptcy inventory is monitored from the date a case has been identified as a bankruptcy issue until the bankruptcy closes. The inventory **MUST** be reviewed once every month using AIS, PACER and IDRS for any changes made to the account.

**Note:** All cases in inventory will have been issued a Statutory Notice of Deficiency. The Bankruptcy Coordinator will assess all non-statutory items prior to the Statutory Notice being issued.

- (17) If a Statutory Notice has been issued and the taxpayer has not replied, the case is ready to assess by default and bankruptcy indicators are present on the case, determine if the case is pre-petition or post-petition.
- a. If the case is post-petition, enter PC 90 at the end of the Statutory Notice suspense period and contact Insolvency to advise that the assessment has been processed.

**Reminder:** The automatic stay does not suspend the time frame for the taxpayer to petition U.S. Tax Court for cases concerning post-petition liabilities. AUR will follow normal default processing procedures.

- b. If the case is pre-petition, the AUR case must remain in suspense. Enter PC 98 to move the case to Bankruptcy Suspense Batch 89001. Monitor cases in BT 89001 on, at minimum, a monthly basis.

**Note:** If a TC 604 and TC 971 AC 031 due to Bankruptcy are present on the Tax Account screen close the case with the appropriate PC (71 for CP 2000 or 96 for Stat).

**Reminder:** Assignment of PC 98 to Employee cases will not move them to Batch 89001, they will remain in BT 92.

- (18) The assessment by default cannot occur on pre-petition cases until the stay has been lifted and the taxpayer has had the entire 90-day period, plus an additional 60 days, to petition U.S. Tax Court, as the automatic stay prevents the taxpayer from filing a petition in Tax Court.

**Exception:** Deficiencies in which the statutory period for petitioning the U.S. Tax Court has expired prior to the bankruptcy petition filing can be assessed even though the assessment may post to IDRS after the petition date.

**Example:** The Statutory Notice was issued 11/12/2019, the time to petition U.S. Tax Court expired on 02/10/2020 and the taxpayer filed bankruptcy on 03/01/2020. Since the taxpayer had the entire 90-day petition period to petition the U.S. Tax Court and the time frame expired, the proposed amount can be assessed by default.

- a. **An assessment by default cannot be entered without the Insolvency approval.** If Insolvency approves of the assessment by default, document the approval in AUR Case Notes. Include the dismissal/discharge date as well as how the case was resolved and enter the appropriate PC.
- b. The time to file a petition with U.S. Tax Court and the assessment statute for the deficiency is not suspended for the spouse who did not file bankruptcy. If the non-petitioning spouse does not timely file a Tax Court petition, the deficiency must be assessed against the non-petitioning spouse prior to the ASED expiration.
- (19) Generally, the automatic stay lifts on the earlier of the granting or denial of discharge, dismissal or closing of the case. Contact Insolvency to determine if the default assessment can be made during the suspense time when:
- notification is received by Insolvency contact indicating the stay has been lifted
  - PACER research indicates the case has been closed, discharged or dismissed
  - IDRS update to AUR indicates the stay has been lifted (for example, posting of TC 521 and TC 522)

Recompute the ASED when needed.

- (20) If the default assessment cannot be made prior to the AUR Tax Year archive date, at that time, close any remaining cases on the AUR system (PC 96) and establish an IDRS control base to continue monitoring.

- (21) The taxpayer's 90-day period for filing a U.S. Tax Court petition relating to a pre-petition liability is suspended by the automatic stay and begins to run 61 days after the stay is lifted. For any taxable periods ending after the date the bankruptcy petition was filed neither the taxpayer's 90-day period nor the ASED is suspended (for those tax years) even though the bankruptcy may still be ongoing.
- (22) The important dates for determining ASED are the date the:
- return was filed
  - bankruptcy petition was filed
  - Statutory Notice was issued and
  - automatic stay lifted

Any questions regarding the ASED should be coordinated with Insolvency. For more information, see IRM 5.9.4.3, ASED/CSSED.

**Reminder:** The taxpayer is allowed the full 90-day time period, plus an additional 60 days, to file a petition with the U.S. Tax Court. If the taxpayer files a bankruptcy petition on the 75th day, the automatic stay is imposed with 15 days remaining on the taxpayer's 90-day time period. Once the stay terminates the taxpayer has 60 days plus whatever time is left on the 90-day period (15 days) to file a petition with the U.S. Tax Court.

- (23) Take necessary precautions to protect the ASED.

**Note:** The assessment period is suspended during the automatic stay plus an additional 60 days beyond the day the stay is lifted under section 6503(a) and 6213(f). Additional information may be found in Rev. Rul. 2003-80. Recomputation of ASEDs are identified and coordinated with Insolvency by the AUR Bankruptcy Coordinator.

- (24) Bankruptcy Coordinators will identify cases that require mirroring and will contact CIO to request the mirroring process early on in the bankruptcy proceeding, prior to trustee payments being received whenever possible, to potentially avoid mirroring problems from occurring.

- a. Mirror cases when there is a jointly filed return, only one taxpayer is in bankruptcy and the suspense period for the Statutory Notice has expired

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In order to protect the statute, the assessment must be made on the non-petitioning spouses MFT 31 account prior to ASED expiration.

- b. Include Reason Code 138 on MFT 31 adjustments for jointly filed returns, when credits, TC codes 76x and/or 80x, should not be cross referenced to the other spouse's MFT 31 tax account.

- (25) The Tax Court does not have jurisdiction over certain underpayments of tax/penalties and overstatements of payments/credits (non-statutory items). Therefore, when these underpayments/overstatements exist in a case, an assessment or adjustment will be made prior to ASED expiration (see (26) below). (IRC 31, IRC 6211 and IRC 6652(b)).

- (26) If non-statutory items are an issue a partial assessment on AUR or IAT "REQ54" tool is required for the following items:

- W/H, see (27) and (28) below

- Excess SSTAX see (27) and (28) below
- Additional Medicare Tax withheld, see (27) and (28) below
- Additional Medicare Tax on wages or RRTA compensation, see (29) below
- FICA tax on tip income and tip penalty under IRC 6652(b), see (29) below
- FICA tax on other income (such as, NEC), see (29) below
- Shared Responsibility Payment (SRP), see (30) below

- (27) If a Statutory Notice has not been issued and W/H, excess SSTAX, or Additional Medicare Tax is the issue, enter the assessment on AUR for the credit adjustment, NOT the tax. Issue a letter informing the taxpayer that the non-statutory items have been assessed and enter PC 77 to manually generate a stat notice.
- (28) If a Statutory Notice has been issued and W/H, excess SSTAX, or Additional Medicare Tax is the issue, enter the assessment using the IAT "REQ54" tool, for the credit adjustment, NOT the tax, send a recomputed notice (PC 95) removing the non-statutory items assessed and include a Special Paragraph informing the taxpayer that non-statutory items have been assessed.
- (29) If FICA tax, SS Tip tax or Additional Medicare Tax on wages or RRTA compensation is an issue:
1. Assess the FICA tax, SS Tip Tax or Additional Medicare Tax on wages or RRTA compensation with a TC 290 and the appropriate reference number using HC 3. The hold code is released when the next TC 290 posts.
  2. Use blocking series "05" to enter FICA/SSTAX adjustment.
  3. Enter PC 77.
- Example:** The original FICA tax on the CP 2000 is \$150 with the total tax due of \$750. Enter TC 290 with the appropriate reference number for \$150 and issue the Stat notice (using STN 90) or a recomputed notice (PC 95) for \$600.
- (30) If a partial assessment for non-statutory items was previously entered, and the case is being closed and not placed into bankruptcy suspense, close the case with PC 88.
- (31) If Insolvency identifies a case that has been assessed by AUR in violation of the automatic stay, they will contact AUR to make an adjustment. The AUR Bankruptcy Coordinator will verify if the assessment was done in violation. If so, then the AUR Bankruptcy Coordinator will reverse the assessment, ensure that notices are suppressed and establish an IDRS control base for continued monitoring, using IAT tools as appropriate.

4.19.3.22.1.11  
(07-01-2020)  
**Combat Zone**

- (1) If the taxpayer's response indicates participation in military action as a member of the U.S. Armed Forces (in an area designated as a combat zone as defined in IRC 7508 or in an area certified by the Department of Defense as being in direct support of military operations in a combat zone, for which the person receives special pay for duty subject to hostile fire or imminent danger, or in a qualified hazardous duty area or performing qualifying service outside such area as defined by Congress, per Pub 3, Armed Forces' Tax Guide, Combat Zone Exclusion, for the tax year at issue and for the most recent year for listings of specific areas) take the following action:

**Note:** Executive Order No. 12744, effective January 17, 1991, designated the “Arabian Peninsula Areas” as a combat zone. No authority has terminated the designation, which continues to be in effect for Operation New Dawn (formerly Iraqi Freedom).

**Note:** The **Tax Cuts and Jobs Act** (TCJA) enacted December 2017, designated the “Sinai Peninsula of Egypt” as a qualified hazardous duty area to be treated as a combat zone for purposes of IRC 7508. This benefit is effective retroactively from the period beginning June 10, 2015, through subsequent taxable years beginning before January 1, 2026.

1. Research IDRS CC IMFOLE for the combat zone indicator. See IRM 4.19.3.4.3.2, Freeze Codes, for additional information.
2. Close **all** Combat Indicator 1 cases with proposed tax increase with PC 15 and issue a Letter 1802-C. If the case is in Statutory Notice phase or if necessary to release a payment, enter TC 290-0 in the Assessment window.
3. Process any responses with Combat Indicator 2 or involving **refund** cases per (2) below.
4. Verify the presence of the “-C” Freeze code.

If	And	Then
The -C freeze is not present		Enter TC 500 with cc 52 for Desert Storm, cc 54 for Bosnia/ former Yugoslavia or Allied Force, or cc 56 for Afghanistan, cc 56 Sinai Peninsula or cc 57 Enduring Freedom (to reflect when the taxpayer entered the combat zone) on the tax module being worked. Per the taxpayer’s response the Combat Indicator is 1, see steps 2 or 3 above.
The “-C” freeze is not present	No entry date was provided	Enter the TC 500 cc 5x using the correspondence date or the date of the telephone contact. Per the taxpayer’s response the Combat Indicator is 1, see steps 2 or 3 above. See IRM 5.19.2.6.4.2.1, Combat Zone IMF Procedures, for more detailed instructions.

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**Note:** The combat zone exit date is reflected with cc 53 for Desert Storm, cc 55 for Bosnia/former Yugoslavia or Allied Force, or cc 57 for Afghanistan or Enduring Freedom.

- (2) Combat zone indicator 2 indicates the taxpayer is no longer serving in a combat zone. Manual Interest computation may be required for the notice to generate. If there is U/R income, enter IPC MI (Manual Interest) only if a CP 2000 is being issued **AND** the case is in batch type 61. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000.



- (3) The deadline extension provisions may also apply to individuals serving in the combat zone in support of the U.S. Armed Forces, such as Merchant Marines serving aboard vessels under the operational control of the Department of Defense, Red Cross personnel, accredited correspondents, and civilian personnel acting under the direction of the U.S. Armed Forces in support of those forces. Follow the instructions in (1) above to close the case PC 15.

4.19.3.22.1.11.1  
(12-13-2018)

**Combat Zone Cases and  
IRC 7508**

- (1) IRC 7508 provides that the period for performing acts required to be performed by a certain date as outlined in IRC 7508 and related guidance is suspended while a taxpayer is on active duty to a combat zone, plus during any period of qualified hospitalization thereafter, plus 180 days. See IRC 7508(a)(1),(g). When a combat zone entry date is prior to the return due date, and there is no exit date, then there is no due date. That "no due date" condition is represented by a due date of 12/31/XXXX.

**Example:** A Notice of Deficiency is sent to the taxpayer dated 11/15/2019. A TC 500 posts in the entity indicating a combat zone entry date of 11/25/2019 (10 days after the notice date). The taxpayer has until 260 days (90 -10 + 180) after they leave the combat zone to file a petition with the U.S. Tax court. The deficiency cannot be assessed during that time UNLESS the taxpayer signs a waiver to assess and collect.

- (2) If after a notice is generated the system displays one of the following messages: "12/31/XXXX date is present, possible combat zone - See IRM 4.19.3" or "Note: Possible Combat Zone Indicator. Manual Interest and FTF

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1. Research IDRS CC IMFOLE for TC 500 cc 57.
2. Determine exit date. If not available, go to (3) below.
3. If the case is at the point of assessment, transfer the case to unit suspense, and monitor until the suspense period outlined in (1) above expires.

**Caution:** If the exit date is not available, DO NOT assess the case by default. See (3) below.

4. After the suspense period in (1) above expires, if issuing a notice, manually calculate the FTF penalty and interest if applicable, and make the appropriate entries in the assessment window.

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4.19.3.22.1.12  
(09-01-2013)

**Community Property**

- (1) If the taxpayer's response indicates the income is community property, refer to IRM 4.19.3.5.4, Community Property States, for additional information.

4.19.3.22.1.13  
(09-01-2008)

**Congressional Cases**

- (1) A case is considered a Congressional if correspondence/inquiry is received on U.S. Congressional Letterhead or attached to U.S. Congressional Letterhead.
- (2) If you discover a Congressional case, immediately give the case to the AUR TAS liaison for expedite handling.



- (3) Do not consider a case a Congressional if the taxpayer states they sent a copy of the AUR notice to a member of Congress or the White House, or contacted or is going to contact a member of Congress or the President, or threatens to do so if the case is not resolved. See IRM 13.1.7, Taxpayer Advocate Service (TAS) Case Criteria, for cases meeting the Taxpayer Advocate Service (TAS) criteria.

4.19.3.22.1.14  
(09-30-2014)  
**Decedents**

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**Exception:** If the surviving spouse indicates the taxpayer died after the date the CP 2000 was issued, continue processing and **send Paragraph 129** or a Special Paragraph (Letter 2626C) using the following verbiage as an example: "All income attributable to you or your spouse must be included on the joint tax return filed for that year".

- (2) If a response is received stating both taxpayers are deceased (for married filing jointly), or a single taxpayer is deceased (including letters marked

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- Full payment is submitted
- Partial payment is submitted. Acknowledge payment and continue processing
- Executor or surviving spouse signs the notice, with no disputing comments
- The response indicates that more time is required to investigate the matter. Continue processing the case.

- (3) If a disagreed response is received and the income is jointly owned with a surviving spouse, issue an appropriate letter with a Special Paragraph using the following verbiage as an example: "All income attributable to you or your spouse must be included on the joint return you filed." or **send PARAGRAPH 129** on the notice. See Exhibit 4.19.3-7, CP PARAGRAPHS.

**Note:** Joint accounts with one spouse deceased may need to be split into MFT 31 accounts for one or both taxpayers. For additional information see IRM 21.6.8, Split Spousal Assessments (MFT 31).

- (4) Responses to an AUR notice may state the taxpayer died since filing the tax return for the AUR year. Enter the following information on the Update Address window:

- a. For returns other than a joint return, enter "Decd" behind the surname (for example, John Jones Decd).
- b. For joint returns with one deceased taxpayer, enter "Decd" behind the decedent's first name (for example, John Decd and Mary Jones).
- c. For joint returns with both taxpayers deceased, enter "Decd" behind both first names (for example, John Decd and Mary Decd Jones).

**Note:** If entering the word "DECD" makes the first name line too long, use the second name line to reflect the deceased taxpayer's name.

- d. Enter "D" in the SPLIT CODE field.

4.19.3.22.1.14.1  
(06-17-2013)

**Killed in Terrorist  
Action/Killed in Action  
(KITA/KIA)**

- (1) IRC 692(d) provides an exemption from taxes in the following situations:

- Any individual who dies as a result of wounds or injury incurred due to terrorist attacks against the United States on April 19, 1995, or September 11, 2001, or
- Any individual who dies as a result of illness incurred due to a terrorist attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002, unless the individual was a participant of the attacks.
- Any astronaut whose death occurs in the line of duty after December 31, 2002.

These taxpayer accounts are being centralized and worked at the Kansas City Campus, as are all Killed in Terrorist Action/Killed in Action (KITA/KIA) cases.

- (2) Based on the taxpayer's response or the presence of "KITA/HSTG" in the KITA IND field on the Tax Account screen, determine if the U/R income belongs to the decedent. If all U/R income belongs to the decedent:
- a. Use PC 18 to close.
  - b. Document the Case Notes: "KITA/KIA" or similar wording.
  - c. Issue a Letter 1802-C.
  - d. If the case is in the Statutory Notice phase or if a payment has been received, enter TC 290-0 in the Assessment window.
  - e. Prepare Form 4442 and route to your Accounts Management KITA/KIA Coordinator. Attach a copy of the written response or include a synopsis of the telephone call to the Form 4442.
- (3) If only part of the income belongs to the KITA/KIA decedent, delete those issues and pursue issues for the surviving spouse. If none of the issues pertain to the KITA/KIA decedent, continue normal processing.

4.19.3.22.1.15  
(06-01-2015)

**Deposits to Stop the  
Accrual of Interest -  
Section 6603**

- (1) A taxpayer may stop the further accrual of interest while the case is being resolved by making either a payment or an IRC 6603 deposit.

**Note:** See IRM 4.19.3.22.5, Agreed Responses, for the requirement that BOTH signatures are required on a consent to a tax increase for a jointly filed tax return that is not fully paid.

- (2) The American Job Creation Act of 2004 created new IRC 6603, which allows taxpayers to submit deposits to suspend the running of interest on potential underpayments.
- a. IRC 6603 deposits replace Cash Bond designations and are identified on the Tax Account screen by a TC 640 with a Blocking Series of 990-999 in the DLN, or TC 640 with DPC 12. See IRM 20.2.4, Overpayment Interest.
  - b. The taxpayer must use the specific designation for the payment to be considered an IRC 6603 deposit.
  - c. Unlike Cash Bonds, the taxpayer may be entitled to interest on the excess portion of an IRC 6603 deposit. To the extent the deposit is attributable to a disputable tax, interest is paid at the Federal short-term rate provided under IRC 6621(b), compounded daily. The ACT/DMI Program

(version 6.13 and subsequent) provides a Federal Short-Term Rate Chart specifically for computing interest on IRC 6603 deposits. The rate of interest allowed is lower than the rates for overpayments.

**Note:** After an assessment is made and the funds are applied as a payment against the assessed liability, the normal rules regarding interest on overpayments would apply.

- (3) A taxpayer may request the return of all or part of an IRC 6603 deposit before the deposit is used for a payment of tax. The requests must be in writing and include the following:
- a. The date(s) and amount(s) of the original deposit(s);
  - b. The type(s) of tax to which the deposit was intended to be applied;
  - c. The tax year(s) to which the deposit was intended to be applied.

If the request is complete, a manual refund is required. See IRM 21.4.4, Manual Refunds, IRM 21.5.1, General Adjustments, IRM 21.5.2, Adjustment Guidelines, and IRM 20.2.4.8.2.3, Request for Return of an IRC 6603 Deposit, for more information.

**Note:** The accrual of interest stops only on the amount actually remitted by the taxpayer on the date the remittance is received. Interest continues to accrue on other unpaid amounts, including unpaid interest.

**Note:** Leave a case note documenting the actions when processing manual refunds.

**Note:** Some Directorships have centralized the processing of manual refunds.

4.19.3.22.1.16  
(07-01-2020)  
**Disaster Cases**

- (1) When working disaster cases, approach taxpayers impacted by a disaster with sensitivity to their personal circumstances. Taxpayers may not realize they qualify for disaster relief. It may be necessary to explain to the taxpayer some or all case actions are suspended until after the disaster end date, depending on the Disaster Case Type.

**Note:** Refer systemically or self-identified disaster cases with Form 14039 and/or a police/law enforcement incident report or Form 14157 and/or Form 14157-A to the AUR IDT liaison.

- (2) If the case is systemically identified as entitled to disaster relief and a response is received, see the table below to determine the proper action to take:

If	Then
The taxpayer indicates their home, place of business or records were lost, destroyed or not accessible due to the disaster	<div>2. Issue a Letter 1802-C.</div> <div>3. Enter TC 290-0 in the Assessment window if the case is in Statutory Notice phase or if necessary to release a payment.</div>

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If	Then	
	<p>Continue processing. The AUR system will suppress notices and/or assessments depending on the Disaster Case Type and process code used. Refer to IRM 4.19.3.5.6, Declared Disaster Areas, for additional information on Disaster Case Types.</p> <p><b>Exception:</b> If the taxpayer requests processing continues or opts out of the suspension, see (4) below for additional information.</p> <p><b>Note:</b> During disaster case batch building it may be necessary for clerical to transfer a case to a TE for enter/re-enter of a PC.</p> <p><b>Note:</b> Agreed disaster cases will be built to BT 52 or 74, as appropriate, for input of the PC by a TE. This will allow the system to suppress assessments on disaster cases until after the disaster end date.</p>	<p>#</p> <p>#</p> <p>#</p>

**Note:** No change or adjustments resulting in a refund are permitted. It may be necessary to override the disaster message; use Override "Y". See (4) below for additional information.

- (3) Taxpayers residing outside the zip code(s) in the disaster relief memo may self-identify, indicating they were impacted by the disaster. Since the AUR System does not recognize the case as a disaster case, which prevents any systemic notice issuance and ensures assessment suppression, these cases require special handling to ensure notices are not issued and assessments are not made until after the disaster end date. Refer to the table below to determine the proper action to take:

If	And	Then
The taxpayer self-identifies (AUR System does not identify the case as a disaster case)	The case should be placed in suspense until the disaster end date	<ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Enter IPC 0D, 3D, 6D or 8D, as appropriate.</li> <li>3. Notate on the folder/Form 4251/Campus cover sheet the case is a disaster case.</li> </ol> <p><b>Note:</b> Telephone assistants will make a print of the case note to notate the case is a disaster case; provide the print to clerical.</p> <p><b>Note:</b> Processing should be suspended based on the Disaster Case Type. Refer to IRM 4.19.3.5.6, Declared Disaster Areas, and to the IRS Disaster Relief Memorandum for additional information regarding processing procedures or manually entering Freeze Code “-O” or “-S”, if necessary.</p> <p><b>Exception:</b> If the taxpayer requests to continue processing their account or opts out of the suspension, do not enter a freeze code condition, see (4) below for additional information.</p>
The taxpayer self-identifies (AUR System does not identify the case as a disaster case)	The taxpayer indicates their home, place of business or records were lost, destroyed or not accessible due to the disaster	<ol style="list-style-type: none"> <li>2. Issue Letter 1802-C.</li> <li>3. Enter 290-0 in the Assessment Window if the case is in Statutory Notice phase or if necessary to release a payment.</li> </ol>

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- (4) Taxpayers can request AUR Compliance activities continue; often referred to as **opts out**. At the taxpayer's request take the following actions:

1. Leave a detailed case note to document the taxpayer affirmatively requesting case continuation; decision to opt out.
2. Work the case following established IRM procedures.

**Note:** Telephone assistants will follow IRM 4.19.3.22.2.5, Universal Case, when working the case.

3. When entering the PC, select the "Override" prompt from the disaster message to allow notice or letter issuance or assessment.

**Caution:** Once the "Override" prompt is selected the case will be treated as a non-disaster case and permanently removed from disaster case processing consideration.

- (5) If RECON correspondence is received on a case in a declared disaster area, whether systemically identified or through taxpayer self-identification, see IRM 4.19.3.26, AUR Reconsideration (RECON) Cases, for further information.

4.19.3.22.1.17  
(10-07-2019)

**Discovered Remittance  
and Voided Checks**

- (1) Discovered remittance - A response and/or correspondence with an original form of payment attached such as a personal check, money order or cashier's check. Also, a loose check(s) discovered in an envelope or attached to a blank piece of paper.

**Note:** For voided or blank checks, see (6) below.

- (2) If any of the items listed in (1) are discovered, both the Form 3244, Payment Posting Voucher, and Form 4287, Record of Discovered Remittance, **MUST** be completed.

- (3) Two copies of Form 3244 must be completed for each discovered remittance and contain entries in the following fields:

- SSN
- Form number/MFT
- Tax Period
- Transaction/Received date (IRS received date)
- Taxpayer name, address, and ZIP code
- Transaction Data (remittance amount)
- Remarks
- Prepared by

- (4) After completing Form 3244 take the following steps:

1. Attach one copy (original) to the remittance and drop in the designated secured (locked) container.
2. Attach the second copy of Form 3244 to response.
3. Use information from copy to complete log per (5) below.

- (5) . Form 4287 is completed daily to log all discovered remittance and must have entries in the following fields:

- Stop Number
- Unit
- Telephone Number
- Today's Date - in MM/DD/YYYY format
- Type of Doc - (for example, Form 1040, Form 941)
- Tax Period - (entire tax period XXXX)
- Type of Remit - (such as, check, money order)
- Amount of Remit - (total money amount including a comma and decimal point)
- Received Date - in MM/DD/YYYY format
- Name - (Entire Name)
- SSN

- Discoverer - Name of person who discovered the remittance and their Supervisor's name
- (6) VOIDED CHECKS - If the response has a "VOIDED" personal check attached, remove the check from the response and attach it to the Form 9465, Form 433-D, or written IA request. Route the "VOIDED" check with the IA to Collections.
  - (7) IRS CHECKS - Returned IRS refund checks are handled differently than regular discovered remittance or "VOIDED" personal checks. If you find an IRS refund check, take it to your Manager/Lead to be routed to the Refund Inquiry Unit.
- 4.19.3.22.1.18  
(09-21-2020)  
**Divorced/Separated Taxpayers**
- (1) If a taxpayer files a joint return and later becomes separated or divorced, both taxpayers remain responsible for the full amount of tax due on the jointly filed return. For this reason, mail a copy of the CP 2000 or Statutory Notice to each taxpayer at their separate residences.

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**Caution:** Do not make any changes to the first name line when updating spousal addresses. Use the address input with Address Type "S" on any subsequent correspondence.

- (2) The signatures of **BOTH** taxpayers are required on consent to tax increase for a jointly filed tax return that is not fully paid.

**Exception:** A signature (both for jointly filed returns) is required if full payment was received after the Stat Notice was issued. If only one taxpayer has signed the consent to tax increase or each taxpayer signed separate consent forms that are dated differently (different IRS received dates), refer to IRM 4.19.3.22.1.18.1, Divorced/Separated Taxpayers – Single Signature on Consent, for additional information.

- (3) If the response indicates the taxpayer is not liable for the tax **and there is no signed consent received for either taxpayer**, determine if the non-responding spouse was issued a copy of the notice by researching the address portion of the Case History Screen, refer to IRM 4.19.7.16.1, Viewing Display Notice History Screen.

If	And	Then
Both taxpayers received a notice,	The address of the non-responding spouse is known	Issue a Letter 2626C to both taxpayers to obtain the missing signature. <b>Exception:</b> If the suspense time frame on a Stat Notice has expired, enter PC 90 to default the case.



If	And	Then
The non-responding taxpayer did NOT receive a copy of the notice	The responding spouse provides the address	<ol style="list-style-type: none"> <li>1. Enter the non-responding spouse's address on the Update Address window using Address Type "T", using a date that is 60 days from the current date.</li> <li>2. Issue a recomputed notice.</li> <li>3. <b>Send PARAGRAPH 182</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS, and include a Special Paragraph using the following verbiage as an example: "Since you filed a joint return we require the signature of both you and your spouse on the Response Form."</li> <li>4. Issue Letter 2626C to the responding spouse to inform him/her that both taxpayers are jointly and separately liable for the tax and that a signed consent to tax is required.</li> </ol> <p><b>Caution:</b> Ensure the correct address is selected for the appropriate spouse. Refer to IRM 4.19.7.12.1, Create Letter Window, for additional information.</p>
The non-responding taxpayer did NOT receive a copy of the notice	The address is obtained from IDRS CC INOLES or ENMOD	<ol style="list-style-type: none"> <li>1. Enter the non-responding spouse's address on the Update Address window using Address Type "S". (Do not make any changes to the first name line.) See IRM 4.19.3.22.1.6, Address Updates.</li> <li>2. Issue a recomputed notice (which is sent to both spouses).</li> <li>3. <b>Send PARAGRAPH 182</b>, see Exhibit 4.19.3-7, CP PARAGRAPHS, and include a Special Paragraph using the following verbiage as an example: "Since you filed a joint return we require the signature of both you and your spouse on the Response Form."</li> </ol>

- (4) If the address for the non-responding spouse is not known **and there is no signed consent received for either taxpayer**, research IDRS using CC INOLE with a Definer of "S" or CC ENMOD.

If	Then
The spouse's address cannot be obtained	Issue a Letter 2626C to the responding taxpayer to obtain the spouse's address.
The spouse's address is obtained with an address change cycle of 201X52 or later,	Follow instructions in (3) above.

- (5) The taxpayer who filed a joint return may respond to a Statutory Notice that they are now divorced and/or separated and not fully liable for tax. Use the following procedures to process the case.

**Caution:** If only one taxpayer has signed the consent to tax refer to IRM 4.19.3.22.1.18.1, Divorced/Separated Taxpayers – Single Signature on Consent.

- a. If the taxpayer is providing their address, enter the address on the Address Update window using either Address Type "I" or "S", as appropriate. The address entered is used on any subsequent correspondence.
- b. Obtain a copy of the Statutory Notice, delete the divorced/separated spouse's address. Do not change the date on the Statutory Notice.
- c. Edit the attached CP 2000 to show any payments made by the first spouse contacted. Delete the address shown on the CP 2000 and write in the address of the spouse it is being sent to.
- d. Attach a copy of the notice to a Letter 2626C. Use paragraph G.

**Note:** Use extra caution to ensure that the divorced/separated spouse is the person who is listed on the return. If the Statutory Notice is sent to anyone else, it constitutes an unauthorized disclosure. See IRM 11.3.1.9, Unauthorized Access and Disclosure of Returns or Return Information, for additional information on unauthorized disclosure.

**Note:** If speaking to the taxpayer on the phone advise the taxpayer to see Pub 504, Divorced or Separated Individuals, for additional information.

- (6) If neither spouse responds to the Statutory Notice (i.e. fails to respond to the IRS and to petition the Tax Court), assess (default at the end of the Statutory period) the joint account for the full amount of the deficiency.
- (7) If either spouse disagrees with the notice, (no signed consent to tax received from either spouse) contact the disagreeing spouse for resolution. If unresolved, refile the case for default.

4.19.3.22.1.18.1  
(09-21-2020)

**Divorced/Separated  
Taxpayers - Single  
Signature on Consent**

- (1) If only one taxpayer signed the consent, the address of both taxpayers is known or the responding spouse provides the address of the non-agreeing spouse or the non-agreeing spouse's address is obtained from IDRS CC INOLE or ENMOD, update the taxpayers' addresses, as appropriate.
  - Enter the address of the primary spouse using Address Type "T", and an end date one year (365 days) from the current date. Edit the first name line to reflect only the primary spouse's name.
  - Enter the address of the secondary spouse on the Address Update window using Address Type "S". Edit the first name line to reflect only the secondary spouse's name.

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- (2) Attempt to secure the non-agreeing taxpayer's consent to the tax. Determine if the non-agreeing spouse was issued a copy of the notice by researching the address portion of the History Screen, refer to IRM 4.19.7.16.1, Viewing Display Notice History Screen .

If	Then
Both taxpayers received a notice	<ol style="list-style-type: none"> <li>1. Issue Letter 2626C separately to each taxpayer.</li> <li>2. When the Address Information screen displays, enter "Y" in the INPUT MANUAL NAME LINES box; the Edit Name Information screen will display. <b>Note:</b> The AUR system auto-populates the name and address information from the Update Address window, for the address types which can be modified.</li> <li>3. Enter the appropriate address type in the Address box and press enter, to display the name line and address information. For example, if both taxpayers reside at the same address, enter Address Type "I".</li> <li>4. Modify/edit the names and address lines to display each taxpayer individually.</li> <li>5. Select the addresses which need to have a letter issued by entering "Y" in the Select Address field.</li> <li>6. Press F12 to access the Create Letter window.</li> <li>7. Include a Special Paragraph to attempt to obtain the missing signature and advise the taxpayers they are jointly and separately liable for the tax, using the following verbiage as an example: "We sent a copy of our proposed changes to the other taxpayer on your joint return for the tax year listed above. When you file a joint return, both taxpayers are jointly and separately responsible for the full amount of tax owed on the return, even if you separate or divorce after you file. We are unable to continue processing your signed agreement until we have received both signatures." <b>Reminder:</b> Edit the salutation "Dear Primary and Secondary Taxpayer" to "Dear Taxpayer".</li> <li>8. Leave a detailed case note to indicate which spouse agreed; for example, secondary taxpayer agreed.</li> <li>9. Enter IPC S6 (CP 2000) or S3 (Stat) and release case; the case is moved to BT 89005 or 89004 respectively.</li> <li>10. Use the batch listing for BT 89005 or BT 89004 or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report to monitor the case for 45 days.</li> </ol>

If	Then
<p>The non-agreeing taxpayer did NOT receive a copy of the notice</p> <p><b>Reminder:</b> If the case is in Stat phase and the time to petition Tax Court has expired, default the case; see (7) below.</p>	<ol style="list-style-type: none"> <li>1. Issue a recomputed notice (which is sent to both taxpayers).</li> <li>2. Include a Special Paragraph using the following verbiage as an example: "We sent a copy of our proposed changes to the other taxpayer on your joint return for the tax year listed above. When you file a joint return, both taxpayers are jointly and separately responsible for the full amount of tax owed on the return, even if you separate or divorce after you file. We are unable to continue processing your signed agreement until we have received both signatures."</li> <li>3. Monitor for the recomputed notice to post.</li> <li>4. Once the notice has posted request the case back from clerical.</li> <li>5. Input IPC S6 (CP 2000) or S3 (Stat) and release case; the case is moved to BT 89005 or 89004 respectively.</li> </ol>

1. Leave a detailed case note to indicate the taxpayers are divorced/separated and identify which taxpayer agreed; for example, taxpayers are divorced and only secondary taxpayer agreed.
2. Use the batch listing for the 89004 or 89005 batch or Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the case for 45 days:

**Note:** If the notice is full paid prior to the issuance of a Stat, or if both signed consents are received and have the same IRS received date, follow normal AUR agreed procedures. See IRM 4.19.3.22.5, Agreed Responses, and (5) below.

If 45 days have passed	And	Then
The case is in CP 2000 phase	The spouse's signature is received or the notice is full paid	Treat as agreed; see (5) below and follow the appropriate table section instructions.
The case is in CP 2000 phase	The spouse's signature is not received or the notice is not full paid	Continue processing; if Stat Notice issuance is necessary, issue the Stat ONLY to the non-agreeing spouse. See (4) below.
The case is in Stat phase	The spouse's signature is received	Treat as agreed; see (5) below and follow the appropriate table section instructions.

If 45 days have passed	And	Then
The case is in Stat phase and MFT 31 modules are not present	No response is received	<ol style="list-style-type: none"> <li>1. If the primary taxpayer is the non-agreeing spouse, go to step 5.</li> <li>2. If the secondary taxpayer is the non-agreeing spouse research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if it is invalid). If valid, go to step 5.</li> <li>3. If the SSN is invalid, send Form 3210 to Entity to request SSN validation; see the Invalid SSN Job Aid on the AUR Portal for additional information at <i>AUR Research Portal IMF</i>. Once the invalid situation is resolved, go to step 5. <b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an un-postable condition.</li> <li>4. Leave a detailed case note.</li> <li>5. Access the Process Code window and input "P" in the MFT 31 field, if the non-agreeing spouse is the primary taxpayer. If the non-agreeing spouse is the secondary taxpayer, input "S" in the MFT 31 field. <b>Caution:</b> Ensure the entry in the MFT 31 field is correct. <b>Note:</b> When "P" or "S" is present in the MFT 31 field, at disassembly, the AUR system uploads TC 971 AC 103 to create MFT 31 modules for both taxpayers. This process cannot be reversed, once the disassembly process is complete.</li> <li>6. Input IPC S3; the case is moved to BT 89004.</li> <li>7. Use the batch listing for the 89004 or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the case for the TC 971 AC 103 to post and await expiration of the Stat Notice time frame.</li> <li>8. Once the time frame has expired, request the case. See IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, to input the default assessment.</li> </ol>

(3) If the address for the non-agreeing taxpayer cannot be obtained or is not known:

1. Issue a Letter 2626C to the responding taxpayer to obtain the address using paragraph G and explain that we are unable to process the signed consent until both signatures are received using the following verbiage as

an example: "We are unable to continue processing your signed agreement until we have received both signatures."

2. Leave a detailed case note to indicate the taxpayers are divorced/separated and identify which taxpayer agreed; for example, taxpayers are divorced and only secondary taxpayer agreed.
3. Input IPC S6 (CP 2000) or S3 (Stat) and release case to move the case to BT 89005 or BT 89004; respectively.
4. Use the batch listing for the 89004 or 89005 batch or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the case to await expiration of the notice/letter suspense time frame. Once expired, request the case and take appropriate action.

- (4) If Stat issuance to the non-agreeing spouse is necessary, take the following actions:

If the non-agreeing spouse is	Then
The primary taxpayer	Go to step 1 below
The secondary taxpayer	<ol style="list-style-type: none"> <li>1. Research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if it is invalid).</li> <li>2. If the SSN is valid, go to step 1 below.</li> <li>3. If the SSN is invalid, send Form 3210 to Entity to request SSN validation; see the Invalid SSN Job Aid on the AUR Portal for additional information at <i>AUR Research Portal IMF</i>.</li> <li>4. Leave a detailed case note.</li> <li>5. Once the invalid situation is resolved, go to step 1 below.</li> </ol> <p><b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an un-postable condition.</p>

1. Access the Process Code window and input "P" in the MFT 31 field, if the non-agreeing spouse is the primary taxpayer. If the non-agreeing spouse is the secondary taxpayer, input "S" in the MFT 31 field.

**Caution:** Ensure the entry in the MFT 31 field is correct. This alerts the AUR system to generate a Stat Notice only to the non-agreeing spouse.

**Note:** When "P" or "S" is present in the MFT 31 field, at disassembly, the AUR system uploads TC 971 AC 103 to create MFT 31 modules for both taxpayers. This process cannot be reversed, once the disassembly process is complete.

2. Input PC 75.

- (5) If an agreed assessment is needed, see the table below:

**Reminder:** If the notice is full paid prior to the issuance of a Stat, or if both signed consents are received and have the same IRS received date, follow normal AUR agreed procedures. See IRM 4.19.3.22.5, Agreed



Responses, for additional information.

**Caution:** If MFT 31 modules have been established, research the secondary taxpayer's MFT 31 account on IDRS to verify the name control is not different prior to accessing the MFT 31 Assessment window. If it is different, manually correct the secondary taxpayer's name control in the MFT 31 Assessment window. Failure to make the correction will cause an unpostable condition.

If the case is in	Then
CP 2000 phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are not present	<ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window and enter/verify <b>the earliest IRS received date</b> in the IRS RECEIVED DATE and CREDIT INTEREST DT fields. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>2. Enter/Verify the assessment data.</li> <li>3. Input "Y" in the SOURCE DOCUMENT ATTACHED field.</li> <li>4. Input "AUR agreed criteria" in the REMARKS field.</li> <li>5. Commit the Assessment window.</li> <li>6. Leave a detailed case note.</li> <li>7. Input 68.</li> </ol> <p><b>Caution:</b> PC 67 cannot be used on MFJ cases when the taxpayers' signed consents have different IRS received dates.</p>

If the case is in	Then
<p>CP 2000 phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are present</p>	<p>Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 5X.</li> <li>• TRANS CODE – 290.00.</li> <li>• HOLD CODE – 4.</li> <li>• Remove the date from the IRS-RCVD-DT field and leave the field blank.</li> <li>• REMARKS – “AUR agreed criteria”.</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the “Y” from the “SEND PRIMARY TAXPAYER ASSESSMENT” or “SEND SECONDARY TAXPAYER ASSESSMENT” fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify the following:</p> <ul style="list-style-type: none"> <li>• IRS RECEIVED DATE and CREDIT INTEREST DT - input <b>the earliest IRS received date</b>. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Assessment data.</li> <li>• SOURCE DOCUMENT ATTACHED field – “Y”.</li> <li>• REMARKS - “AUR agreed criteria”.</li> <li>• Commit the Assessment window.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 69.</li> </ul>
<p>CP 2000 or Stat phase, both signed consents were received AND have the same IRS received date, or the notice was full paid prior to issuance of the Stat and MFT 31 modules are not present</p>	<ul style="list-style-type: none"> <li>• Enter/Verify assessment data; see IRM 4.19.3.22.10, Assessments, and IRM 4.19.3.22.5, Agreed Responses, for additional information.</li> <li>• Input PC 67/87, as appropriate.</li> </ul> <p><b>Reminder:</b> Full payment after issuance of a Stat cannot be treated as an agreement.</p>

If the case is in	Then
Stat phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are not present	<ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment Window and enter/verify <b>the earliest IRS received date</b> in the IRS RECEIVED DATE and CREDIT INTEREST DT fields. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>2. Enter/Verify the assessment data.</li> <li>3. Input "Y" in the SOURCE DOCUMENT ATTACHED field.</li> <li>4. Input "AUR agreed criteria" in the REMARKS field.</li> <li>5. Commit the Assessment window.</li> <li>6. Leave a detailed case note.</li> <li>7. Input PC 88.</li> </ol> <p><b>Caution:</b> PC 87 cannot be used on MFJ cases when the taxpayers' signed consents have different IRS received dates.</p>
Stat phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are present	<p>Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• TRANS CODE – 290.00.</li> <li>• HOLD CODE – 4.</li> <li>• Remove the date from the IRS-RCVD- DT field and leave the field blank.</li> <li>• REMARKS – "AUR agreed criteria".</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the "Y" from the "SEND PRIMARY TAXPAYER ASSESSMENT" or "SEND SECONDARY TAXPAYER ASSESSMENT" fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify the following:</p> <ul style="list-style-type: none"> <li>• IRS RECEIVED DATE and CREDIT INTEREST DT <b>the earliest IRS received date</b>. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Assessment data.</li> <li>• SOURCE DOCUMENT ATTACHED field – "Y".</li> <li>• REMARKS - "AUR agreed criteria".</li> <li>• Commit the Assessment window.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 39.</li> </ul>

**Note:** When assessments are made on MFT 31 accounts, AUR sends the required TC 971 AC 110 at the time the assessment is uploaded.

- (6) When a default assessment is needed, see IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.
- (7) If the case can be closed no change and MFT 31 modules are present, see IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.
- (8) If there is a payment(s) on the MFT 30 account, see IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.
- (9) If the non-agreeing spouse disagrees with the notice, contact him/her for resolution (for example, issue Letter 2626C and input IPC S6 (CP 2000) or S3 (Stat).

4.19.3.22.1.19  
(11-23-2022)  
**Form 1040-X/Amended  
Return**

- (1) When the taxpayer responds to an AUR notice with a Form 1040-X or an amended return, review the Tax Account screen to determine if the adjustment posted. While the following instructions refer to Form 1040-X, they also apply for amended returns.
- (2) Consider CAT A criteria when reviewing the Form 1040-X or amended return submitted by the taxpayer. CAT A criteria can be found in IRM 21.5.3-2, Examination Criteria (CAT-A) - General.

**Note:** Form 1040-X or an amended return must be signed before it is referred to Exam. Do not refer unsigned Forms 1040-X/amended returns.

- (3) AUR may receive requests for filing status changes based on the Supreme Court ruling on a provision of the 1996 Defense of Marriage Act (DOMA) and Rev. Rul. 2013-17. The effect of the Supreme Court's opinion is that same-sex couples who are lawfully married under state law are treated as married for all federal tax purposes including income and gift and estate taxes. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions taking the standard deduction, employee benefits, contributing to an IRA and claiming earned income tax credit (EITC) and child tax credit (CTC). If the taxpayer submits a Form 1040-X requesting a filing status change see IRM 4.19.3.22.7.4, Referrals.
- (4) When the taxpayer submits a Form 1040-X (regardless of revision date):
  1. Verify the correct tax year, the name, address and filing status.
  2. Math verify all lines and columns.
  3. Check the signatures - if joint, both taxpayers must sign the Form 1040-X.
- (5) If the Form 1040-X adjustment is not posted and meets the criteria in (4) above determine:

If	And	Then
The Form 1040-X/Amended return is in response to a CP 2000 or Stat notice	<ul style="list-style-type: none"> <li>The figures match the tax change shown on the AUR notice</li> <li>Includes penalties (if any)</li> <li>Contains the necessary signatures, AND</li> <li>There are no disputing comments</li> </ul>	Input PC 67 or 87 as appropriate. See IRM 4.19.3.22.5, Agreed Responses, for additional information.
The Form 1040-X/Amended return is in response to a CP 2501	<ul style="list-style-type: none"> <li>The figures match the tax change shown on the AUR system</li> <li>Includes penalties (if any)</li> <li>Contains the necessary signatures, AND</li> <li>There are no disputing comments</li> </ul>	<ol style="list-style-type: none"> <li>Access the Assessment window.</li> <li>Commit (F4) the assessment.</li> <li>Input PC 53.</li> </ol>
<p>The Form 1040-X/Amended return includes information that was not included in the original notice (for example, Schedule C expenses, additional dependent(s)).</p> <p><b>Reminder:</b> Use good judgement in determining if the taxpayer is entitled to the adjustment(s). However, dependents must be verified using IDRS CC INOLES and DUPOL, see (6) and (7) below.</p>	The recomputed net tax change per AUR does not agree with the taxpayer's figures OR not all the AUR issues are addressed.	<ol style="list-style-type: none"> <li>Issue a revised notice to obtain the taxpayer's signature.</li> <li>It may be necessary to enter/verify changed amounts in the Case Analysis and Return Value screens.</li> <li>If the necessary adjustments cannot be made using specific screens or windows, use the Miscellaneous Adjustment/Schedule C Expense window to make the necessary changes.</li> <li>Include a Special Paragraph to explain why we were unable to accept the return as submitted and request any additional information needed.</li> <li>For penalties <b>send PARAGRAPH 171.</b> See IRM 4.19.3.22.6, Partially Agreed, and IRM 4.19.3.22.11, Instructions Specific to Statutory Notices/Responses, for additional information.</li> </ol>

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If	And	Then
<p>The Form 1040-X/Amended return includes information that was not included in the original notice (for example, Schedule C expenses, additional dependent(s)).</p> <p><b>Reminder:</b> Use good judgement in determining if the taxpayer is entitled to the adjustment(s). However, dependents must be verified using IDRS CC INOLES and DUPOL, see (6) and (7) below.</p>	<p>The recomputed tax on the AUR system matches the Form 1040-X or amended return and meets agreed criteria, see IRM 4.19.3.22.5, Agreed Responses.</p>	<p>Input IPC CR, RN, SR or DR as appropriate to issue a supplemental notice.</p> <p>See IRM 4.19.3.22.6, Partially Agreed, for additional information.</p> <p><b>Note:</b> If the tax increase shown on the Form 1040-X or amended return exceeds the tax increase shown on the AUR notice, see IRM 4.19.3.22.11, Instructions Specific to Statutory Notices/Responses, for additional information.</p>
<p>The Form 1040-X/Amended return results in no tax deficiency (for example, tax decrease)</p>	<p>All AUR issues have not been addressed.</p>	<ol style="list-style-type: none"> <li>1. Attempt to resolve the issue by telephone (out call).</li> <li>2. If unable to contact the taxpayer, issue a Letter 2626C informing the taxpayer that we were unable to accept the Form 1040-X or amended return as filed since it did not address the AUR issues. Request specific information/documentation needed to resolve the issue.</li> </ol> <p><b>Caution:</b> Do not make adjustments to the current AUR proposal based on the Form 1040-X provided (such as, cost basis, additional expenses).</p>

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If	And	Then
Unable to determine changes to Form 1040-X or amended return	Additional information/clarification is needed	<ol style="list-style-type: none"> <li>1. Attempt to resolve the issue by telephone (out call).</li> <li>2. If unable to contact the taxpayer, issue a Letter 2626C informing the taxpayer that we were unable to accept the Form 1040-X or amended return as filed. Request a specific breakdown of the changed item(s).</li> </ol>

**Note:** If questionable issues are involved contact your lead/team leader for additional instruction.

- (6) Research CC INOLES to validate the name or name control and social security number of dependent(s). CC INOLES displays the date of birth which can be used to determine eligibility for child tax credit, additional child tax credit, and earned income tax credit.
  1. Do not allow any exemption amount or credit if the information on Form 1040-X does not match data on CC INOLES. If the information matches, see (7) below.
  2. Attempt an outcall to secure the dependent's correct SSN, name or date of birth. If unable to contact the taxpayer by phone issue a Letter 2626C, include a Special Paragraph using the following verbiage as an example: "The information you provided for the additional dependent(s) does not match our records. Please confirm the name, social security number and date of birth of the person(s) being added as a dependent on Form 1040-X and submit the information to us with a copy of this letter/notice."
- (7) Research CC DUPOL, using the Processing Year not the Tax Year (for example, search 2021 Tax Processing Year for TY 2020 Tax Return), to verify if the additional dependent was claimed on another return as an exemption or earned income credit for the tax year in question. Review the 'DEPD STAT IND' field in the CC DUPOL response screen. This field indicates the dependent's exemption status.

If	Then
The response is 'No Data Found' <b>OR</b> the value is 1	Allow the additional exemption for the dependent.



If	Then
The value is 0 or blank	Do not allow the additional exemption for this dependent. Issue a letter or notice including a Special Paragraph using the following verbiage as an example: "Our records indicate the additional dependent(s) claimed on your Form 1040-X have been claimed on another return. Dependents cannot be claimed on more than one tax return therefore we cannot allow an exemption for the additional dependent(s) claimed on your Form 1040-X."
The taxpayer still disagrees and states they are entitled to claim the additional dependent(s), with or without supporting documents	Refer to Exam for technical advice.

**Note:** Consider Category A criteria for referring the case to Exam for Earned Income Tax Credit for the additional dependents per IRM 21.5.3-3, Examination Criteria (CAT-A) - Credits. Form 1040-X or an amended return must be signed before it is referred to Exam. Do not refer unsigned Forms 1040-X/ amended returns.

- (8) If the Form 1040-X/Amended return results in no change to original tax, there are no changes to AGI or prepayment credits AND a TC 976/977 or TC 971 AC 010, 012-016 or 120 is posted:

1. Enter/Verify TC 290-0 in the Assessment window.
2. Use appropriate blocking series to release the "-A" freeze.
3. PC 47 (CP 2501), PC 70 (CP 2000) or PC 91 (Stat) as appropriate.

**Caution:** Do not use IPC CR, RN, SR or DR to create the Assessment when the tax change is zero.

- (9) If the Form 1040-X was received on or before the initial AUR contact date do not pursue penalties.

- (10) If the U/R issue is resolved, but the taxpayer states that another amount was NOT CLAIMED, UNDERCLAIMED, OR OVER-STATED on the original return AND:
- a. The taxpayer provides sufficient information, make the necessary adjustment(s); follow (4) above. Refer to IRM 21.5.1, General Adjustments, and/or IRM 21.6, Individual Tax Returns,
  - b. If the taxpayer does not provide all the necessary information, adjust the AUR issues and close the case. Issue a Letter 1802-C, informing the taxpayer to file Form 1040-X. Be sure to mention specific documentation to support the claim.

- (11) If a math error is found on the Form 1040-X and you are:

- a. Able to correct (work through), follow (5) above.
- b. Unable to correct, issue a Letter 2626C informing the taxpayer we were unable to process the Form 1040-X as filed. Provide specific information for the taxpayer to resolve the math error.

**Note:** If the taxpayer does not respond, issue a recomputed notice. Include a Special Paragraph to inform the taxpayer that we were unable to accept the return as submitted and request any additional information. If there are questionable issues involved, contact your lead/team leader for additional instruction.

(12) Form 1040-X adjustment **has posted**.

If	Then
The Form 1040-X includes <b>all</b> U/R issues.	Close the case using the appropriate no change PC.
The Form 1040-X addresses <b>all</b> of the U/R issues BUT does not include the Accuracy related penalties, AND the Form 1040-X was filed <b>AFTER</b> the AUR contact date	<ol style="list-style-type: none"> <li>1. Pursue the penalty through the manual notice process (Letter 1151-C and STN 90 through to default).</li> <li>2. Send a Special Paragraph using the following verbiage as an example: "We received your Form 1040-X, Amended U.S. Individual Income Tax Return, in response to our previous notice. The Form 1040-X did not include penalties which are included in this notice."</li> <li>3. Close the case with appropriate PC.</li> </ol>
The Form 1040-X addresses <b>all</b> of the U/R issues BUT does not include the Accuracy related penalties, AND the Form 1040-X was filed <b>BEFORE</b> the AUR contact date	Do not pursue the penalty. Close the case with the appropriate PC.
The Form 1040-X does NOT include all U/R issues	<ol style="list-style-type: none"> <li>1. Adjust the U/R by reworking the case.</li> <li>2. Send the appropriate recomputed notice for the taxpayer's signature.</li> <li>3. Ensure all windows reflect the processed Form 1040-X information/figures.</li> </ol>

(13) The taxpayer replies that Form 1040-X reporting the income in question was filed, review the Tax Account screen.

If	And	Then
Tax Account screen shows a TC 290	Form 1040-X is not included with the case, and the tax increase due to U/R income matches the TC 290	Close the case with the appropriate no change PC.
Tax Account screen shows a TC 290	Form 1040-X is not included with the case, and the tax increase due to U/R income does NOT match the TC 290	Order the TC 290 DLN. See IRM 4.19.3.26.7, Ordering Returns, for additional information.

If	And	Then
Tax Account screen shows a TC 977	There is no corresponding TC 290	<p>Research AMS and EUP for the correspondence. If correspondence is not available, contact the taxpayer to request a signed copy of the Form 1040-X.</p> <p><b>Note:</b> The Tax Account screen will indicate if the adjustment source document is a CII document. View the CII document on AMS and see (5) above. If there is no indication of "CII", contact the taxpayer to request a signed copy of the Form 1040-X.</p>

- (14) If the Tax Account screen does not show a TC 976/977 or TC 971 AC 010, 012 - 016 or 120, or the requested Form 1040-X cannot be obtained:

1. Send the appropriate letter to request a signed copy from the taxpayer.
2. Include a Special Paragraph using the following verbiage as an example:  
"You indicated the income in question was reported on Form 1040-X, however, we are unable to locate it. Please send or fax us a signed copy attached behind a copy of this letter."

4.19.3.22.1.20  
(09-01-2022)

#### Innocent Spouse Relief Cases

- (1) A taxpayer who files a joint return with a spouse is generally jointly and separately liable for all tax due in that tax year. If a taxpayer believes they should not be required to pay the tax (including penalties and/or interest) for a tax year in which they filed a joint return, the taxpayer may be eligible for Innocent Spouse Relief.

**Caution:** Do not confuse Innocent Spouse cases with Injured Spouse cases, which are worked in Accounts Management.

- (2) The taxpayer must file Form 8857, Request for Innocent Spouse Relief, or a similar written statement signed under penalties of perjury in order to be considered for relief and a tax liability must exist. Because AUR notices are proposed tax liability changes and not bills, AUR will:
- Reject Form 8857 sent with responses.
  - Advise the taxpayer to submit Form 8857 to the proper area, once tax has been charged.
  - Process the case following normal procedures. If assessment is needed on a case with Freeze Code "L-" or a TC 604 with TC 971 AC 065, see (5) and (6) below.
- (3) If a response includes Form 8857, Request for Innocent Spouse Relief, or a written request, send Letter 2626C to the responding spouse as follows:

1. Access the Address Update window and input the address of the spouse who submitted the Form 8857 using address type "S". Edit the first name line to reflect only the spouse's name.
  2. Create Letter 2626C and include a Special Paragraph, using the following verbiage as an example: "Your request for innocent spouse relief will not be considered at this time. Once a determination is made that results in additional tax owed, you can request innocent spouse relief once the tax is charged by submitting a completed Form 8857 to the address in the form instructions."
  3. Address all response issues and include appropriate paragraphs; see IRM 4.19.3.22.8, Correspondence, for additional information.
  4. Leave a detailed case note.
- (4) TC 604 with TC 971 AC 065 indicates Cincinnati Centralized Innocent Spouse Operation (CCISO) previously granted full Innocent Spouse relief to one taxpayer and mirrored the accounts. Mirrored accounts require special processing and may require TC 604 to be temporarily reversed to post an assessment; see (6) below for additional information. If an MFT 30 account has been mirrored:
- **Open cases**, the tax assessment will be input on each taxpayer's MFT 31 account using the IAT "REQ 54" tool. Changes to AGI/TXI, SE income, etc., will be made on the MFT 30 account, using the AUR Assessment window.
  - **Recon cases**, changes to MFTs 31 and 30 will be input using the IAT "REQ 54" tool. Partial/full reversal of the tax assessment will be input on the MFT 31 account of the non-requesting spouse. Changes to AGI/TXI will be made on MFT 30.
- Note:** When full relief is granted, the MFT 31 account of the requesting spouse will show a zero balance and TC 604 may be present.

**Note:** If assistance is needed with MFT 31 assessments, consult the AUR Bankruptcy Coordinator.

- (5) If Freeze Code "L-" or a TC 604 with TC 971 AC 065 is present, and an assessment is needed, see the table below for the appropriate actions to take:

If	Then
The case is open on AUR and there is a Freeze Code "L-" on the account (there is no TC 604)	Follow normal processing procedures.

If	Then
<p>The case is open on AUR and there is a TC 604 with TC 971 AC 065</p>	<p><b>On each MFT 31 account input/select:</b></p> <p><b>Note:</b> It may be necessary to temporarily reverse TC 604 to input the assessment on MFT 31. If TC 604 reversal is needed see (6) below.</p> <ul style="list-style-type: none"> <li>• Activity - 54TAXADJ.</li> <li>• Category - URPS.</li> <li>• Status Code – C (closed).</li> <li>• Received date - on agreed cases input the agreement date; see IRM 4.19.3.22.10.1, The Assessment Window, IRS Received Dt, to determine the correct agreement date. On default cases, the TCB-DT will be blank and the IRS-RECV-DT will be the date the assessment is input. Use * in the IRS-RECV-DT to populate the current date in the field.</li> <li>• TC 290/291.</li> <li>• Penalty (for example, TC 680, TC 170/171, 160/161).</li> <li>• Withholding (TC 806/807).</li> <li>• EITC (TC 764/765).</li> <li>• Excess SST adjustments (CRN 252).</li> <li>• Refundable credits: Additional Child Tax Credit, American Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be input with TC 766/767. For example: if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• Blocking Series - see IRM 4.19.3.22.10.1, The Assessment Window.</li> <li>• Correspondence date, see IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Hold Code (HC) 0.</li> <li>• Source Document “N”.</li> <li>• Remarks - “AUR MFT 31 IS Adj”.</li> <li>• Priority Code (determined on a case-by-case basis).</li> </ul> <p><b>Caution:</b> Priority Code 9 <b>MUST</b> be used anytime there is a change to W/H, Excess SST, EITC, and/or refundable credits or a combination of them (that is, + or – totaled into one TC 766/767).</p> <ul style="list-style-type: none"> <li>• Source Code (SC) 2.</li> <li>• Reason Codes (RC).</li> </ul> <p><b>Caution:</b> RC 138 <b>MUST</b> be input anytime there is a change to W/H, Excess SST, EITC, and/or refundable credits.</p> <ul style="list-style-type: none"> <li>• TCB-DT (credit interest date).</li> </ul> <p><b>Note:</b> On agreed cases input the agreement date. See IRM 4.19.3.22.10.1, The Assessment Window, IRS Received DT, to determine the correct agreement date. On default cases, the TCB-DT will be blank and the IRS-RECV-DT will be the date the assessment is input. Use * in the IRS-RECV-DT to populate the current date in the field.</p>

If	Then
	<p><b>On AUR enter/verify:</b></p> <ol style="list-style-type: none"> <li>1. TC 290.00 with all reference codes.</li> <li>2. Include applicable Reason Code(s) (RCs). Use the same RCs on MFT 30 and MFT 31. <b>Exception:</b> Do not use RC 138 on MFT 30.</li> <li>3. Source Code (SC) 2.</li> <li>4. Hold Code (HC) 4. <b>Caution:</b> Correct the AUR Assessment window entries to ensure none of the items included on the MFT 31 adjustment are included on the assessment uploaded by AUR. <b>Note:</b> Do not change the entries in the CREDIT INTEREST DATE or IRS RECEIVED DT fields.</li> <li>5. Source Document "Y".</li> <li>6. Remarks – "AUR MFT 31 Adj".</li> </ol>

If	Then
<p>The case is closed on AUR, there is a TC 604 with TC 971 AC 065 and Recon correspondence results in either a full or partial abatement of the AUR assessment</p>	<p><b>On the MFT 31 account of the non-requesting spouse input/select:</b></p> <ul style="list-style-type: none"> <li>• Activity - 54TAXADJ.</li> <li>• Category - URPS.</li> <li>• Status Code – C (closed).</li> <li>• Received date - see IRM 4.19.3.22.10.1, The Assessment Window, IRS Received Dt, to determine the correct date to use.</li> <li>• TC 290/291.</li> <li>• Penalty (TC 680, TC 170/171, 160/161).</li> <li>• Withholding (TC 806/807).</li> <li>• EITC (TC 764/765).</li> <li>• Excess SST adjustments (CRN 252).</li> <li>• Refundable credits: Additional Child Tax Credit, American Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be input with TC 766/767. For example: if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• Blocking Series - 55 or 65, as appropriate; see IRM 4.19.3.22.10.1, The Assessment Window.</li> <li>• Correspondence date, see IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Hold Code (HC) 0.</li> <li>• Source Document “N”.</li> <li>• Remarks - “AUR MFT 31 NRS Recon Adj”.</li> <li>• Priority Code (determined on a case-by-case basis).</li> </ul> <p><b>Caution:</b> Priority Code 9 <b>MUST</b> be used anytime there is a change to W/H, Excess SST, EITC, and/or refundable credits or a combination of them (that is, + or – totaled into one TC 766/767).</p> <ul style="list-style-type: none"> <li>• Source Code (SC) 2.</li> <li>• Reason Codes (RC).</li> </ul> <p><b>Caution:</b> RC 138 <b>MUST</b> be input anytime there is a change to W/H, Excess SST, EITC, and/or refundable credits.</p> <ul style="list-style-type: none"> <li>• TCB-DT (credit interest date).</li> </ul> <p><b>On the MFT 30 account input/select:</b></p> <ul style="list-style-type: none"> <li>• Activity - 54TAXADJ.</li> <li>• Category - URPS.</li> <li>• Status Code – C (closed).</li> <li>• Received date - see IRM 4.19.3.22.10.1, The Assessment Window, IRS Received Dt, to determine the correct date to use.</li> <li>• TC 290 .00 with all reference codes.</li> </ul> <p><b>Reminder:</b> Do not input adjustments to tax, W/H, Excess SST, EITC and refundable credits; these are input on MFT 31.</p> <p><b>Exception:</b> Do not use RC 138 on MFT 30.</p> <ul style="list-style-type: none"> <li>• Source Code (SC) 2.</li> <li>• Hold Code (HC) 4.</li> <li>• Source Document “Y”.</li> <li>• Remarks – “AUR MFT 31 IS Recon Adj”.</li> </ul>



- (6) If it is necessary to temporarily reverse the TC 604, access the appropriate MFT 31 account and use the IAT "REQ 77" tool to input the following:
  1. **TC:** Input "972".
  2. **TRANS-DT:** Date of TC 971 input.
  3. **TC 971/151-CD:** Input "131".
  4. **Leave remarks:** For example, "AUR MFT 31 IS Adj".
- (7) Once the TC 972 AC 131 posts, refer to (5) above information on assessment input. If a balance due remains after the adjustment posts, TC 971 AC 132 **MUST BE INPUT** to generate the TC 604:
  1. **TC:** Input "971"
  2. **TRANS-DT:** Date of TC 971 input.
  3. **TC971/151-CD:** Input "132".
  4. **Leave remarks:** For example, "AUR MFT 31 IS Adj".

4.19.3.22.1.21  
(11-14-2018)

#### Installment Agreements

- (1) To be considered an IA request, the request must be a completed Form 9465, a completed Form 433-D or a written request for a payment plan. If the taxpayer checks the Installment Agreement box in the "Indicate your payment option" section of the CP 2000 but does not complete a Form 9465, or Form 433-D or include a specific written request for a payment plan, **DO NOT** send to Collections.
- (2) If the taxpayer **AGREES** (contains signature and no disputing comments) to the proposed AUR adjustment and **STATES** they cannot pay, will pay later, or submits a specific written request for an installment agreement (I/A), a payment plan or requests the additional tax due be added to an existing installment agreement, close the case agreed and:

**Note:** If a Form 9465 or Form 433-D is present on a **disagreed response**, clerical will not forward the form to Collections. A flag indicating "IA" will be attached to the Form 9465 or Form 433-D.

1. Verify the taxpayer's name, SSN, and Tax Year are correct on Form 9465, Form 433-D or written IA request.
2. Route the IA request to Compliance Service Collection Operation (CSCO).

**Note:** If the Form 9465 or Form 433-D is **the signature document** used to agree to the tax increase, make a copy to send to CSCO. Use red ink to annotate the copy of the Form 9465 with: "9465 w/AUR Assess" or the Form 433-D with "433-D w/AUR Assess". Annotate the original Form 9465 or Form 433-D that a copy was sent to Collection.

3. Leave AUR case note "IA to Coll" or similar wording.
  4. Issue a Letter 1802-C (Paragraph A or B and F and W).
- (3) If the case is closed No Change **and**
    - a. there is no balance due on the module **remove the flag (if present) and leave the Form 9465, Form 433-D or written IA request with the case.**

- b. there is a module balance, complete Form 4442, attach Form 9465, Form 433-D or written IA request and forward to Collections indicating AUR case was closed No Change.

- (4) If the case cannot be closed (assessed or no change), leave the flag attached. If no flag is present attach a flag indicating "IA" to the Form 9465, Form 433-D or written IA request and continue normal processing.

4.19.3.22.1.22

(10-25-2023)

**Letters From a  
Third-Party and  
Authorization From a  
Valid Power of Attorney  
(POA)**

- (1) Information supplied by an unauthorized third-party may be used. However, *SEND NO TAX INFORMATION TO, OR DISCUSS TAX INFORMATION WITH AN UNAUTHORIZED PERSON*. Any further correspondence required must be sent directly to the taxpayer.
- (2) The Third-Party Designee (Check box) authority on Form 1040/ Form 1040-SR does not apply to Compliance issues, including AUR. Therefore do not send copies of AUR correspondence to a Third-Party Designee and do not disclose specific case or tax return information based on a Third-Party Designee check box.
- (3) A completed authorization statement on the CP 2000 / CP 2501 allows the IRS to address the CP 2000 /CP 2501 information with the Authorized Third-party. When communicating (orally or in writing) with an Authorized Third-Party, input the name on the Update Address window, selecting Address Type A for Authorized Third-Party. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information.

- Do not send copies of letters/notices to an authorized third-party.

**Note:** If the communication results in a no change determination, or if the taxpayer agrees to the proposed tax change, the above actions are recommended, but are not mandated.

- (4) Taxpayers can grant Power of Attorney to several specific categories of individuals who may represent them before the Service. While more than one individual may be named, only individuals can be named to represent the taxpayer. For example, POA authority cannot be granted to a firm. These individuals must meet two eligibility criteria to represent a taxpayer:

**Note:** If the taxpayer is deceased the POA is no longer valid. On joint returns determine if the POA is valid for the surviving spouse. If the POA is no longer valid, refer to (7) below.

- 1. They must be part of a specifically authorized category of representative sanctioned by regulation (see Form 2848, Power of Attorney and Declaration of Representative, Part II for a complete list of eligible persons).
- 2. They must be specifically designated by the taxpayer via a properly completed POA. Form 2848, conveniently includes all the elements required by regulation but is not the only allowable document that can be used to grant an authorization.
- (5) While the taxpayer has the discretion to grant authority to a representative to act on their behalf, the IRS has the power to determine who is eligible to practice before the IRS, consistent with Treasury regulations. Sometimes a taxpayer may sign Form 2848 authorizing someone to perform actions that are not permitted by regulation.

- (6) If Form 2848 lists an ineligible representative, the form cannot be accepted as an authorization to represent the taxpayer before the IRS. See (7) below.
- (7) If the POA is not valid for the surviving spouse, Form 56, Notice Concerning Fiduciary Relationship, designates a fiduciary for a decedent's estate. There is no restriction regarding the information a fiduciary can receive for the entity for whom they are acting. A fiduciary assumes the powers, rights, duties and privileges of the taxpayer(s), until notice is given that the fiduciary capacity is terminated. The submitter of the Form 56 (Rev. 12/2007) must indicate in Part III on line 4 the specific tax year(s)/period(s) they are authorized to receive taxpayer information). In the 12/2011 version of the Form 56, the fiduciary is instructed to check the box and provide the specific tax periods within Section B, line 5.
- (8) When Form 56 is received, the following is required:
- The taxpayer's name line information
  - Identifying number (SSN, ITIN, or EIN)
  - Fiduciary name and address

**Note:** If the taxpayer's address is missing, use the fiduciary's address. If the fiduciary address is missing, return the Form 56 back to the taxpayer.

- Title of fiduciary (if available)
- Signature of fiduciary

**Note:** A facsimile stamped signature may be acceptable for a fiduciary.

- Tax forms to be filed
- Tax years/tax periods

- (9) In order to represent a taxpayer before the Service, a person must be authorized by Form 2848. A Form 2848 also authorizes the representative to receive confidential tax return information from the Service. A taxpayer may authorize the Service to discuss and provide specific confidential tax return information to any individual, corporation, firm, trust, partnership, or organization designated on Form 8821, Tax Information Authorization, but this form does not authorize the person to respond to the Service on behalf of the taxpayer if the response constitutes practice before the Service. A document/letter request may be used in lieu of Form 2848, Form 8821 or Form 56, provided it contains all the information described in (8) above or (10) below.
- a. Students working in a Low-Income Taxpayer Clinic (LITC) or Student Tax Clinic Program (STCP) may represent taxpayers under a special order by the Director, Office of Professional Responsibility. The instructions for Form 2848 require that such students attach a copy of the letter from the Office of Professional Responsibility authorizing practice before the Internal Revenue Service. Students who have been authorized to practice by special order may, subject to any limitations set forth in the letter from the Office of Professional Responsibility, represent taxpayers before any IRS office and should be viewed the same as any other taxpayer's representative for which a Form 2848 has been submitted.
- b. The taxpayer may give oral authorization to address issues with a third-party. Oral authorizations do not take the place of Form 2848 authorizing a third-party to represent the taxpayer before the IRS or Form 8821, authorizing an appointee to receive the taxpayer's confidential information.

- (10) The Form 2848, Form 8821, or a document/letter in lieu of these two forms, a facsimile (FAX), or photocopy of these forms should contain relevant information requested on the Form 2848 or Form 8821, including:

**Note:** CAF will only accept the Form 2848 with a revision date of October 2011 or later.

- Name, SSN, and mailing address of the taxpayer
- Name and mailing address of the designated representative POA or Tax Information Authorization (TIA)
- Type of tax (for example, income, employment) and the Federal tax form number
- Tax year(s) or period(s) or specific use (POA) or specific matter (TIA)
- The taxpayer's signature and date of signature
- In the case of a Form 2848, a completed Declaration of Representative (Part II)

**Note:** For each POA listed, use the Update Address function to issue a copy of the notice to each representative.

- (11) When a valid POA/TIA/Fiduciary (addressing the AUR notice) is received, input the information on the Update Address window. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Updating Address Information - POA.

If	Then input by selecting
Form 2848 box in 2 is checked	Address Type P1/P2 for the primary taxpayer POA or P3/P4 for the secondary taxpayer POA. <b>Caution:</b> Do not input P3/P4 POA information for Married Filing Separate accounts.
Form 2848 box in 2 is not checked	Address Type A1 or A2 for First or Second Authorized Third-Party.
Form 8821, line 2 box is checked	Address Type P1 or P2 for First or Second POA.
Form 8821, line 2 box is not checked	Address Type A1 or A2 for First or Second Authorized Third-Party.
Form 56	Address Type P1 or P2 for First or Second Authorized Third-Party.

**Exception:** Do not input P1/P2 if C1/C2 for the same individual already exists.

**Note:** When a valid POA/TIA is received in response to an AUR notice, the original POA/TIA/Fiduciary should remain with the case file.

- (12) If the POA/TIA/Fiduciary is attached to the return or is received without a return or document and contains all the items in either (8) or (10) above, route the authorization to the appropriate CAF Function for further processing and leave a case note.

- (13) If a letter request is used in lieu of Form 2848, Form 8821, or Form 56 and contains all of the items shown in (8) or (10) above, photocopy the request and route it to the CAF Function for processing and leave a case note.
- (14) POAs/TIAs filed for specific issues are not to be detached from the related document and sent to the CAF Function, unless the document authorizes recognition for a return in addition to the specific issue. In this case, send a copy of the POA/TIA to the CAF Function to input the return portion on the CAF system. Examples of specific issues include, but are not limited to, the following:
- Form 843, Claim for Refund and Request for Abatement
  - Form 966, Corporate Dissolution or Liquidation
  - Form W-4, Employee's Withholding Allowance Certificate
  - Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners
  - Form 1128, Application to Adopt, Change, or Retain a Tax Year
  - Form SS-4, Application for Employer Identification Number
  - CP 2000, Notice of proposed change to tax liability
- (15) "General Power of Attorney" or "Durable Power of Attorney" generally do not contain sufficient information to process on the CAF and should be retained in the case file and treated as a third-party authorization. If, however, a general or durable power of attorney is submitted attached to a completed Form 2848 (a transmittal power of attorney), send both forms to the CAF Function for processing.
- Note:** A durable power of attorney is effective so that a representative may transact an individual's responsibilities at a time when the individual is either incapable or incompetent to act, until the individual dies. A properly executed and effective durable power of attorney does not require the representative to sign a Form 2848 to act on behalf of the taxpayer. Thus, the representative may sign the taxpayer's returns, or any other form and discuss taxpayer's situation without any further authorization.
- (16) When an invalid POA/TIA is received, return it to the taxpayer or authorized representative and send a Letter 2627C. Do not update the update address window. See IRM 21.3.7, Processing Third-Party Authorizations onto Centralized Authorization File (CAF), for further information.
- (17) When a valid POA is processed, the system generates a copy of all notices to both the taxpayer and the designated representative, unless otherwise indicated. The POA address(es) automatically displays when sending a letter, but the tax examiner must select the address.
- (18) If the taxpayer requests in writing that a current POA be revoked or the representative indicates that he or she wants to withdraw from the representation and that no further information should be sent to this representative, handle the revoked/withdrawn POA request by the following instructions:
1. Photocopy the correspondence and send the copy to the CAF Function for processing.
  2. Transfer the case to unit suspense.

- 4.19.3.22.1.23  
(08-26-2016)

- ## Schedule D Changes

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If	And	Then
The taxpayer identifies that the U/R gains from STOCK, CG, REAL or Schedule D NEC income can be <b>reduced by current unused Schedule D losses</b>	Does not address the carryover losses have been or will be adjusted	<ol style="list-style-type: none"> <li>1. Enter/Verify the Income Identify Code(s) ("SD" or "ST") for the U/R STOCK/REAL IR(s) the taxpayer is addressing on the new or revised Schedule D/Form 8949. <b>Note:</b> Modify IR(s) when the taxpayer has split the sale income as both a short-term and long-term sale.</li> <li>2. Ensure the COMPUTE SCHEDULE D LOSS window is accessed and enter the correct values per return in the SCHEDULE D LOSS and the CAPITAL GAIN/LOSS fields. Enter the negative Schedule D, line 16 amount in the SCHEDULE D LOSS field. If the amount is a positive amount, leave blank. Enter the Form 1040, Line 7 amount in the CAPITAL GAIN/LOSS field. If the line is a loss, enter as a negative amount.</li> <li>3. Adjust any U/R STOCK/REAL by any cost basis information provided. <b>Note:</b> See IRM 4.19.3.22.3.17, Securities Sales, for further information.</li> <li>4. Issue a recomputed notice or a Letter 1802-C. Inform the taxpayer the current unused Schedule D losses need to be adjusted for future filings.</li> </ol>

- (2) The taxpayer may claim additional Schedule D losses if they reported either a gain or a capital **loss of less than \$3,000** (\$1,500 if MFS).

1. Enter/Verify the Income Identify Code(s) ("SD" or "ST") for the U/R STOCK/REAL IR(s) the taxpayer is addressing on the new or revised Schedule D/Form 8949. Adjust any U/R STOCK/REAL by any cost basis information provided.  
**Note:** See IRM 4.19.3.22.3.17, Securities Sales, and IRM 4.19.3.22.3.17.1, Cost Basis -Responses, for further information.
2. Select the COMPUTE SCHEDULE D LOSS window and enter the correct values per return in the SCHEDULE D LOSS and the CAPITAL GAIN/LOSS fields. Enter the negative Schedule D, line 16 amount in the SCHEDULE D LOSS field. If the amount is a positive amount, leave blank. Enter the Form 1040, Line 7 amount in the CAPITAL GAIN/LOSS field. If the line is a loss, enter as a negative amount.
3. The TOTAL AGI CHANGE field will include the additional losses up to the maximum of \$3,000 (\$1,500 if MFS).



**Reminder:** If taxpayer's original Schedule D was limited to the maximum capital loss of \$3,000, the per return figures **MUST** be input in the COMPUTE SCHEDULE D LOSS window.

- (3) If the CP 2000 was issued because the taxpayer reported **ordinary dividends** on Schedule D, reduced by cost or other basis, and the taxpayer states that the income is other than ordinary dividends:
  - a. Accept if the taxpayer provides documentation.
  - b. If the taxpayer does not provide documentation, issue a Letter 2626C. Send a Special Paragraph using the following verbiage as an example:  
 "The dividend income in question was reported to IRS as ordinary income and is not subject to capital gains treatment. Please contact the payer for written verification that the information furnished to us is incorrect. We are unable to change our proposal without this information."  
 If issuing a recomputed notice, **send PARAGRAPH 52**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (4) If you determine **U/R NEC** should be reported on Schedule D:
  - a. Input Income Identify Code "SD" if U/R NEC amount(s) is a long-term capital gain/loss (Schedule D, Part II).
  - b. Input Income Identify Code "ST" if U/R NEC amount(s) is a short-term capital gain/loss (Schedule D, Part I).

**Note:** Income Identify Codes "SD" and "ST" enable the system to compute the Schedule D tax if applicable. See IRM 4.19.3.14.2, Sch D/8814/ECR Tax Window, for further instructions.

  - c. Follow the procedures in (1) above.
- (5) If the taxpayer response indicates U/R STOCK amount(s) are **other than a short-term** capital gain/loss:
  1. Input Income Identify Code "SD" if the U/R STOCK amount(s) is determined to be a long-term capital gain/loss, or
  2. Delete the Income Identify Code if the U/R STOCK amount(s) do not belong on Schedule D/Form 8949. Leave the Income Identify Code blank or input the appropriate Income Identify Code for the income to be treated as subject to SE tax.

4.19.3.22.1.24  
(09-04-2015)  
**Spousal Notices**

- (1) A second CP 2000/CP 2501 may be generated for the spouse whenever the secondary spouse address changed from the year of liability to the year of the latest filed return.
- (2) The second notice is an exact duplicate of all the information contained in the original notice mailed to the primary taxpayer with the exception that the second notice contains the current address of the secondary taxpayer.
- (3) The AUR system makes a request to the National Account Profile (NAP) to research and provide address information for the secondary SSN.
- (4) If there is a match, the address updates on the system and a notice generates to the primary and secondary SSN.

- (5) If the tax examiner enters a spousal address on the Update Address window, no systemic search for the spousal address is performed. The tax examiner entered address supersedes the systemically generated address.

4.19.3.22.1.25  
(09-21-2020)

**Return Preparer  
Misconduct (RPM)**

- (1) Unscrupulous return preparers may alter taxpayer tax data and/or misdirect a portion or all of the refund. taxpayers may become aware of misconduct through taxpayer initiated contact or through IRS correspondence and may submit Form 14157, Complaint: Tax Return Preparer, and/or Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit.
- (2) When a taxpayer states a preparer altered tax return data or misdirected a portion of or all of the refund, **telephone assistants** will research IDRS CC ENMOD and take the following action:

If	Then
IDRS CC ENMOD research determines there is an existing TC 971 AC 504 with the literal RPM for the AUR tax year	<ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> <li>2. Leave a detailed case note.</li> <li>3. Close the case no change following normal AUR procedures.</li> </ol> <p><b>Exception:</b> If the case is unavailable through UWC, check the action required box and leave a case note indicating the case needs to be closed following normal processing procedures per IRM 4.19.3.22.1.26.3, table, IDT Claims - Responses.</p>
There is no TC 971 AC 504 with literal RPM for the AUR tax year	<ol style="list-style-type: none"> <li>1. Advise the taxpayer to complete and return both Form 14157, Complaint: Tax Return Preparer, and Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit.</li> <li>2. Inform the taxpayer additional information is available on <i>irs.gov</i> and search keyword "preparer misconduct".</li> <li>3. Leave a detailed case note.</li> </ol>

- (3) When working **paper responses** and a taxpayer states a preparer altered tax return data or misdirected a portion of or all of the refund, take the following action:

If	Then
There is no Form and/or Form 14157-A present	<ol style="list-style-type: none"> <li>1. Research IDRS CC ENMOD for an existing TC 971 AC 504 with literal RPM, for the AUR tax year.</li> <li>2. If present, close the case no change following normal AUR procedures and go to step 7.</li> <li>3. If not present, follow steps 4-7.</li> <li>4. Issue Letter 2626C advising the taxpayer to complete and return both Form 14157 and Form 14157-A.</li> <li>5. Inform the taxpayer additional information is available on <i>irs.gov</i> and search keyword "preparer misconduct".</li> <li>6. Input IPC 6L, or 8L as appropriate.</li> <li>7. Leave a detailed case note.</li> </ol>
Form 14157 and/or Form 14157-A is present	<ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Transfer to the designated SEID.</li> <li>3. Place in the designated area for the AUR IDT liaison.</li> </ol>

4.19.3.22.1.26  
(10-06-2022)  
**Identity Theft (IDT)**  
**Claims - Overview**

- (1) **Beginning in TY 2020**, cases in **Subfile P** will be worked in all AUR campuses. For cases in **Subfile P**, AUR will disregard the TC 971 ID Theft indicator(s) and continue normal AUR processing. If issuing a notice, Paragraph 45 will automatically generate. See Exhibit 4.19.3-7, CP PARAGRAPHS. Leave a case note using the following verbiage, "IDT Subfile P case. IDT marker not considered during screening."
- (2) The Service established **Identity Theft Victims Assistance Specialized Teams (IDTVA)**. The IDTVA tax examiner will be the taxpayer's single point of contact (SPOC) for IDT and other account related issues. All cases with a Form 14039, Identity Theft Affidavit, and/or a police/law enforcement incident report received in AUR will be referred to the IDTVA. The IDTVA makes all IDT account determinations and performs Complete Case Analysis. After all IDT account related issues/actions are completed, the cases are referred back to AUR for processing/closure.
- (3) Cases where the taxpayer makes an allegation or claim of identity theft require input of identity theft indicators for the applicable tax years and are built into specialized response batches. An allegation or claim of identity theft is identified by the presence of Form 14039, Identity Theft Affidavit, a police/law
- (4) Clerical builds IDT responses that do not contain a Form 14039, Identity Theft Affidavit, and/or a police/law enforcement incident report to the appropriate response batch type, 41 (CP 2501 Identity Theft (IDT) Responses), 52 or 53 (CP 2000 Identity Theft (IDT) Responses), 72 (Statutory Identity Theft (IDT) Responses), 81 (Reconsideration Identity Theft (IDT) Responses) or 83 (Employee Reconsideration) on a **daily basis** and notifies the AUR Coordinator when clerical closes the batch and the batches are ready for the technical

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units. The AUR Coordinator assigns the batches to ensure **these batches are treated as priority and are worked and released accordingly.**

**Note:** Clerical does not build referrals (such as, IPSU, OARS) into identity theft batches. Referrals are transferred to the appropriate coordinator.

- (5) If responses/RECONs with a Form 14039, Identity Theft Affidavit, and/or a police/law enforcement incident report are found in any response batches, transfer the case to the AUR IDT liaison for referral to the IDTVA.
- (6) IDTVA scans all correspondence into AMS/CII. It may be necessary to access AMS/CII to review the information, including potential research on other than the AUR tax year, when working cases previously referred then reintroduced in the AUR Program.

**Note:** It may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.

**Caution:** Scanned documents are associated with the SSN of the taxpayer claiming identity theft. If the return is MFJ it may be necessary to research both SSNs, if applicable, access AMS/CII to view the return.

- (7) IDRS updates for the IDT indicators (TC, AC and Tax Administration Source Code), are mandatory. See Exhibit 4.19.3-17, Identity Theft - Tax Administration Source Terms and Descriptions, for more information on the applicable literals for TC 971.

**Reminder:** The IAT "REQ77" tool must be used to input/update the TC 971/972.

**Caution:** If filing status is Married Filing Joint (FS 2), verify that the IDRS IDT indicator is posted to the correct taxpayer.

- (8) When a case has multiple IDT indicators, the case should be processed as follows:

If there are multiple current IDT indicators	Then
Input on various dates	Process the case based on the most recent IDT indicator.
Input on the same date, and these are the most recent IDT indicators	<ol style="list-style-type: none"> <li>1. Consider all these IDT indicators.</li> <li>2. If one indicates the case should be closed no change but another indicates some other action should be taken, such as, transfer the case to the AUR IDT Liaison; take the other action. DO NOT close the case no change.</li> </ol>

- (9) Ensure the correct OFP code is used to record all time spent on identity theft duties.

4.19.3.22.1.26.1  
(11-23-2022)  
IDT General

- (1) In situations where the taxpayer makes an allegation of identity theft, such as

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toll-free calls, follow the steps below:

1. Research IDRS CC ENMOD for an IDT indicator, TC 971. Refer to the table below, see IRM 4.19.3.4.3.4, Other Transaction Codes and Math Error Codes, Exhibit 4.19.3-16, Identity Theft Action Codes, and Exhibit 4.19.3-17, Identity Theft - Tax Administration Source Terms and Descriptions, for additional information.

AC	Literal
501	CI OT, CI REF, DECD, EC029, INCMUL, INCOME, IRSADM, IRSERR, MULTFL, NOFR, OTHER, PRISNR, SB AU, TPRQ, WI AMT, or WI AU
504	ACCT, ACCT-M, BOTH, CI OT, CI REF, EC029, EMPL, IRSERR, NKI, NKI-M, SB AU, TPRQ, WI AMT, or WI AU
505	There is no literal for this Action Code
506	CI OT, CI REF, DDB, DECD, EC027, EC029, INCMUL, INCOME, IRSADM, IRSERR, MULTFL, NOFR, OMM, OMMGB, OTHER, OTHER1, OTHER2, PRISNR, RFND, SB AU, TPRQ, UPC147, UPCMUL, WI AMT, WI AU, WI IVO, or WI PRP
522	PNDCLM or UNWORK
522	INCOME, MULTFL, INCMUL, NOFR, OTHER, if the identity theft claim was made prior to April 3, 2017

2. If there is no IDT TC 971 indicator see the table below to immediately input TC 971 AC 522 with the appropriate literal, using the IAT "REQ 77" tool. For instructions on how to input TC 971, see IRM 4.19.3.22.1.26.3, IDT Claims - Responses.

**Exception:** If there is an existing TC 971 AC 522 PNDCLM/UNWORK for the same tax year, DO NOT apply a second TC 971 with a matching literal.

**Note:** Ensure IDRS updates are made for the correct taxpayer.

If	Then
Form 14039 police/law enforcement incident report is provided	Input literal UNWORK
Form 14039 police/law enforcement incident report is not provided	Input literal PNDCLM

3. If there is an existing TC 971, see (1) above, verify the IDRS updates were made for the correct taxpayer.

**Note:** If it is determined the IDRS updates were made to the incorrect taxpayer, for example, the secondary taxpayer (spouse) is the victim and the indicator was placed on the primary, see IRM 4.19.3.22.1.26.3, IDT Claims - Responses, to reverse the indicator for the primary taxpayer and IRM 4.19.3.22.1.26.3, IDT Claims - Responses, to update the secondary taxpayer.

4. Determine if the case is already assigned to or has already been referred to IDTVA; look for a case note indicating referral to IDTVA or an IDRS control category of IDIX ("X" represents a numeric value, for example, IDI2 is used when the case is assigned to IDTVA). If it is determined during the call the case is assigned to IDTVA provide the taxpayer with the IDTVA contact information.
5. If the taxpayer states they have lost, misplaced or did not receive their Identity Protection PIN (IP PIN) and needs a replacement, advise the taxpayer to contact IDTVA for assistance.

- (2) Telephone assistants refer to IRM 4.19.3.22.1.26.2, IDT Claims – Telephone, for additional information and if working paper responses refer to IRM 4.19.3.22.1.26.3, IDT Claims - Responses.

4.19.3.22.1.26.2  
(11-01-2021)

#### IDT Claims - Telephones

- (1) If the taxpayer makes a claim of identity theft determine if the case is already assigned to or has already been referred to IDTVA; look for a case note indicating referral to IDTVA or an IDRS control category of IDIX ("X" represents a numeric value, for example, IDI2 is used when the case is assigned to IDTVA). If it is determined the case is assigned to IDTVA provide the taxpayer with the IDTVA contact information.
- (2) If the case is NOT already assigned to or referred to the IDTVA, and the **case is controlled at your campus**, and any of the conditions in the table below exist, take the following actions:

**Note:** IDTVA scans all correspondence into AMS/CII. Scanned documents are associated with the SSN of the taxpayer claiming identity theft. If the return is Married Filing Joint (FS 2) it may be necessary to research both SSNs and/or it may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.

**Caution:** If the TC 971 AC 501, 504, 505, 506 or 522 has been reversed with a corresponding TC 972 - continue normal AUR processing.

**Note:** AC listed in the table below do not need to be present on AUR account (year).

If there is an existing TC 971 with	And the literal is	Then
AC 501 or 506	INCOME, MULTFL, INCMUL, NOFR, OTHER, DECD or PRISNR	<p>Research the Case History screen to determine if a response has been received and whether the case is currently assigned to a TE.</p> <p><b>Note:</b> IDTVA will only accept a referral when a response has been received from the taxpayer.</p> <p>If a response was received but the case is not currently assigned to a TE (the case is in a general suspense batch):</p> <ol style="list-style-type: none"> <li>1. Notify the AUR IDT liaison via secure email that the case needs to be referred to IDTVA.</li> <li>2. Follow steps 4 – 6 below.</li> </ol> <p>If a response was received and the case is currently assigned to a TE, follow steps 4 - 6 below.</p> <p>If no response was received:</p> <ol style="list-style-type: none"> <li>1. Advise the taxpayer a written response is needed.</li> <li>2. Follow steps 4 – 6 below.</li> </ol>
AC 504	SPCL1, SPCL2, or EAFail	<p>Continue normal AUR processing/call handling.</p> <p><b>Caution:</b> If the account is marked with TC 971 AC 504 SPCL1, SPCL2, or EAFail there have been unsuccessful attempts to obtain the IP PIN. Use high risk disclosure procedures; see IRM 4.19.3.22.2.2, Disclosure, for additional information.</p>



If there is an existing TC 971 with	And the literal is	Then
AC 504	ACCT, BOTH, NKL, or EMPL	<p>Research the Case History screen to determine if a response has been received and whether the case is currently assigned to a TE.</p> <p><b>Note:</b> IDTVA will only accept a referral when a response has been received from the taxpayer.</p> <p>If a response was received but the case is not currently assigned to a TE (the case is in a general suspense batch):</p> <ol style="list-style-type: none"> <li>1. Notify the AUR IDT liaison via secure email that the case needs to be referred to IDTVA.</li> <li>2. Follow steps 4 – 6 below.</li> </ol> <p>If a response was received and the case is currently assigned to a TE, follow steps 4 - 6 below.</p> <p>If no response was received:</p> <ol style="list-style-type: none"> <li>1. Advise the taxpayer a written response is needed.</li> <li>2. Follow steps 4 – 6 below.</li> </ol>

If there is an existing TC 971 with	And the literal is	Then
AC 506	WI AMTAP (RFND, OTHER, OMM, OMMGB, or DDB) or WI PRP OTHER1 or WI PRP DDB. <b>Note:</b> The account may also contain a "P-" or "-R" Freeze Code.	<p><b>If there is no credit on the account:</b></p> <ol style="list-style-type: none"> <li>1. Request the case to work.</li> <li>2. Leave a detailed case note.</li> <li>3. Close the case using PC 52, 71 or 92, as appropriate.</li> </ol> <p><b>If there is a credit on the account:</b></p> <ol style="list-style-type: none"> <li>1. Request the case to work.</li> <li>2. Access the MFT 30 Assessment window.</li> <li>3. Input/verify TC 290 .00.</li> <li>4. Input Hold Code 4.</li> <li>5. Remove all other transaction/reference codes.</li> <li>6. Input "N" in the SOURCE DOCUMENT ATTACHED field.</li> <li>7. Input remarks: No change.</li> <li>8. Change the AUTO/MANUAL IND field to "M".</li> <li>9. Commit the Assessment window.</li> <li>10. Leave a detailed case note.</li> <li>11. Input PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> <li>12. Using the IAT "xMend" or "REQ54" tool, input a TC 290.00 and include Hold Code 4.</li> </ol> <p>If the case is not available to request, leave a detailed case note and ensure appropriate actions are taken to close the case.</p>

If there is an existing TC 971 with	And the literal is	Then
AC 522	UNWORK <b>Note:</b> If the IDT claim was made prior to April 3, 2017 also consider INCOME, MULTFL, INCMUL, NOFR or OTHER.	<ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> </ol> <b>Exception:</b> If the case is unavailable through UWC, notify the AUR IDT liaison via secure email that the case needs to be referred to the IDTVA and leave a detailed case note. <ol style="list-style-type: none"> <li>2. Follow steps 4 – 6 below.</li> <li>3. Transfer to the designated SEID.</li> <li>4. Place in the designated area for the AUR IDT liaison.</li> </ol>

If there is an existing TC 971 with	And the literal is	Then
AC 522	PNDCLM and the taxpayer states IDT documents were sent	<p>Research AMS/CII to check for Form 14039 or a police/law enforcement incident report.</p> <p><b>Reminder:</b> It may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.</p> <p><b>Note:</b> Research AMS/CII for IDT documents.</p> <p>If AMS/CII includes a copy of a Form 14039 or a police/law enforcement incident report then:</p> <ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> </ol> <p><b>Exception:</b> If the case is unavailable through UWC, notify the AUR IDT liaison via secure email that the case needs to be referred to the IDTVA and leave a detailed case note.</p> <ol style="list-style-type: none"> <li>2. Leave a detailed case note.</li> <li>3. Transfer to the designated SEID.</li> <li>4. Place in the designated area for the AUR IDT liaison.</li> </ol> <p>If AMS/CII does not include a copy of Form 14039 or a police/law enforcement incident report, follow steps 2-6 below.</p>
AC 522	PNDCLM and the taxpayer does not indicate IDT documents were sent	Follow steps 2-6 below.
AC 522	NODCRQ with "OTHER" and "PPDS" as the BOD, "OPIP" as the Program	Consider the account as NOT having a TC 971 AC 522 posted and follow steps 1-6 below.

If there is an existing TC 971 with	And the literal is	Then
AC 505 or 525	There is or is not a literal (no literal is necessary)	<ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> <li>2. Leave a detailed case note.</li> <li>3. Close the case no change using normal AUR procedures.</li> </ol> <p><b>Exception:</b> If the case is unavailable through UWC, take the appropriate action to ensure the case is closed following normal AUR procedures.</p>

1. If none of the above is present, input TC 971 AC 522 PNDCLM or UNWORK, as appropriate, using the IAT "REQ77" tool. See IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for additional information.

**Exception:** If there is an existing TC 971 AC 522 PNDCLM/UNWORK for the same tax year, DO NOT apply a second TC 971 with a matching literal.

2. Attempt to secure Form 14039 or a police/law enforcement incident report via fax. If the taxpayer faxes the document(s) in while on the call, advise them their case is being referred to the Identity Theft Victims Assistance, and if additional information is needed a representative from that area will contact them.
  3. If the taxpayer indicates Form 14039 or a police/law enforcement incident report will be sent later, advise them once their document(s) is received, their case will be referred to the Identity Theft Victims Assistance, and if additional information is needed a representative from that area will contact them.
  4. Inform the taxpayer they should contact the Federal Trade Commission at 877-438-4338 or <http://www.ftc.gov/> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <http://www.irs.gov/> key word "Identity Theft" or see Pub 5027, Identity Theft Information for Taxpayers.
  5. Ask the taxpayer which income issues are a direct result of the identity theft.
  6. Leave a detailed case note documenting the call and actions taken.
- (3) If the case is NOT already assigned to or referred to the IDTVA, and the case **is not controlled** at your campus, and any of the conditions in the table below exist, take the following actions:

**Caution:** If the TC 971 AC 501, 504, 505, 506 or 522 has been reversed with a corresponding TC 972 - continue normal AUR processing.

**Note:** AC listed in the table below do not need to be present on AUR account (year).

If there is an existing TC 971 with	And the literal is	Then
AC 501 or 506	INCOME, MULTFL, INCMUL, NOFR, OTHER, DECD or PRISNR	<p>Research the Case History screen to determine if a response has been received and whether the case is currently assigned to a TE.</p> <p><b>Note:</b> IDTVA will only accept a referral when a response has been received from the taxpayer.</p> <p>If a response was received but the case is not currently assigned to a TE (the case is in a general suspense batch):</p> <ol style="list-style-type: none"> <li>1. Notify the AUR IDT liaison via secure email that the case needs to be referred to IDTVA.</li> <li>2. Follow steps 4 – 6 below.</li> </ol> <p>If a response was received and the case is currently assigned to a TE, follow steps 4 - 6 below.</p> <p>If no response was received:</p> <ol style="list-style-type: none"> <li>1. Advise the taxpayer a written response is needed.</li> <li>2. Follow steps 4 – 6 below.</li> </ol>
AC 504	SPCL1, SPCL2, or EAFail	<p>Continue normal AUR processing/call handling.</p> <p><b>Caution:</b> If the account is marked with TC 971 AC 504 SPCL1, SPCL2, or EAFail there have been unsuccessful attempts to obtain the IP PIN. Use high risk disclosure procedures; see IRM 4.19.3.22.2.2, Disclosure, for additional information.</p>

If there is an existing TC 971 with	And the literal is	Then
AC 504	ACCT, BOTH, NKL, or EMPL	<p>Research the Case History screen to determine if a response has been received and whether the case is currently assigned to a TE.</p> <p><b>Note:</b> IDTVA will only accept a referral when a response has been received from the taxpayer.</p> <p>If a response was received but the case is not currently assigned to a TE (the case is in a general suspense batch):</p> <ol style="list-style-type: none"> <li>1. Notify the AUR IDT liaison via secure email that the case needs to be referred to IDTVA.</li> <li>2. Follow steps 4 – 6 below.</li> </ol> <p>If a response was received and the case is currently assigned to a TE, follow steps 4 - 6 below.</p> <p>If no response was received:</p> <ol style="list-style-type: none"> <li>1. Advise the taxpayer a written response is needed.</li> <li>2. Follow steps 4 – 6 below.</li> </ol>



If there is an existing TC 971 with	And the literal is	Then
AC 506	WI AMTAP (RFND, OTHER, OMM, OMMGB or DDB) or WI PRP OTHER1 or WI PRP DDB.  <b>Note:</b> The account may also contain a "P-" or "-R" Freeze Code. Do NOT release any credit.	<b>If there is no credit on the account:</b> <ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> <li>2. Leave a detailed case note.</li> <li>3. Close the case using PC 52, 71 or 92, as appropriate.</li> </ol> <b>If there is a credit on the account:</b> <ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> <li>2. Access the MFT 30 Assessment window.</li> <li>3. Enter/Verify TC 290 .00.</li> <li>4. Input Hold Code 4.</li> <li>5. Remove all other transaction/reference codes.</li> <li>6. Input remarks: No change.</li> <li>7. Commit the Assessment window.</li> <li>8. Leave a detailed case note.</li> <li>9. Input PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> </ol> <b>Exception:</b> If the case is unavailable through UWC, for either situation above, complete Form 4442, Inquiry Referral, and fax/efax to the site AUR Coordinator.
AC 522	UNWORK  <b>Note:</b> If the IDT claim was made prior to April 3, 2017 also consider INCOME, MULTFL, INCMUL, NOFR or OTHER.	<ol style="list-style-type: none"> <li>1. Follow steps 4-6 below.</li> <li>2. Leave a detailed case note.</li> <li>3. Complete Form 4442, Inquiry Referral, and fax/efax to the site AUR Coordinator.</li> </ol>

If there is an existing TC 971 with	And the literal is	Then
AC 522	PNDCLM and the taxpayer states ID Theft documents were sent	<p>Research AMS/CII to check for Form 14039 or a police/law enforcement incident report.</p> <p><b>Reminder:</b> It may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.</p> <p><b>Note:</b> Research AMS/CII for IDT documents.</p> <p>If AMS/CII includes a copy of a Form 14039 or police/law enforcement incident report then:</p> <ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Complete Form 4442, Inquiry Referral, and fax/efax to the site AUR Coordinator.</li> </ol> <p>If AMS/CII does not include a copy of Form 14039 or a police/law enforcement incident report, follow steps 2-6 below.</p>
AC 522	PNDCLM and the taxpayer does not indicate ID Theft documents were sent	Follow steps 2-6 below.
AC 522	NODCRQ with "OTHER" and "PPDS" as the BOD, "OPIP" as the Program	Consider the account as <b>NOT</b> having a TC 971 AC 522 posted and follow steps 1-6 below.

If there is an existing TC 971 with	And the literal is	Then
AC 505 or 525	There is or is not a literal (no literal is necessary)	<ol style="list-style-type: none"> <li>1. Request the case via UWC.</li> <li>2. Leave a detailed case note.</li> <li>3. Close the case no change using normal AUR procedures.</li> </ol> <p><b>Exception:</b> If the case is unavailable through UWC, check the action required box and leave a case note indicating the taxpayer made a claim of identity theft and the case needs to be closed following normal processing procedures.</p>

1. If none of the above is present, input TC 971 AC 522 PNDCLM or UNWORK, as appropriate, using the IAT "REQ77" tool. See IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for additional information.

**Exception:** If there is an existing TC 971 AC 522 PNDCLM/UNWORK for the same tax year, DO NOT apply a second TC 971 with a matching literal.

2. Inform the taxpayer Form 14039 or a police/law enforcement incident report is required and advise them to fax or mail to the assigned campus.
3. Advise the taxpayer once the required Form 14039 or a police/law enforcement incident report) is received, their case will be referred to the Identity Theft Victim Assistance, and if additional information is needed a representative from that area will contact them.
4. Inform the taxpayer they should contact the Federal Trade Commission at 877-438-4338 or <http://www.ftc.gov/> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <http://www.irs.gov/> key word "Identity Theft" or see Pub 5027, Identity Theft Information for Taxpayers.
5. Ask the taxpayer which income issues are a direct result of the identity theft.
6. Leave a detailed case note documenting the call and actions taken.

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statement indicating they did not file or that they did not have a filing requirement with a completed Form 14039 or a police/law enforcement incident report. Leave a detailed case note outlining the taxpayer response and actions taken (for example, "Taxpayer response didn't file and/or has no filing requirement. Requested signed statement and Form 14039.").

4.19.3.22.1.26.3  
(01-28-2022)

**IDT Claims - Responses**

- (1) **Beginning in TY 2020**, cases in **Subfile P** will be worked in all AUR campuses. For cases in **Subfile P**, AUR will disregard the TC 971 ID Theft indicators(s) and continue normal AUR processing.

**Exception:** If the case in Subfile P **AND** the taxpayer makes a new claim of ID theft, follow procedures below.

- (2) If TC 971 AC 501, 504, 505, 506 or 522 has been reversed with a corresponding TC 972, continue normal AUR processing.
- (3) If a case involves a claim of identity theft **and Innocent Spouse**, see the table below for the proper action to take:

If	Then
There is Form 8857 <b>and</b> Form 14039 or a police/ law enforcement incident report	<ol style="list-style-type: none"> <li>1. Access the Address Update window and input the address of the spouse who submitted the Form 8857 using Address Type "S". Edit the first name line to reflect only the spouse's name.</li> <li>2. Create Letter 2626C and include a Special Paragraph, using the following verbiage as an example: "Your request for innocent spouse relief will not be considered at this time. When a determination is made that results in additional tax owed, you can request innocent spouse relief once the tax is charged by submitting a completed Form 8857 to the address in the form instructions."</li> <li>3. Leave a detailed case note.</li> <li>4. Transfer the case to the designated SEID.</li> </ol>

If	Then
There is Form 8857 and a claim of identity theft but <b>no Form 14039 or police/law enforcement incident report</b>	<ol style="list-style-type: none"> <li>1. Input TC 971 AC 522 with literal PNDCLM on the impacted taxpayer module, if applicable. <b>Caution:</b> Ensure the literal PNDCLM is input on the appropriate taxpayer account.</li> <li>2. Access the Address Update window and input the address of the spouse who submitted the Form 8857 using Address Type "S". Edit the first name line to reflect only the spouse's name.</li> <li>3. Create Letter 2626C to request Form 14039 or a police/law enforcement incident report, a written statement for each AUR issue, and include a Special Paragraph, using the following verbiage as an example: "Your request for innocent spouse relief will not be considered at this time. When a determination is made that results in additional tax owed, you can request innocent spouse relief once the tax is charged by submitting a completed Form 8857 to the address in the form instructions."</li> <li>4. Leave a detailed case note.</li> <li>5. Input the appropriate IPC and release the case.</li> </ol>

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**cators present**, use the IAT **aMend** tool, research portion, to determine Scrambled SSN or Mixed Entity.

- If yes, leave a detailed case note, prepare Form 4442 for referral to AM and close PC 52, 71 or 92 or IPC 9R, as appropriate.
- If no, see the table below for the appropriate actions to take:

If	Then
There is a TC 971 AC 522 with literal PNDCLM	<p>Research AMS/CII for Form 14039 or police/law enforcement incident report.</p> <p><b>Reminder:</b> It may be necessary to research years other than the AUR tax year because documents are filed under the earliest year listed on Form 14039.</p> <p><b>Note:</b> Research AMS/CII for Form 14039 or police/law enforcement incident report.</p> <p>If AMS/CII includes a copy of a Form 14039 or police/law enforcement incident report then:</p> <ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Transfer to the designated SEID.</li> <li>3. Place in the designated area for the AUR IDT liaison.</li> </ol> <p>If AMS/CII does not include a copy of Form 14039 or police/law enforcement incident report:</p> <ol style="list-style-type: none"> <li>1. Issue a Letter 2626C (using IPC 6L or 8L as appropriate) requesting Form 14039 or a police/law enforcement incident report.</li> <li>2. Leave a detailed case note.</li> </ol>
There are no IDT indicators present	<ol style="list-style-type: none"> <li>1. Input TC 971 AC 522 with literal PNDCLM, if applicable.</li> </ol> <p><b>Caution:</b> Ensure the literal PNDCLM is input on the appropriate taxpayer account.</p> <ol style="list-style-type: none"> <li>2. Issue a Letter 2626C (using IPC 6L or 8L as appropriate) requesting Form 14039 or police/law enforcement incident report.</li> <li>3. Leave a detailed case note.</li> </ol>

- (5) If the **Taxpayer indicates the U/R income was the result of identity theft** or their SSN being used illegally **and** the AUR systems shows an **unreversed TC 971, AC 501, 504, 506, 522, 523, 524 or 525** see the table below to determine appropriate action to take:

**Exception:** AC 504 with literals SPCL1, SPCL2 or EAFail does **not** indicate IDT documentation has been submitted.

If	Then
AC 501 or 506 with the literals INCOME, MULTFL, INCMUL, NOFR, OTHER, DECD or PRISNR	<ol style="list-style-type: none"> <li>1. Transfer to the designated SEID.</li> <li>2. Leave a case note.</li> <li>3. Place the case in the designated area for the AUR IDT liaison.</li> </ol>

If	Then
<p>AC 506 with literals WI AMTAP (RFND, OTHER, OMM, OMMGB or DDB) or WI PRP OTHER1 or WI PRP DDB.</p> <p><b>Note:</b> The account may also contain a “P-” or “-R” Freeze Code.</p>	<p><b>If there is no credit on the account:</b></p> <ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Close the case using PC 52, 71 or 92, as appropriate.</li> </ol> <p><b>If there is a credit on the account:</b> <b>Do NOT release any credit.</b></p> <ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Access the MFT 30 Assessment window.</li> <li>3. Enter/Verify TC 290 .00.</li> <li>4. Input Hold Code 4.</li> <li>5. Remove all other transaction/reference codes.</li> <li>6. Input remarks: No change.</li> <li>7. Commit the Assessment window.</li> <li>8. Leave a detailed case note.</li> <li>9. Input PC 52 (CP 2501), PC 71 (CP 2000) or PC 92 (Stat), as appropriate.</li> </ol>
<p>AC 522 with literals INCOME, MULTFL, INCMUL, NOFR, or OTHER <b>if the identity theft claim was made prior to April 3, 2017</b></p>	<ol style="list-style-type: none"> <li>1. Transfer to the designated SEID.</li> <li>2. Leave a case note.</li> <li>3. Place the case in the designated area for the AUR IDT liaison.</li> </ol>
<p>AC 522 with the literal PNDCLM and there is a Form 14039 or police/law enforcement incident report present</p>	<ol style="list-style-type: none"> <li>1. Verify/input TC 971 AC 522 UNWORK.</li> <li>2. Transfer to the designated SEID.</li> <li>3. Leave a case note.</li> <li>4. Place the case in the designated area for the AUR IDT liaison.</li> </ol>
<p>AC 522 with the literal PNDCLM or NODCRQ with “OTHER” and “PPDS” as the BOD, “OPIP” as the Program and there is <b>no</b> Form 14039 or police/law enforcement incident report present</p>	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C to acknowledge taxpayer's correspondence.</li> <li>2. Include a paragraph to request Form 14039 or police/law enforcement incident report.</li> <li>3. Include a paragraph to request a statement identifying the issues related to IDT.</li> <li>4. If the income issue(s) is affiliated with the secondary SSN which does not have the IDRS IDT indicator, include a paragraph to request Form 14039 or police/law enforcement incident report and identification of the issues related to IDT.</li> <li>5. Inform the taxpayer they should contact the Federal Trade Commission at 877-438-4338 or <a href="http://www.ftc.gov/">http://www.ftc.gov/</a> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <a href="http://www.irs.gov/">http://www.irs.gov/</a> keyword “Identity Theft” or see Pub 5027, Identity Theft Information for Taxpayers.</li> <li>6. Input IPC 6L or 8L as appropriate.</li> </ol>
<p>AC 505, 525 or 504 with the literal RPM</p>	<p>Close the case no change following normal AUR procedures.</p>



If	Then
AC 523	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C to acknowledge taxpayer's correspondence.</li> <li>2. Include a paragraph to request Form 14039 or police/law enforcement incident report.</li> <li>3. Include a paragraph to request a statement identifying the issues related to IDT.</li> <li>4. If the income issue(s) is affiliated with the secondary SSN which does not have the IDRS IDT indicator, include a paragraph to request Form 14039 or police/law enforcement incident report and identification of the issues related to IDT.</li> <li>5. Inform the taxpayer they should contact the Federal Trade Commission at 877-438-4338 or <a href="http://www.ftc.gov/">http://www.ftc.gov/</a> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <a href="http://www.irs.gov/">http://www.irs.gov/</a> keyword "Identity Theft" or see Pub 5027, Identity Theft Information for Taxpayers.</li> <li>6. Input IPC 6L or 8L as appropriate.</li> </ol>
AC 524	Follow IRM 4.19.3.5.5, Deceased Taxpayers, and IRM 4.19.3.22.1.14, Decedents.

- (6) If the **Taxpayer indicates the U/R income was the result of identity theft** or their SSN being used illegally **and the AUR system shows no indication of identity theft**, there is no Form 14039, Identity Theft Affidavit, or police/law enforcement incident report present, check IDRS CC ENMOD for the conditions in (4) above. If no condition(s) present, take the following actions:

**Exception:** If the case is assigned to or has already been referred to IDTVA, leave a detailed case note, transfer to the designated SEID and place in the designated area for the AUR IDT liaison. See IRM 4.19.3.22.1.26.1, IDT General, for additional information.

1. Input TC 971 AC 522 with literal PNDCLM.
2. Issue a Letter 2626C to acknowledge the taxpayer's correspondence.
3. Include a paragraph to request Form 14039 or police/law enforcement incident report.
4. Include a paragraph to request a statement identifying the issues related to IDT if the taxpayer has not identified them. If the income issue(s) is affiliated with the secondary SSN, which does not have the IDRS IDT indicator, include a paragraph to request Form 14039 or police/law enforcement incident report and identification of the issues related to IDT.
5. Inform the taxpayer they should contact the Federal Trade Commission at 877-438-4338 or <http://www.ftc.gov/> and that they should make a report to their local police and the three major credit bureaus. For additional information, visit <http://www.irs.gov/> keyword "Identity Theft" or see Pub 5027, Identity Theft Information for Taxpayers.
6. Leave a detailed case note.
7. Input IPC 6L or 8L as appropriate.

- (7) If Form 14039 or police/law enforcement incident report was previously requested but the taxpayer does not provide the requested document(s) with subsequent correspondence, take the following actions:
1. Issue a Letter 2626C to address the taxpayer's correspondence.
  2. Include a paragraph to advise the taxpayer we are not able to consider their IDT claim because Form 14039 or police/law enforcement incident report was not provided.
  3. Research IDRS CC ENMOD for an AUR initiated TC 971 AC 522 PNDCLM for the tax year in question. If present, reverse per (9) below, using NORPLY.
  4. Input the appropriate process code to move the case to the next phase.
- (8) If the response ignores the previous claim of identity theft, research IDRS CC ENMOD for an AUR initiated TC 971 AC 522 PNDCLM for the tax year in question. If present, reverse per (9) below using NORPLY.
- (9) When updating IDRS with TC 971 AC 5XX enter the following in the miscellaneous input fields:

**Reminder:** The IAT "REQ77" tool must be used to input/update the TC 971. See IRM 4.19.3.2.6, Integrated Automated Technologies, and Exhibit 4.19.3-18, Mandated IAT Tools, for additional information.

- TC 971 AC 5XX is updated for the SSN of the secondary taxpayer.
  - BOD/Function Name: SBSE
  - Input TC 971 AC 522 with literal "WI ITVAC UNWORK" if the taxpayer provides a completed Form 14039 or police report.
  - Input TC 971 AC 522 with literal "PNDCLM" if the taxpayer **does not** provide a completed Form 14039 or police report.
  - Program: AUR
  - Tax Administration Source: Exhibit 4.19.3-17, Identity Theft -Tax Administration Source Terms and Descriptions for the appropriate entry.
  - TRANS DT: leave blank, field automatically populates with the current date
  - SECONDARY DT: enter the AUR tax year as 1231YYYY
  - If multiple tax years are involved enter TC 971 AC 5XX for each year.
- (10) TC 972 is used to reverse the TC 971. The TC 972 reversal also has a miscellaneous input field. The first two fields are the same as the TC 971 miscellaneous input field (see (8) above). Replace the Tax Administration Source with NORPLY, indicating the taxpayer did not respond to a request for Form 14039 or a police/law enforcement incident report.

**Note:** To avoid an unpostable condition when inputting any TC 972 reversal, enter the transaction date of the corresponding TC 971 AC 5XX being reversed.

**Reminder:** The IAT "REQ77" tool must be used to input/update the TC 971. See IRM 4.19.3.2.6, Integrated Automated Technologies, and Exhibit 4.19.3-18, Mandated IAT Tools, for additional information.

4.19.3.22.1.26.4  
(09-01-2022)  
**AUR IDT Liaison  
Responsibilities**

- (1) The AUR IDT Liaison is responsible for:
  - a. Managing IDT and RPM referrals (both to IDTVA and from IDTVA).
  - b. Input of the closing PC when the case is returned from IDTVA.
  - c. Reviewing all cases meeting referral criteria and Form 4442 prior to sending to IDTVA.
  - d. Monitoring cases sent to IDTVA for 120 days, see (9) and (10) below.
  - e. Tracking all the time they spend working on IDT, see IRM 4.19.3.22.1.26, Identity Theft (IDT) Claims - Overview
- (2) There will be four types of cases that will require action by the AUR IDT liaison:
  1. Cases received from clerical with Form 14039 or police/law enforcement incident report.
  2. Cases received from clerical with Form 14157 and/or Form 14157-A.
  3. Cases received where the TE has determined the case should be sent to the IDTVA, for example, action required box is checked, case criteria meets IDTVA referral requirements; such as the existing IDT markers on the account require IDTVA referral.
  4. Form 4442 referrals from the AUR Coordinator.
- (3) When an incoming response contains either; a Form 14039, Identity Theft Affidavit, and/or a police/law enforcement incident report, Form 14157, Complaint: Tax Return Preparer, and/or Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit, clerical will transfer the case, and hand walk the case to the AUR IDT liaison for referral to the IDTVA.

**Exception:** Incoming Recon responses containing either Form 14039 and/or a police/law enforcement incident report or Form 14157 and/or Form 14157-A will be routed directly to IDTVA by clerical.

**Note:** Refer cases with Form 14039 and/or a police/law enforcement incident report or Form 14157 and/or Form 14157-A which are systemically or self-identified disaster cases, to IDTVA (see (4) below), and identify the case as a disaster case in the case note.

- (4) When an incoming response contains either; a Form 14039 or police/law enforcement incident report, take the following actions:
  1. Leave a case note indicating case is being referred to IDTVA. The case note should also include the following: Tax year(s) impacted, if known, indication of any Statute issues, see (7) below for additional action(s) if required, date of the Statutory Notice of Deficiency and last day to petition if applicable (Statutory Notice phase cases should also be flagged with the last day to petition noted on the flag), indication of Collection issues.
  2. Input the IRS received date on AUR on open cases, if not present.
  3. Input IPC SI.
  4. Close AUR IDT IDRS control, if present.
  5. Verify input of TC 971 AC 522 UNWORK, as appropriate.
  6. Input CC STAUP for 15 cycles, as needed.

**Exception:** If the case is in collection status, input TC 470 on IDRS. See Exhibit 4.19.3-14, Notice Delay Actions (Reconsiderations).

7. Complete Form 3210, Document Transmittal.
  8. Return the completed package to clerical to hand walk/ transship to the IDTVA.
- (5) The following information should be included with the referral package:
- Form 14039 and/or police/law enforcement incident report.
  - Any other documents pertinent to the ID theft determination or the corrective actions being requested that are not available electronically. Do not forward documents available on CII, through AMS, or IDRS prints.
- (6) When the taxpayer provides Form 14157, Complaint: Tax Return Preparer, and/or Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit, take the following actions:
1. Leave a case note indicating the case is RPM and is being referred to the IDTVA.
  2. Input the IRS received date on AUR, if not present.
  3. Input IPC SI.
  4. Input CC STAUP for 15 cycles, as needed.
- Exception:** If the case is in collection status, input TC 470 on IDRS. See Exhibit 4.19.3-14, Notice Delay Actions (Reconsiderations).
5. Complete Form 3210 and attach case contents.
  6. Return the completed package to clerical to hand walk/transship to the IDTVA.
- (7) There may be cases where the ASSED needs to be recomputed/extended when the case is statute imminent.

If	And	Then
AUR (IDT or RPM) case is statute imminent at the time of referral; 90 days or less remaining	Statutory Notice of Deficiency has been issued	<ol style="list-style-type: none"> <li>1. Input TC 560, as applicable, prior to referral to the IDTVA. Refer to IRM 4.19.3.22.11, Instructions Specific to Statutory Notices/ Responses.</li> <li>2. Refer to the IDTVA following the procedures in (4) and (6) above.</li> </ol>

If	And	Then
AUR ( <b>IDT or RPM</b> ) case is statute imminent at the time of referral; 90 days or less remaining	Statutory Notice of Deficiency has not been issued	<p><b>If the case is an IDT case:</b></p> <ol style="list-style-type: none"> <li>1. Ensure Letter 1802-C is issued to inform the TP they'll receive a Notice of Deficiency and their claim of identity theft is being referred to the appropriate area for processing. Use the following verbiage as an example "We received your Identity Theft claim and are referring your case to Identity Theft Victims Assistance. An examiner will be assigned to your case and will contact you within 60 days. You will receive a Statutory Notice of Deficiency in the near future."</li> <li>2. Input PC 75 or 77, as applicable.</li> <li>3. Refer the case to the IDTVA; following (4); steps 1, 2 and 5 - 8 and (5), above.</li> <li>4. Monitor the case for notice issuance, and once issued, request the case.</li> <li>5. Input IPC SI.</li> </ol> <p><b>If the case is an RPM case:</b></p> <ol style="list-style-type: none"> <li>1. Ensure Letter 1802-C is issued to inform the taxpayer they'll receive a Notice of Deficiency and their claim of RPM is being referred to the appropriate area for processing. Use the following verbiage as an example : "We received your Tax Return Preparer Misconduct complaint and are referring your case to Identity Theft Victim Assistance. An examiner will be assigned to your case and will contact you within 60 days. You will receive a Statutory Notice of Deficiency in the near future."</li> <li>2. Input PC 75 or 77, as appropriate.</li> <li>3. Refer the case to the IDTVA, per (6), above.</li> <li>4. Monitor the case for notice issuance, and once issued, request the case.</li> <li>5. Input IPC SI.</li> </ol>
AUR <b>IDT or RPM</b> case becomes statute imminent while the case is in suspense; IPC SI	Statutory Notice of Deficiency has not been issued	<p>IDTVA will notify the AUR IDT liaison no later than March 15th of the statute year that the case can be either closed no change or returned to AUR inventory. If the case is not, or cannot be returned to AUR, take the following actions:</p> <ol style="list-style-type: none"> <li>1. Inform the IDTVA that AUR is issuing the Statutory Notice of Deficiency.</li> <li>2. Input PC 75 or 77, as applicable.</li> <li>3. Monitor the case for notice issuance, and once issued, request the case.</li> <li>4. Input IPC SI.</li> </ol>

If	And	Then
AUR <b>IDT</b> case becomes statute imminent while case is in suspense; IPC SI	Statutory Notice of Deficiency has been issued	IDTVA is responsible for input of TC 560. IDTVA will notify the AUR IDT liaison no later than August 1st of the statute year that the case can be either closed no change, defaulted or returned to AUR inventory for recomputed notice issuance (IPC SR or PC 95). <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.
AUR <b>RPM</b> case becomes statute imminent while case is in suspense; IPC SI	Statutory Notice of Deficiency has not been issued	IDTVA will notify the AUR IDT liaison no later than March 15th of the statute year that the case can be either closed no change or returned to AUR inventory. If the case is not, or cannot be returned to AUR, take the following actions: 1. Inform the IDTVA that AUR is issuing the Statutory Notice of Deficiency. 2. Input PC 75 or 77, as applicable. 3. Monitor the case for notice issuance, and once issued, request the case. 4. Input IPC SI.
AUR <b>RPM</b> case becomes statute imminent while case is in suspense; IPC SI	Statutory Notice of Deficiency has been issued	IDTVA is responsible for input of TC 560. IDTVA will notify the AUR IDT liaison no later than August 1st of the statute year that the case can be either closed no change, defaulted or returned to AUR inventory for recomputed notice issuance (IPC SR or PC 95). <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.

- (8) When a case is received where the TE has input the IPC SI or transferred to the liaison, the liaison will review the case to validate whether the case should be sent to the IDTVA. If the case should be sent to the IDTVA, follow the procedures in (4) or (6) above. If the case should not be sent to the IDTVA, return the case to clerical with instructions to transfer back to the TE. Leave a case note indicating why the case is being returned.
- (9) IDTVA has 120 days to take the necessary actions to resolve IDT and RPM cases unless they contact AUR for an extension of time to resolve the issue. If a Stat notice has been issued, see (10) below. The AUR IDT Liaison will monitor the BT 89003 inventory for IDT and RPM cases. See the table below for the appropriate actions to take:

If	Then
The IDT case has not been returned by the end of the 120-day period and IDTVA has not contacted AUR for an extension	<ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Close the case with PC 26.</li> </ol>
The RPM case has not been returned by the end of the 120-day period and IDTVA has not contacted AUR for an extension	<ol style="list-style-type: none"> <li>1. Leave a detailed case note.</li> <li>2. Close the case with PC 52, 71 or 92, as appropriate.</li> </ol>
IDTVA contacts AUR for an extension of time on an IDT or RPM case	<ol style="list-style-type: none"> <li>1. Allow an extension of up to 40 additional days. <b>Do not allow more than 160 days total</b> from the input of IPC SI.</li> <li>2. Leave a detailed case note which includes the new negotiated closure date.</li> <li>3. If the case is returned by the negotiated closure date, take the appropriate action based on the IDTVA case note.</li> <li>4. If the case is not returned by the negotiated closure date, leave a detailed case note. Close IDT cases with PC 26 or RPM cases with PC 52, 71 or 92, as appropriate.</li> </ol>

**Exception:** IDTVA has 125 days to resolve Ogden IDT/RPM cases, to allow 5 days for transshipment of cases to Philadelphia IDTVA.

**Note:** IDTVA will notify AUR of any RPM cases which are transferred to Exam because the taxpayer completed a “return as intended to be filed”. These cases will also be closed with PC 52, 71 or 92, as appropriate.

- (10) Cases where a Stat notice has been issued are time sensitive. The AUR IDT liaison provides the last date for the taxpayer to petition the court in the case note. IDTVA will work these cases as a priority. Depending on the received date of the response and the last day for the taxpayer to petition, IDTVA (in most cases) will notify AUR of the determination regarding the AUR issue before the last day for the taxpayer to petition the court.
- (11) If the IDTVA resolves the IDT issue and there are still AUR issues remaining, IDTVA will return the case to AUR with instructions to continue the processing (for example, recomp, Stat, no change). The AUR IDT Liaison will ensure the following:
  - Appropriate actions are taken.
  - Review AMS for related correspondence and if present leave an AUR case note indicating imaged correspondence is on AMS and instruct the TE to review AMS when working the response.
  - Any AUR initiated TC 971 AC 522 has been reversed before releasing the case back into normal AUR inventory, see IRM 4.19.3.22.1.26.3, IDT Claims - Responses, when necessary.
  - Release the case back into normal AUR inventory.
- (12) IDTVA will return a listing of SSNs for cases requiring input of a closing PC.



- a. If all UR IRs are determined to be due to IDT, or if after deleting all UR

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- b. If the UR IRs are determined not to be IDT, but some or all will be deleted for another reason (for example, the name on the IR is not the

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**Caution:** If IDTVA advises there is a payment on the account (noted in a case note) and the case should be closed with PC 17, hold the case for 2 weeks before input of PC 17. This will allow time for IDTVA to release the payment.

4.19.3.22.1.27  
(08-22-2017)

**Victims of Terrorist  
Attacks**

- (1) For tax years ending after September 10, 2001, disability payments for injuries incurred as a result of a terrorist attack directed against the United States or its allies are not taxable and should not be included in income. This includes attacks that occur both within and outside the United States.

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- (3) Refer to Pub 3920, Tax Relief for Victims of Terrorist Attacks, for additional information.
- (4) See IRM 4.19.3.22.1.14.1, Killed in Terrorist Attack/Killed in Action, for more information on death due to an act of terrorism.

4.19.3.22.2  
(03-17-2023)

**Telephone Responses**

- (1) The purpose of the AUR toll-free telephones is to assist taxpayers and/or their POA/authorized representatives who call IRS regarding AUR initiated contacts. Use instructions for written responses as guidance for telephone responses/accepting oral statements.

**Note:** During a call telephone assistants may verbally provide information and guidance from instructions for written responses, in lieu of sending a letter. A detailed case note of the information provided is required.

**Caution:** When these instructions refer to the taxpayer, the instruction also applies to the POA who calls for the taxpayer. See IRM 4.19.3.22.2.2, Disclosure, for additional information regarding authorized representatives.

- a. Written documentation may be requested if unable to determine if the oral statement is valid. The response form and the documentation should be returned in the enclosed notice envelope or during a call, by fax or efax. See IRM 4.19.3.22.2.6, Universal Case, for additional information.

- b. Hearing-impaired taxpayers may be speaking through a relay operator. The operator will announce they are calling as a relay operator on behalf of a taxpayer as soon as you answer. Perform disclosure verification as if you were talking directly to the taxpayer and continue with the conversation. For additional information see IRM 21.2.1.56, Deaf/Hard of Hearing (DHOH) Callers and TTY/TDD Equipment.
- c. Calls may be received on employee cases; these cases can only be accessed on the AUR system by specific TEs. If a call back is needed, **advise the taxpayer their call will be returned within 2 business days**, complete Form 4442/ telephone referral form and **fax it to the appropriate AUR Coordinator the same day the call is received**. See the *SERP Who/Where tab for AUR Coordinators* for a list of the AUR Coordinators and fax numbers.

**Reminder:** Do not provide internal contact numbers to callers.

- (2) When accessing View Case due to a phone call, you must click on the PHONE CONTACT field. The AUR program extracts telephone contact data based on this entry.
- (3) Beginning June 1, 2021 through December 31, 2022, Notice 1445, Tax Help in other Languages is included as an enclosure with CP 2000 Notices. If the taxpayer inquiries about the services provided from Notice 1445, instruct the taxpayer they need to call the number on Notice 1445 or visit *irs.gov/mylanguage*, for further assistance.
- (4) **Over the Phone Interpreter (OPI) Service** - The IRS Language Line Services Web page is designed as a consolidated language resource across the IRS, to provide links to internal and external tools to better serve taxpayers with limited English proficiency (LEP). If you receive a call from a non-English speaking taxpayer, use the OPI service.
  - For Spanish speaking taxpayers, transfer the call to a bilingual assistor by using 1842.
  - Certain assistors in the AUR sites are allowed to use the OPI service for Spanish speaking callers.
- (5) To contact OPI service take the following actions:
  - 1. Place the caller on hold, if necessary.
  - 2. Click Consult/Conf
  - 4. Press dial
  - 5. On the Hard Phone, enter your PIN number (xxxx-xxxxx).
  - 6. Select the language and option needed from the table below:

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Language	Press
Spanish	1
Creole	2
Mandarin	3
Korean	4
Vietnamese	5

Language	Press
Somali	6
Russian	7
French	8
Arabic	9
For any other language needs or concerns	0, for operator assistance

7. Brief the interpreter. Summarize what you wish to accomplish and provide any special instructions.
8. Add the non-English speaking taxpayer to the line.
9. Complete disclosure verification as if you were speaking directly to the taxpayer.

**Note:** It is important to speak in the “first person” versus the “third person”. For additional information refer to IRM 4.19.19.14.1, Interpreter’s Role.

10. Continue with the conversation; asking specific questions to relay.

- (6) **TDC Phones** - If a phone assistor receives a phone inquiry from a taxpayer regarding Secure Messaging and, upon researching the case on AUR, confirms the taxpayer has received an invitation to participate in the project, they should be able to provide assurance and direction to the taxpayer regarding the Secure Messaging program.
- (7) If a telephone assistor receives a call on a case where the RCC is T or H, Form 4442 is prepared and faxed to the team eFax number at the appropriate campus.
- (8) When Form 4442 is received, it needs to be saved as part of the electronic file. To save the Form 4442 as part of the case file, take the following actions on **eGain**:
  1. Save the Form 4442 as a PDF to your designated TDC folder.
  2. Create a Task in the Inbox by selecting New, then selecting Task from the drop-down menu, the Task Pane displays.
  3. Change the subject line to Form 4442.
  4. Click on attachments.
  5. Once the attachment is uploaded, click the Complete button.
- (9) Return the call within three business days of receipt of Form 4442. Address the taxpayer’s questions/issues. If documentation is required (i.e., signed consent, Form 8889, etc.), advise the taxpayer to submit the documentation using Secure messaging. Leave a Case Note on Secure Messaging to document the call.
- (10) Actions to take on **AUR** when Form 4442 is received:
  1. Request the case using Universal Work or Request Case.
  2. Enter the IRS received date.
  3. Leave a case note documenting the conversation and any actions taken on eGain.
  4. Input the appropriate PC and release the case.

- (11) If the taxpayer calls and indicates they wish to fax their response/agreement to the AUR issue, a faxed consent to assess additional tax (CP 2000, Letter 2626C, Form 5564 (Stat Notice), Form 9465 or Form 433-D) can be accepted by fax/efax. Leave a detailed case note to indicate the taxpayer's intent to fax/efax a signed consent. See IRM 4.19.3.22.2.5, Universal Case, for additional information on when to use the general fax number or the employee efax number.

- (12) **Identity Theft - Beginning in TY 2020**, AUR will disregard the ID Theft indicator and continue normal AUR processing on **Subfile P** (Identity Theft) cases. The following case note should be reflected in the case note window, "IDT Subfile P case. IDT marker not considered during screening." Follow normal Telephone Response procedures.

**Note:** If the taxpayer indicates they are a victim of identity theft, see IRM 4.19.3.22.1.26.1, IDT General, IRM 4.19.3.22.1.26.2, IDT Telephones, IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for additional information.

- (13) **Oral Statement Authority** is acceptance of information provided verbally to resolve account inquiries.

**Note:** An Oral Statement cannot be used to close a case fully agreed. A signature (both if married filing joint) must be secured. Case can be closed fully agreed if receipt of full payment, prior to the issuance of a Notice of Deficiency, can be verified.

- (14) The AUR telephone system always advises the taxpayer that the telephone call does not extend the 90-day period in which they have to petition the Tax Court as specified in the Notice of Deficiency. The taxpayer will always hear this announcement prior to speaking with an assistor. Should the taxpayer question this announcement, inform the taxpayer that this is a requirement and answer any other related questions.

- (15) **Identity Theft** - if the taxpayer indicates they are a victim of identity theft, see IRM 4.19.3.22.1.26.1, IDT - General, IRM 4.19.3.22.1.26.2, IDT Claims - Telephones, IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for additional information.

**Note:** Ensure the correct OFP code is used for all time spent on phone calls that involve a claim of identity theft.

- (16) **Innocent Spouse Relief/ Form 8857** - if the taxpayer requests Innocent Spouse relief or indicates they intend to submit Form 8857, advise the taxpayer:

- The notice is a proposal to change tax and not a bill.
- A determination must be made on the notice issues before the Innocent Spouse relief request/Form 8857 will be considered; provide guidance following established telephone/response procedures, as appropriate.
- Form 8857 can be submitted to the address shown in the form instructions, once a determination is made that results in additional tax owed.

See IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases, for additional information.

- (17) It is not the policy of the IRS to respond to **frivolous arguments** on a point by point basis. When calls are received from argumentative taxpayers and/or representatives, it is important to stay in control of the call and do not argue with the taxpayer. Advise the taxpayer you can assist them with their tax account issues, but that you are unable to address their comments regarding the constitutionality of the tax system. You should refer the taxpayer to Pub 2105, Why do I have to Pay Taxes?, or to *irs.gov* for further information. Remain calm and do not take the comments personally. If the taxpayer continues to discuss issues other than their tax matters, re-emphasize you will assist them with an account issue, but you will need to terminate the call if they continue with the current questioning. If the taxpayer continues their arguments, disconnect the call.

4.19.3.22.2.1  
(07-03-2023)  
**Answering the  
Telephone**

- (1) **EMPLOYEE IDENTIFICATION:** When speaking with a taxpayer, tax examiners are required to provide their name (for example, **Tax Examiner and LAST name** or **Mr, Mrs, Miss, Ms, and LAST name**) and unique identification number. Be courteous, polite, and professional.

**Note:** The Restructuring and Reform Act of 1998 requires that IRS employees use a unique identifier in written or verbal communications with taxpayers. The **entire 10 digits** of the Position Identification (PID) replaces the current badge number and is used in the same manner.

**Caution:** **DO NOT** provide your first and last name when identifying yourself, use one of the examples shown above.

- (2) When accessing View Case due to a phone call, you **must** click on the PHONE CONTACT field. The AUR program extracts telephone contact data based on this entry
- (3) Important actions to provide quality taxpayer telephone assistance include the following:
- Greet the taxpayer:** Identify yourself, including employee identification (badge) number, and indicate a willingness to help.
  - Respond to the taxpayer's opening statement:** Actively listen to the taxpayer; deal with the taxpayer's feelings, if appropriate, and acknowledge the ability to help. If appropriate, apologize for any mistakes made by IRS.
  - Target the taxpayer's questions:** Listen to the taxpayer's opening statement; form and use confirming questions; gain agreement from the taxpayer; and determine any targeting required to better identify the taxpayer's issue.
  - Get the necessary facts:** When appropriate, ask closed-ended questions, paraphrase information to confirm taxpayer understanding, and utilize oral statement authority or secure information by efax during the call.
  - Use appropriate hold procedures:** Do not keep the caller on hold for more than a few minutes without giving him/her an explanation and apology. If additional research time is, or will be, too lengthy, offer to return the call with the requested information.
  - Provide assistance:** Provide accurate and complete assistance and/or appropriately refer the taxpayer to another source, if required.

- g. **Secure, verify and input/enter** a call back phone number (taxpayer/ authorized representative), when the taxpayer requests a call back or the issue is complex and requires further research resulting in a subsequent contact (such as, call back to explain research findings). Research performed during the call does not require securing, verifying, or inputting/entering of a call back number.

**Note:** Taxpayer contact information is not required if issues/case is resolved during the call.

- h. **Close the conversation:** Verify the taxpayer's understanding and conclude the contact courteously.

- (4) Telephone assistors are expected to handle AUR actions on the account while the taxpayer is on the phone. Telephone actions should be taken in talk or hold status. Wrap time is appropriate when:

- the caller does not wish to stay on the line,
- the case is complex requiring significant time to complete documentation or research,
- the taxpayer is abusive or is using inappropriate language and the phone assistor has to end the call, or
- the caller is an unauthorized third-party and assistor needs to leave a case note or complete any necessary actions.

Muting a call is not appropriate when research is being conducted; the caller should be placed on hold.

- (5) The service is under no obligation to determine if the taxpayer is using a cordless device, for example, cell phone, cordless phone. However, if you become aware it is a cordless device (for example, you know that the number the taxpayer is calling from is a cell phone because they previously told you it is, or they mention during the conversation that it is a cell phone), advise the taxpayer that there is a privacy risk as cordless devices use unsecured lines, and the conversation may be heard on another device.

**Note:** The taxpayer is not prohibited from using any unsecured platform (for example, cell phone, cordless phone, speaker phone). The caller accepts any security vulnerability by using the cordless device or unsecured platform.

1. If the taxpayer does not agree to cordless use, the IRS employee should advise the taxpayer to call back on a more secure land line.
2. If the taxpayer agrees to continue the discussion, leave a case note.

4.19.3.22.2.2  
(02-10-2020)  
**Disclosure**

- (1) When responding to telephone inquiries, disclose **no information** until you are sure the person making the inquiry is the taxpayer or their authorized representative. Most calls to the AUR toll-free number are in response to AUR Notices and are not considered high risk. See below for the information needed for normal disclosure checks:

**Reminder:** The Third-Party Designee check box is intended to facilitate the processing of tax returns and does not cover Compliance issues, including AUR, do not disclose specific case or tax return information.

- (2) In January 2020 AUR began utilizing the Customer Callback option, a new technology that gives the caller the option to disconnect from the call queue

and receive a callback at a designated time. It announces to the taxpayer the expected wait-time and permits the caller to choose to either continue to hold for a telephone assistor or request a return call and provides the taxpayer with an estimated time for a return call.

**Note:** If the taxpayer thanks the assistor for returning their call the assistor should acknowledge the taxpayer's statement.

- (3) Some taxpayers may inform the assistor they have a 4 digit transfer PIN provided by a previous assistor. If the taxpayer requests to use this PIN for disclosure purposes, apologize to the taxpayer and explain that (AUR) does not use the transfer PIN process and resume normal disclosure.
- (4) Disclosure must be completed using the Disclosure Verify screen, see IRM 4.19.3.22.2.2.1, Disclosure Verify Screen, for additional information. The following is required for authentication before discussing the taxpayer's account:

**Note:** If the caller is a designated representative, see (8) below.

- Tax Identification Number - The primary or secondary Social Security Number
- The first and last name (filing status 1, 3 or 4) or names (filing status 2)
- The complete mailing address including city, state and zip code

**Reminder:** Taxpayers may use "apartment," "unit," "number," etc., interchangeably, when providing their apartment or condominium number.

- The filing status used on the return, or the date of birth (primary or secondary).

**Note:** If the taxpayer can't verify the items above see (5) below.

- The tax year in question is not required for authentication, but is necessary to provide assistance to the taxpayer.

- (5) If there remains some doubt as to the identity of the caller you may use account related systems to verify at least two of the following:

- Date of birth for dependents.
- The refund amount on the return.
- The amount of income reported on the last return.
- Employers shown on Form W-2.
- The names of financial institutions.

- (6) When the taxpayer cannot answer the disclosure questions in (4) above correctly and ID theft is suspected or verified, it may be necessary to perform additional high risk authentication for disclosure as follows

- If the taxpayer was unable to verify their address, verify the taxpayer address against prior year returns or IDRS CC ENMOD. Keep in mind that in certain cases, the "Good" taxpayer may not know the address on the current "Bad" return or may have moved to a new address.
- In addition to the AUR tax year return information, ask question(s) about any available IRP information on prior tax returns or inquire about previous tax return information, such as filing history, wages, W/H, schedules filed, refund amount.



For ITIN callers only:

- If the case involves an ITIN, check for ITIN application information on Employee User Portal (EUP) - ITIN RTS, the W-7 History screen. For more information on ITIN RTS, see IRM 3.21.263.8.1, Disclosure Guidelines for ITIN Data.
- Did you have any previous names and what were they?
- What year did you receive your ITIN?
- What is your country of birth?

(7) If the caller is inquiring about:

- a. A **jointly filed return**, only one TIN is necessary, preferably the primary number. The secondary TIN may be required if the primary is unavailable, or for use as an additional authentication check.
- b. Returns and return information of a **minor**, the information may be disclosed to the minor's parents if the caller signed the return on behalf of the minor or the child's return contains earned income. Continue the disclosure checks.
- c. A **decedent's return** and the caller's name appears on the second name line, they are an authorized representative. Continue the disclosure checks.

(8) If a person states they are the **designated representative**, request the taxpayer's name and TIN to check the Disclosure Verify screen. If the designated representative's information is not present determine if a POA or authorized third-party was filed for that person to represent the taxpayer. The information may be discussed after verification of the identity of the person who is listed as the representative.

**Caution:** The Third-Party Designee (check box) authority on the tax return does not apply to compliance issues. See IRM 4.19.3.22.1.22, Letters From a Third-Party and Authorization From a Valid Power of Attorney (POA), for further information.

- a. If the POA is not reflected on the Disclosure Verify screen research using IDRS CC CFINK before requesting the taxpayer or POA to submit Form 2848.
- b. If the CFINK screen shows there is a valid POA or authorized third-party for the tax year being worked, ask the POA to verify their CAF number or if he does not have the CAF number, his name and address.

**Caution:** Do not send copies of notices/letters if IDRS CC CFINK shows "NO" on NOTICE field on the AUTHORIZATION section.

**Note:** Provide the CAF number shown on RPINK or CFINK to the caller ONLY AFTER verifying the representative's name, street address, city, state and zip code. Do not provide the caller the CAF number shown on RPINK or CFINK if you are unable to authenticate the caller. Advise caller that you will mail the CAF number to the POA address of record. Use the appropriate letter with a Special Paragraph using the following verbiage as an example: "Your correct Centralized Authorization File (CAF) identification number is \_\_\_\_\_. Please use this number on all future powers of attorney/tax information authorizations for which you are the representative/appointee or when you are representing a taxpayer."

- c. If there is no POA or authorized third-party on file, taxpayer information such as tax figures or case information may be discussed **ONLY** with the taxpayer.

**Caution:** The CP 2000 Authorization Statement is valid only for the tax year shown on the CP 2000 in question. Therefore, only that CP 2000 and issues related to it may be discussed with the third-party. See IRM 4.19.3.22.1.22, Letters From a Third-Party and Authorization From a Valid Power of Attorney (POA), for additional third-party information.

- (9) **ORAL DISCLOSURE CONSENT** - Treasury Reg. 301.6103(c) - 1(c) authorizes the IRS to accept verbal consents authorizing the disclosure of return information to third parties assisting taxpayers in resolving Federal tax matters.

**Note:** Do not solicit verbal authorization from the taxpayer.

If	Then
The taxpayer wishes to verbally authorize a third-party to assist him/her with AUR related matters, ensure that the taxpayer understands that this consent will allow AUR to continue discussion with the designated third-party until the issue is resolved. If the taxpayer still wants the authorization	<ol style="list-style-type: none"> <li>1. Enter "ORAL DISCLOSURE" or similar wording in the AUR Case Note window.</li> <li>2. Enter the designee's full name in the Address Update window.</li> </ol>
The taxpayer indicates they want the designee to act for them in matters beyond AUR, ensure that the taxpayer understands that this consent will allow the IRS to continue discussion with the designated third-party until this particular tax matter is resolved. If the taxpayer still wants the authorization	<ol style="list-style-type: none"> <li>1. Record the Oral Disclosure Consent on IDRS, using IDRS CC ACTON to input History Items on each tax module (TXMOD) under consideration. See IRM 21.1.3.3.2, Oral Disclosure Consent/Oral TIA, for further information.</li> <li>2. Follow instructions in IRM 4.19.3.22.2.3, General Inquiries, for actions relating to non-AUR inquiries.</li> </ol>

4.19.3.22.2.2.1  
(08-22-2017)

#### Disclosure Verify Screen

- (1) **TEs must complete phone call disclosure using the Disclosure Verify screen.**

**Note:** If the information is not available in the Disclosure Verify screen, other account related systems may be used.

- (2) The Disclosure Verify screen automatically displays when the PHONE CONTACT field of the HISTORY/VIEW/REQUEST window is checked.
- (3) The Disclosure Verify screen contains information that allows the phone assister to perform disclosure without accessing the taxpayer's account. This will eliminate inadvertent disclosure prior to verifying the caller's identity.

**Note:** The current batch type is displayed in the "BATCH" box in the Disclosure Verify screen, allowing the case to be identified as open or closed without accessing the case.

- (4) Complete the Disclosure Verify screen following procedures in IRM 4.19.3.22.2.2, Disclosure:
1. Click in the box to the right of the SSN field after verifying the primary or secondary social security number.
  2. Click in the box to the left of the NAME OR NAMES field after verifying the first and last name (filing status 1, 3 or 4) or names (filing status 2).
  3. Click in the box to the left of the ADDRESS field after verifying the complete mailing address including city, state and zip code.

**Reminder:** Taxpayers may use “apartment”, “unit”, “number”, etc., interchangeably, when providing their apartment or condominium number.

**Note:** If the caller provides information that requires updating the account (for example, clear and concise notification of a new address, a new authorized third-party), the phone assistor can input “Y” in the “CHANGE ADDR” box, after disclosure verification has been completed and the “DISCLOSURE COMPLETE” button has been clicked on. This will display the UPDATE ADDRESS window. Once changes have been made and committed, the system will move to the Case Analysis screen. See Rev. Proc. 2010-16 for what constitutes **clear and concise notification** of an address change.

4. Click in the box to the right of the FILING STAT CD field after verifying the filing status used on the return, OR the box to the right of the DOB field after verifying the date of birth.
  5. If the caller is an authorized third-party or POA click in the box to the left of the AUTHORIZED THIRD-PARTY field or P.O.A. field after verifying the authorized third-party’s name or POA’s CAF number and/or name and address.
  6. When disclosure has been completed, click on the “DISCLOSURE COMPLETE” button. If the required disclosure has been met, the system automatically displays the taxpayer’s account. If the required disclosure has not been met, the following message displays: “ERROR: DISCLOSURE INCOMPLETE”. Verify that you have asked the required disclosure questions and checked the corresponding boxes. If the caller fails disclosure, normal procedures for failed disclosure should be followed.
- (5) If it is necessary to verify additional information (see IRM 4.19.3.22.2.2, Disclosure) click one of the boxes in (4) step 4 above.
- (6) If it is necessary to perform high risk authentication (see IRM 4.19.3.22.2.2, Disclosure) click the “High Risk” box.
- (7) If the caller is an unauthorized third-party providing information on the taxpayer’s case, access the case after the call has ended. Do not check the phone call box, leave a case note and take any necessary actions on the case.

4.19.3.22.2.2  
(09-30-2018)

#### Contact Recording

- (1) **Contact Recording** is a telephone application/tool/system that records incoming toll-free telephone contacts for the purpose of possible subsequent monitoring. When the taxpayer calls the AUR toll-free number, they are notified that their call may be recorded.
- a. If the taxpayer **objects to being recorded**, use the “Stop On Demand” icon on your desktop to disable the contact recording feature.
  - b. If the call is **transferred**, advise the caller that they will have to restate their request that they do not wish to be recorded.

- c. If the **caller also asks to record the conversation**, advise the caller that they may not record the call; however, they may request a copy of the call under the Freedom of Information Act (FOIA). All requests under FOIA must be in writing and contain the date, name, identification number of the employee, and the approximate time of the call. See IRM 21.1.3.17.1(5), Freedom of Information Act (FOIA), for FOIA recording requests.

**Note:** If the caller requests copies of the case contents, the assistor may provide copies as long as this will not impair enforcement. Formal requests may also be received under the Freedom of Information Act (FOIA). All requests under FOIA must be in writing and contain the date, name, identification number of the employee, and the approximate time of the call. See IRM 21.1.3.17.1, Freedom of Information Act (FOIA), for more information.

4.19.3.22.2.3  
(01-03-2022)

**General Inquiries**

- (1) If the taxpayer's call is a general inquiry or they request information about:

**Note:** If the issue is Tax Law, see (2) below.

When the issue is	Function	Transfer number
Account issues (any account issues that do not pertain to the AUR case, including missing payments)	<b>Accounts Management Toll-Free lines (AM)</b> Hours of Operation are Monday - Friday, 7:00 am to 7:00 pm local time. If outside the hours of operation, advise the taxpayer of AM hours and provide them with the toll-free number, 800-829-1040.	1020 English 1021 Spanish

When the issue is	Function	Transfer number
Balance Due (non status 22) <b>Note:</b> AUR case must be closed.	<b>Accounts Management Toll-Free lines (AM)</b> <ul style="list-style-type: none"> <li>If the balance due is because of an AUR assessment, the taxpayer states he cannot pay or requests a payment plan, inform the taxpayer that payment options are available online at <i>irs.gov</i> OR</li> <li>If the balance due is because of an AUR assessment and the taxpayer does not have internet access, inform the taxpayer that Form 9465, Installment Agreement Request, can be requested by phone, by calling 1-800-829-3676 (toll-free).</li> <li>For all other inquiries, transfer the call.</li> </ul> Hours of Operation are Monday - Friday, 7:00 am to 7:00 pm local time. If outside the hours of operation, advise the taxpayer of AM hours and provide them with the toll-free number, 800-829-1040.	1010 English 1011 Spanish
<b>Refunds</b> - Taxpayer's inquiring about their refund and it has been <b>more than 21 days</b> since they filed an Electronic return, or <b>more than 6 weeks</b> since they filed a paper return	<b>Accounts Management Toll-Free lines (AM)</b> Hours of Operation are Monday - Friday, 7:00 am to 7:00 pm local time. If outside the hours of operation, advise the taxpayer of AM hours and provide them with the toll-free number, 800-829-1040.	1020 English 1021 Spanish
<b>Refunds</b> - Taxpayer's inquiring about their refund and it has been <b>less than 21 days</b> since they filed an Electronic return, or <b>less than 6 weeks</b> since they filed a paper return	<b>(Automated Service) Refund Hotline</b> 800-829-1954	3158 English 3258 Spanish

When the issue is	Function	Transfer number
Balance Due (IDRS status 22)	<p><b>ACS</b> Hours of Operation are Monday - Friday, 8:00 am to 8:00 pm local time. If outside the hours of operation, advise the taxpayer of ACS hours and provide them with the toll-free number for W&amp;I, 800-829-7650 or for SBSE 800-829-3903.</p> <p><b>Note:</b> If the return was processed by a W&amp;I campus, transfer to the appropriate W&amp;I number. If the return was processed by an SBSE campus, transfer to the appropriate SBSE number.</p>	<p>1075 W&amp;I English 1071 W&amp;I Spanish 1085 SBSE English 1076 SBSE Spanish</p>
Open TC 420 or -L freeze	<p><b>EXAM</b> Hours of Operation for the W&amp;I toll-free line are Monday - Friday 8:00 am to 8:00 pm and for the SBSE toll-free line are Monday - Friday, 7:00 am to 7:00 pm local time. If outside the hours of operation, advise the taxpayer of Exam hours and provide them with the toll-free number for W&amp;I, 866-897-0177 or for SBSE 866-897-0161.</p>	<p>1517 W&amp;I English 1518 W&amp;I Spanish 1861 SBSE English 1862 SBSE Spanish</p>

**Note:** Inform the taxpayer when they are being transferred.

- a. Tax forms, provide the toll-free number for forms, 800-829-3676; or provide the IRS web site address, *irs.gov* or refer the taxpayer to the IRS office listed in the local telephone directory.
  - b. Tax transcript, provide the toll-free number, 800-908-9946, or provide the IRS web site address, *irs.gov*.
- (2) AM only answers specific tax law questions during filing season (January 15th - April 16th). After April 16th, AM support is limited and only the following topics are to be transferred to Tax Law at 1001.
- Tax-Exempt Government Entities (TEGE)
  - Special Services: Military or Civilian Combat; Federally Declared
  - Affordable Care Act (ACA)
  - International Tax Law (overseas calls only)

If the taxpayer inquires about specific tax law questions, other than shown above, inform the taxpayer that you cannot provide assistance on that topic and refer them to the following:

- a. *irs.gov* - Select the Help & Resources tab on the *irs.gov* home page. Options are listed on the left side of the page,
- b. Interactive Tax Assistant - Enter "ITA" into the Search feature,
- c. IRS Tax Map - Enter "IRS Tax Map" into the Search feature for more detailed information.

(3) **If the caller does not want to be referred to the website**, transfer the call to the Out-of-scope automated message as follows:

- English - 3013
- Spanish - 3014

**Note:** If unable to transfer to the numbers above, use 1001.

4.19.3.22.2.4  
(06-01-2023)

#### Case Specific Inquiries

(1) **If the taxpayer has questions relating to their case**, access the Taxpayer Information window.

1. Use the Case Note section to document any pertinent information, such as, any statement by the taxpayer that provides information to allow the tax examiner to make a change to the case. The information entered will append to the Case Note window.

**Note:** Case notes remain a part of the case file and caution should be used when case notes are composed. The non-privileged portions of these case notes may be obtained by the taxpayer in a number of ways: from Appeals under the newly adopted procedures; through litigation discovery procedures, if the taxpayer files a court case in response to a notice of deficiency; or through a Freedom of Information Act (FOIA) request.

2. When the taxpayer requests a call back or is told the tax examiner will call him/her back, secure/verify and input/enter the phone number.
3. If the taxpayer provides a new address, click on the address change box and use the Update Address screen following guidelines in IRM 4.19.3.22.1.6, Address Updates, and IRM 4.19.7, IMF Automated Under-reporter (AUR) Technical System Procedures - Updating Address Information.
4. The latest Primary/Secondary/POA address displays. This may not, however, be the address that received a notice.

(2) If the caller requests the case contents, the assistor may provide copies **by mail**, as long as providing the files to them will not impair enforcement. Formal requests may also be received under the Freedom of Information Act (FOIA). All requests under FOIA must be in writing and contain the date, name, identification number of the employee, and the approximate time of the call. FOIA requests should reasonably identify the documents sought and the applicable tax year(s). See *Freedom of Information Act* on the Disclosure and Privacy Knowledge Base site for more information on FOIA.

(3) Information may be faxed to the taxpayer or authorized representative when the taxpayer has specifically authorized facsimile transmission, in writing or in a documented oral consent, to themselves or to an authorized representative. Prior to faxing any tax information to the taxpayer or representative, Disclosure must be completed. See IRM 4.19.3.22.2.2, Disclosure, for additional information. When faxing information to the taxpayer or authorized third-party:



- a. Inform the taxpayer or authorized representative of the potential risk of disclosure if the fax machine is used by others, or when an efax service is used, and the consent shall be documented in the case file.
- b. Use the following proposed language on the fax cover sheet:  
“This communication is intended for the sole use of the individual to whom it is addressed and may contain information that is privileged, confidential, and exempt from disclosure under applicable law. If the reader of this communication is not the intended recipient or the employee or agent authorized to deliver the communication to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication may be strictly prohibited. If you have received this communication in error, please notify the sender immediately by telephone call. Thank you.”
- c. Enter “oral disclosure received authorizing to fax information” or similar wording in the AUR Case Note window to document facsimile transmission authorization.

**Note:** If consent to fax information is not received, inform the caller the information will be mailed to the taxpayer address of record.

- (4) When the information you requested is available, return the taxpayer’s call within the specified time frame. Advise the taxpayer when a delay is experienced in obtaining the requested information.

**Caution:** Information containing personally identifiable information (PII) such as transcripts of accounts, copies of AUR notices, etc., should be **mailed** to the taxpayer at the address on file.

- a. Ask the taxpayer to identify themselves by stating their full name and SSN. Never discuss or give specific information on the taxpayer’s account to anyone other than the taxpayer without a valid POA or a completed authorization statement. See IRM 4.19.3.22.2.4.1, Outcalls - Calling the Taxpayer, for additional information.
  - b. Inform the taxpayer that you have the information necessary to discuss their case.
- (5) While tax information protected by IRC 6103 generally may not be left on an answering machine or voice mail, there are exceptions. When making an out call or returning the taxpayer’s/representative’s call and prior approval to leave a message is not noted, use the following guidelines in the table in (6) below.
  - (6) **Reasonable belief** is supported by the greeting on the answering machine or voice mail refers to the taxpayer being contacted **or** the taxpayer has indicated that this is the telephone number where he or she may be reached directly.

If	Then
You <b>reasonably believe</b> you have reached the taxpayer’s correct answering machine or voice mail	It is acceptable to leave your name, telephone number, any appropriate reference number for the inquiry, the fact that you work for the IRS (identifying your function is permissible), and the name of the person who should return the call.

If	Then
You do not have a reasonable belief that you have reached the correct taxpayer	No tax or other confidential information should be disclosed on the message.

- (7) If the taxpayer disclaims knowledge of the income or disputes the amount, inform the taxpayer to contact the payers in dispute. **If the taxpayer requests the payer address**, provide the address from the IR on the Case Analysis screen. See IRM 4.19.3.22.7.1, Responses Needing Correspondence, for additional information.
- (8) **If the taxpayer agrees with the proposed changes**, instruct the taxpayer to sign, date, and return the consent to tax increase, or, refer the taxpayer to the consent page of the notice which provides complete information. A signature is not required:
- To adjust W/H, excess SSTAX and/or additional MCTXW if that is the ONLY issue.
  - When the Statutory Notice suspense time frame has expired. Advise the taxpayer we will be assessing the account. Input PC 90 to default the case.

**Note:** See IRM 4.19.3.22.2.5, Universal Case, for additional information on when to use the general fax number or the employee efax number.

- (9) **If the taxpayer agrees and states they cannot pay or requests a payment plan**, instruct the taxpayer to sign and date the notice in the space provided.
1. Inform the taxpayer that payment options and Form 9465, Installment Agreement Request, are available online at irs.gov OR
  2. If the taxpayer does not have internet access, inform the taxpayer that Form 9465 can be requested by phone, by calling 800-829-3676 (toll-free).
- (10) **If the taxpayer agrees and requests to add the AUR balance due to an existing installment agreement or states they can pay within 120 days:**
1. Instruct the taxpayer to sign and date the notice in the space provided.
  2. Advise the taxpayer to include the request to add to an existing installment agreement or their intent to pay within 120 days on their signed agreement.
- (11) **If the taxpayer states they're making a payment other than by credit card**, provide check annotation information **if needed**. The AUR phone script provides check annotation information if the taxpayer selects the "Agree" path or chooses to speak with a tax examiner. You are not required to address this subject unless the taxpayer asks a specific question. To respond to the taxpayer's specific question, refer them to the consent page of the notice or advise them to make the check or money order payable to the "United States Treasury" and include the SSN and tax year from the Notice and annotate CP 2000.
- (12) **If the taxpayer inquires about paying with their credit card,**

1. Advise the taxpayer to sign and return the consent to tax page (both signatures are needed for married filing joint returns) in order to complete action on their case.
  2. If the taxpayer wishes to pay using the internet provide the following web address: *irs.gov/e-pay*.
  3. If the taxpayer wishes to call, provide these toll-free numbers: 888-729-1040, 844-729-8298 and 888-872-9829.
  4. If the taxpayer is calling from a foreign country provide these telephone numbers: 615-550-1491 and 334-521-3843.
  5. If necessary, advise that the service provider at those numbers will provide any additional information.
- (13) **If the taxpayer requests the balance due amount**, provide the CP 2000 amount and advise that penalty and interest continue to accrue. **If the taxpayer requests a specific payoff amount computed to a certain date**, use IDRS CC INTST if the AUR assessment has posted or IDRS CC COMPA on open AUR cases.
- (14) **If the taxpayer states the balance due has already been paid AND the payment is displayed** on the Tax Account screen, close the case, using “Agreed Response” criteria. See IRM 4.19.3.22.5, Agreed Responses, for more information.

**Exception:** A signature (both for jointly filed returns) is required if full payment was received after the Statutory Notice was issued.

If	Then
The suspense time frame has not expired	Acknowledge payment and advise the taxpayer to sign and return the notice.
The suspense time frame has expired	Advise the taxpayer we will be assessing the account. Input PC 90 to default the case.

- (15) **If the taxpayer states a payment was sent and the payment is NOT shown** on the Tax Account screen, determine if at least three weeks have passed since the taxpayer made the payment. If yes, use the IAT “TC Search” tool to research the payment. Perform research before requesting the taxpayer send a copy of the front and back of the cancelled check. If the payment is found posted on another tax module (for example, subsequent year) ensure that the payment is transferred to the correct tax module using the IAT “Credit Transfer” tool. If the payment is for the balance due, close the case, using “Agreed Response” criteria. See IRM 4.19.3.22.5, Agreed Responses, for more information.
- a. If the payment posted as a TC 670 on a different tax year, use the IAT “Credit Transfer” tool to transfer the credit to a TC 640.
  - b. If there is no record of the payment, research IDRS CC TXMOD as the payment may be pending or unpostable. If the payment is unpostable, print TXMOD showing the payment and refer to the lead.

**Note:** If the payment is unpostable, action to resolve the unpostable condition must be initiated within 7 days.

- (16) **If the taxpayer states they have paid the balance due in full and now received a bill for additional interest**, research IDRS CC TXMOD to determine if a TC 276 has posted after the AUR adjustment. If a TC 276 has posted inform the taxpayer that per the paragraph titled Failure To Pay Penalty - IRC 6651(a) on their notice an additional penalty (FTP) was assessed on their account. Inform the taxpayer that interest is compounded daily until the entire amount due is paid, including penalties and interest. Payments received are applied in the following order:
1. Tax.
  2. Penalties.
  3. Interest.
- (17) If the taxpayer paid online or by credit card and the payment is not found on another tax module, request that they sign and return the consent to tax page (both signatures are needed for jointly filed returns) in order to complete action on their case. See IRM 4.19.3.22.2.3, General Inquiries.
- (18) **If during the telephone call, it is determined the taxpayer is due a refund or expects a refund**, inform the taxpayer the refund will be issued if they owe no other taxes or federal obligations. Some examples, other than Federal tax liability, are child support and Federal non-tax liability, such as student loans. If the taxpayer needs additional information regarding a potential refund offset, refer them to the Customer Service toll-free number, 800-829-1040.
- (19) **If during the telephone call, the taxpayer indicates receipt of an AUR notice/letter but there is no record on the AUR system of any notice/letter issuance for the tax year in question**; in other words, a fake CP 2000, see IRM 4.19.3.5.8.1.1, Online Fraud and Other Scams (PHISHING), for additional information.
- (20) Accept oral statements from the taxpayer **or** a third-party which result in revising or closing a case as No Change (no increase in tax). Use instructions for written responses as guidance for oral statements.
- Note:** A written response/documentation may be requested if unable to determine if the oral statement is valid.
- (21) If the taxpayer agrees to the proposed assessment during the phone conversation, they may fax the signed agreement while on the call. Follow procedures in IRM 4.19.3.22.5, Agreed Responses, if the case is from your site or see IRM 4.19.3.22.2.5, Universal Case for additional information on when to request information during the telephone call and when to use the general fax number or the employee efax number.
- (22) If during a phone call, AUR or IDRS research shows the taxpayer's account balance due status **is the result of an AUR assessment** and the taxpayer provides documentation or an acceptable oral statement to resolve/change the assessment.

**Exception:** Do not accept oral statements to make changes to AUR assessments for tax years in which the statute has expired. **DO NOT check the action required box.** Advise the taxpayer to respond in writing. Provide the address and/or fax number of the originating site, if appropriate.

1. Input IDRS CC STAUP with a definer "S", to prevent issuance of additional balance due notices while the case is being worked.

**Exception:** If the case is in collection status, input TC 470 on IDRS. See Exhibit 4.19.3-14, Notice Delay Actions (Reconsiderations).

2. Access the Case Note/TP Info window.
3. Leave a **detailed** case note explaining ALL the needed changes to the previous AUR assessment.
4. Check the ACTION REQUIRED box on the Case Note window.

**Note:** If the case is located in your own site, the ACTION REQUIRED box cannot be checked, ensure clerical receives the correspondence to be built into BT 81.

- (23) If during a phone call, AUR or IDRS research shows the taxpayer's account balance due status **is the result of an AUR assessment** and the taxpayer agrees to send in documentation, advise the taxpayer they will continue to receive notices until the documentation is received and reviewed.

**Note:** DO NOT check the action required box.

- (24) If during a phone call AUR or IDRS research shows the taxpayer's account balance due status **is the result of an AUR assessment** and the taxpayer indicates Private Debt Collection/Private Collection Agencies (PDC/PCA) involvement and states they want to set up an I/A, or no longer want to work with PCA, research IDRS CC ENMOD or CC IMFOLE to determine if an unreversed TC 971 AC 054 is present with no corresponding TC 972 AC 054. Refer to IRM 4.19.3.26.1, Private Debt Collection and RECON Cases, for additional information on researching cases.

**Note:** If the taxpayer states they do not want to work with the PCA, the taxpayer must provide a written statement to the PCA.

If	And	Then
An unreversed 971 AC 054 is present,	The taxpayer wants to set up an IA or states they do not want to work with the PCA,	Advise the taxpayer to contact the PCA. Provide the PCA contact information if necessary; see (29) below.
TC 972 AC 054 is present	The taxpayer wants to set up an IA or states they do not want to work with the PCA,	<ol style="list-style-type: none"> <li>1. Inform the taxpayer that the account was turned back over to the IRS.</li> <li>2. Refer the taxpayer to AM; see IRM 4.19.3.22.2.3, General Inquires, for additional information.</li> </ol>
No TC 971 AC 054	The taxpayer wants to set up an IA or states they do not want to work with the PCA,	<ol style="list-style-type: none"> <li>1. Inform the taxpayer there does not appear to be any debt collection agency assigned to this account.</li> <li>2. Continue normal processing.</li> </ol>

**Note:** It is not necessary to research non-AUR related tax years to determine PDC assignment.

**Exception:** It is not necessary to refer taxpayers to their PCA if they can full pay their liability using online payment options; for example, Direct Pay, credit or debit card payments by phone or internet, a check or money order.

- (25) **If the taxpayer requests the payer address**, provide the address from the IR on the Case Analysis screen.
- (26) If during the telephone call, the taxpayer inquires about a year in which the Refund Statute Expiration Date (RSED) has passed, advise the taxpayer that a claim for refund must be filed within 3 years from the time the original return was filed or 2 years from the time the tax was paid, whichever is later.
- (27) If during the telephone call, the taxpayer inquires about a year that is statute imminent take the appropriate action to prevent the barred assessment. If the case belongs to another site, notify the site with the imminent statute immediately (for example. phone call, email, fax statute referral).
- (28) If during a telephone call, the taxpayer requests an interest and/or penalty waiver, inform the taxpayer/caller the request must be in writing and signed by the taxpayer or valid POA.
- (29) If the case is currently assigned to a private collection agency and the taxpayer requests PCA contact information research IDRS CC ENMOD or CC IMFOLE and provide them with their assigned PCA information. See IRM 4.19.3.26.1, Private Debt Collection and Recon Cases.
- (30) If during a telephone call an erroneous refund is discovered due to the AUR payment refunding, tell the taxpayer to void and return the check, if it has not been cashed. See IRM 4.19.3.5.13.1.4, Recovering Erroneous Refunds - Category D, for further guidance.

4.19.3.22.2.4.1  
(08-26-2016)

#### **Out Calls - Calling the Taxpayer**

- (1) During the response phase there may be times when calling the taxpayer will expedite the resolution of the case. An out call can eliminate the need to send the taxpayer a letter to resolve their account when the taxpayer has provided telephone contact information.

**Example:** The taxpayer responds to a notice but inadvertently omits required information or signatures, delaying the action on the case.

- (2) Out calls also provide better topic and time control of a conversation.
- (3) There are times during the response phase when you **must** attempt to call the taxpayer to resolve the issue. **You must** always document the attempt in a case note. You **must** attempt to call the taxpayer when the taxpayer:

**Note:** Normal telephone procedures should be followed when making an out call. See IRM 4.19.3.22.2.1, Answering the Telephone, for additional information.

- a. Requests an appeal of our findings.



**Note:** Attempt to resolve the issue(s) by phone prior to forwarding the appeals request. See IRM 4.19.3.22.1.8, Independent Office of Appeals, for additional information.

- b. Requests a phone call.

**Note:** An attempt must be made even when the taxpayer provides a contact time which is outside the tax examiner's shift.

- c. Fully agrees - but is missing required signature(s).
- d. Submits full payment after a Statutory Notice is issued, missing required signature(s).

**Note:** If unable to reach the taxpayer by phone and you are requesting a missing signature for a case in Statutory Notice phase where the suspense time frame has expired, do not issue a Letter 2626C, input PC 90 to default the case.

- e. Omits requested information or documentation (other than for identity theft).
- f. Requests case to be sent to their local Area Office.
- g. Form SS-8 is incomplete or missing original signature. See IRM 4.19.3.22.3.23, Self-Employment Tax (SE Tax) vs, Employee Share of FICA, for further information.

**Note:** If unable to reach the taxpayer by phone, issue a Letter 2626C to request the missing information.

- (4) Access the Case Note window and check the out call box to leave an Action trail in the Case History window. The indication in Case History may not show immediately - DO NOT check the box more than once.
- (5) When you initiate an outgoing phone call, the taxpayer may be reluctant to provide their Taxpayer Identification Number (TIN). To ease any concerns that the taxpayer may have, provide the taxpayer with the last four digits of their TIN (Social Security Number) and request that the taxpayer verify the first five digits. After you verify the TIN, follow IRM 4.19.3.22.2.2, Disclosure and IRM 4.19.3.22.2.2.1, Disclosure Verify Screen.
- (6) If taxpayer is still reluctant to provide information, leave a detailed case note outlining the information that is needed from the taxpayer. Provide the taxpayer with the AUR toll-free number. The taxpayer can then call the toll-free number and the assistor can inform the taxpayer what is needed.
- (7) Use the guidelines in IRM 4.19.3.22.2.4, Case Specific Inquiries, when leaving messages that contain confidential information on answering machines/voice mail. These guidelines are consistent with prudent business practices and disclosure rules while still providing good customer service.
- (8) If the taxpayer indicates they will be faxing missing information/documentation transfer the case to unit suspense, hold for up to 5 days. If the information is not received within the 5 days continue normal processing.

4.19.3.22.2.5  
(09-24-2021)  
**Universal Case**

- (1) It is no longer possible to transfer a call to another campus. Whenever you can assist the taxpayer using oral statement authority or accepting faxed/efaxed information, Universal Work should be utilized.



- (2) When a TE is on the phone with a taxpayer, cases in major suspense batches (BTs 40, 47, 50, 55, 60, 70, and 93) can be requested to work through View case. **Universal Work Case (UWC)** gives the TE control of the case and actions can be taken.

**Reminder:** After all case actions are completed, the TE must release the case.

- (3) If the case cannot be requested using Universal Work, the system displays the following error message: "Case is not in a batch allowed for universal work case." Take the following actions:

If	And	Then
Unable to request through UWC	The case is controlled at another campus	<ol style="list-style-type: none"> <li>1. Leave a detailed case note explaining the actions that are needed.</li> <li>2. Check the action required box.</li> </ol>
Unable to request through UWC	The case is controlled at your campus	Request the case using normal procedures, see IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Controlling Individual Inventory and Requesting Cases.
The case is suspended for special handling (for example, Bankruptcy, BT 89001, Innocent Spouse, BT 89002 or Identity Theft BT 89003, or cases requiring MFT 31 processing, BT 89004 - 89006) AND an action is required (such as, Recomputed notice)	The case is controlled at another campus	<ol style="list-style-type: none"> <li>1. Leave a detailed case note explaining the actions that are needed.</li> <li>2. Check the action required box.</li> </ol>
The case is suspended for special handling (for example, Bankruptcy, BT 89001, Innocent Spouse, BT 89002 or Identity Theft BT 89003, or cases requiring MFT 31 processing, BT 89004 - 89006) AND an action is required (such as, Recomputed notice)	The case is controlled at your campus	Route detailed instructions of the required action to the appropriate area.

- (4) If the case requires a paper document **and meets all the following criteria**, the case may be worked using UWC, regardless of which site controls the case:

1. The case is open **AND**
2. The case is available for UWC **AND**

3. Receipt of one document (per IR) will allow the case to be closed with a recomputed notice issued, fully agreed or no change (for example, taxpayer faxes a signed consent, a corrected document, a document which verifies questioned W/H) **AND**
4. The taxpayer **must efax the document(s) during the call.**

**Note:** If the taxpayer can't efax the documents during the call they may call back when they are able to efax the documents, or fax later to the fax number listed on their notice (see (6) below).

- (5) If **all the criteria** in (4) above is met, take the following actions to resolve the case:

1. Provide the taxpayer with the appropriate unit efax number, to submit the documentation or signed consent.
2. Review the faxed document(s) to ensure it allows the case to be closed fully agreed or no change.

**Caution:** If the return is a joint return **BOTH signatures are required for the response to be considered fully agreed.**

3. Select Control, Case, univ Work and click the "Yes" button to select the case to work.
4. Input the received date of the fax in the CORRESPONDENCE RCVD window.
5. Take the necessary case actions.

**Note:** When PTC is recalculated, print the PTC calculation; see IRM 4.19.3.17.8, Net Premium Tax Credit (PTC), and route to the controlling site.

6. Prepare a fax cover sheet and include the closing PC and your SEID. Forward the faxed document, PTC calculation print if applicable, to the appropriate clerical efax number. **This should be done when the case is completed but MUST be done no later than the end of the TOD.**
7. Leave a detailed case note to document the actions taken and indicate if the faxed document was forwarded to the appropriate site.

**Note:** If the taxpayer faxes the required signature document to close the case fully agreed this should be clearly documented in the case note.

8. Input the appropriate PC and release the case.

- (6) If the case requires a paper document or a fax, **but does not meet the criteria in (4) above, do not use UWC or check the action required box;** see the table below for the correct action to take:

If	And	Then
The case is <b>controlled at another campus</b>	The taxpayer agrees to send in documents	<ol style="list-style-type: none"> <li>1. If needed, provide the taxpayer with the (clerical) efax number for the controlling site or ask them to mail their reply in the envelope provided.</li> <li>2. Leave a case note.</li> </ol>

If	And	Then
The case is <b>controlled at another campus</b>	The taxpayer indicates they wish to fax in their agreement to the AUR issue with or without Form 9465	Leave a case note to clearly document the taxpayer's intent to fax a signed consent. If needed, provide the taxpayer with the (clerical) efax number for the controlling site.
The case is <b>controlled at another campus</b>	Neither faxing nor mailing meets the taxpayer's situation	Use good judgment in determining a suitable course of action and leave a case note.
The case is <b>controlled at your campus</b>	The taxpayer indicates they are ready/prepared to fax the information while on the call	<ol style="list-style-type: none"> <li>1. Provide the taxpayer with appropriate unit efax number, to submit the additional documentation, or signed consent.</li> <li>2. Request the case using normal procedures, see IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Controlling Individual Inventory and Requesting Cases.</li> </ol> <p>If the response is received via the unit efax, be sure to input the received date in the IRS Received date window.</p>
The case is <b>controlled at your campus</b>	The taxpayer indicates they wish to fax in their agreement to the AUR issue with or without Form 9465	Leave a case note to clearly document the taxpayer's intent to fax a signed consent. If needed, provide the taxpayer with the (clerical) efax number.
The case is <b>controlled at your campus</b>	The taxpayer indicates they will fax the information in later.	Provide the taxpayer with appropriate (clerical) efax number, to submit the additional documentation, or signed consent.
The case is <b>controlled at your campus</b>	Neither faxing nor mailing meets the taxpayer's situation	Use good judgment in determining a suitable course of action and leave a case note.

- (7) If the taxpayer provides acceptable information for a **recomputed notice** to be generated, issue the notice. It is not necessary to wait for the new figures to be provided by the taxpayer in writing since the recomputed notice will be provided to the taxpayer for signature. If the case is in the Statutory Notice phase, this procedure can be done **ONLY** for a decrease in the amount of tax shown on the Statutory Notice.

1. Select **Control, Case, univ Work**.
2. Click the "Yes" button to select the case to work.
3. Rework the case. If PTC is recalculated, print the PTC calculation; see

IRM 4.19.3.17.8, Net Premium Tax Credit (PTC), route the print to the controlling site.

**Note:** Telephone assistors may request that the taxpayer respond in writing if a recomputed notice is needed and a recalculation of PTC (there is a change to AGI) is required.

4. Leave a detailed case note to document the information provided for the recomputed notice.
5. Input the correct PC.
6. After all the necessary actions are complete (including review if necessary), release the case.

**Caution:** If you do not work the case, you must use IPC RF to refile it back to the original batch. If the suspense batch has aged a message displays "Invalid Process Code - Batch is aged". Take necessary actions to issue a letter or move the case to the next phase.

**Note:** If the user attempts to control a case that is not in a Suspense or Purge batch, the following message appears: "*Error: Case is not in a batch allowed for Universal Work Case.*" If the case is controlled at another site, leave a case note and **only** check the ACTION REQUIRED if there is further action that can be taken by the other campus.

(8) If the taxpayer **requests an extension to respond to a CP 2501:**

1. Inform the taxpayer that they have been granted a 15-day extension. Advise the taxpayer to respond as soon as possible and that if the response is not received within 45 days of the notice date, a subsequent contact will be initiated. Leave a case note on the Case Note/TP Info screen documenting the call.

**Exception:** If the assistor is able to grant extension **without** accessing the case, it is not necessary to leave a case note documenting the call.

2. DO NOT GRANT A SYSTEMIC EXTENSION.

(9) If the taxpayer **requests an extension to respond to a CP 2000 Notice** and it is not necessary to respond to the taxpayer with a letter:

1. Determine the 30th day from the notice date by either calculating the date (based on the notice issuance date) or asking the taxpayer to provide the "You Must Return the Response Form by" or "What Happens if you don't respond by" date as shown on page 1 of the CP 2000 Notice.
2. Use the table below to determine whether a systemic extension (IPC 6X) needs to be granted.

If	Then
The call occurs <b>before</b> the date to respond to the CP 2000 Notice (before the 30th day)	<ol style="list-style-type: none"> <li>DO NOT grant a systemic extension.</li> <li>Leave a <b>detailed case note</b> on the Case Note/TP info screen.</li> </ol> <p><b>Exception:</b> If assistor is able to grant extension <b>without</b> accessing the case it is not necessary to leave a case note documenting the call.</p>
The call occurs either <b>on or after</b> the date to respond to the CP 2000 Notice (on or after the 30th day)	<ol style="list-style-type: none"> <li>Select <b>Control, Case, univ Work</b>.</li> <li>Click the "Yes" button to select the case to work.</li> <li>Document the extension request with a <b>detailed case note</b> on the Case Note/TP Info screen.</li> <li>Input 6X (CP 2000).</li> <li>Release the case.</li> </ol>

- Inform the caller that they have an additional **30 days** to respond. If the caller requests a specific date, use the table below to determine the date to provide.

If	Then
The call occurs <b>before</b> the date to respond to the CP 2000 Notice (before the 30th day)	Provide a date that is either 30 days from the date of the call or 30 days from the date to respond to the CP 2000 notice.
The call occurs either <b>on or after</b> the date to respond to the CP 2000 Notice (on or after the 30th day)	Provide a date that is 30 days from the date of the call or the date IPC 6X was input.

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Do not grant multiple extension requests unless extenuating circumstances apply. Leave a detailed case note justifying each additional extension request.

**Note:** All AUR letters can be created and sent in Universal Work.

- If the taxpayer requests an extension to respond to the Letter 2626C issued after a CP 2000 but prior to a Statutory Notice:
  - Inform the taxpayer they have been granted a 30-day extension from the date of the call to respond to the notice.
  - Advise the taxpayer to respond as soon as possible and if the response is not received within 30 days of this call a subsequent contact will be issued.
  - Select **Control, Case, univ Work**.
  - Document the extension request in a detailed case note in the Case Note/TP Info screen.
  - Input IPC 6X (CP 2000).

6. Release the case.

**Note:** Do not grant multiple extensions unless extenuating circumstances apply. Leave a detailed case note justifying each additional extension request.

- (11) If the taxpayer requests an extension to respond to the Statutory Notice:
1. Do not grant the extension.
  2. Advise the taxpayer that the period of time to provide a response or to petition the U.S. Tax Court cannot be extended.
  3. Leave a detailed case note on the Case Note/TP Info screen.
- (12) If the taxpayer has information that would allow you to **close the case no change** but does not meet the criteria in (4) above (for example, oral statement is being accepted), take the following actions:
1. Select **Control, Case, univ Work**.
  2. Click the "Yes" button to select the case to work.
  3. Leave a case note explaining why you are closing the case.
  4. If the case is Virtual check the Case History for an indication of a prior correspondence.
  5. Input appropriate PC.
  6. If the case is Virtual and in CP 2000/ CP 2501 status, enter "N" in the SOURCE DOC field in the Process Code window unless Case History has an indication of a prior correspondence.
  7. Release the case.
- (13) If the taxpayer has information that would allow you to make a **change on a closed case** (a RECON) from BT 96 see IRM 4.19.3.22.2.4, Case Specific Inquiries.
- (14) If the taxpayer provides information that will **not** result in a change to a closed case (a RECON) from BT 96, **do not** check the action required box on the Case Note window. Take the correct action or provide the taxpayer with the needed information, as appropriate. The following are examples (not all-inclusive) of when the action required box should not be checked:
- Taxpayer requests a payment plan
  - Taxpayer requests a copy of a CP 2501 or CP 2000 Notice
  - Taxpayer requests a refund to be applied to tax liability
  - The taxpayer states they will fax information

4.19.3.22.3  
(09-01-2004)  
**Instructions Specific to  
Income/Issue Types**

- (1) The following instructions provide guidelines for working specific AUR issues.
- (2) See IRM 4.19.3.5.8, Fraud Referral Program, for potential FRAUD referrals.

4.19.3.22.3.1  
(11-14-2018)  
**Wages**

- (1) If the taxpayer replies the U/R income is a **STIPEND** (scholarship/fellowship) and is excludable from income, follow procedures in IRM 4.19.3.8.1.4, Fellowships, Grants, and Stipends.
- (2) If the taxpayer responds that the income identified as underreported is **strike benefits** that did not exceed the amount of their contributions to a strike
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- this type is taxable ONLY when it exceeds the amount contributed.

- (3) If the taxpayer responds that unreported wages are nontaxable **sick pay**, and states:
- They paid the premiums, and provides payer documentation, consider the issue resolved.
  - The employer paid the premiums, correspond with the taxpayer and advise that sick pay is taxable.
  - Both the taxpayer and the employer paid the premiums, issue a Recomputed Notice, Statutory Notice, or Supplemental Report on the amount of sick pay the taxpayer actually received from payments made by the employer.

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- (5) If the taxpayer's response includes an **SSA determination letter** on the WAGE IR(s) in question, consider the issue resolved. As SSA has already made a determination, do not prepare a Form 9409, IRS/SSA Wage Worksheet.

**Note:** A taxpayer response indicating contact with SSA is not justification to delete WAGE IR(s). Issue a Letter 2626C to request a copy of the SSA determination.

4.19.3.22.3.1.1  
(10-07-2019)  
**Statutory Wages**

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- (2) Consider the taxpayer a statutory employee if the explanation meets **all three** of the following criteria
- The taxpayer understood from the service contract with the employer that they were to perform the services personally.
  - The taxpayer did not have a substantial investment in facilities (other than transportation) used to perform the services.
  - The service involved a continuing relationship (between the taxpayer and the payer) with the person for whom the services were performed.

**and** the taxpayer engages in any of the activities listed in a - d below:

- a. Agent-driver or commission-driver who delivers meat, vegetables, fruit, bakery products or beverages (other than milk) or laundry or dry cleaning for someone else.
- b. Full-time life insurance salesperson.
- c. "Home worker" who works by the guidelines of the person for whom the work is done with materials or goods furnished by and returned to that person or to someone that the person designates.
- d. Traveling or city salesperson (other than an agent-driver or commission-driver) who works full-time (except for sideline sales activities) for one firm or person getting orders from customers. The order must be for items for resale or used as supplies in the customer's business. The customers must be retailers, wholesalers, contractors, or operators of hotels, restaurants, or other businesses dealing with food or lodging.



4.19.3.22.3.1.2  
(10-07-2019)

**Dependent Care Benefits**

- (1) The taxpayer explanation is acceptable when they are participating in one of

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**Note:** Prepare a Mock 2441 to determine if the taxpayer still qualifies to take the Child Care Credit. Pursue any disallowed Child Care Credit.

4.19.3.22.3.2  
(09-01-2012)

**Interest**

- (1) 99INT IRs with EIN 38-1798424 is credit interest paid by the IRS to the taxpayer from previously filed tax return(s). If the taxpayer requests information or disclaims knowledge of this IR, **DO NOT** issue a Letter 2625C. Use IDRS CC IMFOLI or Control D for MFTRAC to request a complete Master File transcript. Interest appears as TC 770 or 776. A reversal appears as TC 771, 772 or 777.
- a. If interest posted to the taxpayer's account and was subsequently reversed, or is not present, delete or adjust the IR(s) as necessary. Send the appropriate letter or a Recomputation Notice (CP 2000) or Supplemental Report (Statutory Notice) to the taxpayer and apologize for the error. Send a Special Paragraph using the following verbiage as an example: "The interest from the United States Treasury shown on our CP 2000 was incorrect. We apologize for any inconvenience this may have caused you."
- b. If the interest was posted to the taxpayer's account and not reversed, issue a Recomputation Notice or Supplemental Report. Include a Special Paragraph using the following verbiage as an example "On (date) you received a refund of (\$ amount) for tax year ending (MMDDYYYY). It included additional interest of (\$ amount)."
- (2) If the taxpayer replies that the Saving Bond Interest was inherited and/or was reported on the estate return, issue a Letter 2626C with a Special Paragraph using the following verbiage as an example: "Saving bond interest is taxable to the beneficiary, unless the entire amount of interest was reported on the decedent's final individual (Form 1040) tax return. Please verify the decedent's tax treatment and submit a signed statement of explanation."
- (3) Accept the explanation and delete the IR when:

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#4.19.3.22.3.2.1  
(10-25-2023)**Savings Bond Exclusion**

- (1) The taxpayer may recompute a savings bond exclusion that differs from the system's as displayed in the RECOMPUTED SAVINGS BOND EXCLUSION field. When this happens:

1. Enter the taxpayer's figure in the RECOMPUTED SAVINGS BOND EXCLUSION field.
3. If the taxpayer's figure is within the tolerance range, as defined in Step 2 above, the entry is accepted.
4. If the taxpayer's figure is not within the tolerance range, the entry is not accepted and a message displays showing the acceptable tolerance range.

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- (2) SAVINGS BOND EXCLUSION window is used to compute/recompute the savings bond exclusion when there is a change to the taxpayer's AGI.

**Note:** The ADJUSTED GROSS INCOME window may display.

1. Enter/Verify all fields in the ADJUSTED GROSS INCOME window including the Schedule B, Line 3 amount in the EXCLUDED SAVINGS BOND FIELD.
2. Enter/verify the amount from Form 8815, line 8 in the MODIFIED SAVINGS BOND INTEREST field.
3. The recomputed savings bond exclusion amount appears in the RECOMPUTED SAVINGS BOND EXCLUSION window.

4.19.3.22.3.3  
(08-26-2016)**Dividends**

- (1) Accept the taxpayer's explanation and delete the IR when:

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- (2) If the taxpayer responds that ordinary dividends are reported on Schedule D, see IRM 4.19.3.22.1.23, Schedule D Changes.

- (3) The taxpayer may respond that they are entitled to **qualifying dividends or additional qualifying dividends** (QDIV). The QDIV is the amount of ORDIV that is eligible for the 20 percent or lower capital gain rate. If the taxpayer did not claim qualifying dividends on the original return and now states they want the capital gain rate, take the following actions:

If	Then
There are no QDIV IRs	<ol style="list-style-type: none"> <li>1. Create an IR with the Income Type literal of QDIV for the total amount of ORDIV that is eligible for the 20 percent or lower capital gain rate.</li> <li>2. Input status code "U" for the created QDIV IR(s).</li> <li>3. Enter zero (0) in the reported per return filed.</li> </ol>
There is more than 1 IR containing QDIVs and the IR amount is less than the taxpayer is requesting	<ol style="list-style-type: none"> <li>1. Group the QDIV IRs. <b>Note:</b> The Group function is a tool to assist the TEs in computing the correct U/R amount. It may not be necessary to use the Group function if the correct U/R can be determined without it.</li> <li>2. To determine the amount for step 4 below, compare the requested amount with the amount on the return.</li> <li>3. Input status code R for the group.</li> <li>4. Create an IR for the difference (from step 2 above) and DO NOT add to group.</li> <li>5. Input status code U on the created IR.</li> <li>6. Enter zero (0) as the reported per return.</li> </ol>
The QDIV IR(s) equal the amount of QDIVs the taxpayer is requesting	<ol style="list-style-type: none"> <li>1. Input status code U on the IR. <b>Note:</b> If there are multiple IRs the Group function can be used to determine the U/R amount.</li> <li>2. Enter amount reported on return if no amount enter zero (0) in reported per return field.</li> </ol>

This allows the system to use the revised qualified dividends in calculating the Schedule D tax rate.

4.19.3.22.3.4  
(10-25-2023)  
**SITR**

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1. The total of the SITR IR amount(s) must match the Form 1040/ Form 1040-SR, Schedule 1, line 1. If they do not match, delete the existing IR(s) and create a new one equal to the amount of SITR that needs to be refunded.
2. Enter the amount of SITR to be refunded in the REPORTED SITR field.
3. Enter a zero (0) in the PRIOR YEAR TOTAL ITEMIZED DED field on the SITR window.

(2) Accept the explanation when:

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- (3) Numerous states do not issue paper Form 1099-G documents. If the taxpayer responds that they did not receive the Form 1099-G, advise them that failure to receive information documents is not an acceptable explanation.

4.19.3.22.3.5  
(10-06-2022)  
**Fishing Income**

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- (2) If the income is NEC, FISH, or FRSL accept the response when it states the taxpayer is a fisherman **and** one of the following:

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4.19.3.22.3.6  
(02-14-2022)  
**Retirement Distributions  
- Form 1099-R**

- (1) If the taxpayer responds with a completed **Form 4972** and the U/R income in question is from a **1099R, Lump-Sum Distribution IR**, verify **Form 4972**, Part 1 to determine if the taxpayer qualifies. If so, consider the taxpayer entitled to the special tax treatment and input the appropriate entries on the Lump Sum Tax window. See IRM 4.19.3.8.10.8, Lump-Sum Distributions, and IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures -Lump Sum Tax, for further instructions. Include ALL qualifying income in the

ORDINARY INCOME field. This includes any unreported income which also qualifies for the special tax treatment.

- a. If there was a math error on the taxpayer's Form 4972, issue a Recomputation Notice (CP 2000) or Supplemental Report (Statutory Notice). **Send PARAGRAPH 130**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- b. If there is NO math error, accept the taxpayer's Form 4972. Input status code "R" in the IR CD field on the Case Analysis screen for the 1099R IRs included on Form 4972.

**Note:** If the taxpayer indicates the Lump-Sum distribution was received by multiple recipients, enter a "Y" in the MULTIPLE RECIPIENT IND field. Enter the taxpayer's percentage of the income in the MULTI RECIPIENT PERCENT field. (Use the information from taxpayer's response, or the percentage from Form 1099-R, box 8 or 9.)

- (2) If the taxpayer responds with a completed **Form 4972** and the U/R income in question is from a **1099R IRA distribution** IR(s), issue a Letter 2626C advising the taxpayer that IRA distributions do not qualify for Form 4972 treatment.

**Note:** If issuing a Recomputed Notice, **send PARAGRAPH 152**. See Exhibit 4.19.3-7, CP PARAGRAPHS.

- (3) When adjusting U/R Form 1099-R distributions, review the Retirement Savings Credit window to ensure the entries in the TOTAL DISTRIBUTIONS field have been correctly updated.
- (4) The explanation is acceptable when the taxpayer states or provides:

**Reminder:** If accepting the taxpayer explanation for an IRA Deduction or Form 1099-R Distribution, review the Retirement Saving Credit window to ensure entries are correct per the taxpayer response.

- b. The retirement distribution was rolled over and provides Form 5498 or similar documentation. See (6) below if the response indicates rollover was not timely (within 60 days) and (7) below if response indicates rolled over to a Roth IRA.

**Note:** Military retirement distributions and 1099R IRs with COD "E", "L", "P", "U", "3", "5", and "8" cannot be rolled over.

- c. The taxpayer indicates they qualify for a waiver under Rev. Proc. 2016-47, Section 402(c)(3)(B), 408(d)(3)(I), or their employment or plan was terminated, and the outstanding plan loan offset was rolled over and provides Form 5498 or similar documentation indicating the rollover was made by the due date, including extensions, of the return.

**Note:** The remaining distribution, if any, must be rolled over within the 60-day timeframe or be reported as a taxable distribution on the appropriate line of Form 1040 and may be subject to additional tax on early distributions. See IRM 4.19.3.8.10.4, for additional information.

- d. Documentation reflects rollover fees and the amount of the fees match the U/R amount.

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j. The **Simple IRA distribution (COD “S”)** was rolled over (provides Form

k. The **Roth IRA Distribution** was rolled over (provides Form 5498 or similar

See IRM 4.19.3.8.10.7, IRA Distributions, for further information.

- (5) If there is an indication of a non-spousal IRA with an IR containing a COD 4 and the taxpayer reply does not indicate it is a trustee to trustee rollover, send a Special Paragraph using the following verbiage as an example. “When you inherit an IRA from someone other than your spouse, you cannot roll it over into another account unless you make a trustee to trustee transfer. Please

provide documentation to verify the amounts were rolled over into an account maintained in the name of the deceased IRA owner for the benefit of you as the beneficiary.”

- (6) If the taxpayer’s reply indicates the rollover was **NOT** made within 60 days, issue a Letter 2626C and include a Special Paragraph using the following verbiage as an example: “Since you indicated the rollover was not timely (within 60 days), your distribution is taxable.”

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- (7) If the taxpayer states they rolled over their traditional IRA into a Roth IRA, a portion may be taxable. Advise the taxpayer to complete Form 8606 to determine the taxable amount.
- (8) If the FMV amounts are not included on Form 8606, line 6, do not accept the Form 8606, Part I. Consider the IR(s) partially or fully U/R. Include a Special Paragraph using the following verbiage as an example “The fair market value (FMV) of all your Traditional, SEP and SIMPLE IRAs must be included on Form 8606, line 6. Your IRA trustees have reported FMV amounts on Form 5498, box 5, that were not included on this line, Please send us a revised Form 8606 if applicable. Refer to Pub 590-B, Distributions From Individual Retirement Arrangements (IRAs).” Send the 5498 IRs that contain FMV element for the taxpayer listed on Form 8606.
- (9) If the taxpayer’s response indicates they are a Military member with a combat related disability, see IRM 4.19.3.8.10.6.1, Military Pensions.

4.19.3.22.3.7  
(10-07-2019)  
**Rent and Royalty  
Income**

- (1) Accept the explanation when:
- a. Taxpayer is a member of a federally recognized Native American tribe

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## Conduit Income

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## Agricultural Subsidies

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- Taxable Social Security Benefits (SS/RR)
- IRA Deduction (CONTR)
- The exclusion of Interest from Series EE and I U.S. Savings Bonds issued after 1989 (Form 8815)

- The exclusion of Employer-Provided Adoption Benefits (Form 8839) (EPAB)
- Student Loan Interest Deduction (SLID)
- Tuition and Fees Deduction (TUTFE)

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- (5) Every effort to allow the appropriate UCE was taken based on the information return data available. If the taxpayer responds with a corrected Form 1099-G and/or requests to lower the UCE adjustment, AND there is a previously allowed UCE, do not lower the UCE adjustment previously allowed. Include a **Special Paragraph** to advise the taxpayer it is not necessary to reduce the UCE adjustment. UNEMP over the previously allowed UCE is taxable.

4.19.3.22.3.12  
(08-22-2017)

**Social Security/ Railroad Retirement (SS/RR)**

- (1) If the taxpayer replies that the proposed taxable SS/RR benefits includes non-taxable Workers' Compensation, issue a Letter 2626C and inform the taxpayer that Workers' Compensation that reduces SS/RR benefits is considered as SS/RR when computing taxable benefits.

**Note:** The Workers' Compensation appears as WCOMP on the SS/RR IR. The WCOMP amount is included in the SS/RR amount.

- (2) If the taxpayer disagrees with the underreported SS/RR because a portion of the gross benefits includes payments for previous year(s), take the following action:

If	Then
The taxpayer provides an LSE worksheet	
The taxpayer states prior year return(s) was amended to include the taxable SS/RR for that year(s)	<ol style="list-style-type: none"> <li>1. Check IDRS CC IMFOL.</li> <li>2. If the adjustment(s) posted, then determine if the taxpayer reported the proper amount of SS/RR for the AUR tax year.</li> <li>3. Issue a recomputed notice, if appropriate.</li> </ol>
The prior year(s) was not adjusted	Issue Letter 2626C to advise the taxpayer they may benefit by using the Lump Sum Election method to calculate Social Security Benefits. Refer the taxpayer to Publication 915 Social Security Benefits and Equivalent Railroad Retirement Benefits.

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**Note:** If a recomputed notice is necessary, create a SS/RR IR for the benefits received in the AUR tax year.

- (3) If the taxpayer disclaims knowledge of a Form SSA-1099, do not generate a Letter 2625C to the Social Security Administration. Issue a Letter 2626C and inform the taxpayer that they will need to contact their local SSA office to obtain a corrected statement.

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resident of one of the following countries:

- Canada
- Egypt
- Germany
- Ireland
- Israel
- Italy
- Japan
- Romania
- The United Kingdom

- (5) If the taxpayer's response indicates that the SS/RR is not taxable because they are disability benefits, advise the taxpayer that disability benefits received from the Social Security Administration are treated the same as regular SS/RR benefits.
- (6) If there is an indication the payments were a result of a terrorist attack, see IRM 4.19.3.22.1.14.1, Killed in Terrorist Action/Killed in Action (KITA/KIA), and IRM 4.19.3.22.1.27, Victims of Terrorist Attacks, for additional information.

4.19.3.22.3.13  
(03-03-2021)  
**NEC and MERCH**

- (1) See IRM 4.19.3.8.6.1, NEC Analysis and IRM 4.19.3.8.7.1, MERCH Analysis to determine where MERCH and/or NEC can be reported.

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request a Schedule C. Assess SE tax, as applicable.

- (3) Digital assets (Virtual currency), for example, bitcoin, may be used to pay for goods and/or services or held for investment. It may be reported on Form 1099-MISC, Form 1099-NEC, Form W-2, Form 1099-B or Form 1099-K. Digital assets (Virtual currency) received as payment for goods or services when operating a trade or business is generally treated as ordinary income and is generally subject to SE tax. Digital assets (Virtual currency) held for investment is generally treated as a capital asset and may result in a gain or loss upon the sale or exchange, similar to stocks, bonds and other investment property. See IRM 4.19.3.8.23.1, Securities Sales - Analysis. If the taxpayer's response states:

**Note:** If the taxpayer engaged in any transactions involving digital assets (virtual currency), the check box at the top of Form 1040/1040-SR, (TY 2020 and TY 2021) or the digital asset check box to the top of Form 1040/1040-SR (TY 2022) will be checked "Yes".

- a. The underreported NEC/MERCH is income from digital assets (virtual currency) transactions received for goods or services or was held for investment, **and the income is reported on the return**, for example, the amount is reported on Schedule C or Schedule D, accept the taxpayer's explanation.

**Note:** If the taxpayer states they reported the fair market value of the digital assets (virtual currency), as of the date and time it was received, accept the income as reported.

- b. The unreported NEC/MERCH is from the sale of digital assets (virtual currency) held for investment, **and the income is not reported on the**

c. The underreported NEC/MERCH income is payment(s) of digital assets (virtual currency), for services rendered by the taxpayer, **and the income is not reported on the return**, advise the taxpayer these types of payments are taxable as ordinary income and may be subject to SE tax. In general, the fair market value of the digital assets (virtual currency), as of the date and time the digital assets (virtual currency) was received, is taxable income.

**Note:** This list is not all inclusive. If the conditions in a - f are not met see (5) below.

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- b. The income is from the sale of collectibles/items held for investment (for example, gold, silver, stamps, coins, gems), and was reported on Schedule D. See IRM 4.19.3.22.1.23, Schedule D Changes, for additional information.
- c. The income is from sale of personal items, such as, clothing, refrigerator, stove, sofa, car, electronics, and was reported on Schedule D with net gain (including zero), see (5) below for additional information.

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- a. The unreported MERCH/NEC income is from a hobby, advise the taxpayer the income should be reported on Schedule 1, line 8 (TY 2020), Schedule 1, line 8z (TY 2021 and subsequent).
- b. The unreported MERCH/NEC income is from sale of collectibles/items held for investment, such as, gold, silver, stamps, coins, gems, advise the taxpayer these are capital assets except when held for sale by a dealer. Any gain or loss from the sale or trade is generally a capital gain or loss and should be reported on Schedule D.

- c. The unreported MERCH income is from sale of personal items, for example, clothing, refrigerator, stove, sofa, car, electronics, advise the taxpayer the income can be reported on Schedule D, however losses cannot be claimed on the sale of personal items, see (6) below or additional information.
  - d. The MERCH income is from a fund raiser/charity and does not provide the name of the recipient (individual or organization), correspond and request the name of the recipient. Do not adjust the SE tax until the taxpayer responds with the requested information.
  - e. The MERCH/NEC income was reported on the partnership return or Schedule E, Part II, and Schedule E, Part II does not reflect income or loss, or the taxpayer does not provide the name and/or EIN of the business the income was reported on. Issue a Letter 2626C to request additional information.
- (6) The taxpayer cannot claim a loss on sale of personal items. The taxpayer CANNOT reduce the amount in excess of the MERCH IR.

If	And	Then
The taxpayer indicates the MERCH was reported on the original Schedule D	The Schedule D reflects a loss for the MERCH IR	<ol style="list-style-type: none"> <li>1. Consider the IR reported.</li> <li>2. Recapture the loss in excess of the MERCH IR. See IRM 4.19.3.22.1.23, Schedule D Changes, for additional information.</li> <li>3. If necessary, issue a recomputed notice.</li> </ol>
The taxpayer is responding with a new Schedule D	The Schedule D reflects a loss for the MERCH IR	<ol style="list-style-type: none"> <li>1. Consider the IR reported.</li> <li>2. Advise the taxpayer they cannot claim a net loss for the sale of personal items.</li> </ol>

- (7) NEC and MERCH may be subject to SE tax, if the net result is a profit of \$400 or more see IRM 4.19.3.16.1, Self-Employment Tax.

4.19.3.22.3.14  
(09-21-2020)  
**Other Income**

- (1) These payments may have been pursued as miscellaneous NEC or as OTINC. They may represent Disaster/FEMA payments, Court Award Settlements or Prizes and Awards.
- (2) When the U/R NEC or OTINC is from the same payer as the taxpayer's employer and the taxpayer's response indicates that the U/R amount represents a reimbursement of business expenses:
  - a. Accept the explanation if the taxpayer does not attempt to claim excess expenses over the reimbursement amount.

**Note:** If the taxpayer indicates that the expenses were less than the reimbursement, the difference is taxable income.

  - b. If the taxpayer attempts to claim excess expenses over the reimbursement amount and does not provide a completed Form 2106, do not allow the excess deduction. **Send PARAGRAPH 159**, see Exhibit 4.19.3-7, CP

PARAGRAPHS, if issuing a recomputed notice, or use the content from PARAGRAPH 159 in the applicable Correspondex letter.

**Note:** Only Armed Forces Reservists, qualified performing artists, fee basis state or local government officials and employees with impairment related work expenses can use Form 2106. Form 2106 expenses are reported on Schedule 1, line 11 (TY 2020), Schedule 1, line 12 (TY 2021 and subsequent).

(3) Accept the response/explanation if:

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(4) When U/R income is from a NMS/IFR settlement payment(s):

If	Then
	Accept the taxpayer’s response/explanation.
	Accept the taxpayer’s response/explanation.

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If	Then
	<p>Determine the taxable portion.</p> <ol style="list-style-type: none"> <li>1. Subtract the exclusion amount from the gain.</li> <li>2. If the sum of step 1 is less than the NMS/IFR amount, consider the IR partially reported and pursue the result from step 1.</li> </ol> <p><b>Example:</b> taxpayer is filing status 1, the NMS/IFR payment is \$2,000, and the gain is \$251,000. \$251,000 (gain) - \$250,000 (exclusion) = \$1,000. The U/R amount would be \$1,000 (\$2,000 (IR) - \$1,000 (result of step 1) = \$1000).</p> <ol style="list-style-type: none"> <li>3. If the sum of step 1 is equal to or greater than the NMS/IFR payment(s), consider the IR fully U/R.</li> </ol> <p><b>Example:</b> taxpayer is filing status 1, the NMS/IFR payment is \$2,000, and the gain is \$255,000. \$255,000 (gain) - \$250,000 (exclusion) = \$5,000. The U/R amount would be \$2,000 (IR amount).</p>

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**Note:** Beneficiaries of National Mortgage Settlement and Independent Foreclosure Review payments may treat the distribution(s) in the same manner as the decedent would have had the decedent lived and received the income.

- (5) Settlements of \$50,000/\$12,500 issued on Form 1099-MISC (as OTINC) from the Judgment Fund Branch of the USDA as a result of a class action discrimination suit filed by farmers (known as Black Settlement or Pigford claims) is considered taxable income.
- a. If the taxpayer disagrees that the \$50,000 OTINC amount is taxable, advise the taxpayer that the settlement is taxable income as described in the letter they received.
  - b. If the taxpayer disagrees with the \$12,500 OTINC amount, research IDRS CC TXMOD for the prior year for the presence of a TC 660 (ES Tax Payment) for \$12,500 and determine the date the amount was applied. Advise the taxpayer that the \$12,500 credited to their account as an estimated tax payment to defray the tax due on the \$50,000 portion of the settlement is considered taxable income in the year it was applied. Inform the taxpayer of the date the amount was applied.
- (6) If the taxpayer's response indicates the income was from either credit card disability or unemployment insurance plan, advise the taxpayer the income may be taxable. If the taxpayer provides the amount of premiums they paid, follow the chart below:

If the premium paid is	Then
Less than the IR amount	The difference is U/R.

If the premium paid is	Then
Equal to or more than the IR amount	Delete the issue.

- (7) Accept the taxpayer's response if it indicates the income is from a physical injury or sickness as part of wrongful incarceration suit or cites IRC 104a(2).

4.19.3.22.3.14.1  
(09-01-2006)

**Court Award/Settlement**

- (1) If the taxpayer response does **not provide a breakdown** of the award and claims some portion is non-taxable, and a recomputed notice is being issued **send PARAGRAPH 119**. See Exhibit 4.19.3-7, CP PARAGRAPHS. If issuing a Letter 2626C, ensure the letter includes wording similar to PARAGRAPH 119.
- (2) If the taxpayer response **includes a breakdown** of the award, accept the following explanations:

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- (3) See IRM 4.19.3.8.18.2, OTINC Miscellaneous, for more information.

4.19.3.22.3.14.2  
(09-01-2013)

**Prizes**

- (1) If the taxpayer states that they reported the fair market value of a prize and the amount reported is:

2626C, include a Special Paragraph using the following verbiage as an example: "Please submit verification of the fair market value of your prize at the time it was received."

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payer's explanation.

4.19.3.22.3.15  
(09-01-2006)

**Gambling**

- (1) If the taxpayer attempts to change the reporting of lump sum payments from their lottery winnings from ordinary income to a capital gain (on Schedule D), disallow the claim. See IRM 4.19.3.8.19.1, Gambling Income - Analysis, for further instructions.
- (2) If the taxpayer responds with losses (with or without a revised Schedule A), see IRM 4.19.3.8.19.2, Gambling Losses.

4.19.3.22.3.16  
(06-01-2023)

**Cancellation of Debt (DBTCN)**

- (1) When the taxpayer responds that the DBTCN is excludable due to bankruptcy or insolvency, or because it was from a qualified farm indebtedness or qualified real property business indebtedness AND the taxpayer has tax attributes, then Form 982, Part II, Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment), **must** be completed to determine the required (not allowable) reduction of tax attributes. Tax attributes are the following:

- Net Operating Loss (NOL)
- General Business Credit Carryover (Form 3800, General Business Credit)
- Minimum Tax Credit (Form 8801, Credit For Prior Year Minimum Tax -Individuals, Estates, and Trusts)
- Capital Losses (from Schedule D)
- Basis in real or rental property (from Schedule E, Part I or Form 4562, Depreciation and Amortization (Including Information on Listed Property), is attached)
- Passive Activity Loss and credit carry-overs (Schedule E, Part II)
- Foreign and Possessions Tax Credit (from Form 1116)

**Note:** Use a Letter 2626C to correspond for a completed Form 982.

12, 13 or does not indicate the Chapter, then the taxpayer must state or provide documentation that the DBTCN was included as one of the creditors in the Bankruptcy papers. If necessary, correspond with the taxpayer using a Letter 2626C.

- (3) If the taxpayer claims insolvency, they **MUST** provide a statement listing assets and liabilities. The taxpayer is considered insolvent when total liabilities exceed the fair market value (FMV) of assets before the debt was cancelled. The taxpayer may only exclude DBTCN up to the insolvent amount.

b. Issue a recomputed notice for the remaining taxable DBTCN amount

- c. Issue a Letter 2626C if Form 982 is submitted without a statement listing assets and liabilities include a Special Paragraph using the following verbiage as an example: "The Form 982 you submitted indicates you were insolvent. In order to be considered insolvent, you must provide a statement of your assets and liabilities immediately before the debt was cancelled. You are considered insolvent only when your liabilities exceed your assets. You may only exclude Debt Cancellation up to the insolvent amount."

- (5) If the taxpayer response indicates that the DBTCN includes interest that accumulated on the debt, but was forgiven as part of the DBTCN and was:

b. Deductible (for example, mortgage interest, business loan, investment

- c. There is no INTFG amount on the IR, issue a Letter 2626C to request the documentation.

- (6) If the taxpayer's response indicates that the DBTCN was for a foreclosure or repossession and:

- a. Provides a Fair Market Value (FMV) amount that is larger than the

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Analysis.

**Note:** If Form 982, box 1(e) is checked, the taxpayer is allowed to exclude up to two million dollars (one million dollars if married filing separately) of DBTCN resulting from a foreclosure of the principal residence. If Form 982 is incomplete or missing, issue a Letter 2626C to request the information.

- c. A worksheet for Foreclosures and Repossessions or a similar statement
- d. Entitled to take any losses claimed, issue a Letter 2626C stating that losses are non-deductible, unless the property was held for use in a trade or business or for investment, in which case a portion of the loss may be deductible.

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- (7) Consider the DBTCN reported when, DBTCN is from a Student Loan, and the taxpayer has indicated either of the following:

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- (8) If the taxpayer states that the discharge of debt is from a Qualified Farm Debt (1) above.

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- (9) If the taxpayer responds that their financial institution offered a discount for early payment of a mortgage loan, issue a Letter 2626C to inform the taxpayer that the amount of the discount is considered a cancelled debt and as such is fully taxable and must be reported on their tax return.

- (10) Do not delete the issue if the taxpayer provides a statement from the creditor/collection agency stating the settlement was paid in full. Issue a Letter 2626C to inform the taxpayer the difference between the original debt and the settlement offer amount is considered taxable income.

- (11) Accept the taxpayer's explanation that they are a qualified individual whose principal residence was located in a Midwestern disaster area during the period beginning May 20, 2008, and ending on July 17, 2008.

4.19.3.22.3.17  
(09-21-2020)  
**Securities Sales**

- (1) If the taxpayer acknowledges the U/R STOCK (for example, provides broker statements or cost basis), however, the response does not include a completed Schedule D and/or Form 8949, Sales and Other Dispositions of Capital Assets, take either of the following actions:
  - a. For single (or relatively few) STOCK IR discrepancies, adjust the U/R STOCK amount by the cost basis provided by the taxpayer or in the broker statement(s) **OR**
  - b. For multiple STOCK IR discrepancies, issue a Letter 2626C (or a recomputed notice, if appropriate) with a Special Paragraph using the following verbiage as an example: “Your response did not include the requested completed Schedule D and Form 8949, detailing each securities sales transaction listed on our previous notice. When the necessary information is received, we will adjust your account accordingly.”
- (2) If the taxpayer responds with a revised Schedule D/Form 8949 or cost basis **AND** the original Schedule D/Form 8949 was a gain or loss, see IRM 4.19.3.22.1.23, Schedule D Changes:

**Note:** If issuing a recomputed notice **send PARAGRAPH 44**. See Exhibit 4.19.3-7, CP PARAGRAPHS, and toggle off PARAGRAPH 166 in the Summary screen.

- (3) When the taxpayer disagrees with the U/R STOCK, accept the statement when:

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- (4) If security transactions or STOCK income is related to day trading, see IRM 4.19.3.22.3.17.2, Day Trader - Securities or Commodities.

4.19.3.22.3.17.1  
(09-30-2014)  
**Cost Basis - Responses**

- (1) If the taxpayer responds with a completed Schedule D and Form 8949

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4.19.3.22.3.17.2

(12-14-2020)

**Day Trader - Securities  
or Commodities**

Advise the taxpayer that in order to avoid future correspondence on this issue, securities transactions relating to trader activities should be reported on Form 4797, Sales of Business Property. Refer the taxpayer to Pub 550 Investment Income and Expenses, for further instructions.

- (2) If the taxpayer responds with a statement that they wish to make a mark to market election **now**, take the following action:

**Note:** The election must be filed by the date the return is due (without extensions) for the year immediately preceding the election year (i.e., generally April 15th) for the election to be valid for the election year. Any current statement of mark to market election will not be valid for the AUR tax year. The taxpayer must also file Form 3115, Application for Change in Accounting Method.

- a. Review the statement for completeness. The statement should include the following information: The election is made under IRC 475(f), the first tax year for which the election is effective and the trade or business for which the election is being made.
  - b. If the taxpayer sites Rev. Proc. 99-17 and the current automatic consent procedures (Rev. Proc. 2022-14) require the election statement be attached to the return filed (without extensions) or the extension request for the year preceding the election year.
  - c. Advise the taxpayer: The election is not valid for the current AUR tax year; the tax year that the election is valid; and that a Form 3115 must be filed in compliance with the most recent automatic change revenue procedure requirements for the Market-to-Market Election, Section 24.01 of Rev Proc. 2022-14.
  - d. If Form 3115 is attached, forward it for processing.
  - e. Continue normal AUR case processing.
- (3) If the taxpayer responds that the U/R STOCK is from their trader activities **and** the taxpayer filed a Form 4797 or provided other evidence of a previously filed mark to market election, delete Income Identify Code "ST" from the affected IR(s) to ensure that the lower capital gain rates and the limitation on capital losses does not apply.

4.19.3.22.3.18

(11-04-2014)

**Real Estate**

- (1) An adjustment is required when the taxpayer agrees that an amount was U/R or omitted and provides the basis to compute the taxable gain or loss.
- (2) If the taxpayer does not provide the basis to compute the taxable gain or loss, contact the taxpayer to obtain the information needed to make the adjustment using normal processing procedures.
- (3) Accept the response when:

- Submits a Form 1099-S, box 4 is checked and a Form 8824 is attached.

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(1) Accept the explanation when the taxpayer states or there is an indication:

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not provide the requested information, continue processing.

- (3) When adjusting the taxable amount of the distribution a manual calculation of the 10 percent tax is required. See IRM 4.19.3.16.5, 10 Percent Tax on Qualified Education Program Payments, for exceptions to the 10 Percent additional tax.



4.19.3.22.3.20  
(09-01-2003)

**Long-Term Care Benefits  
(LTC)**

- (1) Accept the following explanations:

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4.19.3.22.3.21  
(09-01-2004)

**Foreign Income**

- (2) Accept the explanation of U/R foreign income for:

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4.19.3.22.3.22  
(09-21-2020)

**Mortgage Interest**

- (1) If the taxpayer's response includes acceptable explanations for some of the

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- (2) If additional research is required to resolve the issue, see Pub 936, Home Mortgage Interest Deduction.

- (3) If the taxpayer's response states the mortgage interest in question is related to a **Schedule E property** or makes reference to a **passive loss limitation/restriction**, determine if the passive loss rules affect the property for which mortgage interest deductions apply, by comparing Schedule E, line 22 (deductible rental loss) to Schedule E, line 21 (income or loss from rental/royalty property).

- a. If the deductible loss on Schedule E, line 22 is equal to or greater than the loss on Schedule E, line 21, work the issue as a normal O/D case.
- b. If the deductible loss on Schedule E, line 22 is less than the loss on Schedule E, line 21, the loss is subject to passive activity loss rules.

When the passive loss activity rules apply, the adjustment to MORT may not affect the current tax year's AGI, but impacts the amount of loss that can be carried forward to the subsequent year. If the taxpayer agrees to the U/R MORT, and claims no impact due to passive activity loss limitations, take the following action:

1. Accept the taxpayer's explanation regarding the U/R MORT issue for the
2. Include a Special Paragraph using the following verbiage as an example:  
"Although the adjustment to the mortgage interest deduction does not affect your current year's taxable income, the passive loss carry forward for the property must be corrected. We have recorded the adjustment. Please make the necessary corrections to your passive loss carry forward worksheets."
3. Complete Form 5346, Examination Information Report. Include a narrative explaining the nature of the adjustment (to the passive loss carry forward), the amount of the adjustment, the related property that was affected, and all other return information required on the form.
4. Forward the completed Form 5346 to Examination.

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- (5) Accept the explanation when:

c. Ensure Form SS-8 is sent to the taxpayer.

**Caution:** This process is not for misclassification of wages (for example, bonus income, supplemental wages). This process is to determine worker status.

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- (3) If the taxpayer responds with a completed (all questions are answered and it contains an original signature) Form SS-8:

**Note:** An electronically transmitted signature (for example, a faxed or digitally signed PDF Adobe document) is permitted for determinations requested under Section 12.04 Rev. Proc. 2018-1 regarding the Form SS-8 program. The SS-8 unit will reject any incomplete Form SS-8, see (5) below for incomplete forms.

1. Print the IRs for the payer in question and attach to the Form SS-8.

**Exception:** If the original payer documents (such as, Form 1099-MISC, Form W-2) are attached to the return, make a photocopy of the document to attach.

2. Forward the Form SS-8 to the SS-8 Group in Holtsville (using Form 4442, Inquiry Referral).

**Note:** When forwarding to the SS-8 group, write "AUR - Please Expedite" across the top of the Form 4442.

3. Leave a case note.
4. Manually issue a Letter 4314C to the taxpayer.
5. Provide the SS-8 Group Policy Statement P-21-3 contact person/telephone number.
6. Suspend the case in the unit for 60 days and monitor.
7. If, after 60 days, the SS-8 group has not responded, contact SS-8 for determination status.

- (4) The SS-8 unit will reject cases back to AUR in either of the following instances:

- a. A 218 agreement exists for the occupation. In this case, the worker has been determined to be an employee and is subject only to FICA tax. See (7) below to compute the employee share of FICA.
- b. There is a lawsuit/litigation between the two parties. In this case, inform the taxpayer the payer reported the income as nonemployee compensation, which is subject to SE tax, and we cannot change the SE Tax determination without corrected payer information/documentation. Leave a detailed case note and continue processing.
- c. If Form SS-8 is incomplete, it will be rejected back through the AUR Coordinator.

- (5) If the taxpayer responds with an incomplete Form SS-8, take the following actions:

- a. If the taxpayer has provided contact information (telephone number), attempt to contact the taxpayer by telephone to secure the information. Advise the taxpayer that each line of Form SS-8 must have an entry or the form will be rejected. Request that the taxpayer complete, sign and re-mail the form. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for additional information. Hold the case in unit suspense to wait for the completed form; after 60 days continue normal processing.
  - b. If the taxpayer has not provided contact information, issue a Letter 2626C. Include a Special Paragraph using the following verbiage as an example: "The Form SS-8 you submitted was incomplete. In order for a determination to be made you must complete, sign and mail Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, attached to a copy of this letter. To expedite processing please write AUR along the top of Form, SS-8."
- (6) When the SS-8 Group notifies AUR that the **Taxpayer is subject to SE tax**:
- a. Issue a Letter 2626C and include a Special Paragraph using the following verbiage as an example: "Our records indicate that a determination has been made that you are an independent contractor subject to self-employment tax."
  - b. Leave a case note.
  - c. Continue processing.
- (7) When the SS-8 Group notifies AUR that the **Taxpayer is an employee (subject only to FICA)**, take the following action:
1. Use the Additional FICA Tax window to compute the 7.65 percent of the employee's share of FICA on the gross NEC instead of the originally proposed SE tax amount.
  2. Change the Income Identify Code on NEC IR(s) subject only to FICA tax to "PE" or "SE" as applicable.
  3. Select the SE Tax window and enter zeroes (0) in the primary and secondary SE TAX NOW fields. This prevents the system from assessing SE tax on the FICA income.
  4. **Send PARAGRAPH 163**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
- Note:** If the NEC is partially reported on Schedule C, verify the SSNs to be sure you adjust the correct Schedule C. Also, select the FICA Tax window in the proper sequence, see IRM 4.19.3.4.2, Case Analysis Screen. If selected out of order, a message displays describing the proper sequence. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - FICA Tax.
- (8) When the taxpayer submits an **AUR RECON request disagreeing** with the assessment of SE tax:
1. Send the appropriate C-Letter advising the taxpayer to complete, sign and submit the Form SS-8, per the instructions on Form SS-8. Include a statement that the process can take up to 180 days to be completed before a determination is rendered. Include Form SS-8.
  2. Close the AUR control (assign IPC 9I ).
- (9) If the taxpayer submits an **AUR RECON request that includes a Form SS-8** take the following action:

**Caution:** This process is not for misclassification of wages. (such as, bonus income, supplemental wages). This process is to determine worker status.

1. Print the IRs for the payer in question and attach to the Form SS-8.

**Exception:** If the original payer documents (for example, Form W-2) is attached to the return, make a photocopy of the document to attach.

2. Forward the Form SS-8 to the applicable SS-8 team in Holtsville.

**Note:** Do not include verbiage to "AUR - Please Expedite".

3. Send the taxpayer the appropriate C-Letter advising the taxpayer that the Form SS-8 has been forwarded for consideration and provide the taxpayer with the SS-8 Policy Statement P-21-3 contact. Include a statement that the process can take up to 180 days to be completed before a determination is rendered.
4. Close the AUR control (assign IPC 9I ).

**Note:** Once the SS-8 group renders their determination, they will instruct the taxpayer to file a Form 1040-X, including a copy of the favorable determination letter to the Service Center where they filed their original tax return.

4.19.3.22.3.24  
(09-01-2013)

#### O/C Withholding - Responses

- (1) Schedules K-1 may contain BWH. Accept the taxpayer's response if it includes a copy of the following:
  - a. Form 1041 - Schedule K-1 and an amount in box 13 with a code "B" **OR**
  - b. Form 1065 - Schedule K-1 and an amount in box 15 with a code "O" **OR**
  - c. Form 1120S - Schedule K-1 and an amount in box 13 with code "O"
- (2) If the taxpayer responds to a notice issued solely for O/C questionable W/H and provides the necessary documentation, close the case No Change.

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- (4) If the taxpayer responds to a notice issued for O/C questionable W/H and does
  - a. If the O/C W/H was the only issue, assess the undocumented O/C W/H amount. Issue a letter to inform the taxpayer that we have disallowed the additional W/H, and they will receive an adjustment notice and they may file an amended Form 1040-X when the necessary documentation is obtained. Close the case with PC 53 (CP 2501) or PC 68 (CP 2000).
  - b. If the notice contains other issues, ensure that the AGREE criteria (see IRM 4.19.3.22.5, Agreed Responses) is met before assessing the account.

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**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, enter "N" in the SOURCE DOCUMENT ATTACHED? field of the Assessment window.

- c. If the tax increase is below tolerance, see IRM 4.19.3.21.1, No Response BT 84, before assessing the account.

**Note:** A Statutory Notice of Deficiency cannot be issued when there is no tax increase (or the tax increase is below tolerance). The taxpayer has no appeal rights concerning W/H.

- (5) If the taxpayer responds to a notice issued solely for O/C questionable W/H and indicates that Estimated Payments (ES) were included in the W/H amount, input the adjustment for the ES amount claimed:

1. Ensure that the Return Value screen correctly reflects the needed changes.
2. After committing Return Value screen, access the Assessment window.
3. Confirm the presence of TC 290-0 and Reference Code 807 for the ES amount claimed erroneously.
4. If the taxpayer disputes the proposed adjustment, issue a letter to inform the taxpayer of the pending adjustment.
5. Close the case with PC 53 (CP 2501) or PC 68 (CP 2000).

**Note:** If Tax Account does not contain any TC 660s, perform IDRS research to determine where the ES Payments could have posted (for example, possible Spousal Dummy Account).

**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, enter "N" in the SOURCE DOCUMENT ATTACHED? field of the Assessment window.

4.19.3.22.3.25  
(05-02-2005)  
**U/C Withholding -  
Responses**

- (1) If the taxpayer responds to a CP 2501 Notice that was issued only for U/C questionable W/H or U/C questionable W/H with U/R issue(s) that result in a below tolerance net tax change and:
  - a. Provides documentation or acknowledges that the U/C W/H should have been reported on the return, allow the additional U/C W/H. See (2) below for further instructions.

**Example:** The taxpayer signs the CP 2501 and makes no indication of disagreement.

- b. Fails to address/verify the U/C W/H, close the case with PC 52 (no closure letter). Send a Letter 1802-C to inform the taxpayer that we have concluded our investigation and they may file a Form 1040-X if they have any additional information they want us to consider.
- c. Only addresses SOME of the U/C W/H, input the adjustment for the additional documented/acknowledged W/H ONLY on the ASSESSMENT window. See (2) below for further instructions. Send a letter to explain the W/H adjustment allowed and instruct the taxpayer to file a Form 1040-X if they have any additional information they want us to consider.

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- (2) If all other issues have been resolved or result in a below tolerance net tax change and allowable U/C W/H is still an issue:

**Exception:** If the taxpayer responds with an acceptable Form 1040-X or provides revised figures, pursue all issues.

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3. Complete and commit Return Value screen.
4. Access the Assessment window.
5. Input Priority Code "3".
6. Close the case with PC 53 (CP 2501), PC 68 (CP 2000) or PC 88 (Statutory Notice).

**Caution:** If the return is Virtual and there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, enter "N" in the SOURCE DOCUMENT ATTACHED? field of the Assessment window.

4.19.3.22.4  
(10-07-2019)

**Discrepancy  
Explained/No Change-  
General**

- (1) Close a case with no change to original tax liability if a response to the notice contains an acceptable explanation for the full amount in question.

**Note:** If the taxpayer gives an acceptable explanation for all income in question and requests an interview, conference, or hearing, take appropriate action to resolve the case. Also contact the taxpayer (via telephone call or a Letter 1802-C), and tell them the issue was resolved and to contact their local Area Office if they still would like an interview.

- (2) If a case is being closed No Change and the taxpayer submits a payment, enter/verify the TC 290-0 on the Assessment window to refund the payment.

**Note:** Delete any other Reference Code(s), TC(s), and/or amount(s) that are present on the Assessment window (for example, Reference Code(s) 886, 888).

- (3) If the case is closed No Change and an adjustment to prepayment credits and/or AGI/TXI is necessary, see IRM 4.19.3.22.6, Partially Agreed Responses.

- (4) No change PCs 15, 47, 48, 51, 52, 70, 71, 72, 73, 91, 92 and 93 automatically generate a TC 290-0 with a "Y" in the SOURCE DOCUMENT ATTACHED? field in the Assessment window for electronically filed returns.

**Note:** PCs 39, 69 and 89 no longer designate identity theft closures; these PCs are input on jointly filed return cases which require assessment to MFT 31 accounts for each taxpayer.

- If "M" is entered in the Auto/Manual IND field, the automatic assessment does not generate. The assessment must be input using the IAT "REQ54" tool.
- If there is **no** information (loose forms, schedules or correspondence) to be associated with the refile DLN, enter an "N" in the SOURCE DOC field in the Process Code window.

- (5) If the taxpayer provides an acceptable explanation of all the income in question, close the case using PC 47, 52, 70, 71, 91 or 92 as appropriate. If



[illegible]

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**Note:** If deleting Wage IRs, see IRM 4.19.3.22.7.4, Referrals, to prepare a Form 9409, IRS/SSA Wage Worksheet, unless the taxpayer has provided an SSA determination letter, on the WAGE IR(s) in question.

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**Caution:** If deleting Wage IRs, see IRM 4.19.3.22.7.4, Referrals to prepare a Form 9409 unless the taxpayer has provided an SSA determination letter on the WAGE IR(s) in question.

- (3) If Master File shows an indication of a mixed entity situation, forward to Accounts Management. See IRM 21.6.2, Adjusting TIN-Related Problems.
- AUR may utilize the IAT “aMend” tool, research portion, to assist in determining scrambled SSN or Mixed Entity.

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4.19.3.22.5  
(11-01-2021)

#### Agreed Responses

- (1) An agreed response must contain no disputing comments and must meet ONE of the following conditions:
- Be full paid - prior to issuance of a Statutory Notice - for tax and all penalties, except the following: ES Penalty, social security tax on tips, Accuracy-Related Penalty Due to Negligence/Substantial Understatement if evidence of reasonable cause is provided and accepted and FTF/FTP relating solely to adjustments to W/H and/or excess SSTAX.
  - Contain the necessary signatures on the CP 2000, Form 9465, Form 433-D for both tax and penalties, Waiver, Form 1040-X, statement, or similar document.

**Note:** A statement or similar document must contain (in addition to the signature) the tax year, the tax increase amount, and applicable penalties unless attached to the notice.

**Note:** A consent to assess additional tax (CP 2000, Letter 2626C, Form 5564 (Statutory Notice), Form 9465 and Form 433-D) can be accepted by fax.

- c. A signature on a CP 2501 **ONLY** when the taxpayer provides a complete, accurate tax computation.

**Note:** If only one taxpayer has signed the consent and the criteria in a) above is not met or both taxpayer's signed separate consent forms, see IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.

- (2) Full payment received after issuance of a Statutory Notice cannot be accepted as agreement to the tax increase. Attempt to contact the taxpayer by phone to request the missing signature(s). If unable to reach the taxpayer by phone, issue a Letter 2626C to acknowledge payment and request missing signature(s).

**Note:** If the suspense time frame has expired, input PC 90 to default the case.

- (3) Both signatures are required on a jointly filed return that is not fully paid (the signature of a surviving spouse is acceptable). See IRM 4.19.3.22.1.18, Divorced/Separated Taxpayers, and IRM 4.19.3.22.1.18.1, Divorced/Separated Taxpayers - Single Signature on Consent, for additional information if the taxpayers are divorced or separated. If on a MFJ return full payment is not received prior to Stat issuance and only one taxpayer signs the consent or both taxpayers sign separate consent forms (different IRS received. dates), see IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.

- (4) The signature of a third-party is acceptable if:

- a. A POA has been filed authorizing the third-party to sign, or
- b. The third-party is executor or administrator of the taxpayer's estate.

- (5) If the taxpayer agrees to the notice but disputes the interest charges, issue Letter 1802-C to inform the taxpayer. See IRM 4.19.3.22.1.2, Abatement of Interest.

**Note:** Comments concerning interest are not considered disputing, treat as an agreed response. The taxpayer does not have to consent to the assessment of interest as this is a statutory adjustment.

- (6) If the taxpayer agrees to the notice and indicates they would like to talk to someone:

- 1. Contact the taxpayer by phone (only one attempt is required), and
- 2. Take the appropriate action.

- (7) If the taxpayer requests that the subsequent year's refund be applied to the deficiency and the case can be closed agreed:

- a. Close the case agreed.
- b. Fax request to:

855-278-1129

Atlanta CSCO

Attn: Lead Team 203

**Note:** Be sure the request includes the SSN, Tax Year, amount due and the taxpayers request.

- c. Issue a Letter 1802-C to the taxpayer. Inform them the request has been forwarded to the appropriate department, but we may not have time to deduct the liability from this year's refund.
  - d. Leave AUR case note, "TC 130 Req to Coll" or similar verbiage.
- (8) If the taxpayer does not request an Installment Agreement, but indicates that they can pay the balance due within 120 days, forward the extension to pay to Collections for processing.
- 1. Issue a Letter 1802-C to the taxpayer. Inform them the request has been forwarded to the appropriate department.
  - 2. Leave AUR case note, "Extension to Pay to Coll" or similar verbiage.
  - 3. Close the case agreed.
- (9) If there is an entry in the MANUAL INTEREST field on the Return Value screen, transfer the case to the designated SEID.
- (10) If the case is designated as an ARDI case (proposed adjustment of \$100,000 or more), do not input the assessment even if the taxpayer has fully agreed. Indicate ARDI on the case folder/Form 4251/Campus cover sheet and transfer the case to designated SEID for processing. See IRM 4.19.3.22.1.3, Accounts Receivable Guidelines, for additional information.
- (11) Close case using PC 53, 67, or 87 as appropriate. If the case has been flagged for an installment agreement, remove the flag from the Form 9465, Form 433-D or written IA request and send to Collections.
- (12) An assessment record generates automatically, no later than the dates listed in the table below. After that time, manual assessments must be input on IDRS.

Notice Type	TY 2020	TY 2021	TY 2022
CP 2000	January 5, 2024	January 3, 2025	January 2, 2026
Statutory Notice	May 3, 2024	May 2, 2025	May 1, 2026

4.19.3.22.5.1  
(10-07-2019)

**Responses – Married  
Filing Joint – Single  
Signature on Consent**

- (1) If only one taxpayer signed the consent, take the following actions:

If	Then
The case is in CP 2000 phase	<ol style="list-style-type: none"> <li>1. Issue Letter 2626C separately to each taxpayer.</li> <li>2. When the Address Information screen displays, enter "Y" in the INPUT MANUAL NAME LINES box; the Edit Name Information screen will display. <b>Note:</b> The AUR system auto-populates the name and address information from the Update Address window, for the address types which can be modified.</li> <li>3. Input the appropriate address type in the Address box and press enter, to display the name line and address information. For example, if both taxpayers reside at the same address, input Address Type "I".</li> <li>4. Modify/edit the names and address lines to display each taxpayer individually.</li> <li>5. Select the addresses which need to have a letter issued by inputting "Y" in the Select Address field.</li> <li>6. Press F12 to access the Create Letter window.</li> <li>7. Include a Special Paragraph to attempt to obtain the missing signature and advise the taxpayers they are jointly and separately liable for the tax, using the following verbiage as an example: "When you file a joint return, both taxpayers are jointly and separately responsible for the full amount of tax owed on the return and both signatures agreeing to the consent to tax are required. We are unable to continue processing your signed agreement until we have received both signatures." <b>Reminder:</b> Edit the salutation "Dear Primary and Secondary Taxpayer" to "Dear Taxpayer".</li> <li>8. Leave a detailed case note to indicate which spouse agreed; for example, secondary taxpayer agreed.</li> <li>9. Input IPC S6 and release the case; the case is moved to BT 89005.</li> <li>10. Use the batch listing for the 89005 batch and the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report to monitor the case for 45 days.</li> </ol> <p>If the spouse's signature is received or the notice is full paid (prior to the issuance of a Stat), treat as an agreed. See (5) below and refer to the appropriate table section instructions.</p> <p>If after 45 days the spouse's signature is not received or the notice is not full paid (prior to issuance of a Stat), see (2) below.</p> <p><b>Note:</b> If a telephone number is provided, an out call to secure the missing signature should be attempted before proceeding to (2).</p>

If	Then
The case is in Stat phase and the time to petition Tax Court has not expired	<ol style="list-style-type: none"> <li>1. If the non-agreeing spouse is the primary taxpayer, go to step 4.</li> <li>2. If the non-agreeing spouse is the secondary taxpayer, research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if invalid). If the secondary SSN is valid, go to step 4.</li> <li>3. If the SSN is invalid, send a request for SSN validation to Entity via Form 3210, Document Transmittal, and leave a detailed case note of actions taken. Once the invalid situation is resolved, go to step 4. <b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an un-postable condition.</li> <li>4. Attempt to secure the non-agreeing spouse's signature. See steps 1 – 7 above to issue Letter 2626C to both taxpayers. <b>Reminder:</b> Include a paragraph to inform the taxpayers the time to petition Tax Court is not extended by the letter.</li> <li>5. Access the Process Code window. If the non-agreeing spouse is the primary taxpayer, input "P" in the MFT 31 field. If the non-agreeing spouse is the secondary taxpayer, input "S" in the MFT 31 field. <b>Caution:</b> Ensure the entry in the MFT 31 field is correct. This alerts the AUR system to generate a Stat Notice to ONLY the non-agreeing spouse. <b>Note:</b> When "P" or "S" is present in the MFT 31 field, at disassembly, the AUR system uploads TC 971 AC 103 to create MFT 31 modules for both taxpayers.</li> <li>6. Input IPC 8L.</li> </ol>
The case is in Stat phase and the time to petition Tax Court has expired (case is ready for default)	See (7) below and follow the appropriate table section instructions.

- (2) If after 45 days the spouse's signature is not received or the notice is not full paid and Stat issuance to the non-agreeing spouse is necessary, take the following actions:

If the non-agreeing spouse is	Then
The primary taxpayer	Go to step 1, below the table.

If the non-agreeing spouse is	Then
The secondary taxpayer	<ol style="list-style-type: none"> <li>1. Research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if it is invalid).</li> <li>2. If the SSN is valid, go to step 1 below.</li> <li>3. If the SSN is invalid, send Form 3210 to Entity to request SSN validation; see the Invalid SSN Job Aid on the AUR Portal for additional information at <i>AUR Research Portal IMF</i>.</li> <li>4. Leave a detailed case note.</li> <li>5. Once the invalid situation is resolved, go to step 1 below.</li> </ol> <p><b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an unpostable condition.</p>

1. Access the Process Code window and input "P" in the MFT 31 field, if the non-agreeing spouse is the primary taxpayer. If the non-agreeing spouse is the secondary taxpayer, input "S" in the MFT 31 field.

**Caution:** Ensure the entry in the MFT 31 field is correct. This alerts the AUR system to generate a Stat Notice only to the non-agreeing spouse.

**Note:** When "P" or "S" is present in the MFT 31 field, at disassembly, the AUR system uploads TC 971 AC 103 to create MFT 31 modules for both taxpayers. This process cannot be reversed, once the disassembly process is complete.

2. Input PC 75.

- (3) The AUR system displays the following messages when there is an MFT 31 module present:

- "MFT 31 Present on IDRS" displays when MFT 31 accounts modules are present on IDRS due to Bankruptcy, Innocent Spouse or AUR system initiated MFT 31 modules, due to only one spouse signing consent.
- "MFT 31 present per agreed/non-agreed for primary; See IRM 4.19.3" displays when the AUR system initiated MFT 31 modules, even if the modules have not yet posted to IDRS.

- (4) If a recomputed notice is needed, see the table below:

**Note:** If the case can be closed partially agreed, see (6) below.



If the case is in	Then
CP 2000 or Stat phase and MFT 31 modules are not present	<p>Follow normal procedures to issue the recomputed notice, using PC 59/95, as appropriate. See IRM 4.19.3.22.6.1, Recomputation Notice/Supplemental Report, for additional information.</p> <p><b>Note:</b> Do not establish MFT 31 modules.</p>
CP 2000 phase and MFT 31 modules are present	<ol style="list-style-type: none"> <li>1. Follow normal procedures to issue the recomputed notice.</li> <li>2. Input Indicator "4" in the NOTICE IND field of the Summary screen.</li> <li>3. Include a special paragraph to advise the taxpayers both signatures are required.</li> <li>4. Leave a detailed case note.</li> <li>5. Input PC 59 and release the case.</li> <li>6. Monitor for the PC 59 to post. Once PC 59 posts, request the case and input IPC S6 to move the case to BT 89005 suspense.</li> <li>7. Use the batch listing for the 89005 batch or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory report to monitor the case for 45 days.</li> </ol> <p>If both signatures are received or the notice is full paid, treat as agreed. See (5) below and follow the appropriate table section instructions.</p> <p>If no response is received after 45 days, input PC 75.</p> <p>If information is received to close the case no change, see (8) below.</p>

If the case is in	Then
Stat phase and MFT 31 modules are present	<ol style="list-style-type: none"> <li>1. Follow normal procedures to issue the recomputed notice.</li> <li>2. Include a special paragraph to advise the taxpayers both signatures are required.</li> <li>3. Leave a detailed case note.</li> <li>4. Input PC 95 and release the case.</li> <li>5. Monitor for the PC 95 to post. Once PC 95 posts, request the case and input IPC S3 to move the case to BT 89004 suspense.</li> <li>6. Use the batch listing for the 89004 or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory report to monitor the case until a response is received or the 105-day time frame on the Stat Notice has expired; see IRM 4.19.3.22.11.3, Default Statutory Notices, for additional information.</li> </ol> <p>If both signatures are received see (5) below and follow the appropriate table section instructions. If no response is received or the issue cannot be resolved see (7) below and follow the appropriate table section instructions.</p> <p><b>Note:</b> If a taxpayer files a petition with Tax Court, see IRM 4.19.3.22.1.8.1.1, Responses – Petitioning Spouse (PS) and Non-petitioning Spouse (NPS) – Docketed Cases,</p> <p>If information is received to close the case no change, see (8) below.</p>

(5) If an agreed assessment is needed, see the table below:

**Caution:** If MFT 31 modules have been established, research the secondary taxpayer's MFT 31 account on IDRS to verify the name control is not different prior to accessing the MFT 31 Assessment window. If it is different, manually correct the secondary taxpayer's name control in the MFT 31 Assessment window. Failure to make the correction will cause an unpostable condition.

If the case is in	Then
CP 2000 phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are not present	<ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window and enter/verify <b>the earliest IRS received date</b> in the IRS RECEIVED DATE and CREDIT INTEREST DT fields. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>2. Enter/Verify the assessment data.</li> <li>3. Input "Y" in the SOURCE DOCUMENT ATTACHED? field.</li> <li>4. Input "AUR agreed criteria" in the REMARKS field.</li> <li>5. Commit the Assessment window.</li> <li>6. Leave a detailed case note.</li> <li>7. Input PC 68.</li> </ol> <p><b>Caution:</b> PC 67 cannot be used on MFJ cases when the taxpayers' signed consents have different IRS received dates.</p>
CP 2000 phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are present	<p>Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM - 5X.</li> <li>• HOLD CD - 4.</li> <li>• TRANS CODE - 290.00.</li> <li>• Remove the date from the IRS-RCVD-DT field and leave the field blank.</li> <li>• REMARKS - "AUR agreed criteria".</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the "Y" from the "SEND PRIMARY TAXPAYER ASSESSMENT" or "SEND SECONDARY TAXPAYER ASSESSMENT" fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify the following:</p> <ul style="list-style-type: none"> <li>• IRS RECEIVED DATE and CREDIT INTEREST DT - input <b>the earliest IRS received date</b>. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Assessment data.</li> <li>• SOURCE DOCUMENT ATTACHED? field - "Y".</li> <li>• REMARKS - "AUR agreed criteria".</li> <li>• Commit the Assessment window.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 69.</li> </ul>

If the case is in	Then
CP 2000 or Stat phase, the notice was full paid prior to issuance of the Stat, and MFT 31 modules are not present	<ul style="list-style-type: none"> <li>• Enter/Verify assessment data; see IRM 4.19.3.22.10, Assessments, for further information.</li> <li>• Input PC 67/87, as appropriate.</li> </ul> <p><b>Reminder:</b> Full payment after issuance of a Stat cannot be treated as an agreement.</p>
Stat phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are not present	<ol style="list-style-type: none"> <li>1. Access the MFT 30 Assessment window and enter/verify <b>the earliest IRS received date</b> in the IRS RECEIVED DATE and CREDIT INTEREST DT fields. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>2. Enter/Verify the assessment data.</li> <li>3. Input "Y" in the SOURCE DOCUMENT ATTACHED? field.</li> <li>4. Input "AUR agreed criteria" in the REMARKS field.</li> <li>5. Commit the Assessment window.</li> <li>6. Leave a detailed case note.</li> <li>7. Input PC 88.</li> </ol> <p><b>Caution:</b> PC 87 cannot be used on MFJ cases when the taxpayers' signed consents have different IRS received dates.</p>

If the case is in	Then
Stat phase, both taxpayers' signatures were received but have different IRS received dates and MFT 31 modules are present	<p>Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• Remove the date from the IRS-RCVD-DT field and leave the field blank.</li> <li>• HOLD CD – 4.</li> <li>• TRANS CODE – 290.00.</li> <li>• REMARKS – “AUR agreed criteria”.</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the “Y” from the “SEND PRIMARY TAXPAYER ASSESSMENT” or “SEND SECONDARY TAXPAYER ASSESSMENT” fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify the following:</p> <ul style="list-style-type: none"> <li>• IRS RECEIVED DATE and CREDIT INTEREST DT - <b>the earliest IRS received date</b>. See IRM 4.19.3.22.10.1, The Assessment Window, for additional information.</li> <li>• Assessment data.</li> <li>• SOURCE DOCUMENT ATTACHED? field – “Y”.</li> <li>• REMARKS - “AUR agreed criteria”.</li> <li>• Commit the Assessment window.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 39.</li> </ul>

**Note:** When assessments are made on MFT 31 accounts, AUR sends the required TC 971 AC 110 at the time the assessment is uploaded. If there are payments on the MFT 30 account, see (9) below.

(6) If a partially agreed assessment is needed, see the table below:

**Caution:** If MFT 31 modules have been established, research the secondary taxpayer's MFT 31 account on IDRS to verify the name control is not different prior to accessing the MFT 31 Assessment window. If it is different, manually correct the secondary taxpayer's name control in the MFT 31 Assessment window. Failure to make the correction will cause an unpostable condition.

If the case is in	Then
<p>CP 2000 phase, the criteria is met to close the case partially agreed and MFT 31 modules are present</p>	<p>IPC RN cannot be used. Rework the case through Return Value then take the following actions: Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 5X.</li> <li>• Remove the date from the IRS-RCVD-DT field and leave the field blank.</li> <li>• HOLD CD – 4.</li> <li>• TRANS CODE – 290.00.</li> <li>• REMARKS – “Partially agreed criteria”.</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the “Y” from the “SEND PRIMARY TAXPAYER ASSESSMENT” or “SEND SECONDARY TAXPAYER ASSESSMENT” fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window, enter/verify all assessment information and ensure the following:</p> <ul style="list-style-type: none"> <li>• SOURCE DOCUMENT ATTACHED? field – “Y”.</li> <li>• REMARKS - “Partially agreed criteria”.</li> <li>• Commit the Assessment window.</li> <li>• Issue Letter 1802-C to each taxpayer (see (1) above) to confirm we used the information/computation they provided to make the assessment to their account.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 69.</li> </ul>

If the case is in	Then
Stat phase, the criteria is met to close the case partially agreed and MFT 31 modules are present	<p>IPC SR cannot be used. Rework the case through Return Value then take the following actions: Access the MFT 31 Assessment window and enter/verify the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• Remove the date from the IRS-RCVD-DT field and leave the field blank.</li> <li>• HOLD CD – 4.</li> <li>• TRANS CODE – 290.00.</li> <li>• REMARKS – “Partially agreed criteria”.</li> </ul> <p><b>Caution:</b> Remove all assessment data that no longer applies (such as, transaction and reference codes). DO NOT remove the “Y” from the “SEND PRIMARY TAXPAYER ASSESSMENT” or “SEND SECONDARY TAXPAYER ASSESSMENT” fields.</p> <ul style="list-style-type: none"> <li>• Commit the Assessment window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify all information and ensure the following:</p> <ul style="list-style-type: none"> <li>• SOURCE DOCUMENT ATTACHED? field – “Y”.</li> <li>• REMARKS - “Partially agreed criteria”.</li> <li>• Commit the Assessment window.</li> <li>• Issue Letter 1802-C to each taxpayer (see (1) above) to confirm we used the information/computation they provided to make the assessment to their account.</li> <li>• Leave a detailed case note.</li> <li>• Input PC 39.</li> </ul>

**Note:** When assessments are made on MFT 31 accounts, AUR sends the required TC 971 AC 110 at the time the assessment is uploaded. If there are payments on the MFT 30 account, see (9) below.

(7) If a default assessment is needed, see the table below:

**Caution:** If MFT 31 modules have been established, research the secondary taxpayer’s MFT 31 account on IDRS to verify the name control is not different prior to accessing the MFT 31 Assessment window. If it is different, manually correct the secondary taxpayer’s name control in the MFT 31 Assessment window. Failure to make the correction will cause an unpostable condition.



If	Then
The case is ready for default and MFT 31 modules are not present	<ol style="list-style-type: none"> <li>1. If the primary taxpayer is the non-agreeing spouse, go to step 5.</li> <li>2. If the secondary taxpayer is the non-agreeing spouse research IDRS CC IMFOLT to determine if the SSN is invalid (an asterisk is present after the secondary SSN if it is invalid). If valid, go to step 5.</li> <li>3. If the SSN is invalid, send Form 3210 to Entity to request SSN validation; see the Invalid SSN Job Aid on the AUR Portal for additional information at <i>AUR Research Portal IMF</i>. Once the invalid situation is resolved, go to step 5. <b>Caution:</b> Failure to resolve an invalid secondary SSN will cause an unpostable condition.</li> <li>4. Leave a detailed case note, including which taxpayer agreed and which taxpayer defaulted.</li> <li>5. Access the Process Code window and input "P" in the MFT 31 field, if the non-agreeing spouse is the primary taxpayer. If the non-agreeing spouse is the secondary taxpayer, input "S" in the MFT 31 field. <b>Caution:</b> Ensure the entry in the MFT 31 field is correct. <b>Note:</b> When "P" or "S" is present in the MFT 31 field, at disassembly, the AUR system uploads TC 971 AC 103 to create MFT 31 modules for both taxpayers. This process cannot be reversed, once the disassembly process is complete.</li> <li>6. Input IPC S3; the case is moved to BT 89004.</li> <li>7. Use the batch listing for the 89004 batch or the Agree/Non-Agree and Docketed Appeals (NPS) Suspense Inventory Report, to monitor the case for the TC 971 AC 103 to post.</li> <li>8. Once posted request the case and input the assessments, as shown below.</li> </ol>

If	Then
<p>Only one signature was received or the notice was full paid after Stat issuance and the Stat has expired</p>	<p>Access the MFT 31 Assessment window and enter/verify/correct the following for each taxpayer:</p> <ul style="list-style-type: none"> <li>• BLOCK NUM – 6X.</li> <li>• IRS-RCVD-DT - input the IRS received date from the agreed response in the agreeing taxpayer's MFT 31 Assessment window ONLY. Leave the field blank in the non-agreeing taxpayer's MFT 31 Assessment window.</li> <li>• CREDIT INTEREST DT - input the IRS received date from the agreed response in the agreeing taxpayer's MFT 31 Assessment window ONLY. Leave the field blank in the non-agreeing taxpayer's MFT 31 Assessment window.</li> <li>• SOURCE CD (Source Code).</li> <li>• REASON CD (Reason Code).</li> </ul> <p><b>Caution:</b> RC 138 MUST be input when there is a change to W/H, excess SST, EITC and or refundable credits.</p> <ul style="list-style-type: none"> <li>• PRIORITY CD (Priority Code).</li> </ul> <p><b>Caution:</b> Priority Code 9 MUST be input when there is a change to W/H, excess SST, EITC and/or refundable credits, or a combination of these).</p> <ul style="list-style-type: none"> <li>• HOLD CD (Hold Code) – "0".</li> <li>• TC 290.</li> <li>• Penalty (for example, TC 680, TC 170/171, TC 160/161), if applicable.</li> <li>• Withholding (TC 806/807), if applicable.</li> <li>• EITC (TC 764/765), if applicable.</li> <li>• Excess SST adjustments (CRN 252), if applicable.</li> <li>• Refundable credits: Additional Child Tax Credit, American Opportunity Credit and net PTC.</li> </ul> <p><b>Note:</b> Changes to refundable credits will be netted (+ or -). The netted amount will be input with TC 766/767. For example: if the American Opportunity Credit adjustment is \$766 and the Additional Child Tax Credit adjustment is -\$166, the TC 766 amount is \$600.</p> <ul style="list-style-type: none"> <li>• Remove any transaction codes, reference codes, etc., applicable to MFT 30.</li> <li>• REMARKS - "AUR split/spousal agreed" for the agreeing taxpayer and "AUR split/spousal default" for the non-agreeing taxpayer.</li> </ul> <p><b>Caution:</b> DO NOT remove the "Y" from the "SEND PRIMARY TAXPAYER ASSESSMENT" or SEND "SECONDARY TAXPAYER ASSESSMENT" fields.</p> <ul style="list-style-type: none"> <li>• Commit the MFT 31 Assessment Window.</li> </ul> <p>Access the MFT 30 Assessment window and enter/verify/correct the following:</p> <p><b>Caution:</b> DO NOT change the entries in the CREDIT INTEREST DATE or IRS RECEIVED DT fields.</p>

If	Then
	<ul style="list-style-type: none"> <li>Remove all items included on the MFT 31 assessments.</li> <li>BLOCK NUM – 6X.</li> <li>TRANS CODE – 290.00.</li> <li>REFERENCE CD (Reference Codes).</li> <li>SRCE CD (Source Code) - 2.</li> <li>REASON CD – use the same Reason Codes as on MFT 31.</li> </ul> <p><b>Exception:</b> Do not use Reason Code 138 on MFT 30.</p> <ul style="list-style-type: none"> <li>SOURCE DOCUMENT ATTACHED? field – “Y”.</li> <li>REMARKS - “AUR split/spousal agreed” for the agreeing taxpayer and “AUR split/spousal default” for the non-agreeing taxpayer.</li> <li>Commit the MFT 30 Assessment window.</li> <li>Leave a detailed case note, including which taxpayer agreed and which taxpayer defaulted.</li> <li>Input PC 89.</li> </ul> <p><b>Caution:</b> PC 90 cannot be used when MFT 31 modules are present.</p>
Only one signature was received, information was provided to revise the notice and the Stat has expired	<ol style="list-style-type: none"> <li>Rework the case through Return Value.</li> <li>Follow the procedures in the row above to enter/verify/correct entries on the MFT 31 Assessment and MFT 30 Assessment windows; commit both Assessment windows.</li> <li>Issue Letter 1802-C to each taxpayer (see (1) above) to explain the assessment to their account was based on the information they provided.</li> <li>Leave a detailed case note, including which taxpayer agreed and which taxpayer defaulted.</li> <li>Input PC 89.</li> </ol>

**Note:** When assessments are made on MFT 31 accounts, AUR sends the required TC 971 AC 110 at the time the assessment is uploaded. If there are payments on the MFT 30 account, see (8) below.

(8) If the case can be closed no change and MFT 31 modules are present, take the following actions:

- Access the MFT 31 Assessment window and enter/verify the following, for each taxpayer.
- BLOCK NUM – 5X or 6X, as appropriate.
- Remove the date from the IRS-RCVD-DT field and leave the field blank.
- HOLD CD – 4.
- TRANS CODE – 290.00.
- REMARKS – “AUR split/spousal no change”.
- Commit the Assessment window.
- Access the MFT 30 Assessment window and change REMARKS to “AUR split/spousal no change”.
- SOURCE DOCUMENT ATTACHED? field – “Y”.
- Leave a case note.
- Input PC 70/91, as appropriate.

(9) If there is a payment(s) on the MFT 30 account, move the payment(s) to the primary taxpayer’s MFT 31, and cross reference to the secondary taxpayer’s

MFT 31 account, when the assessment PC is input AUR. See the MFT 31 credit transfer and cross referencing help available on the AUR Portal at *AUR Research Portal IMF*.

4.19.3.22.6  
(09-01-2022)  
**Partially Agreed Responses**

- (1) A response is considered partially agreed when the taxpayer includes acceptable explanations for SOME of the amounts in question. Recompute the tax on the remaining AUR issues. See IRM 4.19.3.22.6.1, Recomputation Notice/ Supplemental Report for further information.

**Note:** A Form 1040-X can be considered a partially agreed response.

- (2) Use the Recomputed Notice process to update the taxpayer’s account. Using IPC **CR** (CP 2501), “RN” (CP 2000), “SR” (Statutory Notice) or **DR** (Statutory Notice - Default) with the appropriate Notice Indicator ensures that State Disclosure information is properly updated.

**Note:** IPC “CR” and “DR” were developed to work in the same manner as IPC “RN” and “SR”. IPC “CR” is used to recompute the tax on a CP 2501 and IPC “DR” is used when a change to the tax computation is required **and** the suspense time frame for the Statutory Notice has expired.

- (3) If the system recomputes an amount **LESS** than the taxpayer’s calculation, always use the system figures. Include a Special Paragraph explaining the difference. Use Notice Indicator 7 to ensure the taxpayer receives a “for your information only”CP 2000 Notice.
- (4) When the taxpayer responds to a CP 2501, CP 2000, or Statutory Notice, use the NET TAX CHANGE tolerance to determine future action on the case. See IRM 4.19.3.14.4, Net Tax Increase/No Net Tax Increase/Tax Decrease Notices, for further description of net tax change.
- (5) If there is an entry in the MANUAL INTEREST field on the Return Value screen, transfer the case to the designated SEID.
- (6) When the taxpayer responds to a CP 2501 with an acceptable explanation for

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If	Then
<p>The taxpayer submits a signed Form 1040-X <b>or</b> submits a payment which equals or exceeds</p> <p>(except ES Penalty and FICA tax on tips)</p>	<ol style="list-style-type: none"> <li>1. Rework the case as necessary. Consider penalties as applicable.</li> <li>2. Enter/Verify the appropriate entries on all screens. Input “7 or 8” in the NOTICE IND field of the Summary screen.   <b>Reminder:</b> Notice Indicator “8” should only be used when the Non-Refundable Credits window is used to make the AUR system match the TP’s figures or   letter confirming the information/computation provided was used to make the assessment to their account.</li> <li>3. Input IPC “CR”. When IPC CR is used, the system generates an automatic assessment and assigns PC 37 to the account.</li> </ol>

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If	Then
<p>The taxpayer’s acceptable response results in <b>no tax deficiencies</b> (for example, tax decrease with no decreases to either EIC or ACTC), with or without a signed consent:</p> <p><b>Note:</b> See IRM 4.19.3.14.4, Net Tax Increase/ No Decrease Notices, for definition of items.</p>	<div><div><div>1. Rework the case as necessary. Consider penalties as applicable.</div><div>2. Enter/Verify the appropriate entries on all screens. Input “7 or 8”. in the NOTICE IND field of the Summary screen.</div></div><div><b>Reminder:</b> Notice Indicator “8” should only be used when the Non-Refundable Credits window is used to make the AUR system match the TP’s figures or</div><div>letter confirming the information/ computation provided was used to make the assessment to their account.</div><div>3. Input IPC “CR”. When IPC CR is used, the system generates an automatic assessment and assigns PC 37 to the account.</div></div>

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If	Then
<p>The taxpayer provides revised figures and meets agreed criteria.</p>	<p>2. Enter/Verify the appropriate entries on all screens. If the system is unable to compute the same amounts as the</p> <p>MISCELLANEOUS CREDITS field of the Non-Refundable Credits window (in Return Value) to resolve the difference.</p> <p>3. In the NOTICE IND field of the Summary Screen input “7 or 8” as appropriate.</p> <p><b>Note:</b> If the system recomputes an amount LESS than the taxpayer’s calculation, always use the system figures. Include a SPECIAL PARAGRAPH to explain the difference.</p> <p>4. If Form 9465, Form 433-D, or written IA request with a flag is included in the case file, remove the flag and send the IA request to Collections.</p> <p>5. Input IPC “CR”. When IPC CR is used, the system generates an automatic assessment and assigns PC 37 to the account.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>

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If	Then
Taxpayer has not <ul style="list-style-type: none"> <li>provided figures</li> <li>signed a consent to tax increase</li> <li>fully paid with no disputing comments, See IRM 4.19.3.22.6.1, Recomputation Notice/Supplemental Report.</li> </ul>	<ol style="list-style-type: none"> <li>Rework the case as necessary. Consider penalties as applicable.</li> <li>Enter/Verify the appropriate entries on all screens. In the Notice IND field of the Summary Screen input "2".</li> <li>Input PC "57" to issue a CP 2000.</li> </ol> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>

(7) When the taxpayer responds to a CP 2000 with an acceptable explanation for

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If	And	Then
The taxpayer does not provide revised figures	<ul style="list-style-type: none"> <li>Signs the consent to tax increase on the CP 2000, Waiver or attached statement or similar document (with or without full payment) or</li> <li>Submits a payment which equals or exceeds the new tax</li> </ul> <p>penalties (except ES Penalty and FICA tax on tips).</p>	<ol style="list-style-type: none"> <li>Rework the case as necessary. Consider penalties as applicable.</li> <li>Enter/Verify the appropriate entries on all screens. In the Notice IND field of the Summary Screen input "7" or "8" as appropriate.</li> </ol> <p><b>Reminder:</b> Notice Indicator "8" should only be used when the Non-Refundable Credits window is used to make the AUR system match the taxpayer's figures or payment</p> <p>situations, a letter should be sent to the taxpayer confirming that we used the information/computation they provided to make the assessment to their account.</p>

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If	And	Then
<p>The taxpayer's acceptable response results in no tax deficiencies (for example, tax decrease with no decreases to either EIC or ACTC), with or without consent.</p> <p><b>Note:</b> See IRM 4.19.3.14.4, Net Tax Increase/No Net Tax Increase/Tax Decrease Notices, for definition of deficiency items.</p>	<p>N/A</p>	<ol style="list-style-type: none"> <li>1. Rework the case as necessary. Consider penalties as applicable</li> <li>2. Enter/Verify the appropriate entries on all screens. Input the appropriate Notice indicator in the NOTICE IND field of the Summary screen.  <b>Reminder:</b> Notice Indicator "8" should only be used when the Non-Refundable Credits window is used to make the AUR system match the tax-  tions, a letter should be sent to the taxpayer confirming that we used the information/computation they provided to make the assessment to their account.</li> <li>3. Input IPC "<b>RN</b>". When IPC RN is used; the system generates an automatic assessment and assigns PC 67 to the account.  <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.</li> </ol>

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If	And	Then
Taxpayer provides revised figures	Meets agreed criteria	<p>2. Enter/Verify the appropriate entries on all screens. If the system is unable to compute the same</p> <p>the MISCELLANEOUS CREDITS field of the Non-Refundable Credits window (in Return Value) to resolve the difference.</p> <p>3. In the NOTICE IND field on the Summary Screen input, “7” or “8” as appropriate.</p> <p><b>Note:</b> If the system recomputes an amount LESS than the taxpayer’s calculation, always use the system figures. Include a SPECIAL PARAGRAPH to explain the difference. Use Notice indicator “7” to ensure the taxpayer receives a “for your information only” CP 2000 notice.</p> <p><b>Reminder:</b> Notice Indicator “8” should only be used when the Non-Refundable Credits window is used to make the AUR system match the tax-</p> <p>tions, a letter should be sent to the taxpayer confirming that we used the information/computation they provided to make the assessment to their account.</p> <p>4. Input IPC “RN.”</p> <p><b>Reminder:</b> Remove TDC “Y” indicator if present in the Summary screen when using IPC RN/SR or CR/DR.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>

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If	And	Then
Does not provide revised figures	<ul style="list-style-type: none"> <li>Has NOT signed a consent to tax increase</li> <li>Has NOT fully paid with no disputing comments</li> </ul>	<p>1. Input PC “59” to issue a recomputed notice. Input the appropriate indicator in the Notice IND field of the Summary Screen. See IRM 4.19.3.22.6.1, Recomputation Notice/Supplemental Report.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p> <p><b>Example:</b> The CP 2000 was originally issued for a tax increase of \$1,000 and an increase to W/H of \$800. Based on the taxpayer’s response, the re-computed tax increase is now \$840, with an increase</p> <p>agreed criteria is not met, the tax examiner <b>MUST</b> issue a revised CP 2000 for the taxpayer’s signature(s).</p>

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- (8) When the taxpayer responds to a Stat with an acceptable explanation for some of the amounts in question and the suspense time frame **has NOT expired**

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If	And	Then
The taxpayer does not provide revised figures	Signs the consent to tax increase on the waiver, attached statement or similar document (with or without full payment)	<ol style="list-style-type: none"> <li>1. Rework the case as necessary. Consider penalties as applicable.</li> <li>2. Enter/Verify the appropriate entries on all screens. In the Notice IND field of the Summary Screen input "7" or "8" as appropriate.  <b>Reminder:</b> Notice Indicator "8" should only be used when the Non-Refundable Credits window is used to make the AUR system match the tax-  tions, a letter should be sent to the taxpayer confirming that we used the information/computation they provided to make the assessment to their account.</li> <li>3. Input IPC "SR". When IPC SR is used, the system generates an automatic assessment and assigns PC 87 to the account.  <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.  <b>Caution:</b> Full payment received after issuance of a Statutory Notice cannot be accepted as agreement to the tax increase.  <b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</li> </ol>

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If	And	Then	#
Taxpayer provides revised figures	Meets agreed criteria	<p>2. Enter/Verify the appropriate entries on all screens. If the system is unable to compute the same</p> <p>the MISCELLANEOUS CREDITS field of the Non-Refundable Credits window (in Return Value) to resolve the difference.</p> <p>3. In the NOTICE IND field on the Summary Screen input, "7" or "8" as appropriate.</p> <p><b>Note:</b> If the system recomputes an amount LESS than the taxpayer's calculation, always use the system figures. Include a SPECIAL PARAGRAPH to explain the difference.</p> <p><b>Reminder:</b> Notice Indicator "8" should only be used when the Non-Refundable Credits window is used to make the AUR system match the tax-</p> <p>tions, a letter should be sent to the taxpayer confirming that we used the information/computation they provided to make the assessment to their account.</p> <p>4. Input IPC "SR". When IPC SR is used; the system generates an automatic assessment and assigns PC 87 to the account.</p> <p><b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>	<p>#</p> <p>#</p> <p>#</p> <p>#</p> <p>#</p>

If	And	Then
Taxpayer has not signed a consent to tax increase	N/A	<p>Input PC “95” to issue a recomputed notice. In the Notice IND field on the Summary Screen input “1”.IRM 4.19.3.23.6.1</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>

- (9) When the taxpayer responds to a Stat with an acceptable explanation for some of the amounts in question and the suspense time frame **HAS** expired:

If	And	Then
	<p>Taxpayer <b>does not</b>:</p> <ul style="list-style-type: none"> <li>• provide revised figures or,</li> <li>• sign the consent to tax increase on the Waiver or attached statement or similar document (with or without payment) or</li> <li>• Provide a signed Form 1040-X.</li> </ul>	<ol style="list-style-type: none"> <li>1. Rework the case as necessary. Consider penalties as applicable.</li> <li>2. Enter/Verify the appropriate entries on all screens. Input “0” in the NOTICE IND Field of the Summary screen.</li> <li>3. Input IPC “DR”. When IPC DR is used; the system generates an automatic assessment to their account.</li> </ol> <p><b>Caution:</b> Full payment received after issuance of a Statutory Notice cannot be accepted as agreement to the tax increase.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>

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If	And	Then	
Taxpayer provides revised figures	Meets agreed criteria	<p>2. Enter/Verify the appropriate entries on all screens. If the system is unable to compute the same amounts as the</p> <p>MISCELLANEOUS CREDITS field of the Non-Refundable Credits window (in Return Value) to resolve the difference.</p> <p>3. In the NOTICE IND field on the Summary Screen input, "0" as appropriate.</p> <p><b>Note:</b> If the system recomputes an amount LESS than the taxpayer's calculation, always use the system figures. Include a SPECIAL PARAGRAPH to explain the difference.</p> <p>4. Input IPC "DR". When IPC DR is used; the system generates an automatic assessment and assigns PC 90 to the account.</p> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (11) below for further instructions.</p>	<p>#</p> <p>#</p> <p>#</p>

If	And	Then
<p>Taxpayer's acceptable response results in no tax deficiencies (for example, tax decrease with no decreases to either EIC or ACTC), with or without a signed consent.</p> <p><b>Note:</b> See IRM 4.19.3.14.4, Net Tax Increase/No Net Tax Increase/Tax Decreases Notices, for definition of deficiency items.</p>	N/A	<ol style="list-style-type: none"> <li>1. Rework the case as necessary. Consider penalties as applicable.</li> <li>2. Enter/Verify the appropriate entries on all screens.</li> <li>3. In the NOTICE IND field on the Summary screen input, "0" as appropriate.</li> <li>4. Input IPC "DR". When IPC DR is used; the system generates an automatic assessment and assigns PC 90 to the account.</li> </ol> <p><b>Note:</b> If Form 9465, Form 433-D or written IA request is attached, see (12) below for further instructions.</p>

(10) When the recomputed net tax increase is below tolerance take the following actions:

If	And	Then
Recomputed net tax increase is below tolerance	The taxpayer does not submit a payment, or does not request a bill/notice	<p>Close the case No Change.</p> <p><b>Note:</b> If Form 9465, Form 433-D or a written IA request is attached, refer to (11) below.</p>
Recomputed net tax increase is below tolerance	An adjustment to prepayment credits (W/H, excess SSTAX, and additional MCTXW) and/or AGI/TXI is <b>NOT necessary</b> .	<p>Input PC "47" (CP 2501), PC 70 (CP 2000) or PC 91 (Statutory Notice), as appropriate, to close the case.</p> <p><b>Note:</b> If Form 9465, Form 433-D or a written IA request is attached, refer to (11) below.</p>
Recomputed net tax increase is below tolerance	An adjustment to prepayment credits (W/H, excess SSTAX, and additional MCTXW) <b>IS necessary</b> .	<ol style="list-style-type: none"> <li>1. Enter/Verify the appropriate entries in the Assessment window.</li> <li>2. Input PC "53" (CP 2501), PC 68 (CP 2000), or PC 88 (Default Statutory Notice) as appropriate to close the case.</li> </ol>

If	And	Then
<p>The recomputed tax change is zero (example: taxpayer agrees to unreported income that impacts the AGI, however due to negative TXI, the tax change is zero)</p>	<p>An adjustment to <b>AGI and/or TXI ONLY</b> is necessary</p>	<ol style="list-style-type: none"> <li>1. Enter/Verify the appropriate entries in the Assessment window.</li> <li>2. Issue the appropriate Correspondence letter to advise the taxpayer of the adjustment to AGI and/or TXI .</li> <li>3. Input PC “52” (CP 2501), PC 71 (CP 2000) or PC 92 (Statutory Notice), as appropriate, to close the case.</li> </ol> <p><b>Note:</b> Do not include AGI/TXI changes for amounts that the taxpayer has not agreed to. For example:</p> <p><b>Caution:</b> Do not use IPC CR, RN, SR, or DR to create the assessment record when the tax change is zero.</p> <p><b>Reminder:</b> See IRM 4.19.3.22.4, Discrepancy Explained/No Change-General, for further information when closing Virtual cases.</p>

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If	And	Then
	An adjustment to <b>AGI and/or TXI is necessary</b>	<div>2. Issue the appropriate Correspondence letter to advise the taxpayer of the adjustment to AGI and/or TXI.</div> <div>3. Input PC <b>"52"</b> (CP 2501), PC 71 (CP 2000) or PC 92 (Statutory Notice), as appropriate, to close the case.</div> <div><b>Note:</b> Do not include AGI/TXI changes for amounts that the taxpayer has not</div> <div><b>Caution:</b> Do not use IPC CR, RN, DR, or SR to create the assessment record when the tax change is zero.</div>

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If	And	Then
Recomputed net tax change is	Taxpayer or authorized representative acknowledges the existence of a remaining balance due/refund (for example, submits a payment, a signed Form 1040-X, requests a "bill" or "notice" <b>and</b> the recomputation is equal to or less than the payment amount (or the taxpayer did not submit a payment), access the Summary screen and input the appropriate Notice Indicator	<ol style="list-style-type: none"> <li>1. Enter/Verify the appropriate entries on all screens.</li> <li>2. Input appropriate indicator in the NOTICE IND field of the Summary screen.</li> <li>3. Close the case with IPC <b>"CR"</b> (Recomputed notice after CP 2501), <b>"RN"</b> (Recomputed Notice), or IPC <b>"SR"</b> (Statutory Recomputation Notice).</li> </ol> <p><b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.</p>
Recomputed net tax change is	Taxpayer or authorized representative acknowledges the existence of a remaining balance due/refund (for example, submits a payment, a signed Form 1040-X, requests a "bill" or "notice") <b>and</b> the recomputation is more than the payment amount	<ol style="list-style-type: none"> <li>1. Adjust the MISCELLANEOUS CREDITS field of the Non-Refundable Credits window (in Return Value) to arrive at the payment amount as the recomputed net tax change amount.</li> <li>2. Close the case with IPC <b>"RN"</b> (CP 2000) or <b>"SR"</b> (Statutory Recomputation Notice). In the Notice IND field of the Summary screen input <b>"8"</b>.</li> </ol> <p><b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR or CR/DR.</p> <p><b>Note:</b> IPC "DR" is not appropriate in this situation, the taxpayer agrees to part of the UR issue.</p>

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(11) When Form 9465, Form 433-D or written IA request is attached:

If	Then
If the case is closed No Change and there is no balance on the module	Remove the flag (if present) and leave Form 9465, Form 433-D or written IA request with the case.
If the case is closed No change and there is a module balance	Remove the flag (if present). Complete Form 4442, attach Form 9465, Form 433-D or written IA request and forward to Collections indicating AUR case was closed No Change.
Issuing a revised notice (PC 57, 59, or 95)	If there is no flag, securely attach a flag indicating "IA" to the Form 9465, Form 433-D or written request. Leave the Form 9465, Form 433-D or written request in the case file.
Issuing a recomputed notice (IPC RN, SR, CR or DR) <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR.	Remove the flag (if present) and send Form 9465, Form 433-D or written IA request and send to Collections.

- (12) If there is a recomputed refund less than \$1 and the taxpayer requests a refund, issue it using manual refund procedures in IRM 21.5.1, General Adjustments, IRM 21.4.4, Manual Refunds, and IRM 21.5.2, Adjustment Guidelines.

**Note:** Leave a case note documenting the actions taken when processing manual refunds.

#### 4.19.3.22.6.1

(09-01-2022)

#### Recomputation Notice/Supplemental Report

- (1) Rework and input appropriate indicators to:
  - Recompute the tax when the taxpayer's response is partially agreed
  - Correct an erroneous CP 2000 or Statutory Notice
  - Send the taxpayer an "information only" notice
  - Suppress the issuance of another CP 2000 when the taxpayer has partially agreed and provided revised figures
- (2) The system recomputes the tax, if required, based on changes input on applicable screens and windows. The interest updates and any payment submitted by the taxpayer is included on the recomputed notice. PARAGRAPH 87 automatically generates when the payment posted as a TC 640 (see Exhibit 4.19.3-7, CP PARAGRAPHS). However; if the payment posted as a TC other than TC 640, **send PARAGRAPH 87**. See IRM 4.19.3-7, CP PARAGRAPHS. When the notice is complete, if there is an entry in the MANUAL INTEREST field on the Return Value screen or the Summary screen, transfer the case to the designated SEID. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for further instructions.

**Note:** Enter the payment in the Return Value screen or the Summary screen when using IPC/PC CR, DR, MI, RN, SR, 57, 59, or 95 (N/A if using Notice Indicator 8).

- a. All screens and windows used in the initial analysis of the case are available to the response tax examiner.
- b. After the case is reworked and if the proposed Social Security Tax on Tips Penalty and/or FTF penalty still need to be partially or fully abated, select the Limit Penalties window. See IRM 4.19.3.18.8, Limited Penalties, for further instructions. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Penalties.

(3) When a condition exists that requires a recomputation notice:

- a. Enter/Verify the total of all payments credited towards the taxpayer's current AUR account received subsequent to our initial contact notice in the AMOUNT PREVIOUSLY PAID field on the Return Value or Summary screen.

**Note:** When the taxpayer's response indicates a payment was made, research Tax Account screen or IDRS for payments previously made. Enter/Verify on Return Value or Summary screen in the AMOUNT PREVIOUSLY PAID field, when issuing a recomputed or amended notice to the taxpayer.

- b. Input Amended Indicator A (for amended notices) and Notice Indicators 0 - 5, 7 or 8 in the appropriate INDICATOR field(s) on the Summary screen.

**Note:** Do not use BOTH the Amended AND a Notice Indicator on a case unless the previous PC is 59 or 95.

Notice Indicator	Definition	Process Code
0	The 90-day period for petitioning the U.S. Tax Court has expired.	IPC SR IPC DR
1	The 90-day period for petitioning the U.S. Tax Court is not expired.	PC 95
2	A response to a CP 2501 was received.	PC 57
3	No response to the CP 2501 was received.	PC 57
4	Information supplied by the taxpayer used to refigure the amount of tax they now owe the IRS.	PC 59
5	The documentation or explanation that the taxpayer provided was not sufficient to allow waiving the Accuracy-Related Penalty Due to Negligence or Substantial Understatement of Tax.	PC 59



Notice Indicator	Definition	Process Code
7	The taxpayer indicates partial agreement, sends information to refigure their tax, meets “agree criteria” and the notice is being sent for informational purposes ONLY.	IPC CR IPC RN IPC SR
8	Used when the taxpayer partially agrees to the CP 2000, <b>AND the Non-Refundable Credit window</b> is used to make the system taxpayer has agreed to some of the proposed items, explained the other discrepancies satisfactorily, and recomputed the figures on the CP 2000. Indicator 8 updates the recirculating file (for an automatic assessment) but does not generate or send a notice to the taxpayer.	IPC CR IPC RN IPC SR

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**Reminder:** Remove TDC “Y” indicator if present in the Summary screen when using IPC RN/SR or CR/DR.

- (4) Elements of IRs that were not sent on the original CP 2000 can be selected for inclusion on the recomputation notice. Mark the elements of additional IRs with Send Indicator “S”.

**Reminder:** If an element of an IR is NOT to be included, the Send Indicator “S” must be removed.

- (5) Review the notice PARAGRAPHS in the Summary screen. Delete any PARAGRAPHS that no longer pertain to the recomputed notice (for example, the original issue requiring the PARAGRAPH has been resolved).
- (6) If a decrease to the tax deficiency is necessary after a Statutory Notice was issued, issue a recomputed CP 2000 using PC 95 (if there is sufficient time left on the Statutory Notice suspense period). If there is not sufficient time:
- Input IPC SR or IPC DR and Notice Indicator 0 (zero); OR,
  - Send a Letter 1151-C to the taxpayer and input IPC “8M”.

**Note:** Issuance of a Statutory Notice does not extend the period for assessing FICA tax.

- (7) If the taxpayer’s response indicates agreement to a tax increase that is more than the deficiency shown on the Statutory Notice and:

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Statutory Notices.

- c. The taxpayer supplies revised tax figures, see IRM 4.19.3.22.11, Instructions Specific to Statutory Notices/Responses.

(8) When Form 9465, Form 433-D or written IA request is attached

If	Then
Issuing a revised notice (PC 57, 59, or 95)	Leave the Form 9465, Form 433-D or written IA request in the case file. If there is no flag, securely attach one indicating "IA" to the Form 9465, Form 433-D or written IA request.
Issuing a recomputed notice (IPC RN, SR, CR or DR) <b>Reminder:</b> Remove TDC "Y" indicator if present in the Summary screen when using IPC RN/SR.	Remove the Form 9465, Form 433-D or written IA request and send to Collections.

4.19.3.22.7  
(08-26-2016)

#### Responses Needing Further Action

(1) AUR receives responses that require additional action before the case can be closed. Additional action may include:

- Correspondence with the taxpayer via a letter or recomputation notice
- Correspondence with a payer
- Research
- Referral
- Routing of information, including non-IRP related inquiries
- Address updates
- Extension of the CP 2000 suspense period
- Telephone contact
- Designation as an ARDI case (Proposed Adjustment of \$100,000 or more) see IRM 4.19.3.22.1.3, Accounts Receivable Guidelines.
- Form 9465 or Form 433-D see IRM 4.19.3.22.1.21, Installment Agreements.

**Note:** Do not issue multiple Letter 2626Cs to request the same information and/or documentation or to provide the taxpayer the same clarification. If unable to secure the information after the second attempt, continue processing.

- (2) If the taxpayer wants to talk to (or have their case reviewed by) a **manager**, refer the case to a manager. The manager will attempt to resolve the issue(s) by telephone contact. If the telephone contact does not resolve the issue(s), continue normal processing.
- (3) If, in response to a request to verify a previous response of "didn't file a tax return", the taxpayer submits a tax return or a signed statement that they did not have a filing requirement, see IRM 4.19.3.22.1.26.3, IDT Claims - Responses.

4.19.3.22.7.1  
(09-21-2020)  
Responses Needing  
Correspondence

- (1) Tax examiners determine if further contact would help to resolve the U/R issue. Issue a letter or contact the taxpayer by telephone when:
- A response indicates the taxpayer does not understand the notice

The taxpayer requests further information regarding taxability

Further contact will help resolve the U/R issue

**Note:** Document any telephone contacts in the case note or TP Info window.

- (2) If the taxpayer replies the U/R income **belongs to another person** and does not provide the name OR the SSN of the recipient:
- a. Send Letter 2626C to request the name and SSN of the person responsible for the income and recommend the taxpayer contact the payer to correct their records.

b. If the taxpayer responds to the Letter 2626C and provides EITHER the

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c. If the taxpayer responds to the Letter 2626C by stating they are unable to furnish either the name or SSN of the person, issue a CP 2000 (CP 2501 phase), Statutory Notice (CP 2000 phase). If a Statutory Notice was issued, send the appropriate letter and send a Special Paragraph using the following verbiage as an example: “We are unable to change the proposed adjustment to your income tax based on your explanation that the income belongs to another person because you did not provide the name and social security number of the actual recipient.”

d. If the taxpayer does not respond to the Letter 2626C, issue a CP 2000 (CP 2501 phase), a Statutory Notice (CP 2000 phase) or, if a Statutory Notice was issued, resuspend the case for the remaining time in the Statutory Notice suspense period.

**Caution:** If deleting Wage IRs, see IRM 4.19.3.22.7.4, Referrals, to prepare a Form 9409 unless the taxpayer has provided an SSA determination letter, on the WAGE IR(s) in question.

- (3) If the taxpayer replies the U/R income belongs to a minor child and no return was required, accept the taxpayer’s explanation at face value if the U/R

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table below follow instructions in (2)a – d above.

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- (4) If the taxpayer disagrees with our proposal because they did not receive the Form W-2 or Form 1099, inform the taxpayer they are responsible for reporting all taxable income received.
- (5) Send Letter 2626C using paragraph **N** to inform the taxpayer that they will need to contact the payer.

If	And
Taxpayer disclaims knowledge of the income or disputes the amount	<ul style="list-style-type: none"> <li>The IR was <b>NOT TIN PERFECTED</b></li> </ul>
The taxpayer disputes the amount	<ul style="list-style-type: none"> <li>The IR was <b>NOT TIN PERFECTED</b></li> </ul>

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- (6) If the taxpayer indicates they attempted to contact the disputed payer, but the issue wasn't resolved (the payer did not respond or refused to provide information), and the taxpayer continues to disclaim knowledge of or dispute the amount(s), send Letter 2626C using paragraph **O** and include Form 2624, Consent for Third-Party Contact, as an enclosure. See IRM 4.19.7.12.3(16), Selecting, Creating, Editing and Deleting Letter Paragraphs, for additional information.
- (7) If the taxpayer returns the completed Form 2624, Consent for Third-Party Contact, refer to IRM 4.19.3.22.7.6, Payer Contacts.

**Note:** Payer contact **cannot** be made unless a signed Form 2624 is provided.

- (8) If the taxpayer requests a **copy of the tax return** for the open AUR tax year, mail a photocopy of the paper return to the taxpayer at no charge. If the taxpayer filed electronically print a transcript using AMS, Control D (for MFTRAX) or IDRS CC TRPRT to mail to the taxpayer.
- (9) If the taxpayer requests that we deduct the AUR **balance due from their expected refund**, and
- The case is being closed (assessed), see IRM 4.19.3.22.5, Agreed Responses, for additional information.
  - The case cannot be closed, issue a Letter 2626C (include paragraph "n") or
  - A recomputed notice is being issued, **send PARAGRAPH 177**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (10) If the taxpayer requests to have their estimated tax payment election reversed to be applied towards the additional tax liability. Send a Special Paragraph using the following verbiage as an example: "The election to apply part or all of the overpaid amount to your subsequent year estimated tax payments is binding and cannot be changed at this time".
- (11) If the taxpayer requests an explanation for the **amount of time it took the IRS to notify them** of the unreported income, issue a Letter 2626C, and include paragraph "K". If issuing a recomputed notice **send PARAGRAPH 181**. See Exhibit 4.19.3-7, CP PARAGRAPHS.
- (12) If the taxpayer admits that the U/R income was **reported in an incorrect tax**

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W/H is an issue, take the following action:

1. Inform him/her that the proposed tax assessment on the CP 2000 is correct. Advise the taxpayer to file Form 1040-X to adjust the income claimed in the incorrect year. **Send PARAGRAPH 89**, see Exhibit 4.19.3-7, CP PARAGRAPHS.
  2. Obtain the taxpayer's signature (both signatures on a jointly filed return) if it was not on the previous correspondence. After receiving the signature(s), make the assessment and close the case.
- (13) When the response indicates the **investment income (for example, Int, Div, CG) was reported on Form 8814 (parent's return)** and the taxpayer reported non-investment income on their return, do not accept the explanation. Advise the taxpayer that the income must be reported on their return. Send a Special Paragraph using the following verbiage as an example: "The income cannot be claimed on your parents Form 8814 since you reported non-investment income on your return."
- (14) If the taxpayer requests a **copy of Form W-2, 1099 series, Schedule K-1 or other payer documents**, advise him/her to request a duplicate copy from the payer. If issuing a recomputed notice, **send PARAGRAPH 180** (see Exhibit 4.19.3-7, CP PARAGRAPHS). Whenever possible, provide the taxpayer with the payer's name and address.
- (15) If the U/R issue is resolved, but the taxpayer states that another amount was not claimed, underclaimed, or overstated on the original return, and the taxpayer **provides sufficient information**, enter/verify the appropriate entries on all applicable windows to make the adjustment. Use good judgement in determining if the taxpayer is entitled to this adjustment. If questionable issues are involved (for example, increased exemptions) discuss with a manager/lead to determine the action to be taken.

**Reminder:** NOL carryback/carryforward cases are not worked by AUR, see the Exception at IRM 4.19.3.22.1.7, Adjustment Cases Relating to AUR.

- (16) If the U/R issue is resolved, but the taxpayer states that another amount was not claimed, underclaimed, or overstated on the original return and the taxpayer **does NOT provide sufficient information** to make the adjustment, close the case. Issue a Letter 1802-C to the taxpayer with a Special Paragraph using the following verbiage as an example: "Form 1040-X can be used to reduce the income you indicated was overstated on your original return. Form 1040-X is available at 800-829-3676 or online at irs.gov."

**Note:** Be alert to Statutes of Limitations. See IRM 4.19.3.2.2, Statute Awareness Program.

- (17) If the taxpayer requests to **change their filing status**, see IRM 4.19.3.22.7.4, Referrals.

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- (19) If the taxpayer indicates they will be submitting a Form 1040-X, take the following actions:

1. Issue a Letter 2626C, include a Special Paragraph using the following verbiage as an example: "Your response indicated that you will be filing an amended tax return. Please send a signed copy, including all appli-

cable forms and schedules to the address shown on this letter. To ensure that the amended return is received by the appropriate area, please attach a copy of this letter to the front of the amended return.”

2. Input appropriate IPC.

4.19.3.22.7.2  
(06-19-2018)  
**Responses Needing  
Research and  
Correspondence**

- (1) If the taxpayer states U/R **income was reported**, review the return and the Tax Account screen for applicable adjustments. If the income cannot be found, issue a Letter 2626C. Send a Special Paragraph using the following verbiage as an example: “You indicated that the income in question was reported. However, we are unable to find this income on your return. Please indicate where on your return the income is reported, so that we can give you proper credit.”

- (2) If the taxpayer indicates the U/R income was **reported on Form 1065 (Partnership), Form 1120-S (Small Business), or Form 1041 (Trust)**, check the return to see if the taxpayer reported income or a loss from these sources.

**Exception:** If the U/R income is conduit, do not accept taxpayer’s explanation. Advise the taxpayer the income should be reported on Schedule E, Part II or Part III or they must provide a corrected Schedule K-1.

shown on Schedule E.

- b. If the taxpayer provides the name and/or the EIN of the business,
- c. If no income or loss is reported, or the name and/or EIN of the business is not provided, issue a Letter 2626C to request additional information.

- (3) If the taxpayer response states that we did not adjust the **non-refundable carry forward credit(s)** and:

Refundable Credit window.

- b. Does not address the subsequent year carry forward credit issue, research the subsequent tax year (using IDRS CC IMFOL) for evidence
- c. Does not address the subsequent year carry forward credit issue and there is no indication that the subsequent year return was amended or if the subsequent year tax return has not been filed, issue a Letter 2626C. Inform the taxpayer that we cannot adjust the allowable amount of credit until **either** the filed subsequent year tax return has been amended/ corrected **or** a signed statement is received confirming that the carry forward credit records have been corrected.

- (4) If the taxpayer replies that **a payment was submitted**, but there is no indication on the Tax Account screen that the payment was received and at least three weeks have passed since the IRS Received Date:

1. Use the IAT “TC Search” tool to research the payment.

**Note:** If there is no record of the payment, research IDRS CC TXMOD as the payment may be pending or unpostable. If the payment is unpostable, action to resolve the unpostable condition must be initiated within 7 days.

2. If payment is found posted on another tax module (such as, subsequent year) ensure the payment is transferred to the correct module using the IAT "Credit Transfer" tool.
3. If no record of the payment is found, issue a Letter 2626C to request a copy of the front and back of the canceled check.
4. When the taxpayer replies with the copy of the front and back of the check, use the encoding on the check to determine where the payment has posted. The back of the check should display the following information Name Control or CK Digit, the DLN, the TC, the MFT Code, the EIN or SSN, the Tax Period and the Posting Date. See Document 6209, IRS Processing Codes and Information.

**Note:** The Remittance Tracking Research (RTR) System provides 3 years of check images (from ISRP and Lockbox Bank processing sites) and may be used to research the payment.

- (5) If the taxpayer replies that a **payment was made online or by credit card**, but there is no indication on the Tax Account screen that the payment was received and at least two weeks have passed since the payment date:

1. Use the IAT "TC Search" tool to research the payment.

**Note:** If there is no record of the payment, research IDRS CC TXMOD as the payment may be pending or unpostable.

2. If payment is found posted on another tax module (such as, subsequent year) ensure the payment is transferred to the correct module using the IAT "Credit Transfer" tool.
3. If no record of the payment is found, issue a Letter 2626C requesting a signature (both signatures for married filing joint) to complete action on the case. Advise the taxpayer that we have no record of their payment and provide them with the Accounts Management telephone number to initiate a payment tracer.

4.19.3.22.7.3

(09-01-2013)

**Extension Requests  
(Correspondence)**

- (1) When the taxpayer requests **an extension** to respond to the notice, or indicates they will obtain information and send it later, take the following action(s):

If	Then
The taxpayer requests an extension to respond to the <b>CP 2501</b> :	<ol style="list-style-type: none"> <li>1. Issue a CP 2000 with a Special Paragraph using the following verbiage as an example: "Based on your request for an extension we have issued this notice which allows you additional time to respond."</li> <li>2. Input PC 57.</li> </ol>



If	Then
The taxpayer requests an extension to respond to the <b>CP 2000</b> :	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C informing the taxpayer their request for an extension has been granted.</li> <li>2. Input IPC 6L.</li> </ol> <p><b>Note:</b> <b>DO NOT</b> grant a subsequent extension, unless extenuating circumstances apply.</p>
The taxpayer requests an extension to respond to the <b>Statutory Notice</b> :	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C advising the taxpayer that the period of time to petition the U.S. Tax Court <b>cannot be extended</b>.</li> <li>2. Input IPC 8L.</li> </ol> <p><b>Reminder:</b> All Statutory Notice responses are worked on an expedite basis.</p>

4.19.3.22.7.4  
(03-17-2023)

#### Referrals

- (1) If a **non-IRP** related inquiry is included with the response:
  1. Photocopy the inquiry and route to the appropriate function. Include the taxpayer's name, address, SSN, and the Received Date.
  2. Send an acknowledgment letter to the taxpayer.
- (2) If an **original current year return is attached** to a response, route it to the appropriate area for processing.
- (3) If the taxpayer requests to change their filing status:

From	To	Then
Married filing separately, single, or head of household	Married filing jointly <b>Caution:</b> Both taxpayers' signatures are needed for married filing joint requests.	<p>Check Tax Account for a TC 640/670. If no payment is present, go to step 4 otherwise:</p> <ol style="list-style-type: none"> <li>1. Access the AUR Assessment window and change the AUTO/MANUAL indicator from "A" (auto) to "M" (manual).</li> <li>2. Commit &lt;F4&gt; the Assessment window.</li> <li>3. Access IDRS and input TC 290 .00 with Hold Code 4.</li> <li>4. Send Letter 1802-C to inform the taxpayer their request for a filing status change has been sent to the appropriate area.</li> <li>5. Input closing PC 71 (CP 2000) or PC 96 (Stat).</li> <li>6. Send the case file to Accounts Management.</li> </ol> <p><b>Caution:</b> Be sure that all U/R issues have been answered by the taxpayer prior to transferring the case to Accounts Management. If not, correspond with the taxpayer to resolve all U/R issues before sending the case to Accounts Management.</p>
Married Filing Joint	Any other filing status after the due date of the return	<ol style="list-style-type: none"> <li>1. Disallow the request.</li> <li>2. Send the appropriate letter and include a Special Paragraph using the following verbiage as an example: "Once you file a joint return, you may not change your filing status for that year after the due date of the return."</li> </ol> <p><b>Note:</b> If the taxpayer states the return is invalid, see IRM 4.19.3.5.8.2, AUR Tax Examiners Fraud Responsibilities.</p>

**Note:** If any other filing status change is requested, the AUR system uses the correct filing status to recompute the tax, when the filing status is changed on the Return Value screen. However, Master File adjustments are necessary. IDRS CC ENMOD must be updated.

**Note:** AUR may receive requests for filing status changes based on the June 26, 2013 Supreme Court ruling on a provision of the 1996 Defense of Marriage Act (DOMA) and Rev. Rul. 2013-17. The effect of the Supreme Court's

opinion is that same-sex couples who are lawfully married under state law are treated as married for all federal tax purposes including income and gift and estate taxes. The ruling applies to all federal tax provisions where marriage is a factor, including filing status, claiming personal and dependency exemptions taking the standard deduction, employee benefits, contributing to an IRA and claiming earned income tax credit (EITC) and child tax credit (CTC).

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- (5) If the taxpayer response includes a petition for U. S. Tax Court refer to the table below to determine the correct actions to take:

If	Then
The <b>petition was received timely</b> (within the 90-day period required or 150-day period, if mailed to a person outside the United States)	<ol style="list-style-type: none"> <li>1. Prepare Letter 4370. Attach a copy of the letter to the Petition and print a copy of the letter for the case file.</li> <li>2. Prepare Form 3210, attach to the petition and Letter 4370. Using regular mail, send to: United States Tax Court, 400 Second Street, NW, Washington, DC 20217. <b>Caution:</b> The envelope containing Form 3210, Letter 4370 and the petition must be postmarked on or before the 90/150-day time period expires.</li> <li>3. Issue Letter 2626C to acknowledge receipt and respond to any AUR issues and include a Special Paragraph using the following verbiage as an example: "We received your petition and forwarded it to the U.S. Tax Court at 400 Second St. NW, Washington, DC 20217. We can't guarantee the petition will be considered timely since it wasn't mailed directly to the Tax Court, as stated in the Statutory Notice of Deficiency. Please contact the Tax Court to confirm receipt of your petition."</li> <li>4. Leave a detailed case note.</li> <li>5. Take any other appropriate actions.</li> <li>6. Input the appropriate PC.</li> </ol>

If	Then
The petition <b>was not received timely</b> (within the 90-day period required or 150-day period if mailed to a person outside the United States)	<ol style="list-style-type: none"> <li>1. Issue Letter 2626C to acknowledge receipt and respond to any AUR issues and include a Special Paragraph using the following verbiage as an example: "We're returning your petition to U.S. Tax Court, which should've been mailed to 400 Second St. NW, Washington, DC 20217, as stated in the Statutory Notice of Deficiency. The last day to petition Tax Court was XX/XX/XXXX and there is no provision in the law to extend the period for filing a petition." <b>Caution:</b> Ensure the last day to petition Tax Court is included in the Special Paragraph.</li> <li>2. Return the petition to the taxpayer using Form 14219, Return of Documents to Taxpayer, or a cover letter.</li> <li>3. Leave a detailed case note.</li> <li>4. Take any other appropriate actions.</li> <li>5. Input the appropriate PC.</li> </ol>

- (6) When deleting WAGES IRs, correct the taxpayer's records by preparing Form 9409, including full AUR contact information at the bottom of the Form. Mail Form 9409 to the Social Security Administration (SSA) at the following address:

**Note:** Form 9409 should **ONLY** be used for Wage IRs that contain the SSWAG element.

Social Security Administration

Office of Earnings Records Operations

6100 Wabash Ave.

LL-F-1A

Baltimore, MD 21215

- (7) Do not complete Form 9409 if:

- The SSN has been TIN perfected or is an ITIN (begins with "9") as these will be rejected by SSA.
- The employer indicates that the information has been corrected with SSA (Form W-2C, Statement of Corrected Income and Tax Amounts).

- (8) If the taxpayer wants their case sent to their local **Area Office**, advise the taxpayer that their case cannot be transferred to the local Area Office. Attempt to resolve the issue(s) by telephone contact. If **the telephone contact does not resolve the issue(s)** and:

**Note:** See IRM 4.19.3.22.1.8, Independent Office of Appeals, when the taxpayer wants the case sent to Appeals.

- a. The **Statutory Notice has not been issued**: Inform the taxpayer that a Statutory Notice of Deficiency will be issued via certified mail. Leave a case note documenting the phone contact (including if the taxpayer is uncooperative). Input PC 75.
  - b. The **Statutory Notice has been issued**: Advise the taxpayer that they need to file a petition with the U.S. Tax Court, following the instructions in the Statutory Notice they received. For filing status other than married filing joint, advise the taxpayer that if their intent is to change their filing status to Married Filing Joint, **they MUST do so before** filing a petition with the Tax Court as they will be precluded from changing their filing status once the petition is filed with the Tax Court. Remind the taxpayer that they must file their petition within the 90-day period. Also, inform the taxpayer that a case petitioned to the U.S. Tax Court will usually be considered for settlement by Appeals before their trial date. If necessary, refile the case for the remainder of the Statutory Notice suspense period or until you are notified to pull the case from suspense because the taxpayer filed a U.S. Tax Court petition.
- (9) If the taxpayer wants their case sent to their local **Area Office** advise the taxpayer that their case cannot be transferred to the local Area Office. Attempt to resolve the issue(s) by telephone contact. If **unable to contact the taxpayer by telephone**, leave a case note documenting the attempt and:
- a. The **Statutory Notice has not been issued**: Issue a Letter 2626C, advise the taxpayer that we are unable to transfer their case to the local area office. Inform the taxpayer that a Statutory Notice of Deficiency will be issued via certified mail. Input PC 75.
  - b. The **Statutory Notice has been issued**: Issue a Letter 2626C advising the taxpayer that we are unable to transfer the case to the local area office and that they need to file a petition with the U.S. Tax Court, following the instructions in the Statutory Notice they received. Remind the taxpayer that they must file their petition within the 90-day period. Also, inform the taxpayer that a case petitioned to the U.S. Tax Court will usually be considered for settlement by Appeals before their trial date.

4.19.3.22.7.5  
(07-11-2022)

**Exam Technical Advice  
and Cat A Referral  
Procedures**

- (1) Exam technical advice and CAT A referrals will be directed to the AUR aligned SBSE Exam site. Referrals will be made via efax unless the SBSE Exam is co-located with AUR.
- (2) Exam has a 15-day turnaround timeframe and will notify the site AUR coordinator by email of the determination.
- (3) The AUR Coordinator will keep recordation of cases referred to Exam and the determination of the cases that Exam provides.

- (4) Refer response technical advice questions or cases meeting CAT A criteria to SBSE Exam. Prepare efax cover sheet (or referral sheet for co-located sites): notate the following:
- Status of the AUR case (pre-Stat, Stat notice, or Recon).
  - ASED (Assessment Statute Expiration Date). IF ASED is within **14 months notate "IMMINENT"**.
  - Description of the referral, i.e., CAT A or Technical Advice.
  - AUR Coordinator's name and phone number.
  - Date of the referral.

**Note:** Forms 1040-X/Amended Returns **MUST BE SIGNED** before they can be referred to Exam.

**Exception:** If ASED will expire within 180 days, do not refer. Continue normal case processing.

- (5) Fax the cover sheet, AUR case contents, including a copy of the last CP 2501 or CP 2000 Notice, and the **entire** response to the aligned SBSE classification site listed in the table below. Co-located sites will physically refer.

**Note:** Leave a case note to document the referral.

Exam Site	efax number
Andover	855-241-0446
Cincinnati (AUR sites are Austin and Atlanta)	855-887-7739
Ogden (AUR sites are Ogden and Fresno)	855-244-3572
Brookhaven and Philadelphia	Physically refer, located within Campus

- (6) Exams determination email or response to the AUR Coordinator should state:

Exam Response	Actions
Case selected for audit: “ <b>Selected-close AUR controls</b> ”,	<ul style="list-style-type: none"> <li>• Leave a detailed case note of Exams determination.</li> <li>• Close case with the appropriate Exam closure PC.</li> <li>• Input -A Freeze Code, if one is not present. Input TC 971 AC 013 using the IAT “REQ77” tool.</li> </ul> <p><b>Reminder:</b> The IAT “REQ77” tool must be used to input/update the TC 971. See IRM 4.19.3.2.6, Integrated Automated Technologies, and Exhibit 4.19.3-18, Mandated IAT tools, for additional information.</p>
Taxpayer’s explanation/information accepted: “ <b>Accepted as filed</b> ”	<ul style="list-style-type: none"> <li>• Leave a detailed case note of Exams determination.</li> <li>• Work the case, as appropriate.</li> </ul>
Taxpayer’s explanation/information <b>not accepted</b> : The email will also include a standard paragraph to be sent to the taxpayer explaining why their information is not acceptable/allowable.	<ul style="list-style-type: none"> <li>• Leave a detailed case note of Exams determination.</li> <li>• Work the case as appropriate. Provide the taxpayer with the information supplied by Exam.</li> </ul>

4.19.3.22.7.6  
(06-28-2021)  
**Payer Contacts**

- (1) Payer contacts will only be made when the taxpayer returns a completed Form 2624, Consent for Third-Party Contact, for the disputed payer. If a completed Form 2624 has not been provided, issue Letter 2626C to request the information. See IRM 4.19.3.22.7.1, Responses Needing Correspondence.

**Note:** A separate Form 2624 must be provided for each disputed payer.

- (2) Per RRA 98 Section 3417, third-party contact requirements must be followed whenever a Letter 2625C is sent to a third-party.
- When a Letter 2625C is generated through the AUR system, the third-party information for Form 12175, Third-Party Contact Report Form, is systemically uploaded.
  - When the Letter 2625C is manually issued through the IAT “Letters” tool or IDRS, *Form 12175* Form 12175 must be manually completed and forwarded to the designated Third-Party Coordinator. To find the designated Third-Party Coordinator go to *Third-Party Contacts - Exam Technical Services*.



**Reminder:** Manually completed Form 12175 should be routed to the designated Third-Party Coordinator weekly.

- (3) If the taxpayer disclaims knowledge of the income/payer or disputes the amount and provides a completed Form 2624 for the payer, research IDRS using CC INOLE or ENMOD to obtain the employer/payer address; if the payer see (4) below. #

**Reminder:** Do **not** issue a Letter 2625C to the Social Security Administration, see IRM 4.19.3.22.3.12, Social Security/ Railroad Retirement (SS/RR).

- (4) To issue Letter 2625C:

1. Update the address for the employer/payer on the AUR system using the Update Address window with Address Type B1 - B9, as appropriate.
2. Issue Letter 2625C to the employer/payer; ensure the correct SSN is input in the "07" fill-in field in paragraph "D".

**Caution:** Input of the correct SSN in the "07" fill-in field in paragraph "D" is imperative to prevent unauthorized disclosure.

3. Always select paragraph "R" and enter "**Signed Form 2624**" in the fill-in field. Always select paragraph "X"; ensure the correct SSN is input in the "36" fill-in field in paragraph "X". Include other applicable paragraphs to compose the body of the letter.

**Caution:** Input of the correct SSN in the "36" fill-in field in paragraph "X" is imperative to prevent unauthorized disclosure.

**Note:** When a third-party contact letter is mailed to an individual, paragraph "W" MUST be included on the Letter 2625C.

4. Make a copy of the completed Form 2624 for the case file. Include the original form as an enclosure to Letter 2625C. See IRM 4.19.7.12.3(16), Selecting, Creating, Editing and Deleting Letter Paragraphs, for additional information.
5. Leave a detailed case note.
6. Send a letter to advise the taxpayer we are contacting the payer and will contact them again within 60 days. Address any other issues from the response, as appropriate.

**Note:** If the taxpayer agrees they received income but disputes the amount and does not provide the correct amount, request the correct amount and any supporting documentation.

- (5) If Letter 2625C was issued, take the following actions when the **employer/payer responds or if the employer/payer does not respond:**

If	Then
The Letter 2625C was <b>mailed to an individual</b> , and the response indicates "Fear of Reprisal"	<ol style="list-style-type: none"> <li>1. Document the case file. <b>Note:</b> Any concern raised by the third-party with respect to reprisal will be taken at face value. Do not question any third-party claims to reprisal.</li> <li>2. Replace the Form 12175 that was previously completed; either manually or systemically, with a new Form 12175 to reflect the reprisal determination.</li> <li>3. Route Form 12175 to the designated Third-Party Coordinator. To find the designated Third-Party Coordinator go to: <i>Third-Party Contacts - Exam Technical Services</i>.</li> </ol>
The information provided by the employer/payer indicates the income does not belong to the taxpayer	<b>Note:</b> If the result is a no change closure, use normal no change PCs, not those designated for Stolen Identity.
The employer/payer indicates the same situation occurred in a subsequent year	<p>response from the employer/payer and the IR(s) to the subsequent year's return.</p> <p><b>Note:</b> If the result is a no change closure, use normal no change PCs, not those designated for Stolen Identity.</p>
The information provided by the employer/payer indicates that the income DOES belong to the taxpayer (the name and SSN on the IR is correct)	<ol style="list-style-type: none"> <li>1. Issue a Letter 2626C to inform the taxpayer that the employer/payer verified the income for the taxpayer's name, address, and SSN and that we can't change our notice without a corrected payer document.</li> <li>2. Include a copy of the payer response as an enclosure. See IRM 4.19.7.12.3(14), Selecting, Creating, Editing and Deleting Letter Paragraphs, for additional information. <b>Caution:</b> If Letter 2625C was <b>mailed to an individual, and the response indicates "Fear of Reprisal"</b>, ensure the individual's name is removed from the copy of the Letter 2625C response, before sending to the taxpayer.</li> <li>3. Continue processing the case.</li> </ol>

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If	Then
The information provided by the employer/payer indicates that the income DOES belong to the taxpayer (the name and SSN on the IR is correct) but provides a different amount	<ol style="list-style-type: none"> <li>1. Issue a revised notice including the amount of income the payer provided.</li> <li>2. Include a Special Paragraph explaining the payer verified the amount of income shown on the notice.</li> <li>3. Remove the Send Indicator from the IR in question.</li> <li>4. Leave a detailed case note.</li> </ol>
If it <b>cannot be determined</b> that the income belongs to the taxpayer OR if the payer does not respond to Letter 2625C or refuses to furnish the necessary information, <b>AND</b> the taxpayer disclaims knowledge of or denies receipt of the income	<b>Note:</b> If the result is a no change closure, use normal no change PCs, not those designated for Stolen Identity.
The payer does not respond to Letter 2625C or refuses to furnish the necessary information, <b>AND</b> the taxpayer agrees they received the income but disputes the amount	

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**Reminder:** When deleting Wage IRs, see IRM 4.19.3.22.7.4, Referrals, to prepare a Form 9409 unless the taxpayer has provided an SSA determination letter, on the WAGE IR(s) in question.

(6) If the **taxpayer responds AFTER the employer verifies the income** and still disclaims knowledge or denies receipt of the income, take the following actions:

1. Issue a Letter 2626C and include a Special Paragraph, using the following verbiage as an example: "The payer has confirmed that the income was paid to your social security number. If you believe that someone is illegally using your social security number, please send either a completed, signed Form 14039, Identity Theft Affidavit (available at [irs.gov](https://www.irs.gov)) or a copy of a police report and provide a signed statement identifying each specific item(s) that is a result of the identity theft."

**Note:** The case is not considered IDT until the taxpayer makes a claim. Use the appropriate non-IDT letter IPC.

**Exception:** Phone assistants may provide this information during a call, in lieu of sending Letter 2626C. If after being provided the information, the taxpayer still disclaims knowledge of or denies receipt of the income, advise the taxpayer we can't change our notice without a corrected document from the payer.

2. Advise the taxpayer we can't change our notice without a corrected document from the payer.
3. Continue processing the case.

**Reminder:** When deleting Wage IRs, see IRM 4.19.3.22.7.4, Referrals, to prepare a Form 9409 unless the taxpayer has provided an SSA determination letter, on the WAGE IR(s) in question.

4.19.3.22.7.7  
(11-08-2005)

**Prior and/or Subsequent  
Year Impact**

- (1) If the taxpayer's response indicates that the same error of income omission was made on a subsequent and/or prior tax year:
  1. Process the AUR issue(s) per normal procedures.
  2. Send the appropriate letter and inform the taxpayer to file a Form 1040-X to include the omitted income in the affected tax year.
- (2) If the taxpayer's response includes acceptable explanations for some or all of the AUR issues **AND** indicates that the same erroneous payer information will occur in the subsequent year, take the following action:
  1. Leave a case note explaining that a copy of the taxpayer's response was sent to be associated with the subsequent year tax return.
  2. Advise the taxpayer that a copy of their response has been forwarded to be associated with their subsequent year's tax return.
  3. Research IDRS for the subsequent year tax return DLN in order to forward a photocopy of the response to the Campus Files Function.

If	Then
The subsequent year tax return was Electronically filed, there is no paper return stored in the Campus Files function to associate the photo-copied response.	Use IDRS to post a TC 290-0 in a "05" blocking series. Do not use an attachment or association form.
There is an indication that the subsequent year's tax return has not yet been filed,	Correspond with the taxpayer and advise them to include a copy of their explanation/documentation with their tax return.

4.19.3.22.8  
(06-28-2021)

**Correspondence**

- (1) When taxpayer responses require additional correspondence, use Create Correspondence Letter screen to select the appropriate letter and applicable paragraphs. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Create Letter Window, for more information. If none of the pattern paragraphs are applicable, use a Special Paragraph.
  - a. Review Special Paragraphs before mailing.
  - b. To prevent unnecessary communication, **ensure all issues are addressed.**
- (2) When correspondence includes the name of a specific contact person, use the name of an actual IRS employee unless procedures allow for the use of a registered pseudonym. Employees who have contact with the public, and do not believe use of only their last names provides sufficient anonymity, may ask to use a pseudonym. Employees have the option of using only their last names on correspondence. Refer to IRM 10.5.7, Use of Pseudonyms by IRS Employees for detailed procedures.
- (3) When acknowledging the response input the date using the following priority:

**Exception:** When issuing Letter 4314C, input the IRS received date for the taxpayer's correspondence.

**Note:** When Letter 4314C is automatically generated by the AUR system, the acknowledgement date will be systemically input from AUR records. The date will be the IRS or AUR received date for the taxpayer's correspondence.

- a. The date the taxpayer entered on their most recent correspondence.

**Note:** If the letter is being generated based on a phone conversation, use the date of the phone call as the taxpayer response date.

- b. Envelope postmark date or date stamped by fax machine.
- c. Three days prior to the IRS Received Date.
- d. Current date.

- (4) If subsequent correspondence (other than a Recomputed Notice or Supplemental Report) on a response case requires a reply from the taxpayer, payer, or employer, use the applicable IPC to issue the letter and move the case into a suspense batch. See Exhibit 4.19.3-3, AUR Internal Process Codes, for more information about IPCs.

**Caution:** Certain conditions (for example, misplaced paragraphs, invalid money amounts) may cause letters to reject.

- (5) There are some situations where it is necessary to issue a letter to the taxpayer and take another action on the case at the same time.
  - a. Input the PC or IPC of the subsequent action. DO NOT input the IPC of the letter.
  - b. Miscellaneous letter information uploads daily to generate the appropriate IDRS letter after the batch is disassembled.

**Note:** Miscellaneous letters are generated for cases that remain in Unit Research Suspense (BT 42, 62, and 77).

- c. The letter displays the case sequence number (CSN).
- d. Clerks file cases in the appropriate suspense file based on the PC input by the tax examiner.

**Note:** Format and commit the letter screen before you exit the window or the letter will not generate. The system does NOT automatically delete a letter if the PC is changed (for example, if a tax examiner inputs a Letter 2893-C with PC 20 then decides to do a PC 55 to issue a Notice, the tax examiner must DELETE the letter first).

- (6) If the information provided by the taxpayer does not justify a change in the tax deficiency, and it is necessary to send an appropriate letter for further information, always send the Consent paragraph for a CP 2000 or a Statutory Notice.

**Note:** If a Statutory Notice was issued and a letter sent, suspend the case for the remainder of the 90-day period. If the necessary information is not present at the end of the 90-day period (150 days for notices mailed outside the United States), plus 15 additional days, the tax deficiency is assessed by default.

- (7) A letter sent to a taxpayer requesting information should have the following paragraphs, as applicable, in addition to other paragraphs sent for a specific condition:
- a. Send a paragraph that informs the taxpayer a response is needed within 30 days.  
**Exception:** The system inputs a date which is 30 days later than the letter date when a selected paragraph asks for this type of response (or 45 days for foreign addresses).
  - b. Send a paragraph requesting the taxpayer's telephone number and the most convenient time to call.
  - c. If a payment was submitted, send a paragraph acknowledging the payment.
  - d. If the taxpayer submitted a request for a payment plan, send a paragraph informing the taxpayer their request will be forwarded to the proper department once an agreement is received and a fee may be charged for processing the request.  
**Note:** If Form 9465, Form 433-D or written IA request is attached and there is no flag, securely staple a flag indicating "IA" to the Form 9465, Form 433-D or written IA request and leave in the case.
  - e. When a Statutory Notice was issued, send a paragraph to inform the taxpayer whether the 90-day period to petition the Tax Court has expired.  
**Note:** Refer to IRM 21.3.3, Incoming and Outgoing Correspondence/Letters, for further information on taxpayer correspondence.
- (8) When it is necessary to send the taxpayer a letter that is not one of the AUR online letters, there are designated letters, Campus (SC), IDRS, or a combination of both SC and IDRS, which may be used. These are considered "manual" letters.
- a. Use these manual letters on an exception basis only.
  - b. The Letter 1151-C does not update the balance due amounts in the AUR tables, and the AUR system does not monitor this type of case for special handling during the No Response processing of 30 days. For these reasons, use Recomputed Notices for this type of case.
- (9) If additional correspondence is required after the Statutory Notice was issued, make every effort to correspond with the taxpayer before the statutory period expires to allow the taxpayer enough time if they decide to petition the Tax Court. Send a Special Paragraph to inform the taxpayer that the subsequent correspondence does not extend the statutory period. Chief Counsel suggests the following wording:
- "We received the information that you sent following the receipt of the Notice of Deficiency we mailed you. Please be advised that this correspondence and reconsideration has not extended the period within which you must file a petition with the United States Tax Court, if you decide to do so."

4.19.3.22.9  
(06-28-2021)

### Disagreed Responses

- (1) A response is disagreed when:
- The taxpayer clearly does not agree with at least some part of the adjustment (excluding interest) and does not provide an acceptable explanation.
  - The taxpayer makes any comment that they do not intend to waive their appeal rights, even if the Consent to Tax Increase on the CP 2000 or the Waiver on the Statutory Notice is signed, or the tax and all penalties (except for ES Penalty, FICA Tax and/or Penalty on Tips, and Employee's share of FICA tax) have been fully paid.
  - The taxpayer submits full payment after issuance of the Statutory Notice and the necessary signature(s) are not present. Issue a Letter 2626C to acknowledge payment and request missing signature(s). If the suspense time frame has expired, input PC 90 to default the case.

**Reminder:** An out call must be attempted before issuing a Letter 2626-C. See IRM 4.19.3.22.2.4.1, Out Calls - Calling the Taxpayer, for further information.

- (2) Photocopies of the following types of responses should be sent to the FRP in Ogden (continue normal processing):

Internal Revenue Service

Attention: FRP M/S 4450

1973 North Rulon White Blvd

Ogden, UT 84404

- CONSTITUTIONAL BASIS - Refusal to provide requested information because of violation of constitutional rights, including Porth-Daley type returns, Fourth Amendment, Fifth Amendment, or Sixteenth Amendment basis.
- FAIR MARKET VALUE - The taxpayer reduced gross income because of the declining value of the dollar.
- GOLD/SILVER STANDARD - The taxpayer stated that only gold or silver currency can be taxed.
- NONPAYMENT - The taxpayer did not pay or underpaid because of belief based on reasoning other than accuracy of findings.
- VOW OF POVERTY - The taxpayer received income from non-religious sources and declares that it is nontaxable because of vow of poverty (also referred to as mail order ministry).
- DISAGREEMENT LETTER - The taxpayer disagrees with the use of taxes for war, defense, welfare, etc., and indicates that this affects reporting and payment of taxes.
- FAMILY ESTATE - Showed that income was reported on Form 1041 filed for a family, equity, pure, prime, or constitutional trust and provides the name or SSN of the actual recipient.
- OID and W/H amount on the same IR.

Additional items from the FRP web site:



- REPARATIONS - AFRICAN-AMERICANS GET A SPECIAL TAX REFUND
- NO TAXES BEING WITHHELD FROM YOUR WAGES
- I DON'T PAY TAXES, WHY SHOULD YOU?
- PAY THE TAX, THEN GET THE PRIZE
- UNTAX YOURSELF
- SOCIAL SECURITY TAX SCHEME
- I CAN GET YOU A BIG REFUND - FOR A FEE
- SHARE/BORROW EIC DEPENDENTS
- PUT MONEY IN A TRUST AND NEVER PAY TAXES AGAIN
- IRS "AGENT" COMES TO YOUR HOME TO COLLECT
- HOME BASED BUSINESS
- CLAIM DISABLED ACCESS CREDIT FOR PAY PHONES
- CLAIM OF RIGHT, includes IRC 1341 - "Compensation for personal labor" and IRC 1001
- IRC 1341

For a full list of recognized frivolous arguments, see Notice 2019-45 and refer to *The Truth about Frivolous Tax Arguments and the Dirty Dozen* for additional information.

- (3) A frivolous return or response is defined as noncompliance with filing and/or paying tax based on unfounded legal or constitutional arguments. Objecting to paying interest/penalty, being upset because they were not notified sooner, using off-color language, etc., are NOT frivolous arguments and should be handled with a normal reply to the taxpayer. If in doubt about whether the return and/or response is frivolous, consult with your lead or manager. If it is determined that the return or response is frivolous, refer a photocopy of the return and/or response to the Frivolous Tax Team in Ogden and continue normal processing.

4.19.3.22.10  
(09-21-2020)  
**Assessments**

- (1) Automatic adjustment processing was expanded to include most assessments made by the tax examiner. Tax examiners have the capability of generating an auto assessment by either entering an assessment PC or completing the assessment window.
- (2) The manual assessment document is not required on the majority of assessments but is available to the tax examiner if necessary.
- (3) The AUR system automatically creates an assessment record on all cases no later than the date listed in the table below. Information is uploaded by AUR to IDRS on tape.

Notice Type	TY 2020	TY 2021	TY 2022
CP 2000	January 5, 2024	January 3, 2025	January 2, 2026
Statutory Notice	May 3, 2024	May 2, 2025	May 1, 2026

- (4) AUR uploads the transaction codes, reference numbers, and other data items necessary for an automatic assessment for PC 67, 87, 90 and 91-93.

**Note:** AUR uploads the same information for PC 53 when it is preceded by IPC CR.

The tax examiner verifies and/or inputs the necessary items on the Assessment window to create an automatic assessment for the following PCs, when necessary:

- PC 15
- PC 20
- PC 35-39
- PC 44, 46, 47 and 48
- PC 51-53

**Exception:** When PC 53 is preceded by IPC CR, the system will upload the assessment information

- PC 62-66
- PC 68-71
- PC 73-75
- PC 77
- PC 80
- PC 82-86
- PC 88 and 89
- PC 94
- PC 95

PCs 15, 47, 51, 52, 70, 71, and 73 automatically generate a TC 290-0 for Virtual returns. If there is no information (loose forms, schedules or correspondence), to be associated with the refile DLN, enter "N" in the SOURCE DOC field in the Process Code window.

**Note:** PCs 39, 69 and 89 no longer designate identity theft closures. These PCs are input on jointly filed return cases which require assessment to MFT 31 accounts for each taxpayer. See IRM 4.19.3.22.5.1, Responses - Married Filing Joint - Single Signature on Consent, for further information.

**Reminder:** If Form 9465, Form 433-D or written IA request is attached, see IRM 4.19.3.22.1.21, Installment Agreements.

- (5) After the dates listed in the table in (3) above, ALL assessments must be input via IDRS. Use the AUTO/MANUAL box on the Assessment window to initiate printing of the assessment document.
- (6) On the AUR system, the Tax Account screen updates weekly with all the new transactions posted to the module at Master File (IDRS pending transactions do not display). Prior to selecting the Assessment window, refer to Document 6209, IRS Processing Codes and Information, for freeze codes that appear on the Tax Account screen.
- (7) If the Tax Account screen shows a -L Freeze and an open TC 420 or 424, check for a case note indicating prior contact with Exam. Take the following actions based on the results:
  1. If a case note is present indicating Exam does not want the case, continue processing and input the assessment with Priority Code 1.
  2. If there is no indication of prior contact with Exam, see IRM 4.19.3.4.3.2, Freeze Codes, to make the necessary Exam contact before inputting the assessment.

**Note:** Always use Priority Code 1 when inputting an assessment and the case contains a -L Freeze code and open TC 420.

- (8) If the Tax Account screen shows a -I Freeze, TC 29X must be input with a TC 34X to prevent an unpostable condition. Refer to IRM 20.2.5, Interest on Underpayments, for Manual Interest computation. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for additional instructions.

**Note:** Use a non-restricting TC 340, whenever possible. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340, for additional information.

- (9) Prior to the input of a refund adjustment, when there is an indication that the taxpayer is deceased refer to IRM 21.5.1, General Adjustments, and IRM 21.4.4, Manual Refunds, for manual refund procedures.

**Note:** Leave a case note documenting the actions taken when processing manual refunds.

4.19.3.22.10.1  
(08-22-2017)  
**The Assessment  
Window**

- (1) When responses are closed with a PC 53, PC 68, PC 88, or PC 94, use the Assessment window to input the adjustment. When the Assessment window is committed an assessment record generates and posts to IDRS when the batch is disassembled.

**Note:** Do not commit the Assessment window unless there is a valid assessment to be made.

- (2) If the Assessment window was committed and it is subsequently determined that an assessment is not necessary at this time, delete the assessment to prevent the assessment from posting. To delete an assessment record:

1. Use the Delete Record <F3> sequence to delete any applicable enterable field in the Assessment window.
2. Commit the window and Exit.

- (3) Adjustment data pertaining to the case displays upon entry into the Assessment window. The REASON CD, SOURCE DOCUMENT ATTACHED, and REMARKS fields are the only fields required for input by the tax examiner. Before a window is allowed to be committed, the system verifies that these fields and any other required fields have valid entries.

**Caution:** Verify the entry in the RECEIVED DATE field of the Assessment window.

- (4) **BLOCKING NUM** - The blocking series of the adjustment. For AUR adjustments, the following blocking series display:
- a. Blocking Series 500 - 519 for CP 2000 responses that are both TIMELY (within 30 days of the notice date) and FULL PAID (in their entirety) and for TC 291 (tax decrease).
  - b. Blocking Series 550 - 589 for CP 2501 responses or CP 2000 responses that are OTHER THAN FULL PAID.
  - c. Blocking Series 600 - 619 for Statutory Notice responses that are FULL PAID. A full payment is equal to or more than the balance due on the CP 2000.

- d. Blocking Series 650 - 679 for Statutory Notice responses that are **OTHER THAN FULL PAID**.
  - e. The system uses Blocking Series 05 for pre-Stat no change closures for Virtual returns to file correspondence in Document Retention.
- (5) **CORRESP DT** - This date is required on all AUR assessments when the taxpayer has submitted a response. Input using the following priority:
- a. The date the taxpayer entered on their most recent correspondence.
  - b. Envelope postmark date or the date stamped by the Fax machine.
  - c. Three days prior to the IRS Received Date.
  - d. Current date.

**Note:** In subsequent notices to the taxpayer, provide the date of the correspondence that was used for the assessment.

- (6) **DB INT TO DT** - Debit Interest to Date is the date Manual Interest was computed to on TC 34X cases. It is a required field when a TC 340 or 341 is input on the Assessment window.
- (7) **IRS RECEIVED DT** - The IRS Received Date is part of the control base history record and is systemically updated on Masterfile every time a PC is entered. If it is necessary to enter the IRS received date, determine the date using the following priority:
- a. Received date stamped on correspondence.
  - b. Envelope postmark date or the date stamped by the Fax machine.
  - c. Signature date.
  - d. Current date.
- (8) **CREDIT INTEREST DATE** (Agreement) - The taxpayer is entitled to an interest-free period if IRS fails to generate a Master File Settlement Notice to him/her within 30 days after receiving a waiver of restrictions on assessment. This interest free period begins on the 31st day after the IRS Received Date and continues until the date of the notice and demand for payment (the date an assessment is made or 23C date). The agreement date assures that any computer-generated interest on a subsequent notice to the taxpayer takes into account this interest free period if applicable. If it is necessary to input the agreement date, use the priority for determination of dates listed in (7) above. Use the following criteria to determine if an agreement date is necessary:
- a. Verify the correct agreement date is present in the Assessment window on all **agreed assessments**. Ensure that the CREDIT INTEREST DATE field is blank if the case is being assessed by Default (For example, PC 94).
  - b. Verify the correct CREDIT INTEREST DATE field is input, even on fully paid assessments. Even though interest stops automatically at the date of the payment, the taxpayer may be entitled to this interest-free suspension period on a subsequent assessment.
  - c. Verify that the CREDIT INTEREST DATE field is blank on **tax decrease cases**.
  - d. Verify that the CREDIT INTEREST DATE field is blank on **W/H, SSTAX and/or additional MCTXW adjustments with a TC 290-0** (zero).
  - e. Verify the CREDIT INTEREST DATE is blank when inputting a TC 290-0 on a **pre-Stat No Change Virtual case closure** to file correspondence in Document Retention. This prevents an unpostable condition.

- f. Verify the CREDIT INTEREST DATE is blank when inputting a TC 290-0 and adjusting AGI/TXI only.
- (9) **REFUND STATUTE CONTROL DATE (RFSCDT)** - This field helps identify cases with an expired Refund Statute Expiration Date (RSED) based on the time that has elapsed since the filing of the tax return (3-year period of limitation). The field does not display on the Assessment window since cases with this condition cannot be worked on AUR. However, if the condition exists, a warning message displays. If the message displays, place the case in unit suspense and refer to IRM 2.4, IDRS Terminal Input, for processing instructions.
- (10) **OVERRIDE CD** - An Override Code of "R" displays when the IRS Received Date is over one year old.
- (11) **TRANSACTION CODES** - Transaction codes display in the TRANS CODE field as applicable. The corresponding transaction amount displays in the TRANS AMT field.
  - a. TC 290/291 - Adjusts the tax.
  - b. TC 170/171 - Adjusts the ES Penalty when a penalty was previously assessed and there is a change to W/H.
  - c. TC 160/161 - Adjusts the Failure to File penalty.

**Note:** When the Failure to File penalty is being reversed with a TC 161, access the Tax Account screen. Add all the displayed TC 16Xs together and compare this total with the TC 161 on the Assessment window. If the TC 161 is more than the total from the Tax Account, change the TC 161 to reflect the total from the Tax Account window. This action is needed because of rounding discrepancies and prevents an unpostable condition.
  - d. TC 310 - Assesses the SS Tip Penalty. In order to post this penalty, a Reference Code 891/892 with an amount must be input. Leave an action trail indicating the SS Tip Penalty has been assessed.
  - e. TC 766 (with CRN 252) - Adjusts excess SSTAX.
  - f. TC 766/767 (with CRN 336) - Adjusts the Additional Child Tax Credit.
- (12) **SRCE CD** - These codes are used with TC 29X adjustments and display in the SRCE CD field. The Source Codes determine the statement which appears on the taxpayer's adjustment, with the Reason Code completing the statement. See Document 6209, IRS Processing Codes and Information, for a complete list of Source Codes.

**Note:** Use Source Code "9" on Default cases where no response was received.
- (13) **REASON CODES** - At least one reason code is required unless the only TC input is a TC 290 for zero amount and no reference numbers are present. Up to three Reason Codes may be used. The Reason Code(s) determine the explanation that prints on the adjustment notice. For valid codes see Document 6209, IRS Processing Codes and Information.
- (14) **HOLD CD** - Use Hold Codes with TC 29X adjustments to prevent or delay the issuance of a refund and/or notice. See Document 6209, IRS Processing Codes and Information, for a list of valid codes.

(15) **PRIORITY CD** - Priority Codes display in the PRIORITY CD field and are used to post adjustments to the Master File when certain module conditions exist. Failure to use the Priority Code when specified causes the transactions to unpost.

- a. Always use Priority Code 1 when there is an -L freeze. See IRM 4.19.3.4.3.2, Freeze Codes, for further instructions.
- b. Use Priority Code 2 when there is an -L Freeze on the account AND a refund is being issued.
- c. Use Priority Code 3 when issuing a refund.

**Exception:** Do not use Priority Code 3 when refunding a payment.

- d. Use Priority Code 5 to bring interest and penalty accruals up to date, especially on no change cases with a balance due.

**Exception:** Cases in current IA status.

- e. Priority Code 8 is system generated when there is an increase to EIC (TC 764/768 is present on the Tax Account screen).
- f. Priority Code 8 automatically generates when there is a change to W/H credits, excess SSTAX and/or additional MCTXW and a TC 170/171 is present on the Tax Account screen, but no adjustment to the ES Penalty (TC 170/171) is necessary.
- g. Priority Code 8 must be input when an AUR tax increase/decrease is within \$10 of a previous TC 290/291 adjustment.

(16) **FLC** - The File Location Code identifies the District Code for DLN purposes on foreign returns being assessed. Valid codes are 66 for Puerto Rico returns and 98 for Office of International Operations (OIO) returns. This must be input in the FLC field when applicable. Otherwise, leave this field blank.

(17) **REFERENCE CD** - The following Credit Reference Numbers, (18) - (36) below, display in the REFERENCE CODE field as applicable. The corresponding adjustment amount displays in the REFERENCE AMOUNT field.

**Note:** If more than eight (8) Reference Codes are necessary, see IRM 4.19.3.22.10.2, Over Eight Credit References.

(18) 680 - Assesses the Accuracy-Related Penalty (imposed for Negligence or Disregard of Rules or Regulations, or Substantial Understatement). The computer generates a TC 240. If the Assessment window is used to input an adjustment, the 680 does not display correctly on: CP 2501 responses, partially agreed CP 2000 responses, and Letter 1151-C responses. In these cases, manually enter or correct the displayed 680 amount. Consider the following information when entering/verifying the 680 amounts on the Assessment window:

- a. The correct negligence penalty displays in the MANUAL NEGLIGENCE PENALTY field on the Limit Penalty window. Compare this amount with the 680 amount on the Assessment window and correct the 680 amount if necessary. If the 680 is not present, use INSERT RECORD to add the 680 and corresponding amount.
- b. Refer to IRM 4.19.3.18.5, Accuracy-Related Penalty Due to Substantial Understatement of Tax, to determine if the Substantial Understatement penalty still applies. If applicable, manually compute the Substantial Understatement penalty by multiplying the NET CHANGE field in Return



Value by 20 percent. Correct the 680 amount if necessary. If the 680 is not present, use INSERT RECORD to add the 680 and corresponding amount. If the penalty no longer applies, use DELETE RECORD to delete the 680 and the corresponding amount. If both the Negligence and the Substantial Understatement penalties apply to a given underpayment, only one 20 percent penalty may be imposed.

- (19) 764/765 - Adjusts EIC.
- (20) 806/807 - Adjusts W/H.
- (21) 886 - Adjusts taxable income (TXI).
  - a. If the adjustment is a decrease, the taxable income cannot be adjusted to less than zero (0). The module shows the TXI as zero (0) even if the taxpayer's TXI on the return is a negative amount.
  - b. If the adjustment is an increase which changes a zero (0) or negative taxable income per return, the 886 amount is the amount of the new corrected taxable income.

**Note:** An 886 entry is not necessary if the TXI remains zero (0) or negative. An incorrect entry will cause an unpostable condition.

- (22) 861 - Adjusts Net Investment Income.
- (23) 862 - Adjusts Net Investment Income Tax.
- (24) 863 - Adjusts Additional Medicare Tax on Medicare wages PLUS the Additional Medicare tax on SE income.
- (25) 864 - Adjusts Additional Medicare Tax on Railroad Retirement compensation.
- (26) 878 - Adjusts self-employment income for the primary taxpayer.
- (27) 879 - Adjusts self-employment income for the secondary taxpayer.
- (28) 887 - Adjusts the number of exemptions claimed on the original return. When the EXEMPTIONS NOW field reflects a change from the EXEMPTIONS PER RETURN field in the Return Value screen, the system automatically enters the 887 change in the Assessment window.
- (29) 888 - Adjusts the Adjusted Gross Income (AGI).

**Note:** Do not adjust the AGI if the taxpayer responds that a lump-sum distribution qualifies for the Special 5/10 Year Averaging Method on Form 4972 and there is no other U/R issue which changes the TXI.

- (30) 889 - Adjusts SE tax.

**Note:** Reference Number 878/879 and/or 895/896 must ALWAYS be used in conjunction with Reference Number 889.

- (31) 891 - Adjusts the primary allocated tip income.
- (32) 892 - Adjusts the secondary allocated tip income.
- (33) 895 - Adjusts the primary Medicare income.



- (34) 896 - Adjusts the secondary Medicare income.
- (35) 898 - Adjusts the primary Medicare tip income.
- (36) 899 - Adjusts the secondary Medicare tip income.
- (37) **SOURCE DOCUMENT ATTACHED?**- This is a required field and is used to inform the Campus Files function when an assessment(s) with a source document (for example, tax return, correspondence) is routed there for attachment of CF 5147. Valid entries for this field are:
- Y - Source Document attached
  - N - No Source Document attached
- (38) **REMARKS**- This is a required field input by the tax examiner. Use it to leave an action trail concerning the adjustment.
- (39) **AUTO/MANUAL IND** - Use this field when the assessment must be manually input to IDRS. This field is required after the dates listed in the table below.

Notice Type	TY 2020	TY 2021	TY 2022
CP 2000	January 5, 2024	January 3, 2025	January 2, 2026
Statutory Notice	May 3, 2024	May 2, 2025	May 1, 2026

**Caution:** If the assessment window is marked with an “M”, the assessment **MUST** be input manually on IDRS. Assessment indicator “M” is generally used only after the dates listed above.

- (40) Verify that all fields in the Assessment window are correct before committing the window. This ensures an accurate adjustment to the taxpayer’s account.
- (41) If a field (such as TRANSACTION, CODE/AMOUNT or REFERENCE CODE/AMOUNT) contains an entry that must be changed or deleted:
1. Place the cursor in the field of the change.
  2. Use the [F3] (Delete Record) key to delete a TC and/or amount or a Ref Code.
  3. Use the [F5] (Clear Field) key to delete any other fields in the Assessment screen.
  4. Input the appropriate entry or leave blank.
- Note:** Do NOT use the Clear Field key to remove the entry.
5. Commit the screen.
- Caution:** Accessing the Assessment window after you have committed and exited, deletes any changes and restores the original figures.
- (42) To enter a new TC/Amount or Reference Code/Amount in a field that does not already contain an entry:
1. Place the cursor in the last TRANS CODE or REFERENCE CD field which contains an entry.
  2. Use the INSERT RECORD function. The cursor moves to the next blank field.
  3. Input new Transaction/Reference Code and Amount.

4. Commit the screen.

**Caution:** Accessing the Assessment window after you have committed and exited, will delete any changes and restore the original figures.

- (43) After the assessment PC posts, a history of the assessment can be viewed by accessing the Case History screen and clicking on the date of the assessment. See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures - Viewing Cases.
- (44) If a case is being closed No Change and an adjustment to prepayment credits is necessary, see IRM 4.19.3.22.6, Partially Agreed Responses.

4.19.3.22.10.1.1  
(10-07-2019)

**The MFT 31 Assessment Window**

- (1) The MFT 31 Assessment Window is used to generate assessment records and post assessments to MFT 31 modules, established for MFJ and divorced/separated taxpayer cases, when only one taxpayer signed consent to the tax and, on docketed Appeals cases for MFJ taxpayers, when only one taxpayer filed a petition with Tax Court. These cases require an assessment on both the MFT 30 and MFT 31 modules. See IRM 4.19.3.22.1.18.1, Divorced/Separated Taxpayers – Single Signature on Consent, IRM 4.19.3.22.1.8.1.1, Responses – Petitioning Spouse (PS) and Non-petitioning Spouse (NPS) - Docketed Cases, and IRM 4.19.3.22.5.1, Responses – Married Filing Joint – Single Signature on Consent, for additional information.

4.19.3.22.10.2  
(10-07-2019)

**Over Eight Credit References**

- (1) AUR will systemically process two assessments when there are over eight Credit Reference Codes and PCs 67, 87 or 90 are used.
- (2) To view the assessments on the Case History screen:
  1. Click on the date of the assessment, which will display as “ASSESSMENTOVER8,” to view the first assessment screen.
  2. Arrow down to view the second assessment screen.
- (3) If the assessment contains over eight Credit Reference Numbers and PCs other than 67, 87 or 90 should be used, follow the instructions see (4)-(6) below
- (4) Access the AUR Assessment Window and identify the Credit Reference Codes causing the over-eight condition. (These reference codes will be input separately on IDRS.)

**Note:** Enter/Verify the tax on the AUR assessment (the TC 290 amount).

1. Determine if the TC 888 and 886 amounts are the same. If the amounts are the same and the TXI remains a positive amount, the TC 886 and the corresponding amount can be deleted using the F3 key. When the AUR adjustment downloads to IDRS, the TC 886 will automatically post an amount matching the TC 888 amount.

**Caution:** If only one Credit Reference Code is causing the over-eight condition, this procedure will eliminate the need for a separate IDRS adjustment.

2. Identify Credit Reference Codes that relate to each other (for example, TC 878, TC 895 and TC 889) and that adjust income only (for example,

do NOT use TC 764 or TC 765, since these adjust EIC; a prepayment credit). Ensure all Credit Reference Codes related to SE are made on the same adjustment to avoid an unpostable condition.

3. Remove the PTC Credit Reference Numbers 866, 865, 867 (and Reason Code 152) and 868.

**Note:** These items will be included on the IDRS adjustment.

**Exception:** Do not remove Credit Reference Number 262 or Reason Code 151. This will create a bill or refund and must remain with the AUR assessment.

- (5) Once identified, the Credit Reference Codes are input on IDRS as follows:

1. Input a TC 290 - 0.
2. Use blocking series 05.
3. Enter Hold Code 2.
4. Enter Source Code 0, 1, or 2.
5. Enter applicable Reason Codes (same as those shown in the AUR Assessment window).
6. Enter Posting Delay Code 1.
7. Enter the credit references identified from (2) above and the related money amounts.
8. Enter an "N" in the SOURCE DOCUMENT ATTACHED field of the ADJ54 screen.
9. Enter "Over 8 Reference Codes" in the Remarks field.

- (6) Once the IDRS adjustment has been input, take the following actions on AUR:

1. Access the Assessment window.
2. Delete the credit reference numbers and the related money amounts that were input on IDRS using the <F3> key.
3. Commit the Assessment window.
4. Leave a case note over eight references were input on IDRS.
5. Use the applicable PC to close the case (PC 53 for CP 2501, PC 68 for CP 2000, PC 88 or PC 94 for Stats).

4.19.3.22.11  
(02-27-2023)

**Instructions Specific to  
Statutory  
Notices/Responses**

- (1) A Statutory Notice of Deficiency includes the following:
  - a. CP 3219A, Notice of Deficiency, which explains how and when to file a petition with Tax Court.
  - b. Form 5564, Notice of Deficiency - Waiver, which is the consent to assess and collect.
  - c. A partial reprint of the most recent CP 2000.
  - d. Pub 1, Your Rights as a Taxpayer.
- (2) The following non-statutory items are not included in the increase in tax (deficiency) on CP 3219A, Notice of Deficiency, or Form 5564, Notice of Deficiency - Waiver:
  - Withholding
  - Excess SST
  - FICA tax
  - Additional Medicare tax withheld
  - Additional Medicare tax on wages or RRTA compensation

**Note:** Any non-statutory items were included or addressed in notices or letters sent to the taxpayer previously.

- (3) Before generating a Statutory Notice, the system automatically checks for posted payments, proper splitting of the primary and secondary taxpayers' names, and address changes on all No Response cases. **HOWEVER**, it does not check for payments on Disagreed cases. Prior to entering a PC to generate a Statutory Notice on a Disagreed CP 2000 case, follow instructions in IRM 4.19.3.22.7.2, Responses Needing Research and Correspondence. Also look for payments that were made for issues other than the AUR case.
- (4) If the taxpayer's account was in BALANCE DUE STATUS prior to the CP 2000 and the BLOCKING SERIES of the payment is other than 300-399, assume the payment is NOT related to the proposed U/R assessment.
- (5) Input PC 75 (PC 77 if a manual stat notice is required) and issue a Statutory Notice.

**Note:** Although there are no enclosures for the Statutory Notice of Deficiency, a copy of the tax computation, generally the CP 2000, must be attached.

- (6) In order to ensure proper tracking of the taxpayer's account, PC 75 or PC 77 must be posted.
- (7) When the IRS is proposing a deficiency on a jointly filed tax return, RRA '98, section 3201(d), a non-code provision, requires for a joint return that the IRS issue a copy of the Statutory Notice of Deficiency to the primary and secondary taxpayer residing at the same address. Each will have a Certified number.
- (8) The AUR system can split most of all filing status "2" name lines. Whenever the AUR system cannot confidently split the primary and secondary taxpayers, the system alerts the tax examiner to review the split before a Statutory Notice of Deficiency can be generated.
- (9) The Update Address window contains the following fields, PRIMARY STAT NAME, SECONDARY STAT NAME and SPLIT CODE. The SPLIT CODES and their meanings are as follows:
  - C - Auto Confident - System confidently split names and does not require review before Statutory Notice of Deficiency is generated.
  - D - taxpayer deceased - Does not require review before Statutory Notice of Deficiency is generated.
  - A - Auto - System unable to confidently split names. Tax examiner review is required before the Statutory Notice of Deficiency is generated.
  - M - Manual - Tax examiner split filing status "2" into PRIMARY STAT NAME and SECONDARY STAT NAME.
- (10) When PC 75 is entered and the SPLIT CODE is "A", the UPDATE ADDRESS window displays how the system split the name line.
  - a. The tax examiner must review the information, making any necessary changes, and enter SPLIT CODE "M" (manual).
  - b. If the tax examiner is updating the FIRST NAME LINE adding "DECD", the system will require the tax examiner to enter SPLIT CODE "D".

- (11) When it is necessary to close a case without posting a TC 290-0 (for example, transfer to another function), use PC 96. Annotate routing instructions for the Clerical Function on the case folder/Form 4251/ Campus cover sheet.
- (12) After a PC 75 is assigned, the notice can be stopped no later than two Fridays before the notice date. Cases with PC 75 are automatically stopped, and PC 79 is automatically generated when the cases are added to the Stop Notice tape. However, Statutory Notices generated by PC 77 do not have a bar code and must be pulled manually. Notify the Clerical Function about PC 77 Stop Notices.
- (13) To “stop” Statutory Notices from being mailed, use the following instructions:
  1. Select the Stop Notice option. The system posts a C (Notice not generated) or D (Deleted - Notice stopped before it was generated) and the PC does not display in the Case History.
  2. The system generates a PC 79 and batches the case to BT 65 (CP 2000 Unit Suspense).
- (14) When a response is received after the Statutory Notice generates, but before it is mailed, the Clerical Function builds the case into BT 58 (Late CP 2000 Response/Statutory Notice Generated). The system generates PC 79. Process the response per CP 2000 response procedures.
  - a. If the SSN is not entered in time to stop the Statutory Notice mailout, clerical will build these cases to a Statutory Notice response batch.
  - b. When working BT 58, it may be determined that the Statutory Notice should be mailed. The AUR Coordinator can delete PC 79, if the SSN is entered in time to stop the notice.
- (15) When the taxpayer response includes a signed Form 1040-X/Amended return or a signed computation including the amount of tax (facsimile), that is more than the tax increase per the Statutory Notice, review the Tax Account screen to determine if the adjustment has already posted. If it has not posted:
  1. Math verify the taxpayer’s figures.
  2. Ensure all AUR issues are addressed.
  3. Update the Assessment window per the Form 1040-X/Amended return or facsimile.
  4. Close the case with PC 88.

**Note:** If the Form 1040-X has posted **AND** all AUR issues are included - close the case with a “no change” PC that does not generate an automatic closure letter.
- (16) After a Statutory Notice is mailed it may be necessary to rescind the notice. See IRM 4.19.3.22.11.2, Rescinding Statutory Notices, for further information.
- (17) Consider the assessment statute expiration date (ASED) before inputting U/R transactions. If the ASED is greater than ninety (90) days, the statute is not imminent. Process the case using normal procedures.
- (18) If the ASED is ninety (90) days or less, the statute is imminent. An AUR assessment **MUST NOT** be made using normal procedures. TC 560 cannot be input during the CP 2000 phase to extend the assessment input date. **TC 560 is for Statutory Notice assessments only**, take the following actions:

- a. Recompute the ASED and input the TC 560 using CC REQ77 with Blocking Series 700

**Caution:** An unpostable condition with code 178 will result if the TC 560 is not input prior to an assessment.

- b. If the Statute is imminent after the input of TC 560, or if the TC 560 is not input to extend the ASED, follow the instructions on Form 2859, Request for Quick or Prompt Assessment, to prepare a manual assessment, and route to the Accounting Operations for assessment via Form 3552, Prompt Assessment Billing Assembly. See IRM 4.19.3.24.2.3, Confirmation Receipt of Prompt Assessment Fax when faxing Prompt Assessments.

**Caution:** Do not input the TC 560 and TC 290 in the same IDRS cycle. If the TC 560 does not post, the TC 290 will not post which will result in a barred assessment.

**Reminder:** All manual assessments made on Form 2859 must have the interest manually computed. If the return does not need to be restricted, a TC 190 can be used. Per IRC 6631 the interest computation must be mailed to the taxpayer. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for additional information.

- (19) For a Statutory Notice with a subsequent agreement received prior to expiration of the 90 days, the assessment period can be extended, when necessary to protect the assessment, for the number of days the Statutory Notice was outstanding (from the issue date to the taxpayer reply date). See IRM

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4.19.3.22.11.1  
(07-11-2022)

#### Non-Statutory Items

- (1) Tax Court does not have the jurisdiction over certain underpayments and overstatements (non-statutory items). Therefore, when these non-statutory items exist in a case, an assessment or adjustment **must** be made prior to ASED expiration (see (2) below) and (IRC 31, IRC 6211 and IRC 6652(b)).

**Note:** When a Statutory Notice is issued, and a TC 560 is input to extend the ASED, it **does not** extend the non-statutory items ASED.

**Reminder:** **DO NOT** issue a Statutory Notice which only contains non-statutory items as shown in (2) below.

- (2) If non-statutory items are an issue a partial assessment on AUR or IAT "REQ54" tool is required for the following items:
  - W/H, see (3) and (4)
  - Excess SSTAX, see (3) and (4)
  - Additional Medicare Tax Withheld, see (3) and (4)
  - Additional Medicare Tax on wages or RRTA compensation, see (5)
  - FICA tax on tip income and tip penalty under IRC 6652(b), see (5)
  - FICA tax on other income (such as NEC), see (5)
  - Shared Responsibility Payment (SRP), see (7)
- (3) If a Statutory Notice has not been issued and W/H, excess SSTAX, or Additional Medicare Tax is the issue, input the assessment on AUR for the non-



statutory item adjustment, **NOT the tax**. Issue a letter informing the taxpayer the non-statutory items have been assessed and input PC77 to manually generate a stat notice.

- (4) If a Statutory Notice has been issued and W/H, excess SSTAX, or Additional Medicare Tax is the issue, input the assessment using the IAT "REQ54" tool, use HC 2 for the non-statutory item adjustment, **NOT the tax**. Send a recomputed notice (PC 95) removing the non-statutory items assessed and include a Special Paragraph informing the taxpayer non-statutory items have been assessed. Use the following verbiage as an example: **The account has been adjusted to correct the amount of overclaimed or understated payments. By law, these items cannot be contested through the U.S. Tax Court. We have revised our notice accordingly.**
- (5) If FICA tax, SS Tip tax or Additional Medicare Tax on wages or RRTA compensation is an issue:
  1. Using the IAT "REQ54" tool, assess the FICA tax, SS Tip Tax or Additional Medicare Tax on wages or RRTA compensation with a TC 290 and the appropriate reference number using HC 2. The hold code is released when the next TC 290 posts.
  2. Use blocking series "05" to input FICA/SSTAX adjustment.
  3. Input PC 77 or PC 95.

**Example:** The original FICA tax on the CP 2000 is \$150 with the total tax due of \$750.00. Input TC 290 with the appropriate reference number for \$150 and issue the Stat notice (using STN 90) or a recomputed notice (PC 95) for \$600.
- (6) If a Statutory Notice was sent that contained **only** non-statutory items, an adjustment to non-statutory items **MUST** be done.
  1. Enter/Verify the appropriate entries in the Assessment window
  2. Leave a detailed case note
  3. Use PC 88 (Statutory Notice) or PC 94 (Default Statutory Notice) to closes the case
  4. Send an 1802-C letter to inform the taxpayer of the assessment

4.19.3.22.11.2

(09-30-2018)

#### Rescinding Statutory Notices

- (1) After a Statutory Notice is mailed, it may be necessary to rescind the notice. The taxpayer or the IRS may initiate rescission of a Statutory Notice. The decision to rescind is discretionary on the part of the IRS, is made on a case-by-case basis and requires the taxpayer's written consent. AUR tax examiners will NOT rescind Statutory Notices without prior managerial approval confirmed in a case note **AND** approval from AUR HQ Policy. **When a taxpayer requests the rescission of a Statutory Notice, the first step is to attempt taxpayer contact to resolve the concern/issue.**
- (2) Per Revenue Procedure 98-54, 1998-2 C. B. 529, a rescission may be agreed to if:
  - a. The notice was issued as a result of an administrative error (to the wrong taxpayer, for the wrong tax period or without considering a properly executed Form 872, Consent to Extend the Time to Assess Tax, or Form 872-A, Special Consent to Extend the Time to Assess Tax).



**Note:** If the Statutory Notice was issued for the wrong taxpayer or wrong tax period, close the case with the applicable No-Change PC.

- b. The taxpayer submits information establishing the actual tax due is less than the amount shown in the notice.

**Note:** Issue a Recomputed notice for the lesser amount.

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ficiency.

- c. The taxpayer requests a conference with Appeals (for the purpose of entering into settlement negotiations - as determined by Appeals) and the case will be received in Appeals with at least 365 days remaining on the statute of limitations.

**Note:** If there is less than 365 days remaining on the statute of limitations a rescission may be agreed to if the Appeals Office also agrees with the decision to rescind.

- (3) Per Revenue Procedure 98-54, 1998-2 C. B. 529, a rescission will not be considered when:

- a. On the date of the rescission, 90 days or less remain before the expiration date of the period of limitations on assessment; however, a notice of deficiency may be rescinded in these circumstances if, before rescission, the taxpayer and the Service execute a consent to extend the period of limitations on Form 872 or Form 872-A.
- b. The 90-day (or 150-day for taxpayers living outside the U. S.) restriction period under IRC 6213(a) has expired and the taxpayer has not filed a petition with the Tax Court.
- c. The taxpayer has petitioned Tax Court or,
- d. The taxpayer and the Service, prior to issuance of the notice of deficiency, executed a Form 872-A covering any of the tax years in the notice.

- (4) After all the conditions in (1), (2), and (3) have been considered (**managerial approval is required**), follow these steps to obtain the taxpayer's consent:

- 1. Complete a Letter 2264(SC) in duplicate (one copy for the taxpayer and the other to be attached to the file copy of the Statutory Notice, if available on Control D, otherwise attach to a print of the Statutory Notice History screen).
- 2. Prepare a Form 8626, Agreement to Rescind Notice of Deficiency, in duplicate. Attach one copy to the Letter 2264(SC) and attach the other copy to the file copy of the Statutory Notice, if available on the AUR system or Control D, otherwise attach to a print of the Statutory Notice History screen.
- 3. Send the Letter 2264(SC) with a copy of the Form 8626 and a return envelope to the taxpayer that day.
- 4. Enter a case note and ensure the file copies are in the case file.
- 5. Use IPC 8S to resuspend the case.

**Note:** If communicating with the taxpayer pending receipt of the rescission agreement, be sure to include notification that the 90-day period to petition Tax Court is still in effect.

- (5) When the taxpayer returns the signed Form 8626 (both signatures are needed for jointly filed returns), the Form 8626 must be countersigned by the Director Compliance Service, Field or designated official. The rescission is effective on the date the Director or designated official countersigns the Form 8626. Take the following actions:
  1. Complete a Letter 2264(SC) in duplicate.
  2. Send the taxpayer one copy of the letter and a copy of the countersigned Form 8626.
  3. Leave a case note.
  4. Maintain copies of the Form 8626 and a Letter 2264(SC) in the case file.
- (6) Assign PC 78 and continue processing.

**Note:** PC 75 cannot follow PC 78.

4.19.3.22.11.3  
(10-06-2022)  
**Default Statutory  
Notices**

- (1) Thoroughly review each case prior to defaulting to ensure:

**Note:** If there is a previous IPC MI on the case, transfer the case to the designated SEID.

1. There is no agreed response from the taxpayer. If there is an agreed response, process the case using agreed response procedures. Do not use default instructions to process the case.

**Caution:** Full payment received after issuance of a Statutory Notice cannot be considered agreement to the tax increase. Since the necessary signature(s) were not obtained, these cases are closed as Defaults.

2. The suspense time frame (105 days) has elapsed before assigning PC 90. If not, use IPC "RF" to continue the suspense time frame.

**Note:** If the suspense batch has aged a message displays "Invalid Process Code - Batch is aged". Take necessary actions to issue a letter or move the case to the next phase.

3. Any case with Freeze Code "-C" has been researched to ensure there is a combat zone exit date and the required suspense time frame has expired. DO NOT default a case if the combat zone exit date is not available. See IRM 4.19.3.22.1.11.1, Combat Zone Cases and IRC 7508.

- (2) Verify the ASED of each default case.

- a. If the ASED is more than 90 days, the statute is not imminent. Process the case using normal procedures. TC 560 IS NOT NEEDED ON THESE CASES. If there are five workdays or fewer before the 90-day time frame, input the adjustment immediately.
- b. If the ASED is less than 90 days, recompute the ASED and input TC 560.

**Note:** The assessment (TC 290) on a default case that needs a TC 560 cannot be input until the TC 560 has posted.

**Caution:** Every effort should be taken to input the TC 560 before April 15th.

- (3) Compute the EXDATE (Extended Statute Expiration Date) for a Defaulted 90 Day Letter:
  1. Determine the original ASED and convert to the Julian date, which is the number of continuous days since the beginning of the calendar year.
  4. Convert the sum to a calendar date.

**Example:** The Defaulted 90 Day Letter has an original ASED of April 15th. April 15 is 105 days from the beginning of the year, so its Julian date is 105 (see

- (4) Default cases with a TC 560 input on or before the date listed in the table below do not require input of a Transaction Date (TRANS-DT).

TY 2020	TY 2021	TY 2022
05-15-2024	04-18-2025	04-18-2026

**Exception:** For TY 2021, Maine and Massachusetts had until April 19, 2022 to file, due to Patriots' Day.

Input TC 560 using the IAT "REQ77" tool. Input and/or verify the following:

1. TIN.
2. MFT code.
3. Tax period (YYYYMM).
4. Name control.
5. TC 560.
6. Extension date (MMDDYYYY) - (new ASED).
7. DLN-CD blocking code 70. Used only when the ASED on TXMOD has expired at the time of TC 560 input; this is commonly used on AUR Bankruptcy cases.
8. Remarks - Input New ASED.

4.19.3.23  
(11-23-2022)  
**CP 2000 Notice Review**

- (1) A statistically valid sample of cases is produced for review. This is a product review toward perfecting the quality of notices. In the review, the case is reworked from the beginning, including the determination of the U/R amount.
- (2) The selection of sample notices is performed from all CP 2000 Notice runs with the exception of cases with Sort Codes, Employee AUR cases, and CP 2000s posted after CP 2501 Notices. Employee AUR cases continue to be processed in accordance with IRM 4.19.3.25, Employee Cases.
- (3) Beginning in TY 21 Automated Generated Notices (AGN) will be included in the notice sample. AGN cases are identified in the SSN Batch Listing Report with an "AV" indicator.

- (4) The reviewer will review all the sampled cases. The case file is built into BT 95.
- (5) The tax examiner verifies the CP 2000 for correctness and overall quality by reworking the case.
- (6) If no error is found, no action is necessary.

**Reminder:** Instructions for the AGN review process are located on the AGN Review Tracker on the SharePoint.

- (7) **If a Critical or Noncritical error is found, the CP 2000 Notice needs to be corrected, the reviewer must stop the original CP 2000 by either transferring the case(s) or using the Stop Notice window, as applicable and:**

**Note:** “Critical” errors affect the total balance due. “Noncritical” errors DO NOT affect the total balance due.

If	Then
A notice still needs to be issued.	Issue a corrected notice. <b>Note:</b> If the CP 2000 cannot be stopped, <b>send PARAGRAPH 88</b> . See Exhibit 4.19.3-7, CP PARAGRAPHS.
The case should be closed	Use the applicable closing PC. <b>Note:</b> If the CP 2000 cannot be stopped, close with PC 71. Issue a Letter 1802-C apologizing for the incorrect notice.

When the SSN is entered on the Stop Notice window, the system automatically assigns the appropriate “not mailed” PC. If it is subsequently necessary to remove the SSN from Stop Notice the following message displays “Transfer case to the AUR Coordinator. Process code needs to be deleted”.

- (8) The CP 2000 Notice review is mandated, requiring review results be posted to the Notice Review and/or AGN Tracker(s) on SharePoint **Monday of each week**. The review **MUST** be completed the same week the batch is built.

**Exception:** If Monday is a non-workday (such as, holiday, inclement weather, etc.) the tracker must be completed on the 1st workday of the week.

Notice Review:

- 1. Submit information only on those cases that are found in error.
- 2. Use the appropriate error codes.

AGN Review:

- 1. Submit information only on those cases that are found in error.
- 2. Complete all appropriate fields on the AGN tracker.

- (9) If the critical error rate exceeds 10 percent for Notice Review, do the following:

1. Decide on a plan of corrective action.
2. Within 2 days of determining that the "Critical" error rate exceeds 10 percent advise P&A of the error rate and describe the corrective action(s) for concurrence.

See Exhibit 4.19.3-11, Notice Review Error Codes.

4.19.3.24  
(09-01-2008)  
**Accounts Maintenance  
Research (AMRH)  
Transcripts 25 and 27**

- (1) An AMRH transcript 25 or 27 generates for an unsettled AUR case module as an alert that an action (for example, closure, assessment) needs to take place to resolve a taxpayer's account.

4.19.3.24.1  
(06-28-2021)  
**Overview of AMRH  
Transcripts**

- (1) The AMRH transcripts generate to identify over aged freezes and unsettled conditions that failed to be resolved following normal procedures and processing as a result of oversight, procedural shortcomings, systemic issues, etc.

**Caution:** IT IS CRITICAL TO WORK THESE TRANSCRIPTS TIMELY - WITHIN 120 DAYS - AND COMPLETELY TO RESOLVE A CASE BEFORE THE ASSESSMENT STATUTE DATE EXPIRES.

- (2) The AMRH transcripts with TC 922 (IRP/AUR) posted are transferred or forwarded to AUR from AM to identify unresolved accounts that were not closed within a certain length of time. AMRH transcripts with TC 922 in module(s) are referred by AM to AUR for processing.
- (3) An unresolved TC 922 condition exists when:
  - a. There is a credit balance (surplus) on the module. This condition creates the AMRH25 (25R) transcript. A credit balance may be caused by a variety of conditions (such as, an unreversed TC 640, Advance Payment of Determined Deficiency on AUR Proposal, erroneous no change closure).
  - Caution:** Do not release any credit balance when a TC 971 AC 134 is present, with or without a corresponding TC 720 which sets a P-freeze condition, or when the case was closed with PC 10.
  - b. A closing PC is not present on the module or does not post as the last PC in the TC 922 string. This condition creates the AMRH27 (27F) transcript. A closing PC may be missing for several reasons (such as, a CP 2000 or subsequent notice was generated and no follow-up or closing action was taken, or a closing PC may have posted the cycle after the transcript was generated).
  - c. An AMRH 27 transcript is also created when a closing assessment PC is posted, but an adjustment in the AUR blocking series is not on the account.

- (4) AMRH transcripts for 25R/27F are routed directly to the AUR by Information Systems. AUR must handle these transcripts to completion.

- (5) Take the necessary action to review the following conditions:

- The AUR issue is resolved.
- All appropriate closing PCs are in the last position of the TC 922 string.
- Required adjustments are posted in an AUR blocking series.

- There is no credit balance.
- No freeze codes are present.
- No systemic or programming problems exist.

- (6) If all the conditions in (5) above exist, discard the transcript and close the IDRS control base.
- (7) For any case where there is no longer an AUR issue, but there is a freeze code present that cannot be resolved by AUR, direct the transcript to the appropriate area and close the IDRS control base.

4.19.3.24.2  
(06-19-2018)  
**General Procedures**

- (1) Review AMRH transcripts to determine the last PC reflected on the TC 922.
- (2) If the tax module on IDRS reflects a TC 922 without PCs, research CC IMFOLT or Control D for MFTRA.
- (3) For instructions regarding AMRH25 and AMRH27 transcripts and required procedures for specific PCs, see IRM 4.19.3.24.2.1, AMRH 25R Transcripts, and IRM 4.19.3.24.2.2, AMRH 27F Transcripts.
- (4) When reviewing AMRH25 or AMRH27 transcripts, be alert for cases open on AIMS (Source Code 14 or 85). If open on AIMS, secure the original return and take the following action:

**Exception:** Do not follow these procedures if there is a PC 80 or TC 520 present on the module.

1. Rework the case to determine if an assessment is necessary.  
**Note:** The assessment must be input before transferring the case.
2. Close the case with PC 27, 51, 73, or 93 as appropriate.
3. Route the case to Examination.

- (5) Review AUR and IDRS to determine the actions needed to resolve the account. In most situations the return is not necessary. The transcript can be used as the source document for many adjustments. If an adjustment is necessary using an AUR blocking series AND the return is not needed then:
  - a. Complete Form 2275, Records Request, Charge and Recharge, if a paper return was filed, to associate the original return to the assessment DLN.
  - b. Form 4251 can be used as the source document, if an ELF return was filed. Make the following notation, "Original return was filed electronically" or similar wording.

**Note:** Ensure all closing actions have been taken on AUR. After the necessary actions to resolve the account have been taken, close all related control bases.

- (6) If the case is open and currently being processed, take the following actions:
  1. Discard the transcript.
  2. Close all related control bases on IDRS.

**Exception:** If the ASER is imminent, ensure that all required adjustments and actions are completed before the statute expires.

- (7) If a "No Change" PC has unposted or has posted out of sequence, input a TC 290-0 in an AUR blocking series to resolve the account.
- (8) If a required adjustment has unposted or did not post to an account and there are **more than 90 days** before the statute expiration date, input the adjustment using an AUR blocking series.

**Note:** If the adjustment is unpostable, action to resolve the unpostable condition must be initiated within 7 days.

- a. If **less than 90 days** remain until the ASED, prepare the case for adjustment and route to the RACS Function for input.
  - b. If the assessment went unpostable because the account had been resequenced, reinput the assessment on the new (resequenced) account. DO NOT issue a second manual notice on any cases with a resequenced SSN.
- (9) If a required adjustment has unposted or did not post to an account and the **statute has expired**, prepare for processing as a barred assessment by completing Form 3999, Statute Expiration Report for their function, and email the completed Form to HQ within 7 days of discovery via the \*SBSE CCS Statutes mailbox. The \*SBSE CCS Statutes mailbox was established as a vehicle to report all potential and/or final barred statute reports.

**Note:** After statute processing it may be necessary to input a TC 290-0 using an AUR blocking series to clear the account.

- (10) If a TC 640 payment needs to be released, input a TC 290-0 adjustment using an AUR blocking series.

**Exception:** If the case was closed in error (for example taxpayer recomputed the amount of tax owed) and there is remittance, input the adjustment using an AUR blocking series.

- (11) Bankruptcy, Innocent Spouse, MFT 31 and merged accounts may require additional research. Take all necessary actions to ensure that all related accounts and issues are resolved.
- (12) If a TC 780 (OIC) has posted to the account, discard the transcript and close all AUR and/or transcript control bases.

**Note:** An adjustment with an AUR blocking series will not post to these accounts.

**Exception:** If TC 788 has posted to the account, input a TC 290-0 using the appropriate AUR blocking series, to close the AUR control base and resolve the transcript issue.

- (13) If the AMRH transcript reflects TC 922 with a DLN for another Campus forward the AMRH transcript immediately to the attention of the Chief AUR Operations for that Campus if **more than 90 days** remain on the assessment period.

**Note:** If less than 90 days remain until the ASED, prepare the case for adjustment and route to the Statute RACS Function for input.



- (14) If the return was timely filed (not on extension) the case is statute imminent on April 15th of the Statute year. However, if a Statutory Notice of Deficiency was issued on an AUR case, the assessment period is suspended and AUR can work the case past April 15th. A Statutory Notice of Deficiency increases the assessment period for the number of days from the date of the letter/notice until the taxpayer responds with an agreement, **PLUS** the 60 days mandated by the Internal Revenue Code.
- (15) To compute the ASED on cases where the taxpayer's signed agreement is received prior to the expiration of the 90 days:
1. Determine the original ASED (using the Julian Date).
  2. Determine the number of days from the date of the Statutory Notice to the taxpayer reply date. Add this to the result from step 1.

#  
#  
#

the return is filed timely. This determines the new ASED.

**Caution:** An assessment **CANNOT** be made on IDRS within 60 days of the ASED.

- (16) If the ASED is ninety (90) days or less, the statute is imminent. An AUR assessment **MUST NOT** be made using normal procedures. TC 560 cannot be input during the CP 2000 phase to extend the assessment input date. **TC 560 is for Statutory Notice assessments only**, take the following actions:

- a. Recompute the ASED and input the TC 560 using CC REQ77 with Blocking Series 700.

**Caution:** An unpostable condition with code 178 will result if the TC 560 is not input prior to an assessment.

- b. If the Statute is imminent after the input of TC 560, or if the TC 560 is not input to extend the ASED, follow the instructions on Form 2859, Request for Quick or Prompt Assessment, to prepare a manual assessment, and route to the Accounting Operations for assessment via Form 3552, Prompt Assessment Billing Assembly. See IRM 4.19.3.24.2.3, Confirmation Receipt of Prompt Assessment Fax when faxing Prompt Assessments.

**Caution:** Do not input the TC 560 and TC 290 in the same IDRS cycle. If the TC 560 does not post, the TC 290 will not post which will result in a barred assessment.

**Reminder:** All manual assessments made on Form 2859 must have the interest manually computed. If the return does not need to be restricted, a TC 190 can be used. Per IRC 6631 the interest computation must be mailed to the taxpayer. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for additional information.

4.19.3.24.2.1  
(10-07-2019)

**AMRH 25R Transcripts**

- (1) Do not release any credit balance when:
- TC 971 AC 134 is present, with or without a corresponding TC 720 which sets a P- freeze condition, or when
  - The case was closed with PC 10.

Use TC 290.00 and HC 2 to close the AUR IDRS control base. Hold code 2 must be used to hold the credit and notice.

- (2) If PC 67, 68, 87, 88, 90-94, or 96 is the last action taken, refer to instructions in IRM 4.19.3.24.2.2, AMRH 27F Transcripts. If no assessment information is available:

1. Assess the entire amount of the remittance as TC 290.
2. Restrict the interest using TC 340-0, and
3. DO NOT issue a notice to the taxpayer. Use the appropriate hold code to suppress the notice from generating.

**Note:** DO NOT assess if open on AIMS with Source Code 14 or 85 and the transcript shows a balance due. Input PC 73 or 96 as appropriate to resolve the unsettled condition for cases open on AIMS.

- (3) If PC 39, 47-53, 58, 69, 70, 71, 73, 74, 89, 91-93, or 96 is the last action taken, see IRM 4.19.3.24.2.2, AMRH 27F Transcripts. These control bases are identified as AM25 or ST25. Input TC 290-0 to refund the taxpayer's payment that is associated with the AUR notice.

**Exception:** If the case was closed in error (such as, taxpayer recomputed the amount of tax owed) and there is a remittance, follow instructions in IRM 4.19.3.24.2.2, AMRH 27F Transcripts.

**Caution:** PCs 39, 69 and 89 no longer designate identity theft no change closures. These PCs are input on jointly filed return cases which require assessment to MFT 31 accounts for each taxpayer. Do not release payments on MFT 30 accounts.

- (4) If PC 20 is the last action taken, refer to instructions in IRM 4.19.3.24.2.2, AMRH 27F Transcripts.
- (5) If PC 30, 55, 57, 59, 75-79, or 95 is the last action taken, refer to the instructions in IRM 4.19.3.24.2.2, AMRH 27F Transcripts.

4.19.3.24.2.2  
(09-30-2018)

#### AMRH 27F Transcripts

- (1) If PC 47-53, 58, 70, 71, 73, 74, or 96 is the last action taken:
1. Close the IRP control base on IDRS if not already closed.
  2. Close the IDRS control base created by generation of the AM transcript(s). (Generally, these control bases are identified by AM27 or ST27.)

**Caution:** DO NOT CLOSE any control base that is not assigned to AUR.

- (2) If PC 91, 92, or 93 is on the module, research the account for a TC 290-0 in the AUR Blocking Series.
- a. If found, close the IRP and AM bases.
  - b. If not found, follow instructions in (5) below.
- (3) If the last action is a PC 20, verify that an assessment with the CRN(s) 806/807 or 766/767 with CRN 252 was input. If the assessment did not post, secure the original return. If the original return cannot be secured, research case history for assessment record information. Use this information to input the assessment.

- (4) If PC 30, 55-57, 59, 75, or 77-79 is the last action taken, research the case history to see if any other PC is present.
  - a. If other PCs are present, notate the PC and secure the return.
  - b. If PCs are the same, notate the current notice date and research for any taxpayer correspondence.

**Note:** If there are multiple PC discrepancies between IDRS and AUR there may be a problem with the downloads. Notify your manager for additional instructions.

- (5) If PC 39, 62, 67-69, 87-89, or 90-94 is the last action taken, determine if TC 290/291 or TC 300/301 posted.

**Note:** If the adjustment is unpostable, action to resolve the unpostable condition must be initiated within 7 days.

- a. If an unresolved unpostable condition is present, coordinate with the Unpostables Function to resolve the unpostable condition as quickly as possible.
- b. If a deleted unpostable, attempt to secure the return to resolve the unsettled conditions.
- c. If TC 290/291 or TC 300/301 did not post, secure the original return. If the original return cannot be secured, research case history for assessment record information. Use this information to input the assessment manually on IDRS.
- d. If TC 290/291 or TC 300/301 did post, close the AM27 control base.

#### 4.19.3.24.2.3 (10-07-2019)

#### Confirmation Receipt of Prompt Assessment FAX

- (1) Confirmation must be made, and documentation saved on all Forms 3210, Document Transmittal, faxed to accounting for "Prompt Assessments".
  - a. Ensure an electronic receipt is requested on all faxes sent to accounting.
  - b. Save a copy of the FAX confirmation sheet along with the dated Form 3210.
- (2) The signed Form 3210 should be sent back from accounting notated with the DLN of the prompt assessment. Attach a copy of the confirmed fax to the signed Form 3210 with the DLN of the adjustment(s).
- (3) If you do not receive confirmation, you **MUST** follow up with accounting to ensure it was received by:
  - a. Calling the appropriate accounting site to confirm receipt of the Prompt Assessment forms that need to be made be for the ASER expires.
  - b. Securing confirmation from the appropriate Accounting Unit for all Prompt Assessments faxed to that office by requesting they fax you the signed Form 3210 with the DLNs.
  - c. Notating on the Form 3210 the date, time of call and who is confirming the receipt of the faxed Prompt Assessment next to each TIN on the Form 3210.

**Note:** For multiple TINs listed on Form 3210 ensure each Prompt Assessment case has a copy of the Form 3210 with notations and a confirmation sheet attached.

4.19.3.25  
(09-01-2003)  
**Employee Cases**

- (1) To ensure the integrity of IRS employees, the Service provides careful and urgent treatment of employee cases.

4.19.3.25.1  
(09-01-2004)  
**Overview of Employee Cases**

- (1) Employee AUR (EUR) cases are handled differently from other AUR cases only in urgency, control, and confidentiality, and may result in appropriate disciplinary actions. In all other matters, make no distinction between an employee and any other taxpayer. This handling includes:

- Application of tolerances
- Criteria for referral to Examination or Criminal Investigation
- Preparation of assessments
- Handling of remittances
- Appeal rights

**Caution:** Negligence Penalty should be asserted if the Tax Account screen shows a “2” or “3” in the TC 922 HIST/CAT field(s) and a notice is issued.

Employee cases generate by matching the AUR inventory against a list of SSNs for individuals who currently work for the IRS. The majority of these cases are Subfile 2; however, subfiles with higher priority may also contain IRS employee cases.

- (2) Employee cases download in BTs 01-19 with PC 06 and are systemically moved into Employee Download BT 90000.
- (3) IDRS Access Data (employee identification) is produced semi-monthly and updates AUR. Newly identified Employee cases already in a normal batch do not update with PC 06 and remain in the current batch. During the working of the case (Screening, Response, or Statutory Notice), AUR displays a message to the tax examiner to transfer these cases to the SEID of the employee designated to work employee cases.

**Note:** Occasionally, the individual working the normal AUR Program encounters cases with IRS Form(s) W-2 attached to the returns or with IRs. Do not process these cases within Subfile 2 unless the taxpayers are currently employed by the IRS.

- (4) To expedite the handling of EUR cases, the responsible AUR employee processes all the employee cases as soon as possible.

4.19.3.25.2  
(09-01-2013)  
**Confidentiality and Security**

- (1) Since EUR cases involve IRS employees, or their families, it is imperative that all persons involved in handling these cases regard the privacy of an employee as paramount in performing their work.
- (2) Observe the following rules:
  - a. Employee cases are processed by as few employees as possible.
  - b. As with any taxpayer case, EUR cases are discussed only with individuals specifically involved in processing them.
  - c. When cases are not being worked, employee tax returns require additional security - keep in a locked cabinet.
  - d. Only AUR employees with an Employee Profile Code of either 8324 or 8328 have access to the employee file cases. The AUR Coordinator

assigns these profile codes to the designated employee(s) prior to the processing of the Subfile 2 cases.

4.19.3.25.3  
(11-23-2022)

**Quality**

- (1) Subject all case actions to normal Quality Review procedures in IRM 21.10.1, Embedded Quality (EQ) Program for Accounts Management, Campus Compliance Services, Field Assistance, Tax-Exempt/Government Entities, Return Integrity and Compliance Services (RICS) - Integrity and Verification Operations, and Electronic Products and Services Support, with the exception of the CP 2000, Notice Review. Ensure the confidentiality of these cases.

**Note:** As only employees with the Employee Case profile can access these cases consider cross reviews.

4.19.3.25.4  
(09-01-2013)

**Receiving and  
Controlling Employee  
Cases**

- (1) When extract tapes download into PC 06 status, information is assigned to Employee Download Batch Type 90000. Cases remain assigned to the batch until scanned by the user into an Employee Screening batch. Refer to IRM 4.19.2, IMF Automated Underreporter (AUR) Control, for information on batch building and batch status codes.
- (2) Charge-outs (Form 4251, Return Charge-Out) are received as a separate print file. Case labels generate when the system moves cases from Employee Screening BT 90 to BT 91, Employee Suspense (after initial screening).
- (3) *Form 4251* without tax returns are not batched into Employee Screening BT 90001-999. The SSNs remain in Employee Download Batch Type 90000. The system reorders the tax return based on the reorder date input by the AUR Coordinator. If the system does not indicate the return was received (built to Employee Screening BT 90001-999), the system closes the case with PC 29 and the SSN(s) displays on the Employee Case Aging Report until the report is generated for the next week.
- (4) The Employee Extract downloads can only be built into Employee Screening BT 90001-999 after the extract download has been completed. If the employee extract download has not been done or is incomplete, the system displays a message indicating the extract is incomplete and cannot be batched.
- (5) When cases are missing the TIF and/or U/R data, the system does not allow the cases to be built into Employee Screening BT 90001-999. The SSN(s) remain assigned to Employee Download BT 90000.
  - a. If the missing data is not received within sixty (60) days, the system assigns a PC 28 and displays the SSN(s) on the Employee Case Aging Report until the report generates for the week.
  - b. If the missing data is received, the SSN(s) displays on the Employee Case Aging Report until the SSN(s) are assigned to BT 90001-000. Batch the cases into Employee Screening BT 90.

4.19.3.25.4.1  
(09-01-2004)

**Batch Building**

- (1) When cases are assigned to a batch, there are specific stated requirements that must be met. System constraints require that a case must meet specific PC and current batch type criteria for assignment to a batch. Cases assigned to an Employee Screening BT 90000 are built by the user and the system assigns cases to Employee Suspense BT 91000.

- (2) Parameters are set for the maximum volume for each work unit and batch. When the maximum volume for the work unit is reached, the system closes the work unit currently being input.
  1. Indicate the batch and work unit number on the folder and insert the cases in the folder. The system indicates the batch is complete.
  2. Close the batch using the CLOSE option.
  3. The system updates the batch status to AB (Associated Batch).

**Note:** Batches may be manually closed at any point prior to reaching maximum volume for the batch.

- (3) If a batch is created and the system is exited before entering the SSNs for the batch, the batch number deletes from the system.
- (4) If the batch is created and the system is exited before completing the work unit/batch, commit the work unit currently being input. Indicate the batch and work unit number on the folder and insert the cases assigned to the work unit.
- (5) When using the ADD option, the system indicates when the batch is full and cases cannot be added. When adding to a batch that is not full, the system:
  - a. Indicates if the previous work unit has reached maximum size, or
  - b. Displays a message indicating the SSNs are being added to a previous work unit.
- (6) After a batch is closed it is possible to reopen it. SSNs may be added if the maximum volume for the work unit or batch is not reached.

**Note:** The batch status reverts to a blank value. Closing a batch automatically updates batch status to AB (Associated Batch).

- (7) Once the maximum volume is reached or the volume of the batch is such that you do not want to add any additional SSNs, close the batch using the CLOSE option. The system updates the batch status to AB (Associated Batch).
- (8) After the batch status is updated, the Sequence-SSN Batch Listing may be printed. The Batch Listing is a transmittal document verifying the contents of the batch.

4.19.3.25.4.2  
(09-01-2004)

**Case Sequence Number  
(CSN)**

- (1) Keep employee cases in the original batched order for all phases of the program. Cases retain the last seven (7) digits of the CSN. Only the BT changes from 90 to 91 during system disassembly.
- (2) Cases transferred to Employee Unit Suspense BT 92 only have a five (5) digit CSN. The first two (2) digits are 92 and the last three (3) digits are the unit location number. These cases are filed in SSN order.

4.19.3.25.4.3  
(09-01-2004)

**Assigning and Releasing  
Employee Cases**

- (1) Cases in Employee Screening BT 90 are assigned and released by work unit or individual cases.
- (2) Each Case in Employee Suspense BT 91 and Employee Unit Suspense BT 92 are assigned and released individually. Cases with notice, letter, and closure PC(s) released Monday through Friday upload on the weekend runs.



- (3) If the case is in BT 91 or 92, and Employee Disassembly (AURX047) did not process the changes previously made to the case, the message "WARNING: EMPLOYEE DISASSEMBLY HAS NOT PROCESSED CHANGES ON THIS CASE" displays when assigning a case. Analyze the case to determine the appropriate actions necessary to process the case.

- (4) Cases with automatic assessments upload daily to SCRS.

4.19.3.25.4.4  
(09-01-2004)

**Employee Unit  
Suspense Batch Type 92**

- (1) These are cases the system identified as employee cases during processing.
- (2) When cases are transferred to Unit Suspense, the system automatically generates IPC 0E, 3E, 6E, or 8E and moves the case to BT 92.

4.19.3.25.5  
(10-07-2019)

**Case Actions**

- (1) Several actions taken during the course of Employee case file processing have unique handling instructions.

**Note:** When the Employee Tax Compliance Program (ETCP) needs case data, make one copy of the entire AUR case contents and forward the information using the procedures supplied via the ETCP contact. These instructions apply to all tax years currently being worked in the AUR Program.

- (2) The entire AUR (system) case contents includes the following:

- Tax Account
- Information Returns
- Case Notes
- Case History
- CP 2000
- CP 2501

- (3) The AUR system maintains a copy of the Statutory Notice. A copy of these Statutory notices can be accessed and printed using the following:

- Print menu - Case contents - Statutory Notice
- Case - Case History - click on the View Notice box

See IRM 4.19.7, IMF Automated Underreporter (AUR) Technical System Procedures, for additional information. For notices dated prior to 02-24-2014 copies are maintained on Control D.

4.19.3.25.5.1  
(09-21-2020)

**Examination and Fraud  
Referrals**

- (1) Due to the sensitivity of Employee cases, manually coordinate cases which require Examination or Fraud referral. The use of IPCs , 0F, 3D, 3F, 6D, 6F, 8D and 8F are used for case referrals. As the system maintains a record of these IPCs, no additional notation is needed in the case file, unless an explanation for the referral is deemed appropriate as a case note. See IRM 4.19.3.5.8, Fraud Referral Program, for new Fraud referral procedures.

4.19.3.25.5.2  
(09-01-2004)

**Case Transfer/Closure**

- (1) Transfer/Closure of cases removes the case from AUR processing and reassigns control of the case to another Operation (Examination or Criminal Investigation). As the system maintains a record of these closing PCs, no additional notation is needed in the case file, unless an explanation for the transfer/closure is deemed appropriate as a case note. Print the complete AUR case contents (See IRM 4.19.3.25.5, Case Actions) and include them as part of the case file.



4.19.3.25.5.3  
(04-07-2009)  
**Case Notes**

- (1) Use the Case Note window to document significant case actions and taxpayer contact. Events may occur in the working of a case which are important, significant or justify your determination/action. A case note should be left as an appropriate action trail. Case Notes are not meant to be a full case history; they are an abbreviated record to ensure all cases are correctly and expeditiously handled.

4.19.3.25.5.4  
(09-30-2014)  
**Manual Interest**

- (1) The tax examiner must compute Manual Interest when necessary. The system displays a warning message if conditions exist for Manual Interest. Identify notice dates for CP 2000/ Re comps prior to working employee cases. See IRM 20.2.5.6.1, Reasons to Manually Compute Interest, for additional information regarding when interest needs to be manually computed. See IRM 4.19.3.18.10, Manually Computed Interest for the CP 2000, for additional instructions.
- (2) Ensure BT 90, with Manual Interest, is updated to "RB" status or release cases from BT 91 and 92 during the week ending date for the notice date selected during the Manual Interest computation.

4.19.3.25.5.5  
(10-07-2019)  
**Internal Process Codes (IPC)**

- (1) Due to the sensitivity or extensive physical control required by the use of certain IPCs, **the following IPCs are not valid** when working employee cases:
  - 0P and 0T
  - 3P and 3T
  - 6P and 6T
  - 8P and 8T
  - MI, RC, CR, RN, SR, DR, and RF
- (2) The **following IPCs are valid** when working employee cases:
  - 0A, 0D and 0F
  - 3A, 3D, and 3F
  - 6A, 6D, and 6F
  - 8A, 8D, and 8F

**Note:** The SSN remains assigned to the current batch when the above IPCs are input.

  - LC and WP

**Note:** The system moves cases with IPC LC to Employee Suspense BT 92.

4.19.3.25.5.6  
(11-20-2017)  
**Potential Payer Agent**

- (1) Employee cases cannot be transferred to the Payer Agent/Fraud Coordinator if IRs appear to be erroneous and were not identified with a Payer Agent or Fraud Code. Coordinate manually with the Payer Agent/Fraud Coordinator for instructions regarding any potential erroneous IR(s).

4.19.3.25.5.7  
(06-28-2021)  
**Notice Indicators and Process Codes**

- (1) Due to the extensive physical control required, **only** Notice Indicators, 4 and 5 are valid for employee cases.
- (2) IPC CR, RN, SR, and DR are not valid for Employee Cases. If the taxpayer's response is a partial agree that would otherwise have been closed with IPC CR, RN or SR, issue a recomputed notice (PC 59 or PC 95) for taxpayer's

signature. This ensures the CP 2000 History is properly updated to allow for correct State Disclosure Information. However, if there is insufficient time left on the Statutory Notice suspense period use PC 88 to assess the case.

4.19.3.25.6  
(09-01-2004)  
**Releasing Employee  
Screening Batch Type 90**

- (1) PCs are not verified on SSN(s) within the batch. Refer to IRM 4.19.2, IMF Automated Underreporter (AUR) Control, for further information on updating batches to "RB" (Release Batch) status.
- (2) When updating BT 90 to "RB" status, only notice, letter, and closure PCs are valid.

4.19.3.25.7  
(09-01-2004)  
**Notice Rejects**

- (1) AUR generates a weekly listing for notice rejects on Employee cases. The listing includes the SSN and Reject Code. See IRM 4.19.2, IMF Automated Underreporter (AUR) Control, and see IRM 4.19.3.19, Automated Underreporter (AUR) Rejects, for more information. The Clerical Function provides employee case SSNs and reject conditions to the tax examiner responsible for working Employee cases.

4.19.3.25.8  
(09-01-2004)  
**Undeliverables**

- (1) When a CP 2501, CP 2000 /Recomp, or Statutory Notice is returned by the Post Office as undeliverable, either:
  - a. Research IDRS and take appropriate actions to remail the notice to a better address, if found or
  - b. Under the EMPLOYEE option on the Case Analysis screen, select UNDELIV NOTICE. The cursor displays a message indicating the case has a new address or no new address was found. The system enters the appropriate Undeliverable Indicator ("T" or "U") in the UNDELIVERABLE IND field. After entering the SSN(s), press <COMMIT>.

4.19.3.25.9  
(09-01-2010)  
**Correspondence  
Received**

- (1) Employee case responses are either:
  - handled by the manager of Receipt and Control's Unidentified Unit, who opens the response to determine if a remittance is enclosed, deposits the remittance, and forwards all responses to AUR or
  - routed to AUR unopened.
- (2) When a response to a CP 2501, CP 2000, CP 2000 Recomp, or Statutory Notice is received, input the IRS Received Date. Use the following priority criteria to determine the IRS Received Date:
  - a. Received Date stamped on correspondence,
  - b. Envelope postmark date or the date stamped by the Fax machine,
  - c. Signature date, or
  - d. Current date.
- (3) Under the EMPLOYEE option on the Case Analysis screen, select RCVD DATE. The cursor displays in the SSN field. Enter the SSN and press <ENTER>. The AUR RCVD DATE field displays the current date. The cursor moves to the IRS RCVD DATE field. Enter the IRS Received Date and press <ENTER>.
- (4) After entering the SSN(s), press <COMMIT>.

- (5) Request Employee Suspense BT 91001-999 and update to AU, Assigned Unit, status when the tax examiner begins working responses.

4.19.3.25.10  
(09-21-2020)

**Letters**

- (1) Use the IAT **Letters** tool to issue letters on Employee cases.
  1. Create the letter on IAT.
  2. Print a copy of the letter to be retained in the case file.
  3. Leave a case note.
  4. Use IPC 6S (CP 2000 phase) or 8S (Statutory Notice phase), as appropriate.
  5. Return the case to the suspense file with the date the letter was created clearly annotated on the folder.
  6. Monitor the case. At the end of the letter suspense time frame, take appropriate action to continue processing.

4.19.3.25.11  
(09-21-2020)

**Employee Case Assessments**

- (1) Auto assessment and Statutory Notice assessment processing were expanded to include most assessments. Generate an auto assessment by either entering an assessment PC or completing the Assessment window. Enter/Verify the necessary items on the Assessment window to create automatic assessments.
- (2) The manual assessment document is no longer required on the majority of assessments, but can be created if necessary.
- (3) The system automatically creates an assessment record on all cases no later than the date listed in the table below:

Notice Type	TY 2020	TY 2021	TY 2022
CP 2000	January 5, 2024	January 3, 2025	January 2, 2026
Statutory Notice	May 3, 2024	May 2, 2025	May 1, 2026

All assessments (dates listed in the table above) MUST be input via IDRS. Use the AUTO/MANUAL box on the Assessment window to initiate printing of the assessment document.

- (4) AUR uploads the Transaction Codes, Reference Numbers, and other data items necessary for automatic assessments.

4.19.3.25.12  
(09-01-2005)

**Aging Cases in Batch Type 91 and 92**

- (1) If a CP 2000/ CP 2501 case was not worked and released within 60 days from the notice/letter date (CP 2000 Foreign/FPO/APO is 75 days), the system generates an Employee Case Aging Report displaying the SSN(s).
- (2) The SSN(s) remain on the report until the case is assigned.
- (3) Statutory Notice cases display on the report after 105 days from the Statutory Notice date (Statutory Notice Foreign/FPO/APO is 165 days).

4.19.3.25.13  
(09-01-2005)

**No Response Cases**

- (1) No response cases that meet the required suspense time frames are systematically checked to identify conditions that require action before issuing a Statutory Notice. For a list of these conditions, refer to IRM 4.19.2, IMF Automated Underreporter (AUR) Control. See IRM 4.19.3.21, No Response/ Undeliverables, for instructions in resolving these conditions.

**Note:** More than one condition may exist on the case. However, the system only displays one condition when assigning the case.

- (2) Before generating Statutory Notices, research both spouses on IDRS for a better address. The system identifies a new address for the primary taxpayer but not for the secondary taxpayer.
  - a. If a new address is found for an undeliverable case, issue a new CP 2000 to that address.
  - b. If more than one address is found, and you are in doubt as to the correct address, issue Statutory Notices to every address.
  - c. This applies regardless of whether the taxpayer already received the notice.

4.19.3.25.14  
(09-01-2004)  
**Reports**

- (1) Employee File Information displays on the Open Transfer, Unit Inventory, and Cases in Error reports to managers with an Employee File profile.
- (2) Reports and Batch Listings for Employee File cases are available to managers, tax examiners, and clerks with an Employee File profile.

4.19.3.25.14.1  
(09-01-2004)  
**Employee Case Aging Report**

- (1) This report indicates which cases have met appropriate suspense time frames, cases closed by the system, or cases where missing data was received. This report is systemically generated on a weekly basis and is printed by the user. The report displays the following information:
  - a. Cases with Missing Data/BT 90000. The system closes the case with PC 28.
  - b. Cases where the Missing Data was received.
  - c. Cases in BT 90000 that were systemically reordered and not received. The system closes these cases with PC 29.
  - d. Cases in BT 91 and 92 that have met the suspense time frames were met.
  - e. Cases in BT 91 and 92 that have had no action taken at the end of the suspense time frame.

4.19.3.25.14.2  
(09-01-2004)  
**Employee Case Open Inventory Report**

- (1) This report is systemically generated on a weekly basis and is printed by the user. Use this report to monitor open employee cases. Cases in BT 90 and 91 display in CSN order. Cases in BT 92 display in SSN order. The following information displays on the report:
  - CSN
  - SSN
  - SEID (displays only if the case is assigned)
  - Latest Process Code
  - Latest Process Code date
  - Confirm Indicator ("Y" displays if the PC and/or CP 2000/ Recomp Page 2 information was confirmed).
  - Latest Notice/Letter date
  - Latest Received Date of correspondence
  - ASED date - Statute date

4.19.3.25.14.3

(09-01-2004)

**Employee Case Closed Inventory**

- (1) This report displays all employee cases that were closed. The report is systematically generated on a weekly basis and displays the following information:

- SSN
- SEID
- Process Code
- Process Code date

4.19.3.25.14.4

(09-01-2004)

**Employee Case Auto Assessments**

- (1) This report is used to verify auto assessment cases are in the correct adjustment sequence series for shipment to Files. This report generates daily by the system and is printed by the user. **This report must be printed daily** if assessments are input. Each time AURX060 is run, the report displays new information. The following information displays on the report:

- Seq Number - sequence number the case must be in when sent to Files
- Old Loc - the location of the case
- SEID - the SEID of the tax examiner who input the automatic assessment
- SSN - the SSN of the Employee case

**Note:** Returns must be kept in the order in which they are scanned.

4.19.3.26

(01-28-2022)

**AUR Reconsideration (RECON) Cases**

- (1) AUR RECON, sometimes called “first-read” or “late response” cases, are responses received after the case has been closed (assessment or no change) on the AUR system.
- (2) An AUR RECON is a claim for a credit or refund not previously reported, requested, or allowed i.e. no change due to no response to a refund CP 2000, expenses against the AUR notice issue(s), a request for abatement of tax, penalty, and/or interest. Use the same guidelines in making determinations for RECON correspondence as when working open AUR cases.
- (3) When working with non-current AUR tax year requests for RECON, as a general rule, the most current AUR procedures in the processing of the RECON applies. The tax examiner needs to consider year specific issues such as Advance on Child Tax Credit (applies only to TY 2003 and TY 2021), Rate Reduction Credit (applies only to TY 2001), ACA provision 10908 (applies to TY 2009 and subsequent), etc. as well as year specific regulations regarding limitations, phase-outs, tax rates, etc.
- (4) If the RECON is based on a claim of identity theft and the response includes Form 14039 or a police/law enforcement incident report, or the taxpayer states a preparer altered tax return data or misdirected a portion of or all of the refund and includes Form 14157, Complaint: Tax Return Preparer, and/or Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit, close and refer the case to the AUR IDT liaison.
- (5) If the RECON is based on a claim of identity theft and the response does not include Form 14039 or a police/law enforcement incident report, see IRM 4.19.3.22.1.26, Identity Theft (IDT) Claims - Overview, IRM 4.19.3.22.1.26.1, IDT - General, and IRM 4.19.3.22.1.26.3, IDT Claims - Responses, for guidance to work the case.

- (6) If the Recon is a claim a preparer altered tax return data or misdirected a portion of or all of the refund but does not include Form 14157, Complaint: Tax Return Preparer and/or Form 14157-A, Tax Return Preparer Fraud and Misconduct Affidavit, see IRM 4.19.3.22.1.25. Return Preparer Misconduct (RPM), for guidance to work the case.
- (7) If RECON correspondence is received on a case in a declared disaster area, whether systemically identified or through taxpayer self-identification, only adjustments **which result in a refund** or no balance due; such as, “full reversal”, can be made until after the disaster end date. If the case must be held until the disaster end date:
  1. Advise the taxpayer and explain what action will be taken after the disaster end date.
  2. Leave a detailed case note.
  3. Hold the case until after the disaster end date.
  4. Follow normal procedures to work the case. Leave a case note regarding the adjustment and actions taken.

4.19.3.26.1  
(03-17-2023)

**Private Debt Collection  
and RECON Cases**

- (1) When a tax account with a balance due is inactive for one year or longer, IRC 6306(c)(1) requires the IRS to use a Private Debt Collection (PDC) agency. IRS and the Private Collection Agency (PCA) will send a letter to the taxpayer to inform them that their account has been assigned to a PCA. Taxpayers can confirm the names of the PCAs under contract with the IRS on *irs.gov*.
- (2) An account assigned to a PDC is identified on IDRS CC ENMOD or CC IMFOLE with TC 971 AC 054.

**Note:** When TC 971 AC 054 is present with a corresponding TC 972, PDC is no longer involved. The taxpayer's PCA is identified on IDRS CC ENMOD or CC IMFOLE by the following PDC-ID Numbers:

PDC – ID Number	PCA
01	CBE Group P.O. Box 2217 Waterloo, IA 50704 800-910-5837
02	ConServe P.O. Box 307 Fairport, NY 14450-0307 844-853-4875
05	Coast Professional, Inc P.O. Box 425 Geneseo, NY 14454 888-928-0510

- (3) Cases assigned to PDC may require special handling when the taxpayer is in balance due status **as a result of an AUR assessment**, and:
  - Requests an Installment Agreement.
  - States they do not want to work with the PCA.
  - Has any other unresolved Collection related issues.



If an unreversed TC 971 054 is present and the taxpayer indicates any of the above, advise the taxpayer AUR can work with them to resolve AUR account related issues but they must work directly with their assigned PCA to resolve Collection related issues. If necessary, provide the taxpayer their PCA information; see (2) above.

**Note:** If the taxpayer states they do not want to work with the PCA, the taxpayer must provide a written statement to the PCA.

**Exception:** If an unreversed TC 971 054 is present, it is not necessary to refer the taxpayer to their PCA if they can full pay their liability using online payment options; for example, Direct Pay, credit or debit card payments by phone or internet, or via a check or money order.

- (4) IDRS actions are necessary when an AUR RECON case is assigned to the PDC. When an unreversed TC 971 AC 054 is present on a RECON case, a control base on IDRS must be opened and either updated or closed using IDRS CC ACTON or IAT "ACTON" tool, when appropriate. Refer to IRM 4.19.3.26.3, RECON Receipt Tracking and Reporting, for additional information.

4.19.3.26.2  
(07-11-2022)  
**Appeals Closures - PC  
80**

- (1) If the case was closed with PC 80, research to determine if the case can be appealed (worked as a RECON). **Cases that are closed with finality including "dismissals for lack of prosecution" cannot be appealed.** Cases identified as closed/dismissed "due to lack of jurisdiction", can be worked using the AUR RECON process. See IRM 8.7.7.16, Reconsideration of Claims for Liabilities Previously Considered by Appeals, for additional information on cases closed with finality.

**Caution:** If the case was closed with PC 66, Appeals denied the request and has returned the case to AUR, see IRM 4.19.3.22.1.8, Independent Office of Appeals.

- (2) To determine if the case can be worked as a recon take the following actions:
1. Research IDRS for the presence of an assessment for the AUR amount. If no (TC 300) assessment is present, forward the response to the appropriate Appeals Office. If an assessment is present, go to step 2.
  2. Access the U.S. Tax Court Website at [ustaxcourt.gov](http://ustaxcourt.gov), using Microsoft Edge.
  3. Hover over "Efililing and Case Maintenance", select SEARCH (Case, Order, Opinion).
  4. Select either Docket Number or Individual Party Name.
  5. Enter the required information to access the case.
  6. Once accessed, read the court decision to determine if the case was closed due to lack of jurisdiction or closed with finality.
- (3) The decision of the Tax Court is final 90 days from the **date the decision is entered** unless either party files a timely notice of appeal. Unlike a **regular case** (non-S case), an "S case" (a case with a docket number that ends with "S") cannot be appealed.



- If the decision indicates the case was **dismissed for “lack of jurisdiction”**, continue processing as an AUR RECON case. Use TC 291 when decreasing the original assessment.

**Note:** The IAT “xMend” or “REQ54” tool must be used when making an adjustment on an account.

- If the decision indicates the case was **closed with finality**, issue a Letter 916C, using the IAT “Letters” tool, to the taxpayer denying the reconsideration. Use the following verbiage as an example: “Your request for reconsideration is denied. Our records indicate you filed a petition with the U.S. Tax Court regarding this issue. The Court has entered a final decision which cannot be considered by the IRS.”

4.19.3.26.3  
(09-21-2020)

#### **RECON Receipt, Tracking and Reporting**

- (1) Correspondence is initially sorted by the Clerical Function based on whether or not the AUR case is still open. If open, the correspondence is batched with regular AUR receipts. If the AUR case is closed, the correspondence is considered a RECON. Correspondence for RECONs may also be sorted by tax year.

- (2) Ensure RECON casework is reported under the correct OFP code.

**Reminder:** Consider time spent on cases that involve claims of identity theft, cases that result in an adjustment to the AUR assessment (RC 067 and 068) and cases that do not result in an adjustment to the AUR assessment (RC 064 and 066) when reporting time for RECON casework.

**Note:** If an IDRS control base is open, an adjustment TC 29X with the appropriate Reason code must be input, except for re-routes and miscellaneous correspondence that does not request a change to the AUR assessment. The IAT “xMend” or “REQ54” tool must be used when making an adjustment on an account.

- (3) The clerical function counts and records the volume of RECON correspondence. As a rule, these receipts are delivered to Technical Managers for assignment.
  - a. Closed cases for specific tax years may be built into BT 81, 88 or 83 (Employee Reconsiderations).
  - b. If cases do not build into BT 81, 88 or 83, they are not controlled within AUR, and accurate manual counts of correspondence/cases received and resolved must be maintained.
- (4) RECONs must be controlled no later than 10 business days from the AUR received date on:
  - a. AUR for TY 2013 and subsequent.
  - b. IDRS (TXMOD) for TY 2012 and prior.
  - c. IDRS (all years) when an unreversed TC 971 AC 054 is present.
- (5) AUR RECONs are subject to Policy Statement P-21-3 guidelines per IRM 4.19.3.22.1.5, Policy Statement P-21-3, (taxpayer contact must be made within the 30 days criteria).

**Note:** The IAT “Letters” tool must be used to issue a letter to the taxpayer.

- a. IDRS Letter 86C is sent to the taxpayer if you are referring the response to another campus/area.
  - b. IDRS Letter 4314C is sent to the taxpayer as a first or second interim letter.
- (6) RECON phone calls must be controlled by the TE receiving/working the case. Incoming phone call or response which qualifies as a RECON must be counted into the inventory. A case count is taken for each account that requires an action. Report each new RECON receipt to the lead or manager. It is recommended that an action be taken within one day of receipt of these cases.

**Note:** Phone call initiated RECONS must be controlled on AUR/IDRS if held for further action.

**Exception:** Telephone RECONS that qualify for inclusion in inventory should be built into BT 81 or 83.

- (7) IDRS actions are necessary on certain AUR RECON cases. If IDRS actions are necessary on an assigned RECON case, the control base on IDRS must be opened and either updated or closed using IDRS CC ACTON or IAT "ACTON" tool, when appropriate.
- a. Use the ACTIVITY field to document actions and pending dates.
  - b. When suspending a case, ordering a document or contacting the payer, update your status control to "M" (monitor).
  - c. Use IDRS history items to document additional information.
- (8) Cases are considered aged when the IRS received date is greater than 45 days.
- (9) The following Reason Codes are used to indicate the type of RECON resolution:

**Caution:** AUR RECON Reason Codes CANNOT be entered in the fourth position (REQ54 on IDRS or IAT). The fourth position is reserved for penalty reason codes only.

- RC 064 - Reconsideration No-Response - use this code when the initial RECON case does not supply sufficient information and the request for additional documentation is a No-Response.
  - RC 066 - Reconsideration Disallowed in Full - use this code when the original AUR assessment is NOT adjusted.
  - RC 067 - Reconsideration Disallowed in Part - use this code when the original AUR assessment is partially adjusted.
  - RC 068 - Reconsideration Allowed in Full - use this code when the original AUR assessment is fully reversed.
- (10) The IAT "xMend" or "REQ54" tool must be used when making an adjustment on an account.

4.19.3.26.3.1  
(09-21-2020)

**Batch Type 81 and 88 -  
Reconsiderations and  
Batch Type 83 -  
Employee  
Reconsiderations**

- (1) Closed cases for TY 2013 and subsequent are built into BT 81, 88 or 83.
- (2) BT 81 and 83 are used to control, monitor and track closed correspondence received in AUR for RECON of the assessment.  
  
**Caution:** RECON cases do not have full functionality on the AUR system and should not be transferred.
- (3) BT 88 is used to control, track and count RECON correspondence which does not require an assessment (for example, request for copy of a CP 2000, duplicate response). BT 88 segments correspond to specific RECON issue codes. When the batch status is updated to "RB", cases in BT 88 are updated to IPC 9I and moved to BT 96002. See Exhibit 4.19.3-5, Batch Types, for additional information.
- (4) Internal PCs have been designated for use with cases in BT 81, 88 or 83 as follows:

IPC	Definition	Action
<b>9B</b>	Recon Research Required	Moves case to BT 82 for Recon Suspense.
<b>9E</b>	Recon Research/Referral within AUR	Moves case to BT 82 for Recon Suspense.
<b>9F</b>	Recon Full Abatement of the AUR Assessment	Closes the Recon case within AUR and moves the case to closed BT 96002 - use with IDRS RC 068.
<b>9I</b>	Recon Information Request/MISC (Not appropriate if an abatement is made, use 9F or 9P)	Closes the Recon case within AUR and moves the case to closed BT 96002.
<b>9L</b>	Recon Payer Letter	Moves case to BT 82 for Recon Suspense.
<b>9N</b>	Recon No Change to AUR Assessment	Closes the Recon case within AUR and moves the case to closed BT 96002 - use with IDRS RC 066 or RC 064, as appropriate.
<b>9P</b>	Recon Partial Abatement of the AUR Assessment	Closes the Recon case within AUR and moves the case to closed BT 96002 - use with IDRS RC 067.  <b>Note:</b> IPC 9P should be used when the original AUR closure was no change and the RECON results in a change to the account.
<b>9R</b>	Recon Referral - Non-AUR Issue	Closes the Recon case within AUR and moves the case to closed BT 96002.

4.19.3.26.3.2

(09-30-2014)

**Batch Type 82 - RECON  
Suspense**

- (1) RECON cases in BT 81 that the tax examiner determines needs additional action are systemically moved to suspense BT 82 at assignment of IPC 9B, 9E and 9L.

**Caution:** IPC 9L is ONLY used for Payer letters (Letter 2625C).

- (2) When the requested research or a taxpayer response is received, the clerks will route the information to the appropriate technical unit as designated in the Remarks Field on the Research Document.
- (3) AUR reports are available to monitor the age of cases in BT 82.

4.19.3.26.4

(06-19-2018)

**Initial Case Actions**

- (1) A STAUP prevents issuance of collection notices until the cycle delay request has expired or has been released. Generally, a STAUP is set no longer than 9 cycles but can be set up to 15 cycles, if necessary. If AUR and/or IDRS research shows the taxpayer's account is in balance due notice status, ensure input of IDRS CC STAUP with a definer "S", to prevent the taxpayer from receiving additional collection notices while the response is being worked.

- A STAUP is not released by input of a TC 29X, whether the adjustment is an increase, decrease, or a zero amount.
- If the case is in collection status input TC 470 on IDRS using the IAT "REQ77" tool. See Exhibit 4.19.3-14, Notice Delay Actions (Reconsiderations).

- (2) If resolution of the case results in a remaining balance due, reduce STAUP to allow the notice routine to continue, see Exhibit 4.19.3-15, Cycle Chart (Reconsiderations).

**Note:** When closing or updating a case and the adjustment creates a zero or credit balance, this action is not required.

- (3) If the case was closed with PC 66, Appeals denied the request and has returned the case to AUR, see IRM 4.19.3.22.1.8, Independent Office of Appeals.
- (4) When suspending cases for payer contact, additional research, returns, etc., a record of case actions must be maintained. Options for this record include:
  - Case notes on AUR, providing the case has not been archived
  - IDRS History Items
  - Assignment of IPC 9B, 9E or 9L, if the case is in BT 81 or 83

**Note:** Worksheets used in recomputation or any TE notes should be maintained with the case.

- (5) Each correspondence sent to the taxpayer should:
  - Cover all questions asked by the taxpayer
  - Address all adjustments requested by the taxpayer
  - Address all AUR Tax Year issues
- (6) Many RECONs received in AUR do not require a written notification to the taxpayer, unless an interim letter has been sent. Some examples are:

- Duplicate correspondence - the adjustment has already been made per an earlier request for a tax change or an adjustment action. Duplicate correspondence is generally treated as classified waste.
- Credit transfers - taxpayer wants a payment moved to another account.
- Penalty abatement request granted - follow penalty relief guidelines to make a determination.

**Note:** If these cases are in BT 81 or 83, assign IPC 9I, which closes the AUR case control. Input TC 290-0 using the IAT “xMend” or “REQ54” tool or complete Form 9856 , Attachment Alert, using the Fill Form tool on IAT to associate the information to the AUR Case file retained in Files. Close the IDRS control base, if applicable.

(7) The following list includes the most common reasons written notification to the taxpayer is needed:

- Explain W/H adjustments
- Request additional information
- Answer taxpayer’s questions
- Explain penalty abatement request denial - follow penalty relief guidelines to make a determination

**Note:** A case note to record managerial penalty assertion approval is required. See IRM 4.19.3.22.1.4, Accuracy-Related Penalties.

- Explain the inability to abate interest
- Provide recomputed figures (if the taxpayer did not provide the figures)
- Send a disallowance or partial disallowance letter

**Note:** The IAT “Letters” tool must be used to issue a letter to the taxpayer.

(8) AUR should NOT release the TC 360 lien fee. Even in instances when the AUR adjustment is completely abated, the Notice of Federal Tax Lien (NFTL) should NOT be abated. The fee is charged because the taxpayer did not timely and/or completely address a balance due AND the fee could apply to multiple amounts due or cover more than one lien and is compounded because the taxpayer did not resolve the compliance issue in a timely manner. Therefore, even though the AUR assessment may be fully abated, the taxpayer may still be liable for the lien fee. Refer the abatement request to Advisory (SERP, Who/Where, Advisory) <http://serp.enterprise.irs.gov/databases/who-where.dr/als.dr/case-processing-lien-units.htm> and Advisory addresses are shown in Pub 4235, Collection Advisory Group Addresses. If the only remaining assessment on the module is the lien fee, the lien will not release unless the fee is paid. Issue a letter to the taxpayer informing them that the lien fee must be paid in order for the lien to release.

(9) IDRS research is necessary to determine if two or more people/areas have an open control base on the same account. When it is determined that a multiple control condition exists, coordinate with the other person/area for potential case resolution.

4.19.3.26.5  
(01-28-2022)  
**Routing/Work Flow  
Determination**

- (1) Routing to other areas may be required for some RECON correspondence.
- (2) **Within AUR** routing:

- Spanish correspondence may need to be sent to the appropriate bilingual person.
- Manual refunds must be approved by the manager and leave a case note documenting the actions taken.

**Note:** If the case is in BT 81 or 83 transfer the case to yourself; the AUR system will assign IPC 9E.

- (3) **Outside AUR Issues**, route the following **non-AUR** issues shown below as examples, (The examples are not all inclusive). When routing an unprocessed Form 1040-X/Amended Return to AM input TC 971 AC 010, or to Exam input TC 971 AC 013. See IRM 4.19.3.22.1.19, Form 1040-X/Amended Return for additional information:

**To Accounts Management**

- Injured Spouse
- AUR Examination closures
- NOL cases
- Scrambled SSN
- Mixed Periods/Entity
- Filing status changes (Married filing separately, single, or head of household to married filing joint)
- Adjustments outside of AUR issues, such as Tentative Carrybacks (TENTs), Restricted Interest Claims (RINTs), entity change only requests, payments tracers.

**To Examination**

- Examination Criteria (CAT-A) refer to IRM 21.5.3-2, Examination Criteria (CAT-A) - General.

**Note:** Form 1040-X or an amended return must be signed before it is referred to Exam. Do not refer unsigned Forms 1040-X/amended returns.

**To Appeals**

- Appeals requests; see IRM 4.19.3.22.1.8, Independent Office of Appeals, for additional information.

**Note:** If the case is in BT 81 or 83 assign IPC 9R.

- (4) **Originating Campus:** If IDRS CC TXMODA or CC IMFOLT shows TC 922 with the initial PC 03 and an AUR closing PC send the correspondence to the campus that issued the original CP 2000. The campus is identified by the first two digits of the TC 290 DLN. Follow the routing guidelines in (7) below.

**Caution:** If the received date is old, fax the correspondence to the originating Campus to expedite the case. Call the originating AUR Campus to advise of the incoming fax. Use IDRS CC MESSG for other Campus phone numbers. Route the original correspondence.

**Note:** Some RECON correspondence may require special/expedited handling and may be retained and worked by the receiving site.

**Exception:** If the first PC is 02, the case was worked manually prior to the automated system. Do not route these cases. Order the return if the case cannot be worked with available information.

- (5) **Backup Withholding** - Route Backup Withholding issues to Collections. See IRM 4.19.3.22.1.9, Backup Withholding (BWH), for additional information. If the case is in BT 81 or 83 assign IPC 9R.
- (6) **Deceased/Incarcerated** - If the issue is ONLY a payment of balance due, route to Campus Collection. If the issue is the amount of the assessment, work 9R.
- (7) When routing RECON correspondence:
  - 1. Send IDRS Letter 86C to the taxpayer using the IAT "Letters" tool.
  - 2. Input a CC STAUP for 9-15 cycles, as needed.
  - 3. Document the reason for routing in the case file.
  - 4. If established, close the control on IDRS, and update the activity.
  - 5. If there is a TC 971 AC 015 on TXMOD, input TC 971, with the appropriate action code (AC), to indicate the amended return/claim was routed to another function. See Document 6209, Section 8c-9, TC 971 Action Codes and Information, for additional information.

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4.19.3.26.6  
(10-06-2022)  
**Evaluating RECON  
Correspondence**

- (1) As with all taxpayer correspondence, determine if AUR is the appropriate area to respond to the taxpayer's need. Carefully read the entire contents of the correspondence and address all the AUR issues, including other AUR tax research so timely actions can be taken.
  - a. Full and partial adjustment refers to the AUR assessed amount.
  - b. When fully or partially disallowing RECON requests, send the appropriate C-Letter using the IAT "Letters" tool.
- (2) If a response is received for another AUR site and the Assessment Statute date expires within 90 days, **work the RECON** and see (10) b below.
- (3) **TDC Closed case** - Responses are routed back to the person who handled the case last. Advise the TDC clerk of the receipt so they can build the response to a batch. Once the batch is built, request the batch so the case is assigned to you on AUR. After evaluating the reply, you must determine if the IRS Case Status needs to change.
- (4) If the message does not contain a request for the case to be reopened, click Complete in the Reply pane to close the issue. Input appropriate IPC.
- (5) If the case can be handled as a one-time response and does NOT require an adjustment, let the IRS case status remain completed. Input appropriate IPC.
- (6) If the case meets Recon criteria and requires an adjustment or correspondence, take the following actions:
  - 1. Input STAUP, see IRM 4.19.3.26.4, Initial Case Actions, for additional information.
  - 2. Change the IRS Case Status to "Open".
  - 3. Update the Recon Indicator in the Case Details pane to "Y", then click the Save Button.

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4. Compose reply to the taxpayer. When the recon is resolved (i.e., adjustment made and/or response to correspondence received) change the IRS Case Status to Completed. Input appropriate IPC.
- (7) When W/H is an issue, verify the information provided by the taxpayer before adjusting.

**Note:** When the case was closed no change due to the taxpayer not responding to the AUR notice reflecting a refund and additional information and/or documentation is not provided to support the refund; contact the taxpayer for additional information. Refer to IRM 4.19.3.26.8, Taxpayer Contact for Additional Information.

- (8) Taxpayers who originally filed a joint return may not change to married filing separately after the due date of the return unless the original joint return was fraudulently filed. Refer to Exam for a determination.
- (9) An erroneous refund is any receipt of money from the Service to which the recipient is not entitled. It includes all erroneous payments to the taxpayer, even if the erroneous refund involves returning the taxpayer's own money. Refer to IRM 4.19.3.5.13, Erroneous Refunds, for additional information.
- (10) **ASED - Assessment Statute Expiration Date** normally expires three years from the date the original return was filed or three years from the due date of the return, whichever is later.
  - a. Some conditions extend the ASED, such as bankruptcy, 25 percent omission, filing joint after filing separate, fraud. Refer to IRM 25.6.1.5, Basic Guide for Processing Cases with Statute of Limitation Issues, for additional information.
  - b. If the Assessment Statute date expires within 90 days, and there is an increase to tax, the case will need to be sent to the RACS Unit for Assessment. Refer these cases to the AUR Statute Coordinator for preparation of Form 2859.
- (11) **RSED - Refund Statute Expiration Date.** Generally a claim for refund must be filed within 3 years from the time the original return was filed or 2 years from the time the tax was paid, whichever is later. Claims for refunds must be filed on or before the RSED. Although a request for reconsideration may be valid, actual refunds and/or credits may not be allowable depending on when the payments were made or offsets applied.
- (12) When adjusting an account, the RSED may be imminent or may have expired. Refer to IRM 25.6.1.5, Basic Guide for Processing Cases with Statute of Limitations Issues, IRM 25.6.1.7.2, Time When Payments and Credits are Considered to be Made, and IRM 25.6.1.10.2.7, Claims for Credit or Refund - General Time Period for Submitting a Claim, for additional information.
- (13) Some conditions extend the RSED, such as overpayment resulting from bad debts and worthless security losses, or their effect on carry overs and carry backs, net operating (NOL) or capital loss carry backs or certain credit carry backs, financial disability. Refer to IRM 25.6.1.10.2.8, Claims for Credit or Refund - Special Items of Income, Deduction, Loss or Credit, and IRM 25.6.1.10.2.9, Claims for Credit or Refund - Taxpayers in Special Situations, for additional information.

- (14) When the taxpayer's response results in either a full or partial abatement refer the chart below to determine the appropriate action:

If	And	Then
AUR adjustment is fully unpaid	ASED is open	Follow appropriate adjustment procedures per IRM 4.19.3.26.6.1, Full Adjustment Determinations, or IRM 4.19.3.26.6.2, Partial Adjustment Determinations.
Response results in either a full or partial abatement of the AUR assessment	TC 604 is present on the account due to bankruptcy discharge/dismissal	<p>Coordinate with the AUR Bankruptcy Coordinator:</p> <p>If TC 604 is present due to the mirroring process, post the assessment on the appropriate existing MFT 31 account.</p> <p>If TC 604 is due to discharge of the bankruptcy:</p> <ol style="list-style-type: none"> <li>1. Send an email to *CIO Issues and in the subject line, identify the case as an AUR Reconsideration case. Request temporary reversal of the TC 604.</li> <li>2. Once the TC 604 is reversed, input the adjustment to correct the AUR assessment. <b>Caution:</b> If the adjustment will result in a refund, or if there are payments/refundable credits which need to be addressed, include Hold Code 1 on the adjustment.</li> <li>3. Send an email to *CIO Issues and in the subject line, identify the case as an AUR Reconsideration case. Request re-input of TC 604. <b>Caution:</b> If the adjustment will result in a refund, or if there are payments/refundable credits which need to be addressed <b>also advise CIO</b> there is a credit on the account which needs to be resolved.</li> </ol>
Response results in either a full or partial abatement of the AUR assessment	TC 604 is present on the account due to approved refund of funds on an Innocent Spouse case	See IRM 4.19.3.22.1.20, Innocent Spouse Relief Cases, for additional information.

If	And	Then
Response results in either a full or partial abatement of the AUR assessment	The TC 604 is due to reasons other than Bankruptcy or Innocent Spouse.	Coordinate with the AUR Bankruptcy Coordinator to: <ol style="list-style-type: none"> <li>1. Post the assessment on the appropriate existing MFT 31 account if the MFT 31 account(s) has been created or</li> <li>2. Contact the appropriate Collections Office to request a temporary reversal of the TC 604 if MFT 31 account(s) have not been established. See IRM 21.6.8.8.2, Adjusting Accounts, and IRM 21.6.8.6.1, Mirrored Modules, for additional information.</li> </ol>
Response results in either a full or partial abatement of the AUR assessment	TC 706 is present	See (17) and/or (18) below.
Response results in either a full or partial abatement of the AUR assessment	The RSED has expired on all or part of the payments	See (15) below.
Taxpayers filed a joint return but are now divorced	A payment is being refunded	Verify the refund is issued to the taxpayer that made the payment. A credit transfer may be necessary to ensure the payment refunds from the appropriate taxpayer module. To transfer the credit, use the IAT "Credit Transfer" tool. See (16) below.

- (15) When it is determined the RSED has expired on all or part of the payments (TC 610, 640, 670, or 706) or refundable credit (TC 806, 764, 766 and 768) or when the tax should be partially or fully reversed, but the RSED has expired on all or part of the payments, move the expired payment(s) to the Excess Collection File (XSF). To correct the account, take the following actions:

**Caution:** Do not create a refund condition by allowing more net credits than the tax increase.

**Note:** For additional information on RSED expiration see IRM 25.6.1.5, Basic Guide for Processing Cases with Statute of Limitations Issues.

1. Use the IAT "xMend" or "REQ54" tool to reverse the AUR assessment using a HC 4 to stop the adjustment notice and hold the credit.

**Note:** If the current date and the Refund Statute Control Date (RFSCDT) are later than the RSED, use Override Code "S". If the override code is not entered, the following error message displays; "Override Needed." If the response received date is more than 1 year old; use Override Code "R". Both Override Code "S" and "R" may be necessary.

**Note:** The date input in the RFSCDT field cannot be after the RSED if the claim is timely, or a "-D" freeze transcript will generate. A resulting credit balance is frozen at Master File with a "-D" freeze that will stop any payments from refunding.

2. Open a new IDRS control to monitor the account for the adjustment to post.
3. Send the taxpayer a disallowance letter explaining that the refund statute has expired. Do not ask the taxpayer for additional information if the statute has expired. Use the IAT "Letters" tool to issue either the Letter 105C, Claim Disallowed, or Letter 106C, Claim Partially Disallowed.

**Note:** Since the taxpayer will not receive an adjustment notice, be very specific in the explanation of the adjustment on the letter.

(16) After the AUR adjustment posts:

1. Use the IAT "Credit Transfer" tool to transfer payment(s) to the appropriate module for refunding, when appropriate (for example, TC 706). See (13) below.
2. Move any expired payment(s) to the Excess Collection File (XSF). Complete Form 8758, Excess Collections File Addition, and route to appropriate area. Complete a separate form for each payment or credit that needs to be moved to (XSF).

**Exception:** A Form 8758 should not be used for TC 736. Statute handles this TC when it is expired.

3. Update the IDRS control to a monitor status and update activity (example, "6800CR" or "8758toxcss").
4. Input TC 971 AC 296 using the IAT "REQ77" tool. Use the current date in the TRANS-DT field and "expired payments" or similar wording in the remarks field.

**Note:** If total credits are over \$100,000, secure managerial approval.

5. Monitor the case and once the credit is moved, address any refundable credit remaining on the account. See IRM 4.19.3.26.10, Miscellaneous RECON for Manual Refund Procedures.

(17) If the taxpayer's response results in either a full or partial abatement of the AUR assessment on a married filing joint (MFJ) account, any refund generated by the abatement must be paid jointly to both spouses unless one or more TC 706 is present and all four of the following items are true:

- The spouses' names on the account do not both appear on the originating account. Meaning, the TC 706 credits must transfer from one spouse on the originating account either as a single or separate filer or as a joint filer with a new spouse.

**Example:** Mary Doe filed single for 20XX. Her 20XX overpayment offsets with TC 706 to the prior year account filed as John and Mary Doe, married filing joint. (The year shown as "20XX" should be the AUR year of the case you are working.)

- No payments or credits other than a TC 706 posted to the account since the AUR assessment.
- In the case of partial abatements, all TC 706 credits transferred from the same person.
- All TC 706 occurred less than two years before the date of the full or partial abatement.

- (18) If a TC 706 is present and all four of the above items are true, move the applicable TC 706 credits back to the modules where they originated using the IAT **xMend**, **REQ54** or **Credit Transfer** tool.
- When considering claims for refund on an account that includes a TC 706 payment filed within two years, use the cycle date of the offset and not the transaction date of the offset. To determine the exact date within the cycle, refer to the Julian Date of the DLN.
  - If an adjustment is made to abate the tax and a credit transfer is made, use the appropriate hold code and input TC 570 when appropriate. The IAT "Credit Transfer" tool contains a box for Debit Freeze and Credit Freeze and will input the TC 570 when checked.

**Reminder:** TC 29X will release a TC 570.

**Example:** Spouse and Spouse file a joint return for the AUR year. IRS assesses an additional \$800 for their joint liability based on an AUR examination. The taxpayers divorce. Spouse files an income tax return the subsequent year that claims a \$500 overpayment. Spouse does not file an income tax return for the subsequent year that claims an overpayment. Because of the outstanding AUR assessment, the \$500 credit is transferred in April 20XX (filing year) to the married filing joint (MFJ) tax liability for the AUR year. No other payments or credits are made to the AUR year MFJ account. On September 1, 20XX (filing year or subsequent), the IRS partially abates \$400 of the AUR assessment. Because all four requirements above are met, move the \$100 credit that results from the partial abatement back to Spouse's subsequent year account to prevent the credit from refunding from the AUR year MFJ account.

**Example:** Spouse and Spouse file a joint return for the AUR year. IRS assesses an additional \$800 for their AUR year joint liability based on an AUR examination. The taxpayers divorce. Spouse files an income tax return for the subsequent year that claims a \$500 overpayment. Spouse files an income tax return for the subsequent year that claims a \$300 overpayment. Because of the outstanding AUR assessment, the \$500 and \$300 credits are transferred in April 20XX (filing year) to the married filing joint (MFJ) tax liability for the AUR year. No other payments or credits are made to the AUR year MFJ account. On September 1, 20XX, the IRS fully abates the AUR assessment. Because all four requirements above are met, move the \$500 credit back to Spouse's subsequent year account and the \$300 credit back to Spouse's subsequent year account before refunding to prevent the credits from refunding from the AUR year MFJ account.

**Note:** If the payment is not moved an erroneous refund situation may occur.

- (19) If the conditions in (13) above are met or if one or both taxpayers are deceased take the following actions:

1. Check the entity information for the tax years involved.
2. Verify the address is that of the taxpayer before issuing any notice/refund.
3. Determine if the name line changed. If the name line changed, ensure the TC 706 is placed on the correct module.
4. Use the IAT "Credit Transfer" tool to move the TC 706 back to the correct year and module for refunding the payments.

**Note:** If the payment is not moved to the correct tax year/module, an erroneous refund situation may occur.

- (20) When considering claims for refund on an account that includes an offset such as a TC 706 payment filed within two years, use the cycle date of the offset and not the transaction date of the offset. To determine the exact date within the cycle, refer to the Julian Date of the DLN.
- (21) If the taxpayer's response results in a full or partial abatement of the AUR assessment, check TXMOD/SUMRY for collection status. If the account is in collection status 26, coordinate with the Area Office Collection Revenue Officer. Refer to SERP, WHO/WHERE link "RO by TSIGN/ZIP/STATE" ([http://serp.enterprise.irs.gov/cgi-bin/ROZIP\\_Lookup.cgi](http://serp.enterprise.irs.gov/cgi-bin/ROZIP_Lookup.cgi)).

4.19.3.26.6.1  
(08-26-2016)  
**Full Adjustment  
Determinations**

- (1) If the taxpayer provides acceptable explanations for all of the issues or there is enough information to fully reverse the AUR assessment:

1. Input the full reversal adjustment using the IAT "xMend" or "REQ54" tool.

**Caution:** DO NOT use the "Full Back Out" button.

**Note:** The adjustment automatically releases the -A freeze, if present.

2. Use RC 068 (AUR assessment fully adjusted).
3. Print the completed IAT "xMend" adjustment document or "REQ54" adjustment document. An adjustment document (for example, Form 12775, ADJ54 Adjustment Format) may be used when IAT is not available.
4. Attach the taxpayer correspondence and any worksheets/computations to the case going to files.

**Note:** An original Form 1040-X/Amended Return must be associated with the return and should not be altered in any way. A copy of the Form 1040-X can be used as a worksheet.

5. Close the IDRS control.
6. If the case is in BT81, assign IPC 9F.

**Note:** The taxpayer will receive a CP 21/ CP 22 as notification of the adjustment.

- (2) If TC 604 is present on the account see IRM 4.19.3.26.6, Evaluating RECON Correspondence.

4.19.3.26.6.2  
(09-21-2020)  
**Partial Adjustment  
Determinations**

- (1) If the taxpayer provides acceptable verification for some of the issues or does not address all of the AUR issues:



1. If the taxpayer provides a computation, rework and math verify all figures or rework based on the taxpayer's response. Refer to the appropriate tax year publications and worksheets for necessary schedules, EIC tables, tax tables, etc.

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2. Input a partial adjustment, including RC 067.
3. Print the completed IAT "xMend" adjustment document or "REQ54" adjustment document. An adjustment document (such as, Form 12775, ADJ54 Adjustment Format) may be used when IAT is not available.
4. Attach the taxpayer correspondence and any worksheets/computations to the case going to files.

**Note:** An original Form 1040-X/Amended Return must be associated with the return and should not be altered in any way. A copy of the Form 1040-X can be used as a worksheet.

5. Send the appropriate C-Letter using the IAT "Letters" tool to provide a clear explanation of what the adjustment was based on and that they may send any additional information for consideration.

**Note:** Print a copy of the letter to be retained in the case file.

**Exception:** If Form 1040-X or amended return matches the AUR tax change, a C-Letter is not required.

6. Leave a **detailed** case note outlining determinations made and actions taken.
7. Assign IPC 9P when the case is in BT 81 or 83, the original AUR closure was no change and the RECON results in a change to the account.
8. Close the IDRS control base.

- (2) If TC 604 is present on the account see IRM 4.19.3.26.6, Evaluating RECON Correspondence.

4.19.3.26.6.3  
(08-26-2016)  
**No Adjustment  
Determinations**

- (1) If the taxpayer states they do not agree with the AUR assessment, but does not provide a response or complete response including a reasonable explanation or acceptable verification:
  1. If the case is in BT 81 or 83 assign IPC 9N or 9I if requesting additional information from the taxpayer.
  2. If the case was suspended (that is, in BT 82 due to assignment of IPC 9E) and the taxpayer did not respond to the subsequent contact, assign IPC 9N.
  3. Send the appropriate C-Letter using the IAT "Letters" tool to explain why an adjustment is not being made and indicate what documentation or information is necessary, if applicable.
  4. Leave a detailed case note indicating what action was taken and/or what documentation/information was requested from the taxpayer.
  5. Close the IDRS control base if one was established.
  6. Use RC 064 (no response) or RC 066 (disallowed in full).
- (2) If TC 977/976 is present, a TC 29X will need to be input using the IAT "xMend" or "REQ54" tool to release the "-A" Freeze on the account if an adjustment is not made. Use Blocking Series 05, 18, or 55 as appropriate.



4.19.3.26.6.4  
(09-30-2018)  
**AUR RECON Issue  
Codes - TY 2015 and  
Prior**

- (1) When taking a closing action on the AUR system (for example, entering IPC 9F, 9I, 9N, 9P, or 9R) a drop-down menu displays with a listing of the most common RECON issues.

**Exception:** Beginning with TY 2016, AUR RECON issue codes will no longer be displayed or selected when taking a closing action on the AUR system.

- (2) Select the RECON issue code that most closely corresponds with the case or causes the most significant change. If the issue on the case does not relate to **any** of the available options, use Issue Code 28, Issue Not Listed Above. Refer to Exhibit 4.19.3-13, AUR Reconsideration Issue Codes, for additional information.

**Note:** When using Issue Code 28, leave a case note to further explain the issue(s) and action taken, including the requested taxpayer information.

4.19.3.26.7  
(11-23-2022)  
**Ordering Returns**

- (1) Order the tax return if information is missing or there is not enough information present to work the case.

**Example:** The taxpayer states the income and/or deductions were properly reported on the original return and research is inconclusive or when there is not enough information present to work the case.

- (2) When ordering the tax return, use the IAT “eClerical” tool and:

**Exception:** Use IDRS CC RTFTP to order an E-Filed Return. A copy of the ELF return transcript can be printed and mailed to the taxpayer.

1. Complete a history item.
2. Suspend the case.
3. Monitor for 30 days. If the return is not received, make a second request.

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4. Check the STAUP and extend, if needed.
5. Send the appropriate C-Letter (interim), using the IAT “Letters” tool, to the taxpayer, as needed.
6. Update the IDRS control base.
7. If the case is in BT 81 or 83, transfer the case to yourself and the AUR system will assign IPC 9E.

- (3) If an amended return is posted and there is an indication that it is a CII document, view the return using AMS.

- (4) If a duplicate/amended return is posted (TC 976/977 or TC 971 AC 010, 012 through 016 or 120), and a TC 290/291 is NOT present, and the duplicate/amended return is not in the case file research AMS and EUP for the duplicate/amended return. If after performing AMS/EUP research the amended/duplicate return is not located, correspond with the taxpayer and request a copy.

4.19.3.26.8  
(09-21-2020)

**Taxpayer Contact for  
Additional Information**

- (1) When the taxpayer correspondence does not include all the necessary information to make a redetermination, take the following actions:

1. Send the appropriate C-Letter using the IAT "Letters" tool.

**Note:** For Statute imminent tax years with a potential tax increase, hold case in unit suspense for 45 days for reply from taxpayer.

2. Assign IPC 9I, and Recon Issue Code 12 (TY 2015 and prior).

**Exception:** Beginning with TY 2016, AUR RECON issue codes will no longer be displayed or selected when taking a closing action on the AUR system.

3. Leave a detailed case note indicating what action was taken and/or what documentation or information was requested from the taxpayer.
4. Close the IDRS control base if one was established.

**Note:** See IRM 4.19.3.22.2.2, Disclosure and IRM 4.19.3.22.2.1, Disclosure Verify Screen, when making telephone contact to ensure that disclosure procedures are followed.

4.19.3.26.9  
(10-25-2019)

**Payer Contact**

- (1) Prior to initiating payer contact, make sure the information was not verified during the original AUR case processing.

- (2) If payer contact is needed:

1. Complete a history item and update the IDRS control.

**Note:** When suspending a case, update your status control to "M" (monitor).

2. Contact the payer using a Letter 2625C.

**Reminder:** See IRM 4.19.3.22.7.6, Payer Contacts, for 3rd Party Contact procedures.

**Note:** Prior to payer contact, taxpayers must provide a signed Form 2624. See IRM 4.19.3.22.7.1, Responses Needing Correspondence, for additional information.

3. Send the appropriate C-Letter (interim), using the IAT "Letters" tool, to the taxpayer, as needed.
4. Research CC STAUP and adjust the number of cycles, if needed. Refer to Exhibit 4.19.3-15, Cycle Chart (Reconsiderations).
5. Suspend for 60 days.
6. If the case is in BT 81 or 83, assign IPC 9L, which moves the case to BT 82 for suspense and monitoring.

See IRM 4.19.3.26.6.1, Full Adjustment Determinations, for a full adjustment or IRM 4.19.3.26.6.2, Partial Adjustment Determinations, for a partial adjustment.

- (4) If the payer responds after the 60 day suspense and the account has already been adjusted, prepare a Form 9856, Attachment Alert using IAT "Fill Forms" tool to send the information to files.

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4.19.3.26.10  
(03-03-2021)

#### Miscellaneous RECON

- (1) **Manual Refunds** are issued based on specific criteria. Some examples of situations when a manual refund should be issued are:

**Note:** The IAT “Manual Refund” tool **must** be used to issue a manual refund.

- a. The taxpayer requests a refund amount below one dollar.
- b. The taxpayer is deceased and a refund is to be issued to anyone other than surviving spouse. If Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, is not attached, correspond to request one.
- c. The refund is to be issued in a name and/or address other than the one on Master File.
- d. The account was pulled from the retention register.
- e. The case is considered a hardship, such as, unable to meet living expenses, eviction, and other situations of similar magnitude.
- f. The RSED on the account has expired, but the account has credits eligible for a refund under the 2-year rule.

**Note:** Leave a case note documenting the actions taken.

- (2) **Adjustment Notice** - If the taxpayer requests an adjustment notice that shows the computation and assessment of accrued unrestricted interest, and/or penalties, take the following actions:

1. **Mail** a transcript of the account to the taxpayer using Control D for MFTRAX or IDRS CC PINEX.
2. Assign IPC 9I if the case is in BT 81 or 83.

- (3) If, in addition to an AUR RECON request, the taxpayer requests an **installment agreement**:

1. Route the IA request to Service Center Collection Operations.
2. Leave AUR case note “IA to Coll” or similar wording.
3. Notify the taxpayer that their IA request has been routed.
4. Assign IPC 9P or 9R, as appropriate, if the case is in BT 81 or 83.

4.19.3.26.11  
(09-01-2013)

#### Document Disposition

- (1) Material that has a direct bearing on the case should be retained. Attach the documents to the adjustment (including TC 290-0).

- (2) ***If not making an adjustment, attach the information to the original return by using IAT “Fill Forms” tool to complete Form 9856, Attachment Alert.***

**Caution:** Information cannot be attached to an ELF return.

- (3) When it is necessary to associate documents to a return in files:

- a. Locate the controlling DLN. If viewing IDRS CC TXMODA, the controlling DLN of the return is associated with the TC 150 or the last adjustment DLN annotated by an “X”. If viewing IDRS CC IMFOLT, the controlling DLN is shown at the top left side of the screen. If the adjustment is “pending” it may not have a complete DLN, monitor the case until it is available.
- b. For Virtual cases, if no tax adjustment is made during AUR RECON processing - input TC 290-0, using the IAT “xMend” or “REQ54” tool, with

Blocking Series 05 to file the correspondence under its own DLN. Include RC 064 (no response) or RC 066. Enter "corr sent to files" or similar wording in the REMARKS field.

- c. Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return, should be refiled under their own DLN.

4.19.3.26.11.1  
(09-01-2013)  
**Releasing Payments**

- (1) If not making a tax adjustment but need to release a TC 640 payment take one of the following actions:

- 1. Input a TC 290-0 with Blocking Series 55/65, using the IAT "xMend" or "REQ54" tool, include RC 064 (no response) or RC 066:

**Note:** If you do not have the original filed paper return, prepare Form 2275 to attach the adjustment to the return.

- 2. Do a credit transfer changing the payment from a TC 640 to a TC 670. Be sure to input Bypass Indicator 1.

**Note:** Attach the information to the original return by using IAT "Fill Forms" tool to complete a document transmittal, Form 9856.

4.19.3.27  
(06-28-2021)  
**Unpostable AUR Transactions**

- (1) Unpostable transactions are those which failed validity checks to allow them to be posted to the Master File. Unpostables that cannot be resolved by the Unpostable Function are closed to the initiating function for correction. A Form 4251 is usually generated to pull source documents from Files and return them to the initiating function.

**Reminder:** Unpostables should be handled in a timely manner to avoid possible statute cases.

- (2) Most unpostables are controlled on IDRS to the employee who input the transaction. For adjustments that were input through AUR, unpostables are controlled to IDRS number SC890NNNNN (SC = service center, NNNNN = the AUR batch number from which the adjustment was released). These controls are listed on the Case Control Activity (CCA) reports (age listings). Input of STAUP and interim letters should be addressed if applicable.

- (3) Unpostable Codes (UPC) identify the condition that caused the transactions to be unpostable. The Form 4251 shows the 3-digit unpostable code and a 1-digit unpostable reason code (RC) next to the unpostable code. Refer to the unpostable section in Document 6209, Section 8b-3, Unpostable Codes IMF, for interpretation of these codes;

- 1. Find the 3-digit number in the "UPC" column.
- 2. Find the 1-digit number in the "RC" column.
- 3. The explanation in the corresponding "Description" column will identify the cause of the unpostable condition.

**Note:** The 3-digit unpostable code and 1-digit unpostable resolution code (RC) is shown on the CCA 4243 listing. This report can be retrieved through ORCAS (Overage Report Compiler and Sorter) or Control-D and are searched by team, employee number, SSN, etc.

- (4) The CCA 4243 age listings should be monitored weekly to ensure all unpostable transactions are resolved. Actions to resolve unpostable conditions must be initiated within 7 days.
- (5) Unpostables are identified on IDRS by the following Pending Transaction Identification Codes:
  - **UNNN** (U = unpostable, NNN = the numeric unpostable code) - This is an open unpostable case.
  - **CU** - Corrected Unpostable - this shows the transaction should post to the module in the cycle appearing to the right of the transaction.
  - **NU** - Nullified Unpostable - this case has been referred to the responsible function for correction.
  - **DU** - Deleted Unpostable - this case has been closed and deleted from the ECC-MTB Unpostables tape - research to determine appropriate action.
  - **DN** - Transaction deleted by IDRS daily TIF batch processing.
  - **DJ** - A transaction deleted through normal weekly updates.
  - **RJ** - Reject transaction - case referred to Rejects Function.
  - **DC** - Transaction deleted by ERS or SC Reject Processing.

**Note:** These codes are displayed in front of the unpostable transaction. Rarely will DN or DJ impact an unpostable AUR transaction.

4.19.3.27.1  
(11-04-2014)  
**Basic Steps for  
Resolving Unpostables  
(UP)**

- (1) To determine why the transaction did not post, consider the description for the UPC/RC and determine if the previous transaction was in error. See Document 6209, Section 8b-3, Unpostable Codes IMF, for a complete list of Unpostable Codes, Reason Codes and a brief description of each.
- (2) If the Form 4251 with the source document was not returned to the AUR function, attempt to resolve the issue without these items. If the unpostable was an adjustment to the account and can be resolved without the source document, complete Form 2275 to instruct Files to pull the unpostable document (DU or NU DLN) and attach it to the corrected adjustment. This is required since the DLN of the unpostable transaction will not be retained once the account is resolved. If the source document is required to resolve the unpostable condition, request the document (DU or NU DLN) using the IAT "eClerical" tool.
- (3) Take the following actions as appropriate:
  - a. Review the module for freeze conditions.
  - b. Examine the unpostable transaction document for other errors.
- (4) If the unpostable is an adjustment to the account, attach the Form 4251 to the back of the case file and line through the incorrect DLN. On the Form 5147 (IDRS generated document that is attached to any backup material, such as the original return) carefully line through the DLN, as it should still be readable. Make a note above or next to the incorrect DLN.
- (5) Use the IAT "REQ54" tool to input new adjustment with the correct information using the appropriate source tag (for example, Form 12249, Adjustment Document, Form 12775, ADJ54 Adjustment Format.)
  - Ensure that the new adjustment does not exceed the original assessment amount and notify the taxpayer of the change, if applicable.

- If the assessment went unpostable because the account had been resequenced, reinput the assessment on the new (resequenced) account. DO NOT issue a second, manual notice on any cases with a resequenced SSN.
- (6) If the unpostable is a credit transfer, review both accounts/modules for erroneous refunds and/or to ensure that both sides unposted. If one side did not unpost, take to your Lead.
  - (7) Use the IAT "Credit Transfer" tool to reinput the credit transfer with the correct information.
  - (8) If the unpostable is an address change, for example, TC 844/845, (any action that would not generate a control base), reinput the transaction and then close your unpostable control base (if appropriate). These transactions may be identified on your old age listing as MFT 00 and period 0000, referring to an open control on ENMOD.

**Note:** The IAT "REQ54" tool must be used to make the adjustment.

**Note:** AUR Unpostable transactions should be resolved in a timely manner to ensure minimum impact to AUR and to the taxpayer.

4.19.3.27.2  
(09-01-2008)  
**Unpostables IDRS  
Command Codes**

- (1) Use IDRS CC UPTIN, UPDIS (UPRES), and UPCASZ to research/resolve unpostables.
- (2) **UPTIN:** This command code displays all open unpostable cases for the input TIN. Closed unpostables for the input TIN are displayed for 3 months before dropping off IDRS. Research IDRS CC UPTIN for the following information:
  - The unpostable sequence number of an open case.
  - The case status (open, suspended, or closed).
  - The employee assignment number.
  - The corrective action taken to resolve a previously closed case, when IDRS CC UPDIS can no longer be accessed.
- (3) **UPDIS:** This command code displays unpostable records. When IDRS CC UPDIS is input, the automatic screen display UPRES appears. Research IDRS CC UPDIS for the following information:
  - a. To display a specific closed unpostable for the input sequence until the correcting action is included in the Thursday night correction tape run.
  - b. The information displayed on UPDIS varies depending on the type of unpostable. IDRS CC UPDIS must also be used as a prerequisite for IDRS CC UPRES and IDRS CC UPCASZ.

**Note:** IDRS CC UPDIS may be used via Universal Access.

- (4) **UPCAS:** This command code is used for:
  - Requesting an MRS transcript of the unpostable record.
  - Requesting a document or return.
  - Placing or updating a case in suspense status.
  - Adding information to aid the Unpostables Function in the resolution of the unpostable condition.



**Note:** Use IDRS CC UPCAS with the definer “Z” to input message/history information; up to 80 characters are available.

- (5) For a closed case, research the UP case on IDRS CC UPTIN to determine how it was closed.

4.19.3.27.3  
(09-21-2020)

**Guidelines for  
Preventing Unpostable  
IDRS Transactions**

- (1) The following list provides guidelines for preventing unpostable transactions:
- a. Use a TXMODA or IMFOL print when making an adjustment to a taxpayer’s account.
  - b. Ensure the TXMODA print is for the correct SSN and year.
  - c. Do not attempt to move (credit) or remove (tax and/or penalty) for an amount larger than is shown on the TXMODA print. Rounding “up” frequently results in an unpostable.
  - d. Review the TXMODA print for manual interest (TC 340 / TC 341). Refer to the Lead if you are unable to work.
  - e. Check for previous adjustments for the same amount you are adjusting.
  - f. Check for and consider any previous adjustments when making your adjustment.
  - g. If appropriate, input TC 570 (credit side) on credit transfers. This will help prevent an erroneous refund if the debit side goes unpostable. An alternate solution is to use Document Code 34 for credit transfers when possible. Use of Doc. Code 34 depends on the original posted transaction. This credit transfer document is considered a “two-sided” document because the credit does not attempt to post until the debit side has posted.
  - h. Make sure hold codes and priority codes are used when necessary.
- (2) Be especially watchful for the following transaction codes:
- TC 160/161 - FTF penalty
  - TC 170/171 - ES penalty
  - TC 270/271- FTP penalty
  - TC 340/341- Restricted interest “-I” freeze
  - TC 420/424 or TC 576 - “-L” or unallowable issue
  - TC 768/764 - EIC
- (3) **Do NOT** reduce the following line reference numbers **below zero**:
- 878 - Primary SE Income
  - 879 - Secondary SE Income
  - 885 - Advanced EIC
  - 886 - Taxable Income
  - 889 - SE tax
  - 891 - Primary Tip Income
  - 892 - Secondary Tip Income
  - 895 - Primary Medicare Income
  - 896 - Secondary Medicare Income
  - 897 - Spousal Claim on DMF (IMF only)
  - 898 - Primary Medicare Tip Income
  - 899 - Secondary Medicare Tip Income

**Note:** Item reference numbers 878 or 879 cannot exceed the amounts listed in the table below.



TY	Money amount
2013	\$113,700
2014	\$117,000
2015	\$118,500
2016	\$118,500
2017	\$127,200
2018	\$128,400
2019	\$132,900
2020	\$137,700
2021	\$142,800
2022	\$147,000

- (4) Additional information is available in *Document 6209*, Section 8b-3, Unpostable Code IMF, under Unpostable Codes.

4.19.3.27.4  
(09-21-2020)

**Guidelines for Resolving  
Unpostable IDRS  
Transactions**

- (1) Use the information in the table (not all inclusive) below to resolve common unpostable IDRS transactions:

**Note:** For additional information refer to Document 6209, Section 8b-3, Unpostable Codes IMF, under Unpostable Codes.

**Reminder:** Leave a case note documenting actions taken to resolve the unpostable.

Condition	To Resolve
UPC 155-0 A TC 29X is attempting to post to an account that is restricted from generating interest.	Reinput the adjustment, the adjustment must include a recomputed TC 34X. <b>Note:</b> Use a non-restricting TC 340, whenever possible.
UPC 158-1 The TC 29X is within \$10.00 of a previous TC 29X.	Research to determine if the adjustment is a duplicate. If the adjustment is necessary, reinput and use Priority Code 8.
UPC 158-1 The account has a TC 170/171 and an adjustment to the refundable credits attempted to post without adjusting the Estimated Tax (ES) Penalty.	Reinput the adjustment and correct the ES penalty amount.
UPC 179-0 A TC 290/291 is attempting to post without a secondary TC 160,161, or 162 to a module containing a TC 160,161, or 162.	1. Reinput the adjustment. 2. Include recomputed TC 16X amount.

Condition	To Resolve
<p>UPC 180-2 An adjustment with an increase to earned income tax credit (EITC) with CRN 764 attempted to post when a previous tax adjustment already posted.</p>	<ol style="list-style-type: none"> <li>1. Reinput the adjustment.</li> <li>2. Include Priority Code 1 or 8, as applicable.</li> </ol>
<p>UPC 189-0 Certain transactions attempting to post to the account are greater than the net amount on the account.</p>	<ol style="list-style-type: none"> <li>1. Verify amounts; tax increases/decreases, credit reference numbers, adjustments are made to the appropriate taxpayer (primary or secondary).  <b>Example:</b> A Form 1040-X is received from the taxpayer requesting a taxable income decrease of \$2,500.00. TXMODA indicates the taxable income is \$620.00. If an adjustment is input with CRN 886 for any amount greater than \$620.00 it will unpost.</li> <li>2. Reinput the adjustment.</li> </ol>

**Exhibit 4.19.3-1 (10-06-2022)****Abbreviations (also see Glossary)**

The abbreviations below are not required to be used. This list is intended to offer suggested shortened forms of common terms or words only.

<b>Acronym</b>	<b>Definition</b>
3rd PTY	Third-Party
AC	Action Code
ACDS	Appeals Centralized Database System
ACK	Acknowledge
ACTC	Additional Child Tax Credit
ADEA	Age Discrimination in Employment Act
AdMT	Additional Medicare Tax
AdvCTC	Advanced Child Tax Credit
ADP	Automated Data Processing
AGI	Adjusted Gross Income
AGN	Auto-Generated Notice
AGSUB	Agricultural Subsidy
AIMS	Audit Information Management System
AIS	Automated Insolvency System
AMD	Accrued Market Discount
AMRH	Accounts Maintenance Research
AMSA	Archer Medical Savings Account
AMT	Amount
AN	Auto Notice
AO	Area Office
AOD	Action of Decision
APO/FPO	Address used for correspondence to overseas military personnel.
APTC	Advance Premium Tax Credit
ARDI	Account Receivable Dollar Inventory
AUR	Automated Underreporter
AUTH	Authorized
BK	Bankruptcy
BOD	Business Operating Division

**Exhibit 4.19.3-1 (Cont. 1) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
BPD	Bureau of Public Debt
BT	Batch Type
CA	Case Analysis
CAF	Centralized Authorization File
CC	Command Code
cc	Closing Code
CCA	Case Control Activity
CCC	Commodity Credit Corporation
CCF	Capital Construction Fund
CCISO	Cincinnati Centralized Innocent Spouse Operation
CESA	Coverdell Education Saving Account
CI	Criminal Investigation
CII	Correspondence Imaging Inventory
CP	Computer Paragraph
CRP	Conservation Reserve Program
CS	Customer Service
CSN	Case Sequence Number
CTR	Currency Transaction Report
CRN	Credit Reference Number
CUSIP	Committee on Uniform Security Identification Procedures
DBTCN	Cancellation of Debt
DCB	Dependent Care Benefits
DIMS	Docket Information Management System
DIST	Distribution
DIST CD	Distribution Code
DIV	Dividends
DLN	Document Locator Number
DOC	Document
DPAD	Domestic Production Activity Deduction
EAPTC	Excess Advance Premium Tax Credit
ECC-MEM	Enterprise Computing Center at Memphis

**Exhibit 4.19.3-1 (Cont. 2) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
ECC-MTB	Enterprise Computing Center at Martinsburg
ECR	Education Credit Recapture
EGC	Employee Group Code
EIC	Earned Income Credit
EIN	Employer Identification Number
EPAB	Employer Provided Adoption Benefits
ES	Estimated Tax
ESA	Education Savings Account
ESOP	Employee Stock Option Plan
ESPP	Employee Stock Purchase Plan
EUR	Employee Underreporter
EWPEN	Early Withdrawal Penalty
EXAM	Examination
EXP	Expense
FICA	Federal Insurance Contribution Act
FMS	Financial Management Service
FMV	Fair Market Value
FOIA	Freedom of Information Act
FRC	Federal Records Center
FRP	Fraud Referral Program
FSC	Filing Status Code
FTF	Failure to File Penalty
FTP	Failure to Pay Penalty
FUD	Follow Up Date
GR/A	Gross Pension/Annuity
HC	Hold Code
HCTC	Health Coverage Tax Credit
HFD	Health Savings Account Funding Distribution
HSA	Health Savings Account
HSTG	Hostage
HQ	Headquarters

**Exhibit 4.19.3-1 (Cont. 3) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
IA	Installment Agreement
ID	Identity, Identification
IDRS	Integrated Data Retrieval System
IDT	Identity Theft
IDTVA	Identity Theft Victims Assistance
IMF	Individual Master File
IND	Indicator
INEXP	Investment Expense
INT	Interest
IPC	Internal Process Code
IR	Information Return
IRA	Individual Retirement Account
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
IRMF	Information Returns Master File
IRP	Information Return Processing
ISO	Incentive Stock Options
ISRP	Integrated Submission and Remittance Processing
ISTS	Innocent Spouse Tracking System
ITIN	Individual Taxpayer Identification Number
IUP	Infrastructure Upgrade Project
KBA	Knowledge Base Articles
IVO	Integrity and Verification Operation
KIA	Killed in Action
KITA	Killed in Terrorist Action
LSE	Lump Sum Election
LTA	Local Taxpayer Advocate
LTC	Long-Term Care (Benefit)
MAGI	Modified Adjusted Gross Income
MAMSA	Medicare Advantage Medical Savings Account
MCTXW	Medicare Tax withheld

**Exhibit 4.19.3-1 (Cont. 4) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
MFJ	Married Filing Joint
MFS	Married Filing Separate
MFT	Master File Tax
MIP	Mortgage Insurance Premiums
MISC	Miscellaneous
MKTDS	Market Discount
ML	Message Left
MORT	Mortgage Interest Deduction
MSA	Medical Savings Account
MT	Medicare Tax
N/C	No Change
NEC	Nonemployee Compensation
NDDIS	Non-Dividend Distribution
NIIT	Net Investment Income Tax
NML	No Message Left
NOD	Notice of Deficiency
NOL	Net Operating Loss
NPS	Non-petitioning Spouse
NQDC	Non-Qualified Deferred Compensation
O/C	Overclaimed
OCR	Optical Character Recognition
O/D	Over-deducted
OID	Original Issue Discount
ORCAS	Overage Report Compiler and Sorter
ORIG	Original
OTINC	Other Income
OTPOR	Other Portfolio Income
P/A	Payer Agent
PC	Process Code
PCA	Private Collection Agencies
PDC	Private Debt Collection



**Exhibit 4.19.3-1 (Cont. 5) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
PGR/COD	Program/ Category of Distribution Code
PID	Position Identification
PIK	Payment in Kind
POA	Power of Attorney
PSO	Public Safety Officer
PTC	Premium Tax Credit
PTP	Primary Taxpayer
QBID	Qualified Business Income Deduction
QCD	Qualified Charitable Distribution
QDIV	Qualifying Dividend
QRSC	Qualifying Retirement Savings Contribution
QTP	Qualified Tuition Program
RC	Reason Code
RCTC	Refundable Child Tax Credit
RDP	Registered Domestic Partner
RECON	Reconsideration
ROMID	Refund of Overpaid Mortgage Interest
RPM	Return Preparer Misconduct
R/R	Rent/Royalty
RRB	Railroad Retirement Benefits
RRTA	Railroad Retirement Tax
RTAA	Reemployment Trade Adjustment Assistance
RTF	Return Transaction File
RV	Return Values for Calculations
SBSE	Small Business / Self-Employed
SBC	Secondary Business Code
SC	Service Center (now called Campus)
SCRIPS	Service Center Recognition/Image Processing System
SE	Self-Employment
SEHID	Self-Employed Health Insurance Deduction
SEI	Self-Employment Income

**Exhibit 4.19.3-1 (Cont. 6) (10-06-2022)****Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
SEID	Standard Employee Identifier
SEP	Simplified Employee Pension
SERP	Servicewide Electronic Research Program
SF	Subfile
SITR	State Income Tax Refund
SLID	Student Loan Interest Deduction
SNE	Special Needs Exclusion
SNOD	Statutory Notice of Deficiency
SRP	Shared Responsibility Payment
SS	Social Security
SSA	Social Security Administration
SSN	Social Security Number
SS/RR	Social Security/Railroad Retirement
SST	Social Security Tax
SSTAX	Social Security Tax and/or Railroad Retirement Tax
STAT / STN	Statutory Notice of Deficiency
STP	Secondary Taxpayer
TAS	Taxpayer Advocate Service
TC	Transaction Code
TCJA	Tax Cuts and Job Act
TDA	Taxpayer Delinquent Account
TDC	Taxpayer Digital Communication
TE	Tax Examiner
TEBND	Tax-Exempt Bond
TEFRA	Tax Equity and Fiscal Responsibility Act
TIA	Taxpayer Information Authorization
TIF	Taxpayer Information File
TIN	Taxpayer Identification Number
TP	Taxpayer
TRDB	Tax Return Data Base
TUTFE	Tuition and Fees (TY 2020 and prior)

**Exhibit 4.19.3-1 (Cont. 7) (10-06-2022)**  
**Abbreviations (also see Glossary)**

<b>Acronym</b>	<b>Definition</b>
TX/A	Taxable Annuity
TXI	Taxable Income
TY	Tax Year
U/C	Underclaimed
UNAUTH	Unauthorized
UP	Unpostable
U/R	Underreported; Underreporter (per context)
UVC	Universal View Case
UWC	Universal Work Case
W&I	Wage and Investment
W/H	Withholding
XFER	Transfer

**Exhibit 4.19.3-2 (09-21-2020)****Glossary**

The following is a list of terms used in IRM 4.19.3 and their definitions.

**Agreed Case** - A response from the taxpayer with signature(s) agreeing to our changes with no disputing comments, or full payment of tax and penalties received before issuance of the Statutory Notice of Deficiency with no disputing comments, or a completed Installment Agreement with signature(s) and no disputing comments.

**Appealed Case** - A case in which the taxpayer requests an Appeals hearing.

**Appeals Centralized Database System (ACDS)** - An automated program used by Appeals to control inventory, record case activities and time charges, and produce statistical reports.

**Assessments (TC 29X)** - A change to the amount of tax on the taxpayer's account, this TC will generate a bill or a refund, a new DLN, and/or release a payment or freeze code.

**AUR Received Date** - A system generated date reflecting when the IRS Received Date is input on the case record.

**Auto-Generated Notice Cases (AGN)** - Cases systemically moved from Extract to CP 2000.

**Bar Code** - Contains the SSN and the tax year and is used for scanning information into the control computer, using a laser gun. It is found on the lower right corner of the Form 4251 and on several pages of notices.

**Batch** - Collection of returns, correspondence, or cases that have been grouped together. (Most commonly found on a truck, cart, wagon, or KC cart.)

**Batch Number** - Five digit number used to describe/define the type of batch and the sequential number of the batch or the physical location of the batch.

**Batch Runs** - Automatic updates to the entire AUR system, currently scheduled for weekends only.

**Batch Status Codes** - Two digit alpha codes that define the status of a batch at any given time during processing.

**Batch Type (BT)** - First two digits of a Batch Number that describe the type of work within the batch.

**Centralized Authorization File (CAF)** - Contains Power of Attorneys (POA) and other authorized disclosure contacts for taxpayer accounts.

**Case Analysis** - The technical review of computer identified discrepancies compared to the tax return. The Screening phase of the Underreporter Program is referred to as either Screening or Analysis.

**Case Sequence Number (CSN)** - Nine digit number which indicates the exact physical location of a case.

**CP 2501** - Preliminary notice sent to the taxpayer requesting an explanation of an underreported discrepancy.

**CP 2000** - Notice sent to the taxpayer with proposed changes to income, deductions, and/or credits, explanations of those changes, and a tax computation for those changes.

**Disagreed Case** - Response from the taxpayer that does not agree to our proposed changes and has disputing comments attached. (Full payment received after issuance of a Statutory Notice must be considered disagreed until signature(s) are obtained.)

**Exhibit 4.19.3-2 (Cont. 1) (09-21-2020)****Glossary**

**Docket(ed) Cases** - A tax case in the U. S. Tax Court assigned a docket number. When taxpayer files a petition with U. S. Tax Court, in response to a Notice of Deficiency, the court assigns a docket number, which is used to identify the court case.

**Docket Information Management System (DIMS)** - An automated program used to track and monitor receipt of docketed administrative files. The program is maintained by Appeals and is a subsystem of the Appeals Centralized Database System (ACDS) system.

**Document Locator Number (DLN)** - Number assigned to all returns and documents input to the IRS computer system.

**Employer Identification Number (EIN)** - Nine digit number formatted XX-XXXXXXX used to identify businesses/payers.

**Employee Underreporter** - IRS (government) employee cases in the Underreporter Program.

**Extract** - Group of SSNs selected from the inventory of cases identified with possible discrepancies.

**Federal Insurance Contributions Act (FICA)** - Social Security and Medicare Taxes

**Federal Record Center (FRC)** - A place where tax returns are stored outside the campuses.

**Freedom of Information Act (FOIA)** - permits taxpayer to request copies of their records.

**Form 4251 - Return Charge-out** - Form generated from IDRS tape and to Files/FRC to pull the requested returns.

**Individual Taxpayer Identification Number (ITIN)** - assigned to individuals not qualified for a social security number.

**Integrated Submission and Remittance Processing (ISRP)** - Automated system that converts all paper documents to electronic form, including payments.

**Integrity and Verification Operation (IVO)** - Pre-refund fraud identification in Accounts Management.

**Internal Process Code (IPC)** - Two digit numeric/alpha code used for tracking cases on the AUR system (does not upload to IDRS).

**IRS Received Date** - Date the IRS received the taxpayer correspondence or notice in the campus. It can usually be found on the first page of the receipt and is a stamp (round or square) containing the campus name and date the IRS received the correspondence in the campus.

**Location Code** - Three digit character code that can be alpha or numeric. It identifies the place where batches and/or cases can be found.

**Lost Case (LC)** - Case that cannot be located where the system indicates it should be.

**Lost Response** - Case is assigned to a response batch, but the response is not physically in the batch or case file.

**Non-Docketed Case** - A case in which the taxpayer requests an Appeals hearing (without filing a petition with Tax Court).

**Priority Responses** - Responses which that are aged beyond recommended time frames, also referred to as Expedites or Early Received Date Responses.

**Exhibit 4.19.3-2 (Cont. 2) (09-21-2020)****Glossary**

**Process Codes (PC)** - Two digit numbers used to identify the action taken on a case. Process Codes reside in AUR and are uploaded to IDRS. When posted to IDRS, they update the TC 922.

**Recomputed Notice (Recomp)** - Notice in which the original CP 2000 figures were changed due to a taxpayer response.

**Reconsideration Cases** - Responses received after the case has been closed (assessment or no change) on the AUR system, also referred to as first read, late response or audit recon cases.

**Referral** - Case sent to another area for technical determination (for example: Examination, Criminal Investigation).

**Refile Case (RF)** - Internal Process Code used to return a case to a suspense batch before further assignment.

**Research** - Request for additional information (such as, returns, IDRS research, information return files) needed to continue case processing.

**Response** - All correspondence received from or on behalf of the taxpayer.

**Review Sampling** - Cases to be reviewed by Management or quality reviewers.

**Screening** - Technical review of computer identified discrepancies compared against the tax return. The Screening phase of the Underreporter Program is also referred to as Case Analysis and Analysis.

**SEID** - Standard Employee Identifier. A combination of five alpha/numeric characters which identifies employees.

**Sequence Order** - Order in which cases are key entered or scanned into AUR.

**Social Security Number (SSN)** - Used to identify taxpayer accounts.

**Statutory Notice (Stat)** - Legal notification sent to taxpayers by Certified mail, which explains the taxpayer's right to file a petition with Tax Court and the IRS' right to change tax without taxpayer consent if no timely petition is filed. An Underreporter Statutory Notice consists of a CP 3219A, Form 5564, a partial reprint of the most recent CP 2000 and Pub 1.

**Taxpayer Information File (TIF)** - Individual Master File data from ECC-MTB (Enterprise Computing Center at Martinsburg) containing tax account and tax transaction information.

**Taxpayer Identification Number (TIN)** - Used to identify taxpayer accounts.

**Undeliverable** - Correspondence returned from the Post Office that the taxpayer did not receive.

**Universal Case** - Describes cases viewed or worked by a site or function other than the initiating AUR site.

**Exhibit 4.19.3-3 (10-25-2023)**  
**AUR Internal Process Codes****Pre-Notice**

- 0A** - Screening Research Request for Tax Return
- 0D** - Miscellaneous Referral - Screening
- 0E** - Screening Technical/Manager Referral
- 0F** - Screening Fraud Referral
- 0P** - Screening Taxpayer Advocate-Area Office-Congressional Cases/Referrals
- 0T** - Screening Telephone

**CP 2501**

- 3A** - CP 2501 Research Request - Return and/or Transcript
- 3D** - CP 2501 Referral
- 3E** - CP 2501 Technical/Manager Referral
- 3F** - CP 2501 Fraud Referral
- 3L** - Reserved
- 3P** - CP 2501 Taxpayer Advocate-Area Office-Congressional Cases/Referrals
- 3S** - Reserved
- 3T** - CP 2501 Telephone (Request Case)

**CP 2000**

- 6A** - CP 2000 Research Request - Return and/or Transcript
- 6D** - CP 2000 Referral
- 6E** - CP 2000 Technical/Manager Referral
- 6F** - CP 2000 Fraud Referral
- 6L** - CP 2000 AUR Correspondex Letter
- 6P** - CP 2000 Taxpayer Advocate-Area Office-Congressional Cases/Referrals
- 6S** - CP 2000 Manual Letter (letter not on AUR)
- 6T** - CP 2000 Telephone (Request Case)
- 6X** - CP 2000 Extension Request
- S6** - CP 2000 - Only One taxpayer Signature on Consent (releases AUR Correspondex Letter and moves case to BT 89005 suspense)

**Statutory Notice**

- 8A** - Statutory Research Request - Return and/or Transcript



**Exhibit 4.19.3-3 (Cont. 1) (10-25-2023)****AUR Internal Process Codes**

**8D** - Statutory Referral

**8E** - Statutory Technical/Manager Referral

**8F** - Statutory Fraud Referral

**8L** - Statutory AUR Correspondex Letter - No Revision to Deficiency

**8M** - Statutory AUR Correspondex Letter - Change to Deficiency

**8P** - Statutory Taxpayer Advocate - Area Office-Congressional Cases/Referrals

**8S** - Statutory Phone Call/Manual Letter (Letter not on AUR)

**8T** - Statutory Telephone (Request Case)

**S3** - Statutory Notice - Only One taxpayer Signature on Consent (releases AUR Correspondex Letter and moves case to BT 89004 suspense)

**S8** - Statutory Notice - Only One Spouse Files Petition (moves case to BT 89006 suspense)

**Miscellaneous - Open Cases**

**CR** - Recomputation Notice after CP 2501 (Indicator 7 and 8 Only)

**DR** - Recomputation Notice after Stat Default date (Indicator 0 Only)

**LC** - Lost Case

**MC** - Manual Case

**MI** - Manual Interest

**RC** - Restore Case

**RF** - Refile Case

**RN** - Recomputation Notice Case (Indicators 7 and 8 Only)

**SR** - Statutory Recomputation Notice (Indicators 0, 7 and 8 Only)

**WP** - Wrong Pull

**Identity Theft**

**SI** - Stolen Identity

**S9** - Reserved

**Reconsideration - Closed Cases**

**9B** - RECON Research Required

**9E** - RECON Research/Referral within AUR - suspense

**9F** - RECON Full Abatement of the AUR assessment - closure

**9I** - RECON Information Request/MISC - closure

**Exhibit 4.19.3-3 (Cont. 2) (10-25-2023)****AUR Internal Process Codes**

**9L** - RECON Payer Letter - suspense

**9N** - RECON No change to AUR assessment - closure

**9P** - RECON Partial adjustment - closure

**9R** - RECON Referral non-AUR issue - closure

**Exhibit 4.19.3-4 (10-25-2023)****AUR Process Codes****U/R Case Selected**

**02** - Reserved

**03** - AUR selected case

**04** - Reserved

**06** - AUR Employee Cases

**08** - Reserved

**09** - Establish IDRS Control Base - CP 2000 Interest Pending

**Pre-Notice Transfer/Referral/Closures**

**10** - DUP TIN closure

**11** - Field Audit

**12** - Office Audit

**13** - Campus Examination

**15** - Military Action/Disaster Closures

**16** - HQ Identified Program Problem - Closure

**17** - IDTVA Closure

**18** - KITA/HSTG/KIA Closures

**Pre-Notice Closures**

**20** - Adjustment for W/H and/or excess SSTAX discrepancies only

**21** - Discrepancy accounted for

**22** - Balance due/Refund below tolerance

**24** - Payer Agent

**26** - IDTVA Expired

**28** - Other Closure

**29** - Return cannot be secured

**Exhibit 4.19.3-4 (Cont. 1) (10-25-2023)****AUR Process Codes****CP 2501 Notice - Transfer/Referral/Closure**

- 30** - CP 2501 (establishes IDRS Control Base)
- 31** - Auto Notice Screen Out (Case systemically closed through auto notice programming).
- 34** - CP 2000 not mailed after a CP 2501 (PC 57)
- 35** - Case closed to Field Audit (Acknowledgement letter, CP 2006)
- 36** - Case closed to Office Audit (Acknowledgement letter, CP 2006)
- 37** - Agreed CP 2501
- 38** - Case Closed to Campus Exam (Acknowledgement letter, CP 2006)

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- 47** - No change (closure letter CP 2005)
- 48** - HQ Identified Program Problem (closure letter CP 2005)

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- 52** - No change (no closure letter)
- 53** - Amended return closed case (no closure letter)
- 54** - Notice CP 2501 not mailed

**CP 2000 Notice - Transfer/Referral/Closure**

- 55** - CP 2000 (establish IDRS Control Base)
- 56** - Reserved
- 57** - CP 2000 after CP 2501
- 58** - CP 2000 Notice not mailed
- 59** - Recomputation (updates IDRS Control Base)
- 60** - Amend/Recomp not mailed (PC 59 and amended PCs 55, 57 and 59)
- 61** - Reserved
- 63** - Case closed to Office Audit (Acknowledgement letter, CP 2006)
- 64** - Case closed to Campus Exam (Acknowledgement letter, CP 2006)

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- 66** - Disagreed - Appeals Request - to Campus Examination (no acknowledgement letter)
- 67** - Fully Agreed (no closure letter)
- 68** - Adjustment to Prepayment Credits Only closures (no closure letter), Partial Adjustments

**Exhibit 4.19.3-4 (Cont. 2) (10-25-2023)****AUR Process Codes**

69 - Taxpayers Agreed on Different Dates - Account Split

70 - No change to original tax liability (closure letter, CP 2005)

71 - No change to original tax liability closure (and HQ Identified Program Problem) (no closure letter)

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74 - Other closure (closure letter, CP 2005)

**Statutory Notice - Transfer/Referral/Closure**

39 - One taxpayer Agreed at a Later Date - Account Split

62 - Non-petitioning Spouse Agreed

75 - Statutory Notice - Updates IDRS Control Base

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77 - Statutory Notice - STN90 (computation change - not generated, input via IDRS CC STN90)

78 - Statutory Notice Rescinded

79 - Statutory Notice not mailed

80 - Transfer Docketed Cases to Appeals (no acknowledgement)

81 - Recomp not mailed after Statutory Notice (PC 95)

82 - Non-petitioning Spouse Default

83 - Statutory case closed to Office Audit (Acknowledgement letter, CP 2006)

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85 - Statutory case closed to Campus Exam (Acknowledgement letter, CP 2006)

86 - Disagreed Statutory Case - Appeals Request

87 - Fully Agreed (no closure letter)

88 - Adjustment to Prepayment Credits Only closures (no closure letter) and Employee Case Partially Agreed

89 - One taxpayer Agreed - Case Defaulted - Account Split

90 - Assessed by default

91 - No change to original tax liability (closure letter, CP 2005)

92 - No change to original tax liability (no closure letter)

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94 - Default assessments based on revision(s) to Statutory Notice

95 - Statutory Recomputation Notice

**Exhibit 4.19.3-4 (Cont. 3) (10-25-2023)****AUR Process Codes**

**96 - Other Closure (closes AUR system control, used for manual monitoring of active Bankruptcy cases or referral of non-bankruptcy cases to another area, etc.)**

**Miscellaneous**

**97 - Response received - Correspondence sent for additional information**

**98 - Bankruptcy Suspense (also applicable for Employee cases)**

**99 - Reserved**

**Exhibit 4.19.3-5 (10-25-2023)****Batch Types**

BATCH TYPES 01-19 - SCREENING ASSOCIATION

BATCH TYPES 20-27 - AUTO GENERATED NOTICE (AGN)

BATCH TYPE 28 - AUTO GENERATED NOTICE FALLOUT SCREENING

BATCH TYPE 29 - PRIORITY SCREENING

BATCH TYPE 30 - MISSING RETURN SUSPENSE

BATCH TYPE 31 - COMPLETE SCREENING CASES

BATCH TYPE 33 - SCREENING REFERRAL/RESEARCH COMPLETE

BATCH TYPE 34 - SCREENING RESEARCH SUSPENSE

BATCH TYPE 35 - SCREENING MISCELLANEOUS REFERRALS

BATCH TYPE 36 - SCREENING UNIT SUSPENSE

BATCH TYPE 37 - RELEASED UNIT SUSPENSE

BATCH TYPE 38 - REMAIL CP 2000/RECOMP

BATCH TYPE 39 - REJECTS

BATCH TYPE 40 - CP 2501 SUSPENSE

BATCH TYPE 41 - CP 2501 IDENTITY THEFT RESPONSE

BATCH TYPE 42 - CP 2501 UNIT RESEARCH SUSPENSE

BATCH TYPE 43 - CP 2501 MISCELLANEOUS REFERRAL

BATCH TYPE 44 - CP 2501 MIXED DATE RESPONSE

BATCH TYPE 45 - CP 2501 UNIT SUSPENSE

BATCH TYPE 46 - CP 2501 RESPONSE RELEASE

BATCH TYPE 49 - AGED CP 2501/ CP 2000 PREPARATION

BATCH TYPE 50 - CP 2000 SUSPENSE

BATCH TYPE 505XX - CP 2000 SUSPENSE FOR AUTO-GENERATED NOTICE CASES

BATCH TYPE 51 - CP 2000/RECOMP AGREED RESPONSE

BATCH TYPE 52 - CP 2000/RECOMP DISAGREED RESPONSE

BATCH TYPE 53 - CP 2000/RECOMP PRIORITY RESPONSE

BATCH TYPE 55 - RECOMPUTED CP 2000 SUSPENSE

BATCH TYPE 58 - LATE CP 2000 RESPONSES/STATUTORY NOTICE GENERATED

BATCH TYPE 59 - AGED CP 2000 STATUTORY NOTICE PREPARATION



**Exhibit 4.19.3-5 (Cont. 1) (10-25-2023)****Batch Types**

BATCH TYPE 60 - CP 2000 LETTER SUSPENSE

BATCH TYPE 61 - MANUAL INTEREST REJECTS

BATCH TYPE 62 - CP 2000 UNIT RESEARCH SUSPENSE

BATCH TYPE 63 - CP 2000 MISCELLANEOUS REFERRAL

BATCH TYPE 65 - CP 2000 UNIT SUSPENSE

BATCH TYPE 66 - CP 2000 RESPONSE RELEASE

BATCH TYPE 67 - PARTIAL AGREEDS

BATCH TYPE 68 - MANUAL STAT NOTICE PREP

BATCH TYPE 70 - STATUTORY NOTICE SUSPENSE

BATCH TYPE 71 - STATUTORY AGREED RESPONSE

BATCH TYPE 72 - STATUTORY IDENTITY THEFT RESPONSE

BATCH TYPE 73 - STATUTORY REFERRAL MISCELLANEOUS REFERRAL

BATCH TYPE 74 - STATUTORY RESPONSE

BATCH TYPE 75 - STATUTORY UNIT SUSPENSE

BATCH TYPE 77 - STATUTORY UNIT RESEARCH SUSPENSE

BATCH TYPE 79 - STATUTORY DEFAULTS

BATCH TYPE 81- RECONSIDERATION - These batches are used for controlling and tracking RECON cases on the AUR system.

BATCH TYPE 82 - RECONSIDERATION UNIT SUSPENSE

BATCH TYPE 83 - EMPLOYEE RECONSIDERATION - These batches are used for controlling and tracking employee RECON cases on the AUR system.

BATCH TYPE 84 - CASES WITH NEW ACTIONS - These are cases the system has identified with new actions since batches or cases were released by the tax examining units. The batch is divided as follows:

<b>Batch Segments</b>	<b>Definitions</b>
84001-84299	Screening Cases with New Actions
84300-84499	CP 2501 Cases with New Actions
84500-84799	CP 2000 Cases with New Actions
84800-84999	Statutory Notice Cases with New Actions

These batches are available for assignment to the tax examining units upon request.

BATCH TYPE 85 - REMAIL STATUTORY NOTICES

**Exhibit 4.19.3-5 (Cont. 2) (10-25-2023)****Batch Types**

BATCH TYPE 86 - STATUTORY RESPONSE RELEASE

BATCH TYPE 87 - PARTIAL AGREED STATS

BATCH TYPE 88 - RECONSIDERATION CASES WITH NO ASSESSMENTS - These batches are used to control, track and count recon receipts which do not require an assessment. The batch segments correspond to Reconsideration issue codes. When batch status is updated to "RB", cases are updated to IPC 9I and moved to BT 96002.

Batch Segments	Recon Issue Code	Definition
88001 - 88299	3	Copy of CP 2000
88300 - 88499	6	Duplicate response
88500 - 88699	20	Refile signature document
88700 - 88999	27	Subsequent payment

BATCH TYPE 89001 - BANKRUPTCY SUSPENSE

BATCH TYPE 89002 - Reserved

BATCH TYPE 89003 - IDENTITY THEFT SUSPENSE BATCH

BATCH TYPE 89004 - STATUTORY SUSPENSE ONLY ONE TAXPAYER SIGNATURE ON CONSENT

BATCH TYPE 89005 - CP 2000 SUSPENSE ONLY ONE TAXPAYER SIGNATURE ON CONSENT

BATCH TYPE 89006 - STATUTORY SUSPENSE ONLY ONE TAXPAYER FILED PETITION

BATCH TYPE 90 - EMPLOYEE SCREENING

BATCH TYPE 91 - EMPLOYEE SUSPENSE

BATCH TYPE 92 - EMPLOYEE UNIT SUSPENSE

BATCH TYPE 93 - DECLARED DISASTER - Cases identified, usually by the system, as meeting disaster criteria are built into BT 93. These cases remain in BT 93 until the system expiration date is met and the next action can be taken on the case. Cases meeting disaster criteria are built into BT 93 as follows:

Batch Segments	Definitions
93001-299	Screening
93300-399	CP 2501
93400-699	CP 2000
93700-799	CP 2000 Statutory Prep
93800-899	Stats
93900-999	Default Holds

BATCH TYPE 94 - FRAUD SUSPENSE

**Exhibit 4.19.3-5 (Cont. 3) (10-25-2023)****Batch Types**

BATCH TYPE 95 - REVIEW - There are five types of review batches:

<b>Batch Segments</b>	<b>Definitions</b>
95001-199	Reserved
95200-399	CP 2000 Notice Review
95400-499	Reserved
95500-599	CP 2000 Sort Code/Override Review
95600-799	Pre-Statutory Notice Review
95800-999	Statutory Recomp/Sort Code Review

BATCH TYPE 96000 - CLOSURE SUSPENSE

BATCH TYPE 96002 - CLOSURE SUSPENSE AFTER RECONSIDERATION

BATCH TYPE 97 - RESERVED

BATCH TYPE 98 - LOST CASE SUSPENSE

BATCH TYPE 99 - UNASSOCIATED RESPONSE SUSPENSE

**Exhibit 4.19.3-6 (09-21-2020)****Category of Distribution (COD) Chart - Form 1099-R**

- 1** - Early (Premature) Distribution, no known exception
- 2** - \*Early (Premature) Distribution, exception applies
- 3** - \*Disability
- 4** - \*Death
- 5** - Prohibited Transaction (such as borrowing or using as loan security)
- 6** - Section 1035 Exchange (tax-free)
- 7** - Normal Distribution
- 8** - Excess Contributions Refunded plus Earnings (taxable)
- 9** - Cost of life insurance (taxable)
- A** - May be eligible for 10-year tax option (Form 4972)
- B** - Designated Roth account distribution (not a qualified distribution)
- C** - Reportable Death benefits under section 6050Y
- D** - Annuity payments from nonqualified annuities that may be subject to tax under section 1411
- E** - \* Distributions under Employee Plans Compliance Resolutions System (EPCRS)
- F** - Charitable gift annuity
- G** - \*Direct rollover to a qualified plan, tax sheltered annuity, a governmental 457(b) plan or IRA.
- H** - \*Direct rollover of a designated Roth account distribution to a Roth IRA.
- J** - Early Distribution from a Roth IRA - no known exception
- K** - Distribution of IRA assets not having a readily available FMV.
- L** - Loans treated as distributions
- M** - Qualified plan loan offset distribution
- N** - Recharacterized IRA contribution made for current year
- P** - Excess Contributions plus earnings/excess deferrals taxable in prior year
- Q** - \*Roth IRA qualified distribution
- R** - Recharacterized IRA contribution (made for prior year and recharacterized for current year)
- S** - Early distribution from a SIMPLE IRA in first two years - no known exception
- T** - Roth IRA distribution - exception applies
- U** - Dividend distribution from ESOP under sec 404(k) - Distribution is not eligible for rollover
- W** - Charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements

**Exhibit 4.19.3-6 (Cont. 1) (09-21-2020)****Category of Distribution (COD) Chart - Form 1099-R**

**Note:** \*designates Form 5329 not required

The following are reserved for Railroad Retirement Board's use:

Code	Definition
V- RRB	Vested Dual Benefit (Windfall)
X - RRB	Tier 1
Y - RRB	Tier 2
Z - RRB	Supplemental

**Exhibit 4.19.3-7 (06-01-2023)****CP PARAGRAPHS**

Some numbered paragraphs listed below do not appear within the IRM. These paragraphs are system generated within the body or specific area of the notice sent.

**Note:** The verbiage in the following paragraphs matches what is in the data base for the **most current AUR year**. The verbiage for previous years may vary slightly and will reflect the impacted AUR year.

**2 - Wages reported incorrectly** The wages reported on your tax return were taken from the wrong box on Form W-2, Wage and Tax Statement.

**3 - Capital gains distributions** The amount of capital gain distributions shown on your Schedule D, Capital Gains and Losses, wasn't included on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors.

**4 - Qualified dividends** Based on the information your financial institution reported to us, we used the qualified dividends shown in box 1b, of Form 1099-DIV, Dividends and Distributions to recompute your tax. Let us know if you need to change the eligible qualified dividends as reported to us.

**5 - Real estate transaction** We show you sold or transferred real estate during the tax year in question. However, you didn't include this transaction on your tax return. You must report any gain from real estate transactions that is more than any applicable exclusion amount. Complete and return the appropriate forms or schedules, along with:

- Proof of your cost or adjusted basis in the property
- The date you acquired the asset for each Form 1099-S, Proceeds From Real Estate Transactions, transaction shown on this notice
- A statement as to how you used each property, e.g., personal residence, second home, rental, investment or business use.

You can find the forms or schedules in:

- Publication 523, Selling Your Home
- Publication 544, Sales and Other Dispositions of Assets

**6 - Withholding credit not given due to joint ownership** We can't allow your withholding credits on joint-owned income without more information about the allocation. Send the names and taxpayer identification numbers of the other joint owners. Provide a list of the income and tax withheld for each joint owner separately.

**7 - Unearned income reported as wages** Our records show you reported unemployment compensation or non-disability retirement distribution as wages. Unemployment compensation or non-disability retirement distributions are not considered earned income and may not be included in the calculation of your Earned Income Credit.

**8 - AGI decrease - Early withdrawal of interest savings penalty** You were charged a penalty when you withdrew your savings early. You can claim as an adjustment on your return to reduce your adjusted gross income (AGI).

**9 - Your standard deduction is now larger than your itemized deductions** Based on the proposed changes, the standard deduction amount is now larger than your total itemized deductions on line 17 of Schedule A, Itemized Deductions. We used the standard deduction to recalculate the proposed taxable income amount in the "Changes to your tax return" section of this notice.

**Exhibit 4.19.3-7 (Cont. 1) (06-01-2023)****CP PARAGRAPHS**

**10 - Schedule A medical and dental expenses percentage limitation** Medical and dental expense deductions are reduced by 7.5 percent of your adjusted gross income. Since we recalculated your adjusted gross income, we also recalculated your medical and dental expense deduction.

**11 - 10 Percent additional tax on premature distributions from a qualified retirement plan** Early distributions from a qualified retirement, including IRAs, are generally subject to a 10 percent additional tax. A distribution is early if you withdrew or used qualified retirement plan assets before you reached age 59 1/2. Exceptions may apply. Refer to Publication 17, Your Federal Income Tax (for Individuals), or Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs). If the distribution(s) listed in our previous notice are exempt from the additional 10 percent tax, send us a signed explanation or a completed Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.

**12 - Employment status determination** We show you were paid as an independent contractor, subject to self-employment tax. If you disagree, complete and return Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, along with the Response form of this notice. Write "AUR" along the top of the Form SS-8 to help us expedite processing.

**13 - Credit for the Elderly or Disabled** Your credit from Schedule R, Credit for the Elderly or Disabled, can't be more than your tax. The credit is based on earned income and adjusted gross income. Since we adjusted your income and tax, we also adjusted the amount of the credit claimed on your tax return.

**14 - Gambling losses on Schedule C** You can only report gambling winnings, related expenses, or gambling losses on Schedule C, Profit or Loss from Business, if you gamble full time, with regularity, or to produce income for livelihood. We disallowed the expenses or gambling losses claimed on Schedule C and adjusted your self-employment tax. You can claim gambling losses from gambling transactions not only to the actual cost of the wagers but also expenses you incur in connection with gambling on Schedule A. However, you can't deduct more than you reported as gambling winnings.

**15 - Penalty for not reporting tip income to your employer** You didn't report tips you received to your employer. You're subject to a penalty, which is 50 percent of the Social Security and Medicare tax you owe on the tip income. The penalty applies when you received tips of \$20 or more in a single month while working for any one employer. If you disagree with our determination, write and tell us why. We'll review your explanation to determine if there's reasonable cause to remove the penalty. (Internal Revenue Code Section 6652(b)).

**16 - Reduction to income because of your state or local income tax refund** Because you didn't claim an itemized deduction for state and local taxes on your prior year federal tax return, you don't have to report your state or local tax refund as income on this federal tax return.

**17 - Self-employment tax on self-employment (SE) income** We computed the self-employment (SE) tax on the net SE income from your reported and underreported SE income. SE income generally includes nonemployee compensation, merchant card payments, third-party network payments, and other income from part-time or full-time work. Net earnings from SE income are subject to SE tax.

SE tax consists of Social Security tax of 12.4 percent and Medicare tax of 2.9 percent and, for SE income more than the thresholds for your filing status, an additional Medicare tax of 0.9 percent. Even if you paid the maximum amount of Social Security tax, you're still liable for Medicare tax and additional Medicare tax, if you're over the applicable threshold. The deductible part of the SE tax is based on the change we made to your SE tax. If you were an employee, you're liable for income tax and the employee's share of Social Security (6.2 percent), Medicare taxes (1.45 percent), and additional Medicare tax, if applicable. We'll credit your Social Security account with the amount of SE income shown on this notice. See Form 1040, Schedule SE, Self-Employment Tax, for more information.

**18 - Self-Employment Tax decrease** Based on the amount of Social Security tax paid on your wage income, we decreased the amount of self-employment tax owed on your self-employment income.



**Exhibit 4.19.3-7 (Cont. 2) (06-01-2023)****CP PARAGRAPHS**

**19 - Earned Income Credit** Changes to your adjusted gross income (AGI) will affect your allowable Earned Income Credit. The Earned Income Credit is based on your earned income and AGI, both of which must be less than:

- \$16,480 with no qualifying child (\$22,610 for married filing jointly)
- \$43,492 with one qualifying child (\$49,622 for married filing jointly)
- \$49,399 with two qualifying children (\$55,529 for married filing jointly)
- \$53,057 with more than two qualifying children (\$59,187 for married filing jointly)

**20 - Potential adjustment of non-refundable credits** You included unused non-refundable credits on your tax return. Review your return to determine if, based on our proposal, you need to make adjustments. Send a signed statement showing the additional unused credits you want to use. If you applied the unused credits to another tax year, you must file a Form 1040-X, Amended U.S. Individual Income Tax Return, for that year. If you haven't filed a tax return for the affected period, send us a signed statement confirming you corrected your records.

**21 - Schedule A casualty and theft loss deduction percentage limitation** You can deduct personal casualty or theft losses only if they are attributable to a federally declared disaster. Each separate casualty or theft loss must first be reduced by \$100. The total amount of all remaining losses is then reduced by 10 percent of your adjusted gross income. Since we recalculated your adjusted gross income, we recalculated your casualty and theft loss deduction claimed on your Schedule A.

**22 - Student loan interest deduction not substantiated** We didn't receive a Form 1098-E, Student Loan Interest Statement, or a similar document for the amount of student loan interest deduction you claimed on your return. Send Form 1098-E or a similar document from the lender, showing the amount you claimed as a student loan interest deduction.

**23 - Student loan interest deduction decreased** We decreased the student loan interest deduction claimed on your tax return because your modified adjusted gross income is between:

- \$70,000 and \$85,000 for taxpayers filing Single, Head of Household or for a Qualifying Surviving Spouse with a dependent child
- \$140,000 and \$170,000 for Married Taxpayers Filing Jointly.

There is no allowable deduction if:

- Your modified adjusted gross income is equal or exceeds the higher amount listed above for your filing status
- Your filing status is Married Filing Separately
- You said that you or your spouse if filing jointly can be claimed as a dependent on someone else's tax return

The allowable deduction amount for your filing status and income is shown in the "Explanation of changes" section of this notice under the heading "Reported to IRS by others".

**24 - Capital gains loss (\$3,000/\$1,500) limitation** The capital gains (for example, from a sale of stock) shown in this notice are treated as ordinary income because we need additional information regarding gains or losses, or both. To respond to this notice, complete and send an amended Schedule D, Capital Gains and Losses, with the required information.:

If you have unused capital losses on your Schedule D and you want to apply these losses to your capital gains, you must acknowledge you'll correct the affected tax years. Complete and send Form 1040-X, Amended U.S. Individual Income Tax Return, to correct other affected tax returns you've already filed. If you haven't filed the

**Exhibit 4.19.3-7 (Cont. 3) (06-01-2023)****CP PARAGRAPHS**

tax return for the affected year, send us a signed statement you'll correct your records. If your capital losses exceed capital gains, the excess losses are only allowed to the extent of the lesser of \$3,000 (\$1,500 if married filing separately), or the excess loss amount.

**25 - Sick pay** Sick pay is taxable if your employer directly pays it from a benefit fund or from an employer-paid insurance plan. However, if you paid the premiums on an accident or health insurance policy, the benefits you receive under the policy aren't taxable. Send us documentation to verify who paid the premiums on your sick pay insurance.

**26 - Disallowed Form 5329 exception** The exception listed on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, does not apply to the type of distribution received. Therefore, we disallowed the exception claimed.

**27 - Overclaimed withholding** We show you are entitled to a lesser amount of income tax withholding or additional Medicare tax withholding than the amount claimed on your tax return. Send us a copy of Forms W-2, Wage and Tax Statement, Form 1099, or other withholding documentation from the payers to verify the additional withholding claimed on your tax return.

**28 - Underclaimed withholding** You may be entitled to a larger deduction for income tax withholding or additional Medicare tax withholding than the amount you claimed on your tax return. Compare the payer information provided in this notice with your records. If the information is incorrect, send us a statement so we can correct our records. If the information is correct, respond to this notice so we can adjust your account.

**29 - Self-employment tax - optional method** Due to the proposed changes on this notice, you no longer qualify for the optional method. You can only use the optional method if your net farm and nonfarm profits are less than \$6,540.

**30 - Contributions to Roth or Education IRA** You can't deduct contributions to a Roth IRA or Coverdell Savings Account as an adjustment to income. You can only deduct contributions to a traditional IRA as an adjustment to income. For more information, see the instructions for Form 1040/1040-SR, U.S. Individual Income Tax Return, or Publication 17, Your Federal Income Tax (For Individuals).

**31 - Payments from qualified education programs** Generally, earnings from Qualified Tuition Programs (QTPs) or Coverdell Education Savings Accounts (CESAs), are tax-exempt if you:

- Used to pay expenses for qualified education.
- Transferred between trustees.
- Rolled over to another qualified education program within 60 days.

If the distributions aren't used for those purposes, you must include them in your income. Most taxable earnings are also subject to an additional 10 percent tax. You can find more information in Publication 970, Tax Benefits for Education. If you believe all or part of your QTP or CESA earnings qualify for tax-exemption, send us a signed statement showing the qualified expenses or rollover documentation, or the computation you used to determine the taxable portion.

**32 - Joint liability for tax** If you filed a joint return, you and your former spouse are jointly and separately liable for the full amount of any deficiency. We will send your former spouse a copy of the proposed adjustment if you provide their address.

**33 - Schedule A general sales tax deduction** Based on our proposed changes to your income, you may be entitled to claim additional state and local sales taxes. Send us a signed statement showing the amount of the additional deduction you're entitled to claim.

**Exhibit 4.19.3-7 (Cont. 4) (06-01-2023)****CP PARAGRAPHS**

**34 - Borrowing from pension/annuity plan** You may need to treat money you borrowed from an employer's qualified pension or annuity plan as a distribution for tax purposes. If the borrowed amount was reported to you on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., with a distribution code L, the loan is taxable. For exceptions to this rule, see Publication 575, Pension and Annuity Income. If you disagree with our proposed adjustment, send us a signed, detailed statement explaining why you disagree and the amount you believe is taxable, even if it's zero.

**35 - Filing and/or Paying Late - IRC Section 6651** We assess a 5 percent monthly penalty for filing a return late and a 1/2 percent monthly penalty for not paying the tax you owe by the due date.

When both penalties apply for the same month, the amount of the penalty for filing late that month is reduced by the amount of the penalty for paying late for that month.

The penalties may not apply where you've shown that the failure is due to reasonable cause and not willful neglect.

The penalty for filing late is calculated based on the tax required to be shown on the return that you didn't pay by the original return due date, without regard to extensions. The penalty for paying late is calculated based on the net unpaid tax at the beginning of each penalty month following the payment due date for that tax.

We charge the penalties for each month or part of a month the return or payment is late; however, neither penalty can be more than 25 percent in total.

Income tax returns are subject to a minimum late filing penalty when filed more than 60 days late after the return due date, including extensions. The minimum penalty is the LESSER of the two amounts - 100 percent of the tax required to be shown on the return that you didn't pay on time, or a specific dollar amount that is adjusted annually for inflation.

The specific dollar amounts are:

- \$450 for returns due on or after 01/01/2023 and 12/31/2023
- \$435 for returns due between 01/01/2020 and 12/31/2022
- \$210 for returns due between 01/01/2018 and 12/31/2019
- \$205 for returns due between 01/01/2016 and 12/31/2017
- \$135 for returns due between 01/01/2009 and 12/31/2015
- \$100 for returns due before 01/01/2009

**36 - Additional Child Tax Credit disallowed** In our proposed changes, we included the full amount of Child Tax Credit for your filing status and modified adjusted gross income. Therefore, you're no longer eligible for the Additional Child Tax Credit.

**37 - Additional Child Tax Credit adjusted - Schedule 8812** Based on the proposed change to your income and tax, we adjusted the allowable amount of Additional Child Tax Credit.

**38 - Refundable American Opportunity Credit** We decreased or eliminated the American Opportunity Credit you claimed on your tax return because it phased out when we adjusted your modified gross income (MAGI). We phase the credit out when MAGI exceeds \$80,000 (\$160,000 if married filing jointly) and eliminate it completely when MAGI reaches or exceeds \$90,000 (\$180,000 if married filing jointly).

**39 - Self-employment tax on other income** We figured self-employment (SE) tax on other income you reported on Schedule 1, Additional Income and Adjustments to Income. SE income generally includes nonemployee compensation, merchant card payments, third-party network payments, and other income from part-time or full-time work. If you believe the amount on Schedule 1, line 8z amount isn't subject to SE tax, send us a signed statement explaining why and include supporting documentation.

**Exhibit 4.19.3-7 (Cont. 5) (06-01-2023)****CP PARAGRAPHS**

**40 - Your mortgage interest deduction needs verification** The mortgage interest deduction and points claimed on your return were more than the amount your lenders reported to us on Form(s) 1098, Mortgage Interest Statement. Send us copies of the documents used to support the amounts claimed on Form 1040, U.S. Individual Income Tax Return:

- Schedule A, line 8a
- Schedule C, line 16a
- Schedule E, line 12
- Schedule F, line 21a
- Form 4835, line 19a or
- Form 8829, line 10

**41 - Substitute payments in lieu of dividends and interest** You can't report substitute dividend or interest payments your broker receives on your behalf as dividends or interest (including tax-exempt interest) on your tax return. You must report these payments as ordinary income on your tax return.

**42 - Gambling losses** You must include gambling winnings as income on your tax return. You can claim gambling losses on Schedule A, Itemized Deductions. The amount of losses you claim can't be more than the amount of gambling income you reported on your tax return.

If you already filed Schedule A, and your total itemized deductions exceed the standard deduction amount, we included your gambling losses on Schedule A to reduce your taxable income.

If you didn't file a Schedule A and total itemized deductions now exceed your standard deduction, send us a Schedule A to claim those deductions.

**43 - Failure-to-pay penalty - Internal Revenue Code Section 6651 (a) (2)** We assess a 1/2 percent monthly penalty for not paying the tax you owe by the due date. The penalty applies even if you filed the return on time. The due date for payment of the tax shown on the return generally is the return due date, without regard to extensions.

You must pay increases in tax within 21 days of the date of our notice demanding payment (10 business days if the amount in the notice is \$100,000 or more).

If we issue a Notice of Intent to Levy and you don't pay the balance due within 10 days of the date of the notice, the penalty for paying late increases to 1 percent per month.

For individuals who filed on time, the penalty decreases to 1/4 percent per month while an approved installment agreement with the IRS is in effect for payment of the tax.

After your account has been assessed, you may receive an additional bill for the Failure to Pay penalty. (Internal Revenue Code Section 6651(a)(2)).

**44 - Stocks or bonds** To recalculate your tax, we used the capital gains or losses reported on your original Form 1040, Schedule D, Capital Gains and Losses, along with the new information you provided.

**45 - Income unrelated to Identity Theft Claim** We reviewed the identity theft claim present on your account. The income items shown in this notice do not appear to be related to your identity theft claim.

**46 - Double exclusion of line of duty injury income** We show the amount of income related to your injury in the line of duty reported on your Form W-2, Wage and Tax Statement, has already been excluded from your gross wages. You can't exclude it again on your return.

**Exhibit 4.19.3-7 (Cont. 6) (06-01-2023)****CP PARAGRAPHS**

**47 - Amended information from your payers** This notice reflects the new or amended information we received from your payers or employers.

**48 - Credit for child and dependent care expenses** We base the credit for child and dependent care expenses on your expenses, your earned income, adjusted gross income, and any dependent care benefits received from your employer. The credit can't be more than your tax. Because we proposed changes to your income and tax, we also changed your Form 2441, Child and Dependent Care Expenses.

**49 - Withholding from retirement distribution is taxable** Your tax return showed you rolled over your entire retirement distribution. However, the payer withheld an amount for taxes making the amount you received smaller than that shown on your return. Unless you replaced the withheld amount with funds from another source, the amount the payer withheld is considered taxable. This notice shows the proposed changes to your return.

**50 - Distributions from a non-qualified plan** Distributions from a non-qualified deferred compensation plan or a non-governmental Internal Revenue Code Section 457(b) plan are taxable in the year received. You can't reduce the amount shown on your Form W-2, Wage and Tax Statement, box 1, Wages, tips, other compensations, by the amount reported in box 11, Nonqualified plans.

**51 - Early distributions taxable as income** Although the 10 percent tax on early distribution(s) was reported on Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, the distribution must also be reported as income on page 1 of your tax return.

**52 - Ordinary dividends don't qualify for capital gains treatment** Your payers reported dividends to us as ordinary dividends. The income was reported on Form 1040/1040-SR, line 7, or Schedule D, Capital Gains and Losses. You reported them as capital gains on line 13 of Schedule 1, Additional Income and Adjustments to Income, or Schedule D, Capital Gains and Losses. We determined they don't qualify for capital gains treatment, so we changed your return to treat them as ordinary income.

**53 - IRA deduction exceeds age limitation or earned income** We adjusted your IRA deduction because you were under the age of 50 at the end of the year and the deduction amount claimed exceeded the lesser of:

- \$6,000 or your earned income for filing status single, married filing separately, or head of household
- \$12,000 or your earned income for filing status married filing jointly, even if only one spouse had earned income

Or you were 50 or older at the end of the year and the deduction amount you claimed exceeded the lesser of:

- \$7,000 or your earned income for filing status single, married filing separately, or head of household
- \$14,000 or your earned income for filing status married filing jointly, if both spouses are age 50 or older
- \$13,000 or your earned income for filing status married filing jointly, only one spouse is age 50 or older

If you or your spouse were covered by a retirement plan through your employer, the deduction could be further limited. For more information, See Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs). We only allow an IRA deduction if you (or your spouse if married filing jointly) have earned income. We limit the deduction to the lesser amount of either your IRA contribution or the amount of your earned income.

**54 - Form 8606 and Fair Market Value for IRAs** The Fair Market Value (FMV) of all your Traditional, SEP and Simple IRAs must be included on Form 8606, line 6. Your IRA trustees have reported FMV amounts on Form 5498, box 5, that were not included on this line. Please send us a revised Form 8606 if applicable. Please refer to Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), for additional guidance.



**Exhibit 4.19.3-7 (Cont. 7) (06-01-2023)****CP PARAGRAPHS**

**55 - Archer or Medicare MSA distributions/Long-Term Care benefits - Form 8853** We need more information to determine the taxable amount of the Archer Medical Saving Account, Medicare Advantage MSA distribution or Long-Term Care benefits shown on this notice. Complete and return Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

**56 - Credit For qualified retirement savings contributions** We limited your credit for Qualified Retirement Savings Contributions, Form 8880, because we either changed your retirement distribution, IRA deduction or your new modified adjusted gross income (MAGI) is between:

- \$20,500 - \$34,000 for filing status single, married filing separately or qualifying surviving spouse,
- \$30,750 - \$51,000 for filing status head of household,
- \$41,000 - \$68,000 for filing status married filing jointly.

The credit is eliminated when MAGI exceeds the upper limit.

For more information, please see the instructions for Form 8880, Credit For Qualified Retirement Savings Contributions.

**57 - Interest or dividend income** You didn't include the amounts of interest or dividend income reported on your Schedule B as income on Form 1040/1040-SR, U.S. Individual Income Tax Return. We used the unreported interest or dividend, reported to us by the payers shown in this notice, to refigure the proposed taxable income shown in the **Changes to your tax return** section of this notice.

**58 - Education credits** Based on proposed changes to your income and tax, we're also proposing an adjustment to the amount of education credits (American Opportunity and Lifetime Learning Credits) you can claim on your tax return.

**59 - Recompute your Form 8615** If the proposed changes on this notice are correct, recompute Form 8615, Tax for Certain Children Who Have Unearned Income, using the proposed unreported investment income shown on this notice and return the form with your response. We'll revise our notice accordingly.

**60 - Form W-2 or 1099 not received** The income reported on your return doesn't match the documents we received from your employer or payers. The law requires you to accurately report all income you receive. If your employers don't send proper information documents or forms (for example, Form W-2, Wage and Tax Statement, Form 1099), you must estimate your income based on your paycheck stubs, bank statements, or other records and include your estimate on your tax return.

**61 - Information mailed separately** We mailed additional information (forms, schedules, publications, etc.) concerning this notice in a separate envelope.

**62 - Premium tax credit** We based the change to the premium tax credit on the proposed changes to your modified adjusted gross income.

**63 - Special 10-year averaging method Form 4972** Your Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., shows you received a periodic IRA or SEP distribution. These distributions don't qualify for the special 10-year averaging computation on Form 4972, Tax on Lump-Sum Distributions.

**64 - Unlocated interest, dividends, and/or capital gain amounts** Your tax return doesn't include payer name for interest, dividends, accrued market discount, or capital gains distributions. We can't match the amounts payers reported to us, which we've included in this notice. We allowed credit for the total amount included on your tax return. If this is incorrect, send us a list of specific amounts of interest, dividends, or capital gain distributions you received, along with the name of each payer and the type of income.

**Exhibit 4.19.3-7 (Cont. 8) (06-01-2023)****CP PARAGRAPHS**

**65 - Qualified dividends not included in ordinary dividends** You must include qualified dividends as ordinary dividends on Form 1040 or 1040-SR. We show you deducted qualified dividends from ordinary dividends, so we're disallowing it and adding it back into your income.

**66 - Dependent Care benefits/recomputed Child Care Credit** You received dependent care benefits (shown in box 10 of your Form W-2, Wage and Tax Statement), but didn't claim them correctly on Form 2441, Child and Dependent Care Expenses. You must use dependent care benefits to compute your allowable Child Care Credit and the amount of taxable dependent care benefits. We recalculated your Form 2441 using the information in Part II of Form 2441 and the dependent care benefits information we received from your employers. This notice shows the changes proposed to your taxable dependent care benefits or allowable Child Care Credit. If you file for this credit on future tax returns, be sure to complete Parts I, II, and III of Form 2441.

**67 - Unemployment compensation** We're proposing to increase your income for unemployment compensation reported to us by the payer shown in this notice. Unemployment compensation benefits are fully taxable. Payers report unemployment compensation on Form 1099-G, Certain Government Payments. If you repaid any of these benefits, provide us with the amount and the dates you repaid the benefits, and we'll review our proposal.

**68 - Social Security and Medicare Tax on unreported tip income** Since we increased your wages to include unreported tip income, we also increased your Social Security and Medicare Tax.

**69 - State and local income tax refund** Because you claimed an itemized deduction for state and local taxes on your prior year federal tax return, you must report any refund or credit of the state or local taxes as income on your federal tax return for the year in which you received the refund or credit.

**70 - Your individual retirement account (IRA) contributions aren't verified** Your trustee didn't verify the amount you claimed on your tax return as contributions to your individual retirement account (IRA). If you or your spouse were covered by a pension plan, we may reduce or eliminate your IRA deduction if your modified adjusted gross income is more than the amount allowed for your filing status. For more information, see Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

**71 - Social Security Lump Sum Election method** We show a discrepancy between the amount reported to us by the Social Security Administration and the amount you reported on your tax return. Send a copy of the worksheets showing the method used to calculate the Lump Sum Election (LSE). More information is available in Publication 17, Your Federal Income Tax (For Individuals), and Publication 915, Social Security and Equivalent Railroad Retirement Benefits.

**72 - Cancellation of Debt - Form 1099-C** If a federal government agency, financial institution, credit union, or other lender cancels or forgives a debt you owe, you may receive a Form 1099-C, Cancellation of Debt. In most cases, you must include the canceled or forgiven amount in your income. There are several situations in which you don't have to include the canceled amount as income, but these exclusions aren't automatic. You must claim the benefit of any exclusion by filing Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment).

You can only exclude debt cancellation up to the insolvent amount. If you can exclude the canceled debt due to insolvency, provide a detail of your total assets and liabilities immediately before the discharge. You're insolvent to the extent your total liabilities exceeded your total assets. For more information and a worksheet to help calculate insolvency, see Publication 4681, Canceled Debts, Foreclosures, Repossessions and Abandonments (for Individuals). You must include any canceled debt that exceeds the amount of your insolvency as income on your tax return, unless another exclusion applies.

If you filed for bankruptcy, provide a copy of your bankruptcy paperwork to show you included the canceled debt in the bankruptcy. If you don't make payments you owe on a loan secured by property, the lender may foreclose on the loan or repossess the property, which is treated as a sale or exchange from which you may realize a gain or loss. If the lender foreclosed on your principal residence, you may realize ordinary income from cancel-



**Exhibit 4.19.3-7 (Cont. 9) (06-01-2023)****CP PARAGRAPHS**

lation of debt if the loan balance is more than the fair market value of the property. If the amount of principal you owed on your home mortgage was reduced as part of a loan modification, you may be able to exclude the amount of canceled debt from income.

For more information on these topics, see Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals), or Publication 544, Sales and Other Dispositions of Assets.

**74 - Joint ownership information needed for early withdrawal of savings penalty** You withdrew funds from a certificate of deposit or other deferred interest account before maturity and received a penalty from the payer. You can deduct this penalty from your income since it's interest you didn't receive.

For us to determine the amount of deduction you're entitled to, provide the names and Social Security numbers of the other joint owners on this account and a detail of the income and early withdrawal penalty each joint owner reported.

**75 - Early withdrawal of savings penalty deduction** Based on information from your payers, you may have over-deducted an amount for the early withdrawal penalty in the adjustments section of your tax return. To verify the amount, send us documentation for the early withdrawal penalty claimed.

**76 - Alternative minimum tax** Based on changes to your taxable income, we recalculated your alternative minimum tax. If your calculations differ from ours, send us a copy of your Form 6251, Alternative Minimum Tax-Individuals.

**77 - Estimated tax penalty** If you don't pay enough tax either through your withholdings or by making timely estimated tax payments, you underpaid your estimated tax. We charge a penalty for underpaying your estimated tax. For information about estimated tax requirements, see Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, or Publication 505, Tax Withholding and Estimated Tax.

We may recalculate your estimated tax penalty if we make an adjustment to one or more of the following:

- Withholding
- Excess Social Security/railroad retirement tax
- Additional Medicare tax withholding

If we recalculate this penalty, we'll send you a letter.

**79 - Interest/dividend math error** You made a calculation error on Schedule B, Interest and Ordinary Dividends. We used the information you reported to propose a change to your return. If our calculations aren't correct, send us a revised Schedule B.

**80 - Taxable Health Savings Account distributions not reported** You didn't carry forward the taxable portion of the health savings account distribution payment reported on Form 8889, Health Savings Accounts, to Schedule 1, Additional Income and Adjustments to Income. This notice shows the proposed changes to your return after we included it in your income.

**81 - Rollover IRA contributions** You incorrectly deducted a rollover contribution. We verified this using Form 5498, IRA Contribution Information, which your payers sent to us. If the information we received is incorrect, send us a copy of your IRA statement or a similar document so we can correct our records.

**82 - Health Savings Account distributions - Form 8889** You can exclude health savings account (HSA) distributions used exclusively to pay qualified medical expenses. However, in your gross income you should include any part of a distribution not used to pay qualified medical expenses. That amount is subject to an additional 20 percent tax unless an exception applies.

**Exhibit 4.19.3-7 (Cont. 10) (06-01-2023)****CP PARAGRAPHS**

We need more information to determine the taxable portion of the HSA distribution shown on this notice. Complete and send us Part II, HSA Distributions, of Form 8889, Health Savings Accounts (HSAs).

**83 - Nondeductible IRAs - Form 8606** We show you did not report the full taxable amount of your retirement distributions as shown on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., on your tax return. If your Form 1099-R shows a different taxable amount, send a copy of your Form 1099-R with your response. If you feel the full amount isn't taxable, complete the appropriate part of Form 8606, Nondeductible IRAs and send it with your response. For more information, see Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

**84 - Foreign earned income tax** You may need to recalculate your foreign earned income tax because of the proposed changes we made to your return. If you have any itemized deductions or exclusions you couldn't claim because they are related to excluded income, use the worksheet in the Form 1040, Individual Income Tax Return, instructions to recalculate your foreign earned income tax and provide us with a copy.

**85 - Backup Withholding on interest and dividends** We based our proposed changes on interest or dividends you didn't include on your tax return. If you agree our proposal is correct, but don't pay the tax increase, we may notify payers to deduct and withhold 24 percent of any payments they make to you in the future. This is called backup withholding.

**86 - Accuracy-related penalty due to negligence** We charge an accuracy-related penalty if there's any underpayment of tax on your return due to negligence. This penalty is 20 percent of the portion of the underpayment of tax attributable to negligence.

If you think we shouldn't charge this penalty, explain why the penalty doesn't apply in a signed statement and send any supporting documents. We'll review your request and determine if reasonable cause is established to eliminate the penalty.

**87 - Payments you made** We received your payment and applied it to your account. Payments are first applied to reduce your tax, then to any penalties and interest owed.

**88 - Incorrect tax change in our previous notice** Please disregard the previous CP2000 notice we sent you because the proposed tax change was incorrect. We apologize for any inconvenience this may have caused. The "Changes to your tax return" section of this notice shows the correct figures. Please follow the instructions on Page 1 of this notice and submit your response by the due date shown.

**89 - Income reported in the wrong tax year** Although you stated you reported the income in question in another tax year, we couldn't verify this information. We're including the income and tax for the tax year stated in the "Changes to your tax return" section. File a Form 1040-X, Amended U.S. Individual Income Tax Return, for the year in which you incorrectly included the income.

**90 - Premium tax credit - amounts not verified** Our information from the Health Insurance Marketplace doesn't match what you reported on Form 8962, Premium Tax Credit, Part 2, for columns A-Premium, B-SLCSP, or F-Advance PTC. Send us a copy of your Forms 1095-A, Health Insurance Marketplace Statement, to support the amounts you reported on Form 8962. If your Forms 1095-A are incorrect, contact the Health Insurance Marketplace to obtain a corrected one and send us a copy.

**91 - Accuracy-related penalty for substantial understatement of tax** If you understate your tax liability and the Understatement is more than the greater of 10 percent of your correct tax liability or \$5,000, an accuracy-related penalty generally applies for the substantial understatement of tax. The penalty is 20 percent of the portion of the underpayment of tax attributable to the substantial understatement of income tax.

We may reduce or eliminate the penalty if you send a signed statement with one of the following:

**Exhibit 4.19.3-7 (Cont. 11) (06-01-2023)****CP PARAGRAPHS**

- Facts that support your treatment of the understated income and the authority for your position, such as the Internal Revenue Code, Treasury Regulations, Revenue Rulings, Revenue Procedures, etc. or
- An explanation showing you clearly disclosed the item, such as by attaching Form 8275, Disclosure Statement, or Form 8275-R, Regulation Disclosure Statement and there is a reasonable basis for your position.

**92 - Accuracy-related penalties** We assessed an accuracy-related penalty because your understatement of tax is either substantial, due to negligence, or both. We assessed the penalty on the entire underpayment (Internal Revenue Code Section 6662(b) under paragraph (1) and/or (2)). If we determine that part or all of the underpayment isn't due to negligence or substantial understatement, we may still apply the penalty for the remaining underpayment.

**93 - Misidentified income** If any of the income shown on this notice isn't yours, send us the name, address, and taxpayer identification number of the person who received the income. To prevent future incorrect reporting to the IRS, notify the payer to adjust their records to show the correct name and taxpayer identification number.

**94 - Negative taxable income** You had a zero or negative taxable income amount on your original or amended return. To ensure proper credit for deductions, this notice reflects the actual amount of your taxable income in the "Shown on return" column of the "Changes to your tax return" section.

**95 - IRA deduction adjusted** The deduction for IRA contributions is dependent upon your filing status, coverage by an employer retirement plan or through self-employment, and your modified adjusted gross income (MAGI). For the tax year in question, if you were covered by a retirement plan, the deduction for IRA contributions is limited when your MAGI is between the amounts listed below and eliminated when it exceeds the upper limit of:

- \$68,000 and \$78,000 for filing status single, head of household or married filing separately - if you lived apart from your spouse for the entire year.
- Less than \$10,000 for filing status married filing separately - if you lived with your spouse at any time during the year.
- \$109,000 and \$129,000 for filing status married filing jointly or qualifying surviving spouse.

If you weren't covered by a retirement plan but your spouse is covered, the deduction for IRA contributions is limited when your MAGI is between the amounts listed below and eliminated when it exceeds the upper limit of:

- Less than \$10,000 for filing status married filing separately - if you lived with your spouse at any time during the year.
- \$204,000 and \$214,000 for filing status married filing jointly with a spouse who is covered by a retirement plan.

To avoid contact about this issue on future tax returns, complete and attach Form 8606, Nondeductible IRAs, to your tax returns. Keep a copy for your records.

**96 - Retirement distributions** We couldn't identify the retirement distribution reported on your return based solely on information your payers reported to us. We need to know if the reported income is a part of a pension or an annuity.

If it's pension or an annuity, and you're recovering your after-tax contributions using the Simplified Method or General Rule, send us a signed statement with the date of your first payment, the amount you receive monthly, and the total amount you contributed.

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If it's not a pension or annuity, send us a copy of the document showing the gross and non-taxable amount of the distribution you received.

If all or part of the distribution was rolled over, send us Form 5498, IRA Contribution Information or similar documentation showing a rollover.

**97 - Social Security/Railroad Benefits** You didn't correctly report your gross Social Security/railroad retirement benefits on your original tax return. As a result, we changed your taxable benefits while processing that return. This notice uses the gross amount reported to us by the Social Security Administration to correct your taxable benefits.

**98 - Education credits** We need to verify the education credits you claimed on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors. Send us a detailed explanation of the amounts you paid to support the amounts claimed. For more information, see Publication 970, Tax Benefits for Education.

**99 - Social Security or Tier 1 Railroad Retirement benefits** Our notice includes Social Security or railroad retirement benefits. These benefits are partially taxable if your modified adjusted gross income, plus 50 percent of the gross benefits received, exceeds one of the following:

- \$25,000 if filing single, head of household, qualifying surviving spouse, or married filing separately and you didn't live with your spouse at any time during the year
- \$32,000 if married filing jointly
- \$0 if married filing separately and you lived with your spouse at any time during the year

We cap the amount of taxable Social Security or Tier 1 railroad retirement benefits reported on Form 1040, U.S. Individual Income Tax Return or 1040-SR, U.S. Tax Return for Seniors, at 85 percent of the gross benefits you receive. Gross benefits are reported to you on Form 1099-SSA or Form RRB-1099, box 5.

If we later find we need to change the proposed underreported items shown on this notice, we'll adjust the taxable Social Security or Tier 1 railroad retirement benefits accordingly.

**100 - Social Security/Railroad Retirement benefits workers' compensation offset** You incorrectly reduced the net benefits reported in box 5 of Form SSA-1099 or Form RRB-1099 by subtracting the workers' compensation benefits amount a second time. Workers' compensation benefits are included in the total shown in box 3 of Form SSA-1099 or in box 6 of Form RRB-1099. These amounts offset the net amount of benefits received and this net amount is already shown in box 5 of Form SSA-1099 or Form RRB-1099. This notice shows the proposed recomputed taxable portion of your benefits. For more information, see Publication 915, Social Security and Equivalent Railroad Retirement Benefits, or contact your local Social Security Administration or Railroad Retirement office for an explanation of the workers' compensation offset.

**101 - Accuracy related penalty waived** The circumstances you described allowed us to remove the penalty for failure to properly report income or deductions.

**102 - Commodity Credit Corporation (CCC) loans forfeited** You didn't repay a Commodity Credit Corporation (CCC) loan or you repaid a CCC loan with Commodity Credit Certificates. If you believe this was a nontaxable transaction, explain your reasons in a signed statement and send us a copy of the form or schedule for any years showing how you reported the income.

**103 - Crop insurance** We show you received crop insurance proceeds. We're unable to locate this amount on your Form 1040, Schedule F, Profit or Loss From Farming, or Form 4835, Farm Rental Income and Expenses. If you elected to postpone reporting your crop insurance proceeds as income, explain in a signed statement or send us a copy of the tax return where the crop insurance is reported as income.

**Exhibit 4.19.3-7 (Cont. 13) (06-01-2023)****CP PARAGRAPHS**

**104 - Farm income - market gain** You received a taxable market gain from the repayment of a secured Commodity Credit Corporation (CCC) loan that was less than the original loan amount. If you believe this market gain is non-taxable, send us a signed explanation.

**105 - Education savings bond interest exclusion adjusted** The exclusion claimed for education savings bond interest has been reduced because your modified adjusted gross income is between:

- \$85,800 and \$100,800 for filing status single, or head of household.
- \$128,650 and \$158,650 for filing status married filing jointly or qualifying surviving spouse with dependent child.

The disallowed portion of the exclusion is reflected in the interest income amount shown in the “Changes to your tax return” section of this notice.

**106 - Withholding claimed incorrectly** You may have claimed a withholding amount from the wrong box of your Forms W-2, Wage and Tax Statement. We used information reported to us by your payers to compute the proposed changes shown on this notice. If our information is incorrect, send us the documents you used to compute the withholding amount you claimed.

**107 - Education savings bond interest exclusion disallowed** Since your filing status was married filing separate, you’re not entitled to the Education Savings Bond Exclusion, even if the bonds were used to pay for qualified higher education expenses.

**108 - Unsubstantiated education savings bond interest exclusion** We didn’t receive a Form 1099-INT, Interest Income, or a similar document for savings bond interest, showing the amount claimed for the Education Savings Bond Interest Exclusion. If you have documents to substantiate the savings bond exclusion, please send a copy.

**109 - Payment card and third-party network transactions** You received Form 1099-K, Payment Card and Third-Party Network Transactions, because you accepted merchant cards for payments, or because you received payments through a third-party network. The amount included on this notice for Form 1099-K reflects the gross reportable transaction amount and not the taxable amount of merchant card and third-party network payments. The taxable amount from Form 1099-K should be reported on your Form 1040 Schedule C, Schedule E, or Schedule F.

**114 - Revised Schedule A included in proposed changes** We received your revised Schedule A, Itemized Deductions, and used your amounts to adjust your income and tax as shown on this notice.

**115 - Statutory employee income differs** The statutory employee income your employers reported to us on Forms W-2, Wage and Tax Statement, doesn’t agree with the amount you reported. If the information we received is incorrect, send us a statement from your employers verifying you’re a statutory employee and the amount of income you earned.

**116 - Schedule C expenses used to reduce income** We show you didn’t earn the income you reported on Schedule C, Profit or Loss From Business, as a statutory employee. Therefore we can’t allow the expenses claimed on your Schedule C. If our records are incorrect, send us a statement from your employers verifying you’re a statutory employee.

If you’re not a statutory employee, you must include the income as wages on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors.

**117 - Mark-to-market election** We show you made a mark-to-market trader election for your securities transactions. Since you made this election, you need to report securities transactions relating to your trader activities on Form 4797, Sales of Business Property. Your trading income may also be subject to the net investment tax.



**Exhibit 4.19.3-7 (Cont. 14) (06-01-2023)****CP PARAGRAPHS**

See Form 8960, Net Investment Income Tax – Individuals, Estates, and Trusts, for more information. To report your election properly, use Form 4797 in the future. For more information, see Publication 550, Investment Income and Expenses.

**118 - Day trader loss limitation** We don't show you made a mark-to-market trader election for your securities transactions. If you haven't sent in your election yet, you must report the sale of securities on Form 8949, Sales and Other Dispositions of Capital Assets, and then carry the results to Schedule D, Capital Gains and Losses. Losses from these transactions are subject to the limit on capital losses of \$3,000 (\$1,500 if married filing separately). For more information, see Publication 550, Investment Income and Expenses.

**119- Court award or settlement** For us to determine what portion (if any) of your award or settlement is taxable, send us the following:

- A written explanation of the nature and cause of your award.
- A copy of the original complaint that was filed, along with the final court order or settlement agreement.

**120 - Child Tax Credit** The allowable amount of the Child Tax Credit or Credit for Other Dependents is based on your filing status, the number of qualifying persons, your modified adjusted gross income and tax. Either credit is adjusted when your modified adjusted gross income changes. The credit can't be more than the tax.

If you filed and claimed credits for mortgage interest, residential energy credit or District of Columbia first-time homebuyer credit with your original tax return, send us recomputed worksheets from Publication 972, Child Tax Credit. To apply any unused credits from these sources, send us the recomputed forms. If you've already applied these unused credits to any other tax years, you need to file a Form 1040-X, Amended U.S. Individual Tax Return for the other years. If you haven't filed the tax return for the affected period, send us a signed statement that you've corrected your records.

**121 - Mortgage interest deduction allocation** We couldn't match mortgage interest amounts you claimed to specific forms or schedules on your return. We gave credit for amounts you claimed in the following order if you filed the appropriate form or schedule:

1. Schedule C, Profit or Loss From Business
2. Schedule E, Supplemental Income and Loss
3. Schedule F, Profit or Loss From Farming
4. Form 4835, Farm Rental Income and Expenses
5. Form 8829, Expenses for Business Use of Your Home
6. Schedule A, Itemized Deductions

If this is incorrect, send us a detailed breakdown and verification of all mortgage interest amounts you claimed on your return.

**122 - Double exclusion of penalty on early withdrawal of savings isn't allowed** You included an amount for the penalty on early withdrawal of savings as an adjustment to income on your return. You also used the amount to reduce interest income on Schedule B, Interest and Ordinary Dividends. You can't take a double exclusion for the same amount. We're allowing the deduction to interest income and disallowing the amount claimed as an adjustment to income.

**123 - Overpaid mortgage interest refund** You received a refund or credit for overpaid mortgage interest but didn't include it as income on your return in the year in which you received it. You must report this as income because you claimed an itemized deduction for mortgage interest on your prior year tax return.

**Exhibit 4.19.3-7 (Cont. 15) (06-01-2023)****CP PARAGRAPHS**

**124 - Scholarship or fellowship grant information needed** To determine if any portion of the scholarship or fellowship payments you received qualify for exclusion from income, tell us whether you were a degree candidate when the scholarship or fellowship was granted

- If you were a degree candidate, tell us which amounts were used solely for tuition and course-related expenses.
- If you weren't a degree candidate, the full amount of the scholarship or fellowship is taxable.

**125 - We corrected your taxable income** We found a math error and made corrections while processing your tax return. Therefore, the taxable income as "Shown on return" in the "Changes to your tax return" section of this notice is different than the amount you originally reported on your return.

**126 - Broker and barter exchange transactions** We received Forms 1099-B, Proceeds From Broker and Barter Exchange Transactions, but didn't see the amounts included in income on your return. This notice shows amounts reported as bartering on Forms 1099-B. For each Form 1099-B you received, give us the date you acquired the asset and the cost or adjusted basis, if needed. For more information, see Publication 525, Taxable and Nontaxable Income.

**127 - Form W-2 box 12, Code Z** Income recognized due to participation in a nonqualified deferred compensation plan doesn't meet the requirements of Internal Revenue Code Section 409A and is taxable. You can't reduce your wages or nonemployee compensation by this amount.

**128 - Education credit disallowed** We disallowed education credits claimed on your return because of the incomplete lines, 23-26 on Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits). If you're eligible to claim the credit, complete Form 8863, including lines 23 -26, and send it to us.

**129 - Jointly filed return of surviving spouse** All income attributable to you or your spouse must be included on the joint tax return you filed for that year.

**130 - Form 4972, Tax on Lump-Sum Distributions** You made a math error on your original or recomputed Form 4972, Tax on Lump-Sum Distributions. We recalculated your tax using the correct amount.

**131 - Retirement distributions as Social Security/Railroad Retirement benefits** You incorrectly reported retirement distributions from Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., or Form RRB-1099-R, Annuities or Pensions by the Railroad Retirement Board, as Social Security/railroad retirement benefits. You should treat this type of income as a normal distribution and report it as a pension, an annuity, or both. This notice shows our proposed changes to the amount incorrectly reported. For more information, see Publication 575, Pensions and Annuity Income.

**132 - Reemployment Trade Adjustment Assistance payments** You didn't report the full amount of the Reemployment Trade Adjustment Assistance (RTAA) payments shown on Form 1099-G, Certain Government Payments, box 5. This income is taxable. Please see Publication 17, Your Federal Income Tax (For Individuals) for more information.

**134 - Retirement distributions don't qualify for capital gains treatment** The retirement distributions you reported as capital gains on your Form 1040 or Schedule D, Capital Gains and Losses, don't qualify for capital gain treatment. Your payers reported the distributions as ordinary income, so you must report them as ordinary income on your tax return.

If you carried forward the loss on your Schedule D to a subsequent year, you must adjust it accordingly. Send us a revised Schedule D and, if necessary, correct other affected tax years you've already filed on Form 1040-X, Amended U. S. Individual Income Tax Return.

If you haven't filed a return for the affected year, send us signed statement indicating you'll correct your records.



**Exhibit 4.19.3-7 (Cont. 16) (06-01-2023)****CP PARAGRAPHS**

**135 - Health savings account deduction (Form 1040, Form 8889)** The health savings account deduction you reported on your return doesn't agree with the information your trustees sent us. Send us copies of Forms 5498-SA, HSA, Archer MSA, Medicare Advantage MSA Information, or other documents to support your health savings account deduction.

**136 - Health savings account distribution** The health savings account distribution reported on your return doesn't agree with the information provided to us on Forms 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA. Send us a completed Form 8889, Health Savings Accounts (HSAs). Use Part II of Form 8889 to calculate the taxable distribution amount.

**137 - Excess Social Security/Railroad Retirement Tax withheld from one employer** If one employer withheld excess Social Security or Railroad Retirement Tax from your pay, you must ask the employer to reimburse you because you can't claim the excess amount on your federal income tax return.

**138 - Qualified and Non-Qualified Stock Plan** Based on information shown on your Form W-2, Wage and Tax Statement, it appears you sold or exchanged stocks through your employer. We are unable to determine if any of these transactions were exercised as a qualified or non-qualified stock option. Please provide a completed Schedule D and Form(s) 8949, and/or applicable stock option statements.

**139 - Documents attached to your tax return were not reported** You didn't include all the income or withholding you should've reported based on the Forms W-2, Wage and Tax Statement, 1099, or other documents you sent with your return. The "Changes to your tax return" section of this notice shows the amounts included. If the proposed change is incorrect, send us a signed explanation.

**140 - 20 Percent Tax on Health Savings Account distribution** Your premature distributions from a health savings account are subject to an additional 20 percent tax. A distribution is considered premature if it was paid before you reached age 65. The 20 percent tax is based on the taxable portion of the distribution. Exceptions may apply as shown in Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans. If the distributions shown on this notice are exempt from the additional tax, please send us a signed explanation.

**141 - Netted state and local income tax refund** You incorrectly netted your state and local income tax refund by deducting it from the amount withheld and failed to include it as income. In the future, report the refund on Schedule 1, Additional Income and Adjustments to Income. Report tax withheld on line 5a of your Schedule A.

**142 - 179 Expenses double deduction** You deducted the Section 179 expenses from your distributive share of income (or loss) on Part II of Schedule E, Supplemental Income and Loss, and as a deduction on Part II, column (i), of Schedule E. We disallowed this double deduction.

**143 - Additional Medicare Tax withheld** We adjusted the amount you claimed as Additional Medicare Tax withheld on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors, because it appears you incorrectly completed Form 8959, Additional Medicare Tax.

**144 - Gambling losses limited to gambling winnings** You claimed gambling losses on Schedule A, Itemized Deductions, but didn't report gambling winnings. Since you didn't report any gambling winnings, we're proposing to remove the gambling losses claimed on your Schedule A. If you have gambling winnings, send us a signed statement with this information.

**146 - Simplified Employee Pension (SEP) deduction (disallowed)** You're not eligible to claim a deduction for contributions to your own SEP, SIMPLE, or qualified plans because you didn't report self-employment income on your tax return. We disallowed the deduction. For more information, please see Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

**Exhibit 4.19.3-7 (Cont. 17) (06-01-2023)****CP PARAGRAPHS**

**147 - Potential change to self-employed health insurance deduction** If the self-employment income shown on this notice is correct, you may want to recalculate the self-employed health insurance deduction. Send us your updated calculation if applicable.

**148 - Potential change to charitable contributions increase** You may be entitled to claim additional charitable contributions if you didn't use them in a later tax year, because we proposed an increase to your income. If you're entitled to additional charitable contributions, send us a revised Schedule A, Itemized Deductions, or a signed statement showing the additional amount.

**150 - Refigured tax based on Schedule D computation** We recalculated your tax using the Schedule D tax computation.

**151 - Excess Social Security Tax/Railroad Retirement Tax (SST/RRT)** The law limits Social Security withholding to \$9,114 per taxpayer, per year, but more may have been withheld. You must figure the credit separately for each spouse to determine if either one had excess withholding. You can claim a credit for any excess withholding if you had 2 or more employers. If one employer withheld excess Social Security or Railroad Retirement tax from your pay, you must ask the employer to reimburse you because you can't claim the excess amount on your federal income tax return. If your employer will not reimburse you, use Form 843, Claim for Refund and Request for Abatement, to claim a refund of excess Social Security and Medicare taxes or excess railroad retirement tier 2 tax. See Publication 505, Tax Withholding and Estimated Tax for more details.

**152 - Form 4972 - Special tax treatment does not apply to IRA distributions** We show the distribution you claimed on Form 4972, Tax on Lump-Sum Distributions, is from an IRA reported to you on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This distribution doesn't qualify for special tax treatment on Form 4972. If our information is incorrect, send us a signed explanation.

**153 - Excess advance premium tax credit repayment** We adjusted your excess advance premium tax credit repayment based on proposed changes to your modified adjusted gross income.

**154 - Non-active military personnel** We consider allowances paid to retired military officers and retired enlisted members, who are employed in the junior program of the Reserve Officers Training Corps (ROTC), as taxable compensation. You should include these allowances for items such as uniforms, housing, and subsistence in gross income. For more information, see Revenue Ruling 71-307 and 72-69.

**155 - Military retirement distributions** You didn't include distributions from your military retirement plan in income, which are fully taxable. If you don't agree because you received a retroactive disability rating after you retired, send us a statement from the Department of Veterans Affairs. The statement must show the dates of the retroactive period and the amount of your retirement pay you would've been able to receive as disability benefits.

**156 - Dependent care benefits** We considered the employer-provided dependent care benefits shown in box 10 of Form W-2, Wage and Tax Statement, as fully taxable because Form 2441, Child and Dependent Care Expenses, is missing or incomplete. If you paid for child or dependent care for the tax year in question, complete and return Form 2441. Use Part III to determine the taxable amount of benefits you received, any excluded benefits, and the allowable amount of qualified expenses.

**157 - Contributions to 401(K) were deducted incorrectly** Contributions made by you or your employer to a 401(k), or other deferred compensation plan, have already been excluded from the wage amount shown in box 1 of Form W-2, Wage and Tax Statement. Therefore, you can't deduct them again from the income. If you believe box 1 of your Form W-2 erroneously included the amounts of these contributions or shows a wrong box checked, send us a statement from your employer that contains the correct information.

**Exhibit 4.19.3-7 (Cont. 18) (06-01-2023)****CP PARAGRAPHS**

**158 - Amendments or adjustments to your return have been included in this notice** We considered previous changes to your original tax return in figuring the amounts under “Changes to your tax return” section of this notice under the heading “Shown on return”. This may include any adjustments we made when you filed or changes from an amended return.

**159- Reimbursement of employee business expenses** Business expenses, which exceed reimbursement, are deductible only if reported on Form 2106, Employee Business Expenses. If the income shown on this notice is a reimbursement of employee business expenses and you qualify for the deduction, please complete and return Form 2106. Refer to the Form 2106 instructions for qualification information.

**160 - Cancellation of Debt reduced by Fair Market Value** We reduced the cancellation of debt amount by the fair market value of the property as reported to the IRS from the lender who canceled the debt.

**161 - Self-employment tax change due to mortgage interest adjustment** We’re proposing changes to the mortgage interest amount you deducted on Schedule C, Profit or Loss From Business, line 16a, or Schedule F, Profit or Loss From Farming, line 21a. The change under “Changes to your tax return” section of this notice results in an increase to your net self-employment income. Therefore, we’re also proposing changes to the reported self-employment tax.

**162 - Social Security benefits for taxpayers who filed married filing separately** We’re proposing to increase the taxable amount of your Social Security Benefits. Since you and your spouse filed separately but lived together during the tax year in question, you must include 85 percent of your Social Security Benefits as income. For more information, see Form 1040, U.S. Individual Income Tax Return, instructions on Social Security Benefits or Publication 915, Social Security Benefits and Equivalent Railroad Retirement Benefits.

**163 - Employee’s share of Federal Insurance Contributions Act** You’re required to pay the employee share of Federal Insurance Contributions Act (FICA) tax because your employer didn’t withhold this amount from your pay. This notice shows your employee share of FICA tax at 7.65 percent of gross wages (amounts incorrectly reported as non-employee compensation) which we’ll credit to your Social Security and Medicare account. We based the proposed change on the determination from Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, regarding your employee status for the non-employee compensation you received.

**164 - Wage adjustments based on stock option statements** You can’t reduce wages by amounts shown on stock option statements. This notice shows the proposed changes to the reported wages.

**165 - Tax treatment of non-statutory stock options** We consider exercised non-statutory employee stock options included in box 1 of Form W-2, Wage and Tax Statement, as ordinary income. They don’t qualify for capital gain treatment.

**166 - Cost basis of stock sold** In reviewing the stock proceeds your broker reported to us, we used the cost basis shown in box 1e, of Form 1099-B, Proceeds From Broker and Barter Exchange Transactions. If there isn’t an amount in box 1e, we used a zero-cost basis.

If you have cost basis for the stock transactions in question, send us a completed Schedule D, Capital Gains and Losses, along with a completed Form 8949, Sales and Other Dispositions of Capital Assets, (or similar attachment) showing the following for each listed stock transaction.

- The asset name
- The date you acquired the asset
- The cost or adjusted basis

**167 - Illegal use of Social Security number** If you believe someone is illegally using your Social Security number, send us a signed statement identifying each item on the notice which is the result of identity theft, as

**Exhibit 4.19.3-7 (Cont. 19) (06-01-2023)****CP PARAGRAPHS**

well as a copy of either a police report or completed IRS Form 14039, Identity Theft Affidavit (available at [irs.gov/forms-pubs](https://irs.gov/forms-pubs)). You may also want to contact the Federal Trade Commission Identity Theft Hotline (877-438-4338) or visit [identitytheft.gov](https://identitytheft.gov) for information about correcting your records.

**168 - 10 Percent additional tax claimed as early withdrawal penalty** You can't deduct the 10 percent additional tax on distributions from qualified retirement plans as an early withdrawal of savings. You must report it as an additional tax on your return.

**169 - Mortgage interest included on Form 8829** You deducted the same mortgage interest on Form 8829, Expenses for Business Use of Your Home, as you did on Schedule A, Itemized Deductions. We can't allow this double deduction. We gave credit for amounts you claimed first to Form 8829 and then Schedule A.

**170 - Accuracy-related penalty for negligence not waived** The information you sent didn't establish the reasonable cause necessary to exempt you from the accuracy-related penalty due to negligence or intentional disregard of the rules or regulations. Pay the full amount you owe as soon as possible to avoid additional interest charges.

**171 - Your Form 1040-X doesn't include penalties** We received your Form 1040-X, Amended U.S. Individual Income Tax Return, in response to our previous notice. However, it didn't address the proposed penalties. If you think we shouldn't charge these penalties, send a signed statement explaining why they don't apply and include supporting documents. We'll review your request and determine if we can remove them.

**172 - Additional Medicare tax** We recalculated the additional Medicare tax based on proposed changes to your wages, Railroad Retirement Tax Act compensation, or self-employment income. The 0.9 percent additional Medicare tax applies when the total of an individual's Medicare wages, Railroad Retirement Tax Act compensation, and self-employment income exceeds one of the following:

- \$250,000 for married filing jointly
- \$125,000 for married filing separately
- \$200,000 for taxpayers who file single, head of household, or qualifying surviving spouse

**173 - Net Investment Income Tax** We're proposing a change to your investment income and your net investment income tax (NIIT). In general, net investment income includes the excess of interest, dividends, capital gains, rental and royalty income, non-qualified annuities, and income from passive activities and trading in financial instruments or commodities over allowable deductions.

A 3.8 percent tax applies when you have net investment income and your modified adjusted gross income exceeds:

- \$200,000 for single or head of household
- \$250,000 for married filing jointly or qualifying surviving spouse
- \$125,000 for married filing separately

**174 - Interest and additional tax on nonqualified deferred compensation** You received income reported on Form W-2, Wage and Tax Statement (box 12 with code Z) or Form 1099-MISC, Miscellaneous Income (line 14), due to participation in a nonqualified deferred compensation plan subject to Internal Revenue Code Section 409A. Because your plan didn't comply with Internal Revenue Code Section 409A, this income is subject to a premium interest tax and an additional 20 percent tax. This notice includes the additional 20 percent tax. For more information see Publication 17, Your Federal Income Tax (For Individuals) and Internal Revenue Code Section 409A.

**Exhibit 4.19.3-7 (Cont. 20) (06-01-2023)****CP PARAGRAPHS**

**175 - Post-secondary educational institution and education credit** Education credits can only be claimed for qualified education expenses paid to a post-secondary educational institution. Based on the information provided on your return we have disallowed the education expenses and credit claimed for your dependent.

**176 - Stolen identity documentation received** We received documentation showing you're a victim of identity theft. If the discrepancies shown in this notice are a direct result of the identity theft, send us a signed statement identifying each specific discrepancy that is a result of identity theft.

**177 - Deduct tax from refund** We may not have enough time to deduct your tax increase from your expected refund, as you requested. If you receive your full refund, we'll send you a bill for any tax you owe.

**178 - Power of Attorney** We sent a copy of this notice to your representative as shown in your Power of Attorney.

**179 - Accuracy-related penalty for substantial understatement not waived** The information you sent didn't establish the reasonable cause necessary to exempt you from the accuracy-related penalty due to a substantial understatement of income tax. Pay the full amount you owe as soon as possible to avoid additional interest charges.

**180 - Request for information document** We can't send you a copy of the information you requested because we received it electronically. To get a paper document with the amount reported to us, contact the payers listed below. Alternatively, you could submit Form 4506-T, Request for Copy of Tax Return, to receive data reported on the information returns or file Form 4506, Request for Transcript of Tax Return, to request a paper copy. See [irs.gov/F4506t](https://irs.gov/F4506t) or [irs.gov/pub/f4506.pdf](https://irs.gov/pub/f4506.pdf) for more information.

**181 - Unable to contact taxpayer sooner** We couldn't contact you sooner because we must process and review the information we receive from all employers, businesses, and financial institutions and then compare it with the information on your tax return before we can notify you of any discrepancy.

**182 - Copy of notice sent to spouse** We sent a copy of our proposed changes to the other taxpayer on your joint return for the tax year in question. Generally, when you file a joint return, both taxpayers are jointly and separately responsible for the full amount of tax owed on the return, even if you separate or divorce after you file.

**184 - Earned Income Credit disallowed due to investment income** We're proposing to disallow the amount of Earned Income Credit you claimed because your investment income now exceeds \$10,300.

**185 - Archer MSA deduction (Form 1040, Form 8853)** The Archer Medical Savings Account deduction you reported on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Tax Return for Seniors, doesn't agree with the information provided to us by your trustees. Send us documents to support your deduction, such as Forms 5498-SA, HSA, Archer MSA or Medicare Advantage MSA.

**186 - Archer MSA distribution** The Archer Medical Savings Account or Medicare Advantage MSA distribution you reported on your return doesn't agree with the information provided to us on Form(s) 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA.

**187 - Long-Term Health Care Benefits (Form 1040, Form 8853)** The long-term health care benefits you reported don't agree with the information provided to us on Form 1099-LTC, Long-Term Care and Accelerated Death Benefits. Send us a copy of the documents you used to compute amounts you reported on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

**188 - Adoption credit adjusted** We're proposing to adjust the amount of adoption credit you claimed based on our proposed changes to your modified adjusted gross income (MAGI). For more information and the MAGI limitations, see the instructions for Form 8839, Qualified Adoption Expenses.



**Exhibit 4.19.3-7 (Cont. 21) (06-01-2023)****CP PARAGRAPHS**

**189 - Adoption credit disallowed** We're proposing to disallow the amount of adoption credit you claimed based on our proposed changes to your modified adjusted gross income (MAGI). For more information and the MAGI limitations, see the instructions for Form 8839, Qualified Adoption Expenses.

**190 - Employer-provided adoption benefits (Form 8839)** We're proposing to adjust the amount of employer-provided adoption benefits you claimed based on information provided on Form(s) W-2, Wage and Tax Statement, box 12 with code T or other changes to your income.

**191 - Taxable employer provided adoption benefits not included in income** You didn't include the taxable benefits reported on Form 8839, Qualified Adoption Expenses, line 29, as income on page 2 of your tax return.

**192 - Spouse reported SISR on current year and prior FS was 1, 3 or 4 and spouse did not itemize** Since state and local taxes weren't claimed as an itemized deduction on either your or your spouse's prior year tax return, you aren't required to report the refund for the spouse who didn't itemize deductions. We have reduced the amount reported as State Income Tax Refund on your return. This change is reflected on our notice as a miscellaneous adjustment.

**194 - Premature distributions tax from a Simple IRA Plan** Early distributions from your SIMPLE IRA plan are subject to an additional 10 percent tax. A distribution is early if it was paid before you reached age 59 1/2. However, the 10 percent tax is increased to 25 percent if the distribution was made within 2 years of beginning participation. Exceptions may apply as shown in Publication 17, Your Federal Income Tax (For Individuals), Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs) or Publication 560, Retirement Plans for Small Business (SEP, SIMPLE Plans and Qualified Plans). If the distributions shown on this notice are exempt from the additional tax, send us a signed explanation.

**195 - Employer-provided adoption benefits subtracted from wages** You deducted employer-provided adoption benefits from your wages, which isn't allowed. We added the amount back to your wages. To determine if any of your benefits are excludable, complete and return Form 8839, Qualified Adoption Expenses.

**196 - 20 Percent tax on Archer Medical Saving Account distributions (Archer MSA)** Premature distributions from Archer Medical Savings Accounts are subject to an additional 20 percent tax. A distribution is considered premature if it was paid before you reached age 65. Exceptions may apply as shown in Publication 969, Health Saving Accounts and Other Tax-Favored Health Plans. If the distributions shown on this notice are exempt from the additional tax, send us a signed explanation.

**197 - Taxable Archer MSA distributions - Long-Term Care payments not reported** You didn't include the amount of taxable Archer MSA distributions or long-term care payments reported on your Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, was not included as income on Schedule 1, Additional Income and Adjustments to Income.

**200 - Qualified business income deduction adjustment** The proposed changes made to your taxable income may affect the qualified business income deduction claimed. If you believe an adjustment to the qualified business income deduction is necessary, complete the appropriate worksheet from the Form 1040, U.S. Individual Income Tax Return, instructions or Publication 535, Business Expenses. Send the completed worksheet to us along with a statement explaining what changes were made to the original qualified business income deduction reported.

**201 - Allowed qualified business income deduction** Based on the worksheet and statement you provided, we adjusted the amount of your qualified business income deduction.

**202 - Limited qualified business income deduction** The qualified business income deduction amount you claimed was more than the statutory maximum allowed. We limited the deduction accordingly. See Form 1040, Individual Income tax or Publication 535, Business Expenses, for more information.

**Exhibit 4.19.3-7 (Cont. 22) (06-01-2023)****CP PARAGRAPHS**

**203 - Dependent tax credit** The allowable dependent tax credit is based on filing status, number of qualifying dependents (other than yourself, your spouse, or qualifying children), modified adjusted gross income, and tax. The credit is adjusted when the modified adjusted gross income changes. The credit can't be more than the tax.

**204 - Deduction limited on taxes paid** Your state and local, real estate or personal property tax deduction is limited to \$10,000 (\$5,000 for married filing separately).

**205 - Automotive Manufacture Incentive Payments** Automotive manufacturer incentive payments made to a vehicle salesperson may not be offset by Schedule C, Profit or Loss From Business (Sole Proprietorship) expenses. We disallowed the expenses and refigured your tax.

**211 - TDC Invitation** You can now reply to this notice by registering for IRS Secure Messaging at [irs.gov/connect](https://irs.gov/connect). Here you'll be able to upload your response documents via a secure portal.

**212 - Taxable Medicare Advantage Medical Savings Account (MAMSA) subject to additional 50 percent tax** Early distributions from Medicare Advantage Medical Savings (MSA) accounts are subject to an additional 50 percent tax. Exceptions may apply as shown in Publication 969, Health Saving Accounts and Other Tax-Favored Health Plans. If the distributions shown on this notice are exempt from the additional tax, send us a signed explanation.

**213 - Phase out for Mortgage Insurance Premium Deduction (MIP)** We changed the amount claimed for Qualified Mortgage Insurance Premiums because we change your adjusted gross income (AGI). If your AGI is between \$100,000 and \$109,000 (\$50,000 and \$54,500 if married filing separately), the allowable deduction is limited. If your AGI is more than \$109,000 (\$54,500 if married filing separately), you're no longer allowed a Qualified Mortgage Insurance Premiums deduction.

**214 - Verification for Mortgage Insurance Premium Deduction (MIP)** We need to verify your deduction for qualified mortgage insurance premiums on Form 1040/1040-SR, U.S. Individual Income Tax Return. We didn't receive a Form 1098, Mortgage Interest Statement, to substantiate this deduction. Provide copies of the documentation used to support the amount claimed.

**215 - Homeowner and Hazard Insurance is not deductible** Qualified mortgage insurance premiums must be connected to your home acquisition debt and the insurance contract must have been issued after 2006. Form 1098, Mortgage Interest Statement, should reflect the interest and mortgage insurance premiums paid during the year. Mortgage insurance premiums may qualify as deductible interest paid. Refer to Publication 936, Home Mortgage Interest Deduction, available at [irs.gov/forms](https://irs.gov/forms) or by calling 800-TAX-FORM (800-829-3676).

**216 - Graduate student does not qualify for American Opportunity Credit** The information you provided indicates you (or your dependent) are/is a graduate student. In order to claim the American Opportunity Credit, you must not have completed the first four years of postsecondary education before the start of the tax year. For more information, refer to Publication 970, Tax Benefits for Education, available at [irs.gov/forms](https://irs.gov/forms) or by calling 800-TAX-FORM (800-829-3676).

**217 - Taxpayer is not eligible to claim Education Credit** Education credits cannot be claimed if your filing status is married filing separately, you're claimed as a dependent on someone else's tax return, or you're a non-resident alien. We disallowed the amount claimed on Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits), because our records indicate you aren't eligible.

**218 - Form 8863, Part III is not completed appropriately for Education Credit** We're unable to allow the education credits claimed on your Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits), because lines 23-26 are incomplete. If you're eligible to claim the credit, complete Form 8863, including lines 23 -26, and send it to us.



**Exhibit 4.19.3-7 (Cont. 23) (06-01-2023)****CP PARAGRAPHS**

**219 - Reported EARN income is subject to 10 percent additional tax** Most taxable earnings from qualified education programs are subject to an additional 10 percent tax. Your taxable earnings reported to us do not fall within any of the exceptions to the 10 percent additional tax. For more information, refer to Publication 970, Tax Benefits for Education, available at [irs.gov/forms](https://irs.gov/forms) or by calling 800-TAX-FORM (800-829-3676).

**220 - Income now subject to Alternative Minimum Tax (AMT)** Based on our proposed changes to your income, you may now be subject to the alternative minimum tax calculations. If you disagree with our calculations, send a Form 6251, Alternative Minimum Tax – Individuals. For more information, refer to the Instructions for Form 6251, available at [irs.gov/forms](https://irs.gov/forms) or by calling 800-TAX-FORM (800-829-3676).

**221 - Withholding claimed with Stock Options** The federal withholding and/or Social Security tax withheld, shown on your stock option statement(s), has already been included in the federal withholding and/or Social Security tax withheld on your Form W-2. Therefore, we disallowed the additional amount(s) claimed.

**223 - Breakdown of Insolvency is required** The Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), attached to your return indicates you were insolvent. To be considered insolvent, you must provide a statement of your assets and liabilities immediately before the debt was cancelled. You're considered insolvent only when your liabilities exceed your assets. If you can exclude the canceled debt due to insolvency, provide a detail of your total assets and liabilities immediately before the discharge. For more information and a worksheet to help calculate insolvency, see Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (for Individuals).

**224 - Proceeds from sales, exchanges, or other dispositions of digital assets** This notice reflects an adjustment to your gross income based on taxable proceeds from sales, exchanges, or other dispositions of digital assets reported to us on information return(s) filed by third party(ies). The sale or trade should be reported on Schedule D as a capital gain or loss. For more information visit [irs.gov/businesses/small-businesses-self-employed/digital-assets](https://irs.gov/businesses/small-businesses-self-employed/digital-assets).

**225 - Age requirement not met for Qualified Charitable Distributions (QCD)** Our records indicate you didn't meet the minimum age requirement to qualify for a non-taxable charitable IRA distribution. If our records are incorrect, provide documentation showing both your date of birth and the date the distribution was made by the trustee of your IRA.

**227 - Unemployment compensation exclusion** We're proposing to increase your income for unemployment compensation reported to us by the payer shown in this notice. The American Rescue Plan Act (ARP) of 2021 included a retroactive provision for unemployment income effective for 2020 tax returns. The provision allows for an exclusion from income of up to \$10,200 of unemployment income for individual taxpayers (\$20,400 for married filing joint filers) with a modified adjusted gross income of less than \$150,000. The taxable unemployment compensation amount has been adjusted to allow the correct exclusion amount. Payers report unemployment compensation on Form 1099-G, Certain Government Payments. If you repaid any of these benefits, provide us with the amount and the dates you repaid the benefits, and we'll review our proposal.

**Exhibit 4.19.3-8 (09-21-2020)****Form W-2 - Box 12 Codes**

The following list explains the codes shown in box 12, Form W-2. Elective deferral (codes AA, BB, EE, D, E, F, G, H, and S) under all plans are generally limited to \$19,500 (\$13,500 if only the SIMPLE plan; \$22,500 for section 403(b) plans, if the taxpayer qualified for the 15-year rule as explained in Publication 571. Deferrals under code G are limited to \$19,500, and code H to \$7,000. However, taxpayers who were at least age 50 in the AUR year, may have been allowed an additional deferral by the employer, of up to \$6,500 (\$3,000 for section 401(k)(11) and 408(p) SIMPLE plans). This additional deferral amount is not subject to the overall limit on elective deferrals. Amounts in excess of the overall deferral limit must be included in income.

Code	Definition
<b>A</b>	Uncollected social security or RRTA tax on tips
<b>B</b>	Uncollected Medicare tax on tips.
<b>C</b>	Taxable cost of group-term life insurance over \$50,000 (included in boxes 1, 3 (up to social security wage base), and 5).
<b>D</b>	Elective deferrals to a section 401(k) cash or deferred arrangement. Also includes deferrals under a SIMPLE retirement account that is part of a section 401(k) arrangement.
<b>E</b>	Elective deferrals under a section 403(b) salary reduction agreement.
<b>F</b>	Elective deferrals under a section 408(k)(6) salary reduction SEP.
<b>G</b>	Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan.
<b>H</b>	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan.
<b>J</b>	Nontaxable sick pay (information only, <b>not</b> included in boxes 1, 3, or 5)
<b>K</b>	20 percent excise tax on excess golden parachute payments.
<b>L</b>	Substantiated employee business expense reimbursements (non-taxable).
<b>M</b>	Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only).
<b>N</b>	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (former employees only).
<b>P</b>	Excludable moving expense reimbursements paid directly to a member of the U.S. Armed Forces (not included in box 1, 3, or 5)
<b>Q</b>	Nontaxable combat pay
<b>R</b>	Employer contributions to Archer (MSA)
<b>S</b>	Employee salary reduction contributions under section 408(p) SIMPLE (not included in box 1).
<b>T</b>	Adoption benefits (not included in box 1). Form 8839 must be completed to compute taxable amount.
<b>V</b>	Income from exercise of non-statutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5).

**Exhibit 4.19.3-8 (Cont. 1) (09-21-2020)**  
**Form W-2 - Box 12 Codes**

<b>Code</b>	<b>Definition</b>
<b>W</b>	Employer contributions to Health Savings Account
<b>Y</b>	Deferrals under a section 409A nonqualified deferred compensation plan
<b>Z</b>	Income under a section 409A nonqualified deferred compensation plan
<b>AA</b>	Designated Roth contributions to a section 401(k) plan
<b>BB</b>	Designated Roth contributions under a section 403(b) salary reduction agreement.
<b>DD</b>	Cost of employer-sponsored health coverage. The amount reported with Code DD is not taxable.
<b>EE</b>	Designated Roth contributions under a governmental section 457(b) plan. This amount does not apply to contributions under a tax-exempt organization section 457(b) plan.
<b>FF</b>	Permitted benefits under a qualified small employer health reimbursement arrangement.
<b>GG</b>	Income from Qualified Equity Grants under Section 83(i)
<b>HH</b>	Aggregate Deferrals Under Section 83(i) Elections as to the Close of the Calendar Year are being added

**Exhibit 4.19.3-9 (09-04-2015)**  
**Income Identify Codes**

Value	Meaning
ES	Employee Savings Plan
FT	FICA Tax Withheld
LC	Long-term Cost Basis
LS	Lump Sum Distribution
MA	Mortgage Interest Deduction - Schedule A
ME	Mortgage Interest Deduction - Schedule E or Form 4835
MS	Medical Savings Account Deduction
MT	Medicare Tax Withheld
PB	Primary Business Self-Employment Income
PE	Primary Earned Income
PF	Primary Farm Self-Employment Income
PN	Pension/Annuity
RO	Rollover (used to the suppress 10 percent or 25 percent penalty)
RT	RRTA Tax Withheld
SB	Secondary Business Self-Employment Income
SC	Short-term Cost Basis
SD	Schedule D Capital Gains-Long-Term Gain/Loss No Code Assigned (This value should display as blank in the INC CD field)
SE	Secondary Earned Income
SF	Secondary Farm Self-Employment Income
ST	Schedule D Capital Gains-Short-Term Gain/Loss
SW	Statutory Wages
5P	Form 1099-R distribution subject to 5 percent premature distribution tax

**Exhibit 4.19.3-10 (09-01-2003)**  
**Non-Select Table**

Non-Select Terms	N/A	N/A
ACCOUNT	ACF	ACT
ACCT	ADM	ADMIN
ADMINISTRATOR	AGENT	AGT
AS	ASSN	ASSOC
ASSOCIATES	ASSOCIATION	ATF
ATTORNEY	ATTY	ATTYS
CF	CHILDREN	CSN
CO	COMP	COMPANIES
COMPANY	CONS	CONSERV
CONSERVATOR	CORP	CORPORATION
COTRUSTEE	COTR	CUST
CUSTODIAN	CUSTODIAN for	ESCROW
EST	ESTATE	EX
EXEC	EXECUTOR	EXECUTRIX
EXTRX	FBO	FOUNDATION
GDN	GIFT	GUAR
GUARDIAN	HEIRS	INC
INCORPORATED	INFANT	ITF
LEG	LEGAL	LIMITED
LTD	MARITAL	MINORS
ORDER	PARENT	RESIDUARY
SPECIAL	SUCCESSOR	TF
TR	TTEE	TRUST
TRUSTEE	TRUSTEES	UA
UGMA	UGTMA	UNDER
UNIF	UNIFORM	USE
UW	N/A	N/A

**Exhibit 4.19.3-11 (09-21-2020)****Notice Review Error Codes****Critical Errors**

<b>Code</b>	<b>Error</b>
01	Wage income amount incorrect
01b	Partially reported wages not considered
01c	Two wage IRs for the same taxpayer, from the same payer; IRM not followed
01d	EPAB income amount incorrect
01e	Dependent Care amount incorrect
02	Interest income amount incorrect
03	Dividend income amount incorrect
04	Capital Gain Distribution amount incorrect
05	State Income Tax Refund amount incorrect
06	Nonemployee Compensation amount incorrect
06a	Nonemployee Compensation not identified on Form 1040, Schedule 1, line 8z
06b	Indication that taxpayer is incorporated/partner/shareholder was not considered
06c	Nonemployee Compensation included in larger total on Sch C, F, Form 4835
06K	Merchant Card amount incorrect
07	Gross Medical Receipt amount incorrect
08	Fishing income amount incorrect
09	Retirement income amount incorrect
09a	Retirement income not identified when reported on a different line
09b	Form 8606 not considered
09c	Disability pension, Income Identify Code not entered
09d	QCD/PSO notated on return but not considered
09e	Rollover not identified
10	Rent/Royalty income amount incorrect
11	Conduit income amount incorrect
11a	Conduit IDRS research not performed or misinterpreted
11b	Form 8582 not considered
11c	ORINC/REAL/OTREN/G-PAY/BNINC/OTPOR partially reported; IRM procedure wasn't followed
12	Agricultural Subsidy income amount incorrect

**Exhibit 4.19.3-11 (Cont. 1) (09-21-2020)****Notice Review Error Codes**

<b>Code</b>	<b>Error</b>
13	CCC Loan income amount incorrect
14	Patronage Dividend amount incorrect
15	Crop Insurance amount incorrect
16	Unemployment Compensation amount incorrect
17	SS/RR income amount incorrect
18	Other Income amount incorrect
19	Gambling income amount incorrect
20	Cancellation of Debt amount incorrect
21	Taxable Grants amount incorrect
22	Substitute Payment in Lieu of Dividend amount incorrect
23	Securities Sales income incorrect
23a	Securities IRs not grouped (ST or SD) when appropriate
23b	Securities IRs not matched to breakdown of stock included with return
23c	Schedule D loss window incorrect
23d	Non-statutory employee stock options on Form W-2 not considered
24	Barter income amount incorrect
25	Real Estate amount incorrect
26	Refund of Overpaid Mortgage (ROMID) interest amount incorrect
27	Qualified Tuition Program income amount incorrect
28	Archer Medical Savings Account / Health Savings Account income amount incorrect
29	Long-Term Care Benefits income amount incorrect
30	IRA, SEP or Simple Deduction amount incorrect
31	Archer Medical Savings / Health Savings Account deduction amount incorrect
32	Early Withdrawal Penalty Deduction amount incorrect
33	Student Loan Interest Deduction amount incorrect
33a	No 1098E IR with SLID present; over-deducted SLID not pursued
33b	SLID pursued in error; IRM procedure wasn't followed
33d	Domestic Production Activity Deduction amount incorrect
34	AGI Window incorrect
34a	Filing status incorrect
34c	QBID



**Exhibit 4.19.3-11 (Cont. 2) (09-21-2020)****Notice Review Error Codes**

<b>Code</b>	<b>Error</b>
35	Mortgage Interest Deduction amount incorrect
35a	Mortgage Insurance Premium amount incorrect
36	Schedule A Deduction amount incorrect
37	Additional Tax amount incorrect
37a	Form 8814
37b	Form 4972
37c	Form 6251
38	Taxable Income per return amount incorrect
39	Tax per return amount incorrect
39a	Schedule D window incorrect
40	Non-refundable credit amount incorrect
40a	Foreign Tax credit incorrect
40b	Child Care credit incorrect
40c	Credit for the Elderly incorrect
40d	Education credit incorrect
40e	Retirement Savings Contributions incorrect
40f	Child Tax / Other Dependent credit incorrect
40g	Adoption credit incorrect
40h	Miscellaneous credit incorrect
41	SE tax incorrect
41a	SE tax incorrect - failure to correct \$1 difference
41b	SE tax not assessed on income reported on Form 1040, Schedule 1, line 8z
41c	Incorrect entries in the SE tax window
41d	Income Identify Code not input/verified to assess SE tax when appropriate
42	Other taxes amount incorrect (except SE tax)
42a	Social Security and Medicare tax incorrect
42b	Tax on qualified plans incorrect
42d	Household employment tax incorrect
42e	Miscellaneous tax incorrect
42f	Net Investment Income tax incorrect
42g	Additional Medicare tax amount incorrect

**Exhibit 4.19.3-11 (Cont. 3) (09-21-2020)****Notice Review Error Codes**

<b>Code</b>	<b>Error</b>
43	Withholding change amount incorrect
43a	\$1 rounding not allowed/withholding not verified in the Withholding window
43b	IR not created when appropriate
43c	Withholding window not accessed
44	Earned income credit amount incorrect
45	Excess SSTAX change amount incorrect
46	Additional Child Tax Credit amount incorrect
47	Estimated Tax Penalty / Failure to File amount incorrect
48	American Opportunity Credit amount incorrect
49	Additional Medicare Tax withheld amount incorrect
50	Net Premium Tax Credit amount incorrect
51	CP 2000 generated erroneously - case should have been closed
52	29X should have been ordered

**Non-Critical Errors (No change in tax)**

<b>Code</b>	<b>Error</b>
01N	Wage income amount incorrect
01dN	EPAB income amount incorrect
01eN	Dependent Care amount incorrect
02N	Interest income amount incorrect
03N	Dividend income amount incorrect
04N	Capital Gain Distribution amount incorrect
05N	State Income Tax Refund amount incorrect
06N	Nonemployee Compensation amount incorrect
07N	Gross Medical Receipt amount incorrect
08N	Fishing income amount incorrect
09N	Retirement income amount incorrect
10N	Rent/Royalty income amount incorrect
11N	Conduit income amount incorrect
12N	Agricultural Subsidy income amount incorrect

**Exhibit 4.19.3-11 (Cont. 4) (09-21-2020)****Notice Review Error Codes**

<b>Code</b>	<b>Error</b>
13N	CCC Loan income amount incorrect
14N	Patronage Dividend income amount incorrect
15N	Crop Insurance amount incorrect
16N	Unemployment Compensation amount incorrect
17N	SS/RR income amount incorrect
18N	Other Income amount incorrect
19N	Gambling income amount incorrect
20N	Cancellation of Debt amount incorrect
21N	Taxable Grants amount incorrect
22N	Substitute Payment in Lieu of Dividends amount incorrect
23N	Security Sales income amount incorrect
24N	Barter income amount incorrect
25N	Real Estate amount incorrect
26N	Refund of Overpaid Mortgage interest amount incorrect
27N	Qualified Tuition Program income amount incorrect
28N	Archer Medical Savings Account / Health Savings Account income amount incorrect
29N	Long-Term Care Benefits income amount incorrect
30N	IRA, SEP or Simple Deduction amount incorrect
31N	Archer Medical Savings deduction amount incorrect
32N	Early Withdrawal Penalty Deduction amount incorrect
33N	Student Loan Interest Deduction amount incorrect
34cN	QBID
35N	Mortgage Interest Deduction amount incorrect
36N	Schedule A Deduction amount incorrect
38N	Taxable income per return incorrect
39N	Tax per return amount incorrect
39aN	Schedule D window incorrect
51N	CP 2000 generated erroneously - should have been CP 2501
53N	Information Return omitted or incorrect information return selected
54N	Incorrect paragraph selected or paragraph omitted
55N	Schedule A incorrect

**Exhibit 4.19.3-11 (Cont. 5) (09-21-2020)****Notice Review Error Codes**

<b>Code</b>	<b>Error</b>
55aN	Medical amount incorrect
55bN	Contribution amount incorrect
55cN	Casualty and Theft amount incorrect
55dN	Miscellaneous amount incorrect
56N	Return amount on Summary screen incorrect

**Exhibit 4.19.3-12 (03-17-2023)****Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 1040	U.S. Individual Income Tax Return
Form 1040-SR	U.S. Income Tax Return for Seniors
Form 1040-X	Amended U.S. Individual Income Tax Return
Form 1041	U.S. Income Tax Return for Estates and Trusts
Form 1041-QFT	U.S. Income Tax Return for Funeral Trusts
Form 433-D	Installment Agreement
Form 461	Limitation on Business Losses
Form 843	Claim For Refund and Request for Abatement
Form 872	Consent to Extend the Time to Assess Tax
Form 911	Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order)
Form 966	Corporate Dissolution or Liquidation
Form 982	Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjust- ment)
Form 1045	Application for Tentative Refund
Form 1065	U.S. Return of Partnership Income
Form 1098	Mortgage Interest Statement
Form 1099-A	Acquisition or Abandonment of Secured Property
Form 1099-B	Proceeds From Broker and Barter Exchange Transactions
Form 1099-C	Cancellation of Debt
Form 1099-DIV	Dividends and Distributions
Form 1098-E	Student Loan Interest Statement
Form 1099-G	Certain Government Payments
Form 1099-INT	Interest Income
Form 1099-K	Payment Card and Third-Party Network Transac- tions
Form 1099-LTC	Long-Term Care and Accelerated Death Benefits
Form 1099-MISC	Miscellaneous Income
Form 1099-NEC	Non-Employee Compensation
Form 1099-OID	Original Issue Discount

**Exhibit 4.19.3-12 (Cont. 1) (03-17-2023)**  
**Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 1099-PATR	Taxable Distributions Received From Cooperatives
Form 1099-Q	Payments From Qualified Education Programs (Under Section 529 and 530)
Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
Form 1099-S	Proceeds From Real Estate Transactions
Form 1099-SA	Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
Form 1098 - T	Tuition Statement
Form 1116	Foreign Tax Credit
Form 1128	Application to Adopt, Change, or Retain a Tax Year
Form 1310	Statement of Person Claiming Refund Due a Deceased Taxpayer
Form 2106	Employee Business Expenses
Form 2275	Records Request, Charge and Recharge
Form 2441	Child and Dependent Care Expenses
Form 2555	Foreign Earned Income
Form 2848	Power of Attorney and Declaration of Representa- tive
Form 2859	Request for Quick or Prompt Assessment
Form 3115	Application for Change in Accounting Method
Form 3210	Document Transmittal
Form 3244	Payment Posting Voucher
Form 3552	Prompt Assessment Billing Assembly
Form 3800	General Business Credit
Form 3903	Moving Expenses
Form 3999	Statute Expiration Report
Form 4029	Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
Form 4137	Social Security and Medicare Tax on Unreported Tip Income
Form 4251	Return Charge-Out

**Exhibit 4.19.3-12 (Cont. 2) (03-17-2023)****Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 4361	Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners
Form 4442	Inquiry Referral
Form 4562	Depreciation and Amortization
Form 4563	Exclusion of Income for Bona Fide Residents of American Samoa
Form 4684	Casualties and Thefts
Form 4797	Sales of Business Property
Form 4835	Farm Rental Income and Expenses
Form 4952	Investment Interest Expense Deduction
Form 4972	Tax on Lump-Sum Distributions
Form 5147	IDRS Transaction Record (Electronic Only)
Form 5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
Form 5344	Examination Closing Record
Form 5346	Examination Information Report
Form 5405	Repayment of the First-Time Homebuyer Credit
Form 5498	IRA Contribution Information
Form 5564	Notice of Deficiency - Waiver
Form 5695	Residential Energy Credit
Form 6198	At-Risk Limitations
Form 6251	Alternative Minimum Tax - Individuals
Form 6252	Installment Sale Income
Form 6781	Gains and Losses from Section 1256 Contracts and Straddles
Form 7202	Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals
Form 8082	Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)
Form 8275	Disclosure Statement
Form 8396	Mortgage Interest Credit
Form 8453	U.S. Individual Income Tax Transmittal for an IRS e-file Return



**Exhibit 4.19.3-12 (Cont. 3) (03-17-2023)****Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 8582	Passive Activity Loss Limitations
Form 8606	Nondeductible IRAs
Form 8615	Tax for Certain Children Who Have Unearned Income
Form 8626	Agreement to Rescind Notice of Deficiency
Form 8796	Request for Return/Information (Federal/State Tax Exchange Program)
Form 8801	Credit For Prior Year Minimum Tax-Individuals, Estates, and Trusts
Form 8805	Foreign Partner's Information Statement of Section 1446 Withholding Tax
Form 8814	Parents' Election To Report Child's Interest and Dividends
Form 8815	Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989
Form 8821	Tax Information Authorization
Form 8822	Change of Address
Form 8824	Like-Kind Exchanges
Form 8829	Expenses for Business Use of Your Home
Form 8839	Qualified Adoption Expenses
Form 8853	Archer MSAs and Long-Term Care Insurance Contracts
Form 8857	Request for Innocent Spouse Relief
Form 8862	Information to Claim Certain Credits After Disallowance
Form 8863	Education Credits (American Opportunity and Lifetime Learning Credits)
Form 8880	Credit for Qualified Retirement Savings Contributions
Form 8889	Health Savings Accounts
Form 8903	Domestic Production Activities Deduction
Form 8915A	Qualified 2016 Disaster Retirement Plan Distributions and Repayments
Form 8915B	Qualified 2017 Disaster Retirement Plan Distributions and Repayments

**Exhibit 4.19.3-12 (Cont. 4) (03-17-2023)****Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 8919	Uncollected Social Security and Medicare Tax on Wages
Form 8949	Sales and Other Dispositions of Capital Assets
Form 8958	Allocation of Tax Amounts Between Certain Individuals in Community Property States
Form 8959	Additional Medicare Tax
Form 8960	Net Investment Income Tax - Individuals, Estates, and Trusts
Form 8962	Premium Tax Credit
Form 9355	Barred Statute Report
Form 9409	IRS/SSA Wage Worksheet
Form 9452	Filing Assistance Program (Do you have to file a Federal Income Tax Return?)
Form 9465	Installment Agreement Request
Form 9856	Attachment Alert
Form 8995	Qualified Business Income Deduction Simplified Computation
Form 8995-A	Qualified Business Income Deduction
Form 12175	Third-Party Contact Report Form
Form 12203	Request for Appeals Review
Form 12249	Adjustment Document (Electronic Only)
Form 12412	Operations Assistance Request (OAR) (Electronic Only)
Form 13549	Campus Fraud Lead Sheet
Form 13794	Request for Release or Partial Release of Notice of Federal Tax Lien
Form 14027-B	Identity Theft Case Referral
Form 14039	Identity Theft Affidavit
Form 14103	Identity Theft Assistance Request (ITAR)
Form 14157	Complaint: Tax Return Preparer
Form 14157-A	Tax Return Preparer Fraud and Misconduct Affidavit
Form 14219	Return of Documentation to the Taxpayer
Form 14394	Identity Theft Collection Alert

**Exhibit 4.19.3-12 (Cont. 5) (03-17-2023)**  
**Titles of Forms and Schedules**

<b>Forms</b>	<b>Title</b>
Form 1120	U.S. Corporation Income Tax Return
Form 1120-S	U.S. Income Tax Return for an S Corporation
Form 2555-EZ	Foreign Earned Income Exclusion (TY 2018 and prior)
Form 5498-ESA	Coverdell ESA Contribution Information
Form 5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
Form 8275-A	Regulation Disclosure Statement
Form 8288-A	Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests
Form 872-A	Special Consent to Extend the Time to Assess Tax
Form SS-4	Application for Employer Identification Number
Form SS-8	Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding
Form W-2C	Statement of Corrected Income and Tax Amounts
Form 1042-S	Foreign Person's U.S. Source Income Subject to Withholding
Form W-2 G	Certain Gambling Winnings
Form W-2	Wage and Tax Statement
Form W-4	Employee's Withholding Allowance Certificate

<b>Schedule</b>	<b>Title</b>
Schedule 1	Additional Income and Adjustments to Income
Schedule 2	Additional Taxes
Schedule 3	Additional Credits and Payments
Schedule 8812	Child Tax Credit
Schedule A	Itemized Deductions
Schedule B	Interest and Ordinary Dividends
Schedule C	Profit or Loss From Business (Sole Proprietorship)
Schedule D	Capital Gains and Losses
Schedule E	Supplemental Income and Loss
Schedule EIC	Earned Income Credit

**Exhibit 4.19.3-12 (Cont. 6) (03-17-2023)****Titles of Forms and Schedules**

<b>Schedule</b>	<b>Title</b>
Schedule F	Profit or Loss From Farming
Schedule H	Household Employment Taxes
Schedule J	Income Averaging For Farmers and Fishermen
Schedule K-1 (Form 1041)	Beneficiary's Share of Income, Deductions, Credits, etc.
Schedule K-1 (Form 1120S)	Shareholder's Share of Income, Deductions, Credits, etc.
Schedule K-1 (Form 1065)	Partner's Share of Income, Deductions, Credits, etc.
Schedule R	Credit for the Elderly or the Disabled
Schedule SE	Self-Employment Tax

**Exhibit 4.19.3-13 (10-07-2019)****AUR Reconsideration Issue Codes - TY 2015 and Prior**

<b>Recon Issue Code</b>	<b>Text</b>	<b>PC/IPC Compatibility</b>
1	Accuracy Related Penalty abatement	9P
2	Accuracy Related penalty abatement denied	9N
3	Copy of CP 2000	9I
4	Corrected document	9F, 9P
5	DBTCN	9P
6	Duplicate response	9I
7	Filing status change	9P
8	Gambling losses on Schedule A	9F, 9P
9	RESERVED	9F, 9P
10	Income belongs to someone else	9F, 9P
11	Incorrect AUR processing	9P
12	Information requested from taxpayer	9I
13	Information sent to taxpayer	9I
14	Interest abatement	9P
15	Interest abatement denied	9N
16	MORT verified	9F, 9P
17	NEC included in partnership	9F, 9P
18	O/C W/H verified	9F, 9P
19	U/C W/H verified	9F
20	Refile signature document	9I
21	Refund allowed- W/H verified	9F, 9P
22	Release Freeze codes	9N
23	Retirement	9P
24	Schedule C Expenses	9F, 9P
25	Schedule D cost basis	9P
26	Schedule D losses	9F, 9P
27	Subsequent payment	9I
28	Other	9F, 9I, 9N, 9P
29	Copy of CP 2000	9F, 9I, 9P

**Exhibit 4.19.3-13 (Cont. 1) (10-07-2019)****AUR Reconsideration Issue Codes - TY 2015 and Prior**

<b>Recon Issue Code</b>	<b>Text</b>	<b>PC/IPC Compatibility</b>
30	Interest/Penalty abatement denied	9N

**Exhibit 4.19.3-14 (07-21-2015)****Notice Delay Actions (Reconsiderations)**

<b>Current IDRS Status</b>	<b>Description</b>	<b>Cycles to Next Status</b>	<b>Next Status</b>	<b>STAUP Required to Stop Next Notices</b>	<b>Remarks</b>
12	Full paid or Credit	None	N/A	N/A	There may be accruals Check CC INTST
19	Balance Due before Due Date - MF Notice issued	Later of: Return Due Date or 5 Cycles	20	STAUP20	1st IDRS notice will issue the later of 5 Cycles after MF Notice or Return Due Date
20	First IDRS Notice - 501	5	56	STAUP56	No remarks
21	Balance Due - MF Notice issued	5	20(IMF) 58(BMF)	STAUP 20 STAUP 58	This status for MF notices after return due date
22	TDA Issued (ACS)	Various	24 or 26	N/A	Input TC 470.
23	Balance Below \$1,000 tolerance (BMF); \$1,500 (IMF)	None	N/A	N/A	MF Notice issued yearly Aggregate Balance below \$1,000 (BMF); \$1,500 (IMF)
24	TDA (Queue)	Various	26	N/A	Input TC 470.
26	TDA (CFF)	None	N/A	N/A	Input TC 470.
41/42 43/44	Stay of Collection	Various	22	N/A	No remarks
47	Temp Collection Freeze - TC 470	26 or Manual Release	Various	N/A	Review - Reinput TC 470 if required
48	Temp Notice Freeze - CCSTAUP	# Input (1-15)	As Requested	Various	Review - Update if required
50	Causes module to be accelerated to requested notice/TDA status	# Input (0)	Various	N/A	No remarks



**Exhibit 4.19.3-14 (Cont. 1) (07-21-2015)**  
**Notice Delay Actions (Reconsiderations)**

<b>Current IDRS Status</b>	<b>Description</b>	<b>Cycles to Next Status</b>	<b>Next Status</b>	<b>STAUP Required to Stop Next Notices</b>	<b>Remarks</b>
51	Undeliverable Notices	1	22	N/A	No remarks
53	Temp Collect. Frz TC 470 - cc 90/93	26 or Manual Release (ST58)	20	N/A	Review - Reinput TC 470 if required
53	TC 530 Account Uncollectable	Various	22	N/A	No remarks
56	Third IDRS Notice - 503	5	58	STAUP58	No remarks
58	Fourth IDRS Notice 504	6	22 or 23 or 26	STAUP22	No remarks
60/61 63/64	Installment Agreement	Various	Various	Collection Branch	Collection Branch
71	Offer in Com- promise	Various	Various	Collection Branch	Collection Branch
72	Bankruptcy or other litigation	Various	Various	Collection Branch	Collection Branch
73	Coll/Offset Frz TC470 - CC99	Manual Release	58	N/A	Freeze does not expire
76	Immediate TDA Pending	1	22	STAUP22	504 Notice & TDA next cycle
77	Accelerated TDA	3-8	58	STAUP58	504 is only IDRS notice
91	Criminal Investi- gation	Various	22	CI Branch	CI Branch
99	Out of service Center location	Various	Various	N/A	Review-input TC 470 if required

**Exhibit 4.19.3-15 (09-01-2012)**  
**Cycle Chart (Reconsiderations)**

<b>Action</b>	<b>Cycles</b>
Closing case with a letter and a balance due will remain on the account	3-5
Closing case and action will resolve balance due	3
Routing correspondence or 1040-X to another area and issuing a Letter 86C	9-15
Ordering documents from files	15
Sending correspondence for additional information	9-15

**Exhibit 4.19.3-16 (09-21-2020)****Identity Theft Action Codes**

<b>Action Code</b>	<b>Description</b>
<b>501</b>	Indicates identity theft case closure - Taxpayer initiated.
<b>504</b>	Indicates documented identity theft that may not be applicable to AUR/U/R income.
<b>505</b>	Indicates IRS data loss incidents
<b>506</b>	Indicates IRS determined identity theft.
<b>522</b>	Provides the status of an in-process identity theft case.
<b>523</b>	Reserved
<b>524</b>	Indicates the taxpayer is deceased and the account has been locked to prevent any tax return from posting. AC 524 may not be currently associated with IDT.
<b>525</b>	This indicator is systemically applied and indicates employment related identity theft.

**Exhibit 4.19.3-17 (11-23-2022)****Identity Theft -Tax Administration Source Terms and Descriptions**

To facilitate effective identity theft case tracking and reporting, the Identity Protection office developed new Administration Source Fields used in certain circumstances, dependent upon the facts and circumstances of the case. The following table provides the Source Codes, their descriptions needed for IDRS input of TC 971 AC 522.

<b>Term/Acronym</b>	<b>Description</b>
DDB	Used by RICS Pre-Refund for cases selected by DDB filter and identified as an Identity Theft return.
DECD	Deceased taxpayer.
EC027	Primary Taxpayer under 14 years old.
EMPL and EMPL-M	Non-tax-related issues: Victim's SSN Used for Employment and/or Unemployment Insurance.
INCUML	Both INCOME and MULTFL apply.
INCOME	Income reported under taxpayer's SSN without their consent or knowledge.
IRSADM	Cases involving Economic Impact Payment (EIP).
IRSERR	Indicator reversed that was erroneously placed on the account.
IRSID	During the normal course of business, the IRS suspects identity theft occurred, and the case is not yet resolved.
MULTFL	Two or more returns filed for the same tax period under the same SSN.
NKI and NKI-M	Non-tax-related issues: No known impact has been identified by the taxpayer.
NODCRQ	Prior to 2015, NODCRQ was applied when the taxpayer claimed identity theft and there was a posted TC 971 AC 501/ 506. Beginning in 2015, used in conjunction with BOD PPDS and Program OPIP (TC 971 AC 522 PPDS OPIP NODCRQ) to identify and track on-line accounts and EPSS accounts disabled due to identity theft.
NOFR	Victim is not required to file a tax return.
OMBG	Return is valid.
OTHER	Identity theft which cannot be identified as related to any existing Tax Administration Source types.
OTHER1	Used by RICS to identify an SSN where there is at least one good return filed with a valid address.
OTHER2	Taxpayers who chose to opt in to receive an IP PIN.

**Exhibit 4.19.3-17 (Cont. 1) (11-23-2022)****Identity Theft -Tax Administration Source Terms and Descriptions**

<b>Term/Acronym</b>	<b>Description</b>
PNDCLM	The taxpayer made an allegation of identity theft by telephone, has filed a return with a claim attached or sent a reply to a Compliance function alleging identity theft without a Form 14039 or police report/law enforcement incident report.
PRISNR	Incarcerated Taxpayer.
RFND	Identity theft identified by the filing of a false return in order to obtain a refund.
UNWORK	The taxpayer made an allegation of identity theft and provided the required Form 14039 or police report/law enforcement incident report, and the case was forwarded to IDTVA for determination.
UPC147	Input on the identified IRSN corresponding to the non-legitimate unpostable return with UPC147 RC 1 as identified and determined by SP.
UPCMUL	Input on true SSN owner's account when a non-legitimate unpostable return with UPC147 RC 1 has been filed using the taxpayer's SSN as identified and determined by SP.

**Exhibit 4.19.3-18 (09-21-2020)****Mandated IAT Tools**

<b>Action</b>	<b>IAT Tool</b>
AUR Reconsiderations	xMend REQ54 REQ77 Address Letters eClerical Credit transfer Fill Forms Manual Refund Stop Refund (CC NOREF)
Issue a Letter (unable to generate through AUR system)	Letters tool
Make adjustment to taxpayer account (unable to complete through AUR system)	REQ54 tool
When TC 971, 972, 470, 500, or 560 is needed	REQ77 tool
Researching specific payments or a range of payments	TC Search
Ordering a return/document (unable to order through AUR system)	eClerical tool
Move payments	Credit Transfer tool
Move credits to excess collections Send a document to files (Form 9856)	Fill Forms tool
Manual Refund	Manual Refund

**Exhibit 4.19.3-19 (10-06-2022)****Additional IAT Tools Available (Use Not Mandated)**

- Clerical Recon tool
- Screening tool
- Managers tool
- Quick CC tool
- ACTON
- CSI tool
- Prints tool



**Exhibit 4.19.3-20 (12-14-2020)****Examples of Self-Employment Professions**

This list is NOT all inclusive.

**A**

Accountant

Actor/Actress

Administrator

Agent

Airplane Pilot

Analyst

Appraiser

Architect

Art Worker

Artist

Athlete

Auctioneer

Automatic Data Processing Equipment Operator

**B**

Babysitter

Baggage Porter

Bailiff

Baker

Bank Teller

Barber

Bartender

Baseball player

Bellhop

Billing Clerk

Bookbinder

Bowler

Brick Mason

**Exhibit 4.19.3-20 (Cont. 1) (12-14-2020)**  
**Examples of Self-Employment Professions**

Brick Setter

Broker

Building Contractor

Bus Driver

**C**

Cabinet Maker

Caddie

Cafeteria Worker

Civil Engineer

Cleaner

Clerk (any kind)

Commercial Artist

Commissions

Computer Operator

Computer Specialist

Conductor

Construction Worker

Consultant

Cook

Cutter

**D**

Dancer

Data Processing Operator

Decorator

Designer

Dental Assistant

Detective

Dentist

Director's Fees

Disc Jockey

**Exhibit 4.19.3-20 (Cont. 2) (12-14-2020)**  
**Examples of Self-Employment Professions**

Domestic Cook

Draftsperson

Dressmaker

Driver

**E**

Economist

Electrician

Elevator Operator

Engineer (any kind)

Engraver

Entertainer

**F**

Farm Worker

Farmer

Firefighter

Football Player

Fortune Teller

Freelance Writer

Funeral Director

**G**

Garbage Collector

Gardener

Gas Station Worker

Geologist

Golfer

Guard

Guide

**H**

Hairdresser

Host/Hostess

## Exhibit 4.19.3-20 (Cont. 3) (12-14-2020) Examples of Self-Employment Professions

Hotel Worker

Housekeeper

### I

Inspector

Instructor

Interpreter

Investigator

### J

Janitor

Jockey

Judge

### K

Key punch Operator

### L

Laborer

Launderer

Lawn Care

Lawyer

Lay Midwife

Librarian

Library Assistant

Longshore Worker

### M

Mail Carrier

Mail Clerk

Mechanic

Messenger

Metal Worker

Miner

Model

**Exhibit 4.19.3-20 (Cont. 4) (12-14-2020)**  
**Examples of Self-Employment Professions**

Motion Picture Worker

Mover

Musician

**N**

Navigator

Newspaper Carrier (18+ years old)

Nurse

Nursemaid

Nursery Worker

**O**

Official (sports)

Optical Worker

Optician

Optometrist

**P**

Painter

Palmist

Parking Lot Attendant

Pharmacist

Photographer

Pilot

Plumber

Police Officer

Pollster

Porter

Printer

Proofreader

Protective Agency

Publisher

**Exhibit 4.19.3-20 (Cont. 5) (12-14-2020)**  
**Examples of Self-Employment Professions****R**

Radio DJ

Railroad Conductor

Railroad Worker

Real Estate Worker

Receptionist

Recreation Worker

Registered Nurse

Repair Person (any kind)

Reporter

Retail Trader

Roofer

**S**

Sales Clerk

Scientist (any kind)

Sculptor

Seamstress/ Seamster

Secretary

Singer

Sheriff

Social Worker

Statistical Clerk

Statistician

Stenographer

Steward

Stock Clerk

Surgeon

Surgical Worker

Surveyor

**Exhibit 4.19.3-20 (Cont. 6) (12-14-2020)**  
**Examples of Self-Employment Professions****T**

Tailor  
Taxicab driver  
Teacher (any kind)  
Teamster  
Telegraph Operator  
Telephone Operator  
Telephone Repairperson  
Telephone Worker  
Teller  
Textile Worker  
Therapist  
Timekeeper  
Trainer  
Transcriber  
Translator  
Truck Driver  
Tutor  
Typist

**U**

Upholsterer  
Usher

**V**

Veterinarian

**W**

Waiter  
Waitress  
Washer  
Watchperson  
Welder



**Exhibit 4.19.3-20 (Cont. 7) (12-14-2020)**  
**Examples of Self-Employment Professions**

Wholesale Trader

Window Washer

Writer

**Y**

Yardperson

**INCOME THAT IS NOT SELF-EMPLOYMENT** (This list is not all-inclusive.)**INCOME TYPES**

Alimony

Award

Bingo

Child support

ESOP

Fellowship

Gambling

Grant

Jury Duty

Newspaper Route (Under age 18)

Prize

Rebate

Scholarship

Wages from Parent

Wages from Spouse

