



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, DC 20224

SMALL BUSINESS / SELF-EMPLOYED DIVISION

December 15, 2023

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Expiration: December 15, 2025
Affected IRM: IRM 4.12.1

MEMORANDUM FOR DIRECTOR, SB/SE FIELD EXAMINATION

FROM: Heather J. Yocum /s/ *Heather J. Yocum*
acting Director, SB/SE Examination Field and Campus Policy

SUBJECT: Interim Guidance Memorandum for Business Expenses,
Deductions and Credits on a Substitute for Return

Purpose: This memorandum issues guidance for business expenses, deductions and credits on a substitute for return (SFR) prepared under IRC 6020(b) and clarifies statutory assessment and collection periods related to an SFR. The guidance in this memorandum supersedes guidance in Interim Guidance Memorandum SBSE-04-0922-0074. Please distribute this information throughout your organization.

Background: Business expenses, tax deductions and credits allow qualified taxpayers to reduce their federal tax liability. While a taxpayer may be entitled to claim business expenses, deductions and credits on a filed return, the IRS will not allow certain business expenses, deductions and credits on an SFR prepared under IRC 6020(b).

The execution of an SFR does not start the running of an assessment statute (ASED); however, it does start the running of the collection statute (CSED).

Procedural Change: See [Attachment 1](#) for guidance specific to SB/SE Field Examination and IRM 4.12.1, Nonfiled Returns.

Effect on Other Documents and Effective Date: This guidance is effective immediately and will be incorporated into IRM 4.12.1, Nonfiled Returns, within two years of issuance.

Contact: Cathy Demetra, Program Manager, Examination Field and Campus Policy, Field Examination General Processes.

Attachment:
[Attachment 1](#) – IRM 4.12.1

Distribution: www.irs.gov

4.12.1.25.2

Substitute for Return (SFR) – Business Expenses

- (1) The IRS has no legal requirement to allow business expense deductions, including cost of goods sold, on a substitute for return (SFR) prepared under IRC 6020(b).
- (2) Industry averages and estimates should never be used in calculating an SFR tax liability.
- (3) If the examiner has actual taxpayer information/documentation to support business expense deductions, that information/documentation may be considered in calculating the SFR tax liability.

Note: If the taxpayer is unable to substantiate business expense deductions in an SFR year but establishes the nature of the business for which business expenses that were allowed in the past remained the same and provides a creditable explanation as to why substantiation for the SFR year is unavailable (e.g., records destroyed in a disaster), examiners may consider that information/documentation in calculating the SFR tax liability.

4.12.1.X

Substitute for Return (SFR) – Deductions and Credits

- (1) Deductions and credits (e.g., a Qualified Business Income (QBI) deduction, Child Tax Credit, etc.) will not be allowed on a substitute for return (SFR) prepared under IRC 6020(b).

Exception: For individual taxpayers, the standard deduction will be allowed on an SFR prepared under IRC 6020(b). See IRM 4.12.1.25.3, Itemized Personal Deductions.

- (2) If a taxpayer subsequently files a delinquent tax return, deductions and credits will be considered following the guidance in IRM 4.12.1.9, Examination of a Secured Delinquent Return.

4.12.1.5.4

Statute Considerations

- (1) No changes.
- (2) The execution of a substitute for return (SFR) does not start the running of the assessment statute period (ASED); however, it does start the running of the collection statute period (CSED). See IRM 25.6.1.9.4.5, Substitute for Return (SFR).
- (3) No changes.