IRM PROCEDURAL UPDATE

DATE: 06/07/2019

NUMBER: sbse-04-0619-0736

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

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

CHANGE(s):

IRM 4.19.3.9.2(8) - added new note to toggle off Paragraph 135 and send special paragraph

8. HSA deductions on Form 1040, line 25 must be substantiated. Substantiation is a 5498S IR with a HSA amount (SACON, SACC and/or SAFC) or an attachment to the tax return (for example, Form 5498-SA or a bank statement).

NOTE: The TP cannot deduct employer contributions to an HSA, which are reflected as a "W" coded amount in box 12 of Form W-2.

   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. PARAGRAPH 135 automatically generates when the HSA amount is reduced/disallowed because the amount of HSA does not match the amount claimed by the TP or due to no substantiation. See IRM 4.19.3-7, CP PARAGRAPHS.

   NOTE: Toggle off PARAGRAPH 135 when the taxpayer deducted employer contributions to HSA ("W" coded amount in box 12 of Form W-2) and send a Special Paragraph to inform taxpayer the deduction cannot be claimed.

IRM 4.19.3.9.8(8) - deleted and renumbered remainder of subsection

1. TPs 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.

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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:
   a. Form 1040, line 34 or
   b. Form 1040A, line 19.

5. TPs can claim Tuition and Fees deduction if they meet the following conditions:
   a. They paid qualified tuition and fees for themselves, their spouses or dependents.
   b. Their filing status is any status except Married Filing Separately (FS 3 or 6).
   c. They cannot be claimed as a dependent on someone else's tax return.
   d. They are not claiming Education Credits for the same student. See (15) below.

6. The amount of Tuition and Fees the TP 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:

<table>
<thead>
<tr>
<th>Filing status</th>
<th>TY 2015</th>
<th>TY 2016</th>
<th>TY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1, 4, or 5</td>
<td>$65,000 - $80,000</td>
<td>$65,000 - $80,000</td>
<td>$65,000 - $80,000</td>
</tr>
<tr>
<td>2</td>
<td>$130,000 - $160,000</td>
<td>$130,000 - $160,000</td>
<td>$130,000 - $160,000</td>
</tr>
<tr>
<td>3 or 6</td>
<td>TP cannot claim a Tuition and Fees deduction</td>
<td>TP cannot claim a Tuition and Fees deduction</td>
<td>TP cannot claim a Tuition and Fees deduction</td>
</tr>
</tbody>
</table>

7. If, due to U/R income, the TP'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. Send PARAGRAPH 110. See IRM 4.19.3-7, CP PARAGRAPHS.

8. If the Tuition and Fees amount claimed on Form 8917 # and there is no 1098T IR present, take the following action:
   1. Create an IR for zero (0).
   2. Enter status code "U", the AGI window displays.
   3. Input/Verify the entries in the AGI window.
   4. <F12>, the Tuition and Fees Deduction window displays.
   5. Input/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, see Exhibit 4.19.3-7, CP PARAGRAPHS.

9. If the Tuition and Fees amount claimed on Form 8917 # and the 1098T IR is less than the amount claimed on Form 8917 take the following actions:

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1. Enter status code "U", the AGI window displays.
2. Input/Verify the entries in the AGI window.
3. <F12>, the Tuition and Fees Deduction window displays.
4. Input/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, 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 TP 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 post secondary education institute) before disallowing the deduction.

1. Create an IR for zero (0).
2. Enter status code "U", the AGI window displays.
3. Input/verify the entries in the AGI window.
4. <F12>, the Tuition and Fees Deduction window displays.
5. Input/verify the entries in the Tuition and Fees Deduction window.
6. <F12>.
7. Send a Special Paragraph using the following verbiage as an example: "The Tuition and Fees deduction 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 Tuition and Fees deduction claimed for your dependent."

11. If the Tuition and Fees claimed on the Form 8917 #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.

12. If the Tuition and Fees claimed on the Form 8917 #and NO 1098T is present take the following actions:

Any line marked with a # is for Official Use Only
1. Create an IR for #

2. Enter status code "U", the AGI window displays.
3. Input/Verify the entries in the AGI window.
4. <F12>, the Tuition and Fees Deduction window displays.
5. Input/Verify the entries in the Tuition and Fees Deduction window.
6. <F12>.

13. If the Tuition and Fees claimed on the Form 8917 # and the 1098T IR is less than the amount claimed on Form 8917 take the following actions:
   1. Enter status code "U", the AGI window displays.
   2. Input/Verify the entries in the AGI window.
   3. <F12>, the Tuition and Fees Deduction window displays.
   4. Input/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 TP has attached an explanation of the additional expenses.

14. If the TP 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 IRM 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 111. See IRM 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(3), Case Analysis Screen, for the proper window sequence.

IRM 4.19.3.14.5(5) - removed first box of If/Then table

5. Form 8863 is used to determine education credits:
   a. Form 8863, Part I is used to determine refundable portion of the American Opportunity Credit.
   b. 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.

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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 TP can elect for any tax year only one of the credits or a deduction for Tuition and Fees. The TP 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 TP erroneously claims both the American Opportunity Credit and the Lifetime Learning Credit for the same student, allow the greater of the two qualifying expenses.

<table>
<thead>
<tr>
<th>If</th>
<th>Then</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on the TP's entries, Form 8863, Part III, lines 23 - 26 are not completed appropriately</td>
<td>1. Disallow their portion of the credit.</td>
</tr>
<tr>
<td></td>
<td>2. Send PARAGRAPH 128, see Exhibit 4.19.3-7, CP Paragraphs.</td>
</tr>
</tbody>
</table>

IRM 4.19.3.21.1.20(6) step 1 - changed 971 to 972

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. TC971/151-CD: Input "131".
   4. Leave remarks: For example, "AUR MFT 31 IS Adj".

Once the TC 604 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".

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IRM 4.19.3.25.6.2(1) step 5 - added new note indicating to print

1. If the TP provides acceptable verification for some of the issues or does not address all of the AUR issues
   1. If the TP provides a computation, rework and math verify all figures or rework based on the TP’s response. Refer to the appropriate tax year publications and worksheets for necessary schedules, EIC tables, tax tables, etc.

   **NOTE:**

2. Input a partial adjustment, including RC 067.
3. Print the completed IAT "xClaim" adjustment document; Form 12249, or "REQ54" adjustment document. An adjustment document (such as, Form 13056) may be used when IAT is not available.
4. Attach the TP correspondence and any worksheets/computations to the case going to files.

   **NOTE:** An original Form 1040X/Amended Return must be associated with the return and should not be altered in any way. A copy of the Form 1040X 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 he/she may send any additional information for consideration.

   **NOTE:** Print a copy of the letter to be retained in the case file.

   **EXCEPTION:** If Form 1040X 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.