

IRM PROCEDURAL UPDATE

DATE: 05/16/2025

NUMBER: sbse-04-0525-3294

SUBJECT: Employment Tax on Tip Income

AFFECTED IRM(s)/SUBSECTION(s): 4.23.7

CHANGE(s):

IRM 4.23.7.1.3 Updated title to "Roles and Responsibilities" to comply with IRM 1.11.2.2.4, *Address Management and Internal Controls*.

Roles and Responsibilities

(1) Director, Specialty Examination, is the executive responsible for the procedures and updates addressed in this IRM.

(2) Chief, Employment Tax Examination, is responsible for operational compliance related to tip filing and reporting.

IRM 4.23.7.1.4 Updated title to "Program Management and Review" to comply with IRM 1.11.2.2.4, *Address Management and Internal Controls*.

Program Management and Review

(1) **Program Goals:** The processes and procedures provided in this IRM are consistent with the objectives or goals for National Tip Reporting Compliance. The mission of NTRCP is to establish effective policies and procedures for tip income filing, payment, and reporting compliance. This is accomplished through enforcement and compliance programs such as tip examinations and tip rate reviews.

(2) **Program Effectiveness:** Adherence to quality standards and attributes are measured by Employment Tax Embedded Quality (EQ) Performance Reports. Progress toward business results is measured by Performance Planning and Analysis (PPA) Exam reports.

IRM 4.23.7.1.5 Moved subsection titled "Program Controls" to this location from IRM 4.23.7.1.7 to comply with IRM 1.11.2.2.4, *Address Management and Internal Controls*. All subsequent subsections have been renumbered.

Program Controls

(1) All information management systems have safeguard measures in place that address key components of Information Technology (IT) security requirements to restrict access to sensitive data.

(2) The Employment Tax program has established a separation of duties of users' roles.

- Policy and procedures – Employment Tax Policy is within SB/SE Specialty Exam Policy
- Tip policy and procedures – National Tip Reporting Compliance Program is within SB/SE Specialty Exam
- Tip Field Exam Case Selection – Employment Tax – Workload Selection and Delivery is within SB/SE Examination Case Selection
- Tip Underreporting Campus Exam Case Selection – National Tip Reporting Compliance Program is within SB/SE Specialty Exam
- Examination - Employment Tax Examination is within SB/SE Specialty Exam
- Quality and review - Embedded Quality is within SB/SE Field and Specialty Exam Quality

(3) The Issue Management System (IMS) is required to be used during employment tax tip cases by examiners assigned to Specialty – Employment Tax Operations.

(4) Unless instructed otherwise, examiners will use the ETLs - Employment Tax Lead Sheets developed specifically for employment tax tip cases.

(5) SB/SE ET examiners working ET Large Cases will use Large Case Lead Sheets (LCLS). LCLS are developed specifically for large case employment tax cases. Examiners working ET Large Cases will follow workpaper preparation, specific audit techniques, and case closing procedures unique to these types of audits including tip cases.

IRM 4.23.7.1.7(2) Updated the link in paragraph (2) for Employment Tax Policy contact information.

(2) Other helpful information sources include:

- SB/SE Employment Tax Small Business Knowledge Base Homepage,
- Specialist Referral System (SRS) Homepage,

- Contacts, Tools, and Training provides the program assignments and contact information for subject matter experts, ET field groups areas of assignment and contact information, examination and report writing tools, and training materials., and
- Program Manager and Analyst Contact List provides the NTRCP Program Manager and analysts' contact information and program assignment.

IRM 4.23.7.7(3) Removed the word "Policy" in front of analyst.

(3) Examiners may be assigned a case where the taxpayer is under a voluntary tip compliance agreement described in IRM 4.23.7.10, *Tip Rate Determination and Education Program (TRD/EP)*. There may be historical information contained in the case file pertaining to the type of tip agreement and any compliance activity the IRS has employed to improve compliance by the taxpayer. Compliance reviews are not tip examinations and are conducted differently than a case selected for a tip examination. If you receive a case for a compliance review, contact the NTRCP analyst for details on these procedures.

IRM 4.23.7.7.4(6) Removed sentence 1, 3, and the example since a 3121(q) Notice and Demand is not postdated.

(6) A Section 3121(q) Notice and Demand should not be issued or dated on a Saturday, Sunday, or federal holiday.

IRM 4.23.7.10.2(9) Added the new MFT "CB" to item c.

(9) Activity Codes:

- Employment tax examiners should use activity code "551" and Project Code "0985" to report time spent soliciting tip agreements with Source Code "99" and MFT "C0" (C zero).
- The Tracking Code will depend on the market segment. Contact an NTRCP analyst for the list of Tracking Codes.
- For tip agreement addendums, use Activity Code "551," Project Code "0986," and MFT "CB."
- For time spent performing compliance reviews on agreement participants, use Activity Code "551" and Project Code "1104".
- Compliance reviews are discussed later.

IRM 4.23.7.10.6.21(2) Added content to clarify the instructions provided. Added a note that provides additional resources.

IRM 4.23.7.10.6.21(5) Removed "numbers" from item a. Moved the instructions that documents in IMS should follow the naming convention and the IRM citations to item a from item b.

(2) The examiner is responsible for verifying that all required workpapers are uploaded into IMS before closing the case to the group manager. The examiner must number and upload a pdf of the countersigned tip agreement to the IMS case file. To assist with confirming all documents have been successfully uploaded, the examiner must prepare the IMS Closing Check Sheet for ET Tip Rate Review Cases and upload it to IMS for the manager to review and sign.

Note: IMS Closing Check Sheets are available in the Electronic Case Files Initiative (ECFI) (SharePoint.com) book under Chapter 1 IMS Closing Check Sheet. ET examiners will complete the check sheet that corresponds to the type of case they are working (ET General Cases, ET Large Cases, and ET Tip Rate Review Cases).

(3) Issue specific workpapers will be uploaded in IMS to the specific issue Standard Audit Index Number (SAIN). The SAIN for a tip rate review is ET985 with a Uniform Issue List (UIL) of 06053.00-00. The examiner **must not** use ET080-Administrative Procedures SAIN.

(4) Tip Review ETLS must be contemporaneously uploaded to IMS in Excel format. Lead sheets included in the ETLS must not be printed and indexed separately. Form 4318, *Examination Workpaper Index*, must serve as the index for the case file workpapers in IMS.

(5) The examiner will perform the following procedures to close the case:

- a. Verifies and uploads all required documents/workpapers to IMS following the naming conventions per IRM 4.23.4.5.5.3, *Mandatory Standard Naming Convention for ET Tip Agreement Program* and IRM Exhibit 4.23.4-4, *Mandatory Items and Standard Naming Convention Location for ET Tip Agreement Program*.
- b. Updates Form 9984 and Routing Sheet (Form 14179, 14180, or 14181) with date the case file was closed off IMS. Prints ALL activity records to pdf and uploads to IMS following the naming conventions.
- c. Updates IMS closed date.
- d. Notifies group manager via encrypted email with Subject Line "Rate Review case ready for closure" that all documents are uploaded to IMS and the tip review case file is ready for closure and requests the status of case to be updated from Status 12 to Status 90.
- e. Receives email from group manager that verifies the case is in Status 90 and notifies examiner to close the case off IMS.

- f. Closes case off IMS.

IRM 4.23.7.10.6.22 "Printed Case File Assembly" subsection was removed and all subsequent subsections have been renumbered.