



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION

January 13, 2012

SBSE Control #: SBSE-04-0112-004
Expiration: June 30, 2012
Impacted IRM: IRM 4.1.5

MEMORANDUM FOR EXAMINATION AREA DIRECTORS

FROM: Shenita L. Hicks /s/ *Shenita L. Hicks*
Director, Examination

SUBJECT: Interim Guidance - Quality Reviews for Classification of DIF Returns

The purpose of this memorandum is to re-issue expired Interim Guidance Memorandum SBSE-04-1210-062.

Original Memorandum SBSE-04-1210-062:

The purpose of this memorandum is to provide interim guidance regarding quality reviews of the classification of DIF returns.

The Planning and Special Programs (PSP) Territory Manager or a designated manager will supervise the classification of DIF returns. This manager will conduct reviews of the performance of each classifier. For Area classification details, if the reviewing manager is other than the PSP Territory Manager or PSP Classification Section manager, the PSP Territory Manager will be responsible for manager orientation on classification objectives, instructions to classifiers, quality review procedures and the documentation requirements. The PSP Territory Manager will retain overall responsibility for the quality of the returns selected which includes the work performed by other managers. Quality review of classification should take place regardless of whether classification is done at the Campus, the Area Office, or online.

A 10% sample of each classifier's returns is recommended for review. The review sample can be expanded or contracted as needed. One reason to contract the sample would be that all returns have the same issue.

Through classification reviews, the manager will determine whether:

- Returns are selected for examination or accepted as filed in accordance with established procedures.

- Accepted returns have little or no examination potential.
- Classification check sheets are properly completed by including all Large, Unusual or Questionable (LUQ) issues.
- Returns are properly selected for Office versus Field Examination.
- The potential tax change is sufficient to warrant selection especially on returns with a negative taxable income.
- Classifiers are maintaining a high level of technical proficiency, exercising good judgment in accepting and selecting returns, and effectively utilizing their time.
- Classifiers need additional training.

Form 5126, Classification Quality Review Record, will be used to document:

- The number of returns reviewed;
- The quality of the classification; and,
- The discussion with the classifier.

A copy of Form 5126 will be forwarded to the classifier's group manager following the classification detail. Originals of this form should be retained for two years by the PSP Territory Manager.

Continuing with our efforts to ensure quality, I am asking that Examination Area Directors include a review of the quality of the DIF classification process in their Operational Review of PSP.

Interim Guidance Memorandum SBSE-04-0112 -004 will be incorporated into IRM 4.1.5 by June 30, 2012.

If you have any additional questions, you or a member of your management staff, may contact Alfredo Valdespino, Program Manager, Workload Planning and Analysis.

cc: www.irs.gov