IRM PROCEDURAL UPDATE

DATE: 03/07/2019

NUMBER: sbse-04-0319-0296

SUBJECT: Post Publication Revision to IRM 4.19.3, IMF Automated Underreporter Program

AFFECTED IRM(s)/SUBSECTION(s): 4.19.3

CHANGE(s):

IRM 4.19.3.4.1(4) - revised to provide example of when a case note should be left

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 TP.

IRM 4.19.3.11.1(1) c - added additional information to cover required window entries on Qualified Contributions

1. When there are changes to AGI, the system computes the change to Medical and Dental Expenses, Casualty and Theft Losses, and/or Miscellaneous Expenses as applicable. Input/verify the appropriate 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. The following input fields require entering the amounts from:
NOTE: If the TP chose to itemize deductions even though the amount was less than the standard deduction, input “Y” in the FS 3 ITEMIZED/DUAL STATUS ALIEN/IE box in the Standard Deduction window, prior to input/verification of Schedule A window fields.

a. Schedule A, line 1, gross Medical and Dental Expenses.
b. Form 4684, Casualties and Thefts, line 18, gross Casualty and Theft Loss.
c. For TY 2017, Schedule A, line 16 dotted line, Qualified Contributions. Subtract this amount from the GIFTS TO CHARITY field in the PER RETURN and RECOMPUTED columns and input in the NON-GAMBLING OTHER MISC DEDS field in both PER RETURN and RECOMPUTED columns.
d. Schedule A, line 24, gross Job and Misc Expense.

IRM 4.19.3.14.4(5) - revised to indicate disallowed during processing and to provide indicators

5. For tax years beginning with 2016, the Protecting Americans From Tax Hikes Act (PATH Act) of 2015 placed restrictions and recertification requirements for TPs who improperly claimed CTC in prior years. 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.

IRM 4.19.3.16.3(3) - revised to indicate disallowed during processing and to provide indicators

IRM 4.19.3.16.3(3) a) Note - revised to provide indicators

IRM 4.19.3.16.3(3) b) Note - deleted

IRM 4.19.3.16.3(4) - revised to indicate disallowed during processing and to provide indicators

IRM 4.19.3.16.3(12) f) - revised to indicate disallowed during processing

1. EIC enables certain eligible TPs 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.
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 TP 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 TP 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 Earned Income Credit After Disallowance.

For tax years beginning with 2016, the Protecting Americans From Tax Hikes Act (PATH Act) of 2015 placed restrictions and expanded recertification requirements for TPs who improperly claimed EIC in prior years. When EIC is disallowed during processing and 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.

For TY 2017, the Disaster Tax Relief and Airport and Airway Extension Act of 2017, as amended by the Bipartisan Budget Act of 2018, added a special rule for certain TPs affected by Hurricanes Harvey, Irma and Maria and the California wildfires. Qualified TPs whose 2017 earned income was less than their 2016 earned income could elect to use their 2016 earned income when figuring EIC. TPs are instructed to enter "PYEI" and the amount of their 2016 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.

The system computes the Schedule EIC based on the assigned Income Identify Code and certain income types.

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 TP reports unearned income as earned income follow the instructions in (15) below.

**Examples of earned income** are:
o Wages, salaries, tips and other employee compensation
o Net earnings from self-employment, even if less than $400

**NOTE:** Net losses from self-employment reduce earned income and the deductible part of SE tax reduces AGI and earned income.

o Gross income received as a statutory employee
o Strike benefits reported on Form W-2
o Disability retirement benefits (until TP reaches minimum retirement age). See (15) below.

o Gulf Oil Spill Payments (GOS or GCCF) as earned income on Schedule EIC.

8. The TP has the option of including nontaxable combat pay in their earned income when computing EIC. The TP makes this election by entering their nontaxable combat pay on

<table>
<thead>
<tr>
<th>Form</th>
<th>TY 2015</th>
<th>TY 2016</th>
<th>TY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1040</td>
<td>line 66b</td>
<td>line 66b</td>
<td>line 66b</td>
</tr>
<tr>
<td>1040A</td>
<td>line 42b</td>
<td>line 42b</td>
<td>line 42b</td>
</tr>
<tr>
<td>1040EZ</td>
<td>line 8b</td>
<td>line 8b</td>
<td>line 8b</td>
</tr>
</tbody>
</table>

If the TP elects to include nontaxable combat pay in their EIC determination, take the following action:

**CAUTION:** Ensure that the election was not disallowed during original processing. If the election was disallowed, TP 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 (15) 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.

**NOTE:** Follow the TP'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.

9. Earned income does NOT include the following:

o Interest or dividends
o Welfare benefits
o Veteran's benefits
o Pensions and annuities (except certain disability pensions received before minimum retirement age and reported on line 7 of Form 1040, Form 1040A, or line 1 of Form 1040EZ)
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 TPs are earned income, even if they are exempt from Social Security (FICA) taxes.

- Alimony
- Child support
- Income excluded per Notice 2014 - 7 (may be referred to as Medicare waiver or difficulty of care payments or IHSS)

10. To qualify for EIC the TP must be other than FS 3 and have earned income and AGI totaling less than:

<table>
<thead>
<tr>
<th>Number of qualifying children</th>
<th>TY 2015</th>
<th>TY 2016</th>
<th>TY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$39,131 ($44,651 if married filing jointly)</td>
<td>$39,296 ($44,846 if married filing jointly)</td>
<td>$39,617 ($45,207 if married filing jointly)</td>
</tr>
<tr>
<td>2</td>
<td>$44,454 ($49,974 if married filing jointly)</td>
<td>$44,648 ($50,198 if married filing jointly)</td>
<td>$45,007 ($50,597 if married filing jointly)</td>
</tr>
<tr>
<td>3 or more</td>
<td>$47,747 ($53,267 if married filing jointly)</td>
<td>$47,955 ($53,505 if married filing jointly)</td>
<td>$48,340 ($53,930 if married filing jointly)</td>
</tr>
<tr>
<td>0</td>
<td>$14,820 ($20,330 if married filing jointly)</td>
<td>$14,880 ($20,430 if married filing jointly)</td>
<td>$15,010 ($20,600 if married filing jointly)</td>
</tr>
</tbody>
</table>

For TPs 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
- Not entitled to be claimed as a dependent on parent's or someone else's return
- Be a resident of the US for more than one-half of the tax year

If the TP was allowed EIC during processing and the system displays a message that EIC was disallowed due to the TP's age, use IDRS CC INOLES
to verify the age. Update the AGE field in the Case Analysis screen if necessary.

**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.

11. When Schedule EIC is not attached to the original return (EIC was allowed based on the filing of Schedule EIC with the Form 1040X), 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).

12. If TP did not claim EIC on the original return and any of the following conditions exist, enter a "Y" in the TP NOT QUALIFIED field.

   a. The TP's principal home is outside the United States, unless on extended active duty in the U.S. military.
   b. The TP does not have a full 12-month tax year (unless the TP died during the year).
   c. The TP excludes or deducts amounts earned in a foreign country (Form 2555 or Form 2555-EZ is filed).
   d. The TP filed Form 4563, Exclusion of Income from Bona Fide Residents of American Samoa.
   e. There is an indication the TP 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.
   f. EIC was disallowed during processing due to the Revenue Protection Strategy.

**IRM 4.19.3.16.4(5) - revised to indicate disallowed during processing and to provide indicators**

5. For tax years beginning with 2016, the Protecting Americans From Tax Hikes Act (PATH Act) of 2015 placed restrictions and recertification requirements for TPs who improperly claimed ACTC in prior years. 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.

**IRM 4.19.3.16.5(6) - revised to indicate disallowed during processing and to provide indicators**

6. For tax years beginning with 2016, the Protecting Americans From Tax Hikes Act (PATH Act) of 2015 placed restrictions and recertification requirements
for TPs who improperly claimed AOTC in prior years. When the AOTC recertification indicator (AOTC-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 an ACTC calculation in this situation.