

## IRM PROCEDURAL UPDATE

**DATE: 05/08/2026**

**NUMBER: 26U0509**

**SUBJECT: Incorporate Changes to the Information Return Threshold as a Result of Section 70433 of One, Big, Beautiful Bill Act and Certified Mail Procedures**

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

**CHANGE(s):**

**IRM 4.23.7.1.5 - The subsection was rewritten to describe the program controls that ensure the Employment Tax (ET) program operates accurately, efficiently, and consistently. This addition aligns with IRM 1.11.2.2.4, Address Management and Internal Controls, to maintain consistency and provide comprehensive guidance. The subsection is rewritten to make it clear, concise, and well-organized, allowing readers to quickly find, understand, and apply the information on their first read.**

(1) To ensure the program is working consistently and correctly, SB/SE Employment Tax program (ET Program) put in place program controls to oversee it. Program controls are like checks and balances that help the ET program:

- **Prevent Errors:** Stop errors from happening in the first place.
- **Detect Problems:** Find problems quickly if they do happen.
- **Fix Issues:** Fix any issues that come up.

(2) The ET program has implemented the following controls to ensure effective management:

- a. **Issue Management System (IMS):** Mandatory use during employment tax examinations by ET examiners.
- b. **Standardized Lead Sheets:** Unless instructed otherwise, examiners will use the ETLS - Employment Tax Lead Sheets developed specifically for employment tax tip cases. 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.
- c. **Specialty Employment Tax Application (SETA):** A web-based tool used by ET examiners to generate most of the necessary documents for examination reports and case closure.

(3) 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.

(4) The ET program operates under the framework of internal controls designed to ensure that examinations are conducted consistently, accurately, and in accordance with IRC, regulations, and IRS policies. Key controls include:

- Periodic reviews of examination case files by group managers,
- Standardized training for examiners, and
- Review of closed case files is conducted to monitor adherence to established procedures.

(5) The ET program has established a separation of duties of certain users' roles:

- Policy and procedure resides with ET Policy that is within SB/SE Specialty Examination Policy.
- Case selection resides with ET-WSD within SB/SE Examination Case Selection.
- Quality review resides within SB/SE Exam Quality and Technical Support.

(6) Embedded Quality is applied through a common set of attributes, capturing data within the following systems:

- Embedded Quality Review System (EQRS) for group management reviews, and
- National Quality Review System (NQRS) for closed case reviews.

(7) ET group managers regularly evaluate workload management, risk assessments, and resource allocation within their groups. The managers achieve the evaluations via workload and individual case reviews of the examiners within their group. The reviews provide feedback to examiners on their effectiveness and identify opportunities for improvements.

**IRM 4.23.7.6.1 - The content of the subsection was replaced with a link to IRS Chief Counsel Advisory (CCA) 201106010, dated 12/01/2010. The content of the subsection was a duplication of CCA 201106010, which is an IRS legal interpretation and advisory tool to assist IRS employees in applying the law consistently. A note was added stating that payments for services are reported on Form 1099-NEC, and it includes a reference to locate the applicable reporting threshold.**

(1) Certain payments to drivers of taxicabs, limousines, tour buses, and other modes of transportation may have been mis-characterized by employees, employers, or business owners as tips.

(2) IRS Chief Counsel Advisory (CCA) 201106010 (pdf), dated 12/01/2010, provides a legal interpretation of the proper treatment, including information reporting, of payments made by certain establishments to drivers of taxicabs, limousines, tour buses, and other modes of transportation for services.

**Note:** Payments made to individuals or entities that are not your employees that provide services must be reported on Form 1099-NEC, Nonemployee Compensation, when the total amount paid to a payee during the year meets or exceeds the reporting threshold set by IRC 6041A. For the exact threshold applicable to a particular year, refer to the General Instructions for Certain Information Returns (Forms 1097, 1099, 1098, 3921, 3922, 5498, and W-2G).

(3) Backup withholding should also be considered if the payor fails to secure a Taxpayer Identification Number (TIN) from the service provider individual (in this case, the driver). The payor is required to back-up withhold a percentage on the payment amount (24 percent). If the payor fails to withhold the current applicable backup withholding percentage from the service provider, the payor becomes liable for the backup withholding under IRC 3406. See IRM 4.23.8.13, *IRC 3406 - Backup Withholding*.

(4) Pub 4904, *How to Report Driver Referral Fees, Incentive Payments, and Other Income You Receive*, can be used to educate business owners of their reporting, filing, and payment obligations on payments for services.

**IRM 4.23.7.9(1) - Added a sentence to paragraph (1) explaining the new IRC 45B provision extending credit to the beauty industry that was included in One, Big, Beautiful Bill Act (P.L. 119-21) Section 70201(e).**

(1) The IRC 45B credit applies to employers who operate a food or beverage establishment where tipping is customary and where food or beverages are served for either on- or off-premises consumption. IRC 45B allows an income tax credit to food and beverage businesses for the share of employer's FICA taxes paid with respect to certain employees' tip wages. The employer can claim the income tax credit whether or not the employee reports the tip wages to the employer. Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*, is used to compute the credit. Starting in 2025, Section 70201(e) of One Big, Beautiful Bill Act (P.L. 119-21) amended IRC 45B to extend the credit beyond food and beverage establishments to include certain tips received by employees providing barbering and hair care, nail care, esthetics, and body or spa treatment services.

**Note:** Additional Medicare Tax is only imposed on the employee. There is no employer share of Additional Medicare Tax. Thus, Additional Medicare Tax has no effect on an employer's IRC 45B credit.

**IRM 4.23.7.10.3.1(2) - Changed "Director of ITG" to "ITG Program Manager" at the request of the TEGE.**

(2) Request for approval to terminate a tribal agreement should be sent to the ITG Tip Compliance Coordinator. The ITG Program Manager must approve all terminations on any ITG tip agreement.

**IRM 4.23.7.12.1(7) - Added a note to paragraph (7) which provides the Certified Automated Mailing Solution (CAMS) application must be used to process and send certified mail. This is consistent with proposed changes to IRM 4.10.1, Overview of Examiner Responsibilities, and IGM SBSE-04-0625-0045 issued June 20, 2025.**

(7) If the tip diary is not complete or does not appear to be accurate, the examiner will send the original tip diary back to the taxpayer with Letter 5237 explaining the reasons the IRS is not accepting the tip diary and provide detailed information needed to assist the taxpayer. This letter must be sent by certified mail as these are original documents being returned to the taxpayer.

**Note:** In accordance with IRM 1.22.5.12, *Processing Outgoing Mail*, the Certified Automated Mailing Solution (CAMS) application must be used to process and send certified mail.