



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D C. 20224

October 5, 2016

Control No: TEGE-04-1016-0022

Affected IRM: [4.75.12](#)

Expiration Date: October 4, 2018

MEMORANDUM FOR ALL EO EXAMINATIONS MANAGERS AND
ALL EO EXAMINATIONS REVENUE AGENTS

FROM: Margaret Von Lienen /s/*Margaret Von Lienen*
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SUBJECT: Required Filing Checks and Package Audit Procedures

Purpose

This memo issues guidance to Exempt Organizations employees authorized to conduct field or office interview audits. This guidance defines "filing checks" and "package audits"; describes how to waive a required filing check and how to distinguish it from a package audit. This memo also defines and explains two types of audit scopes, full scope and focused. See [Attachment A](#), Definitions, and [Attachment B](#), Filing Checks Tool, for definitions and explanations of filing checks, package audits, full scope audits and focused audits.

Background

Examiners conduct filing checks during audits to ensure taxpayers are voluntarily complying with filing requirements. See [IRM 4.75.12](#), Required Filing Checks. Although EO Examination's Internal Revenue Manuals (IRMs) use the terms "filing checks" and "package audits" synonymously, there has been no clear distinction between them.

Overall this lack of clarity poses an inherent risk of not meeting compliance goals. For example, routinely conducting filing checks and thorough package audits in every audit when otherwise not warranted uses limited resources unnecessarily. We are required to make best use of audit time and resources, as described in [IRM 1.4.1.13\(1\)](#), Resource Guide for Managers, Using Resources Effectively, which states that management must identify and prioritize expectations to ensure the IRS accomplishes its mission.

Change in Procedures

Filing Checks Required

You must conduct [filing checks](#) for both [full scope](#) and [focused audits](#). You are required to check for the filing of annual returns and notices, and employment tax returns, including their prior and subsequent year returns. See “[Always Required](#)” in the second column of [Table I, Filing Checks Guidance Table](#).

Example: Agent A is auditing a 501(c)(3) organization for 2016 that is also exempt from Form 990 filing requirements. The case file indicates there are no employees. Agent A must conduct a filing check for Form 990 series returns or notices and Form 941 for the current, prior and subsequent years. Because 501(c)(3) organizations are exempt from income taxes and statutorily exempt from federal unemployment taxes (FUTA), Agent A is not required to conduct a filing check for Forms 1120 and 940. Agent A will determine at the conclusion of the audit whether the organization is *actually* required to file any of the returns and notices stated in this example (for 2016).

Waiver of Filing Checks

You can waive filing checks with managerial approval for the returns listed under [Table I](#), column 2, “[Required but Waiver-Eligible**](#).” The waiver must be properly [authorized](#) and [documented](#); however, returns outside the taxpayer’s sphere of influence (returns a taxpayer can’t possibly file) require no authorization or documentation.

Waiver Authorization. Group managers can waive a filing check for a return or return category if you show substantial compliance exists, or if specified conditions or circumstances warrant a waiver. For example, a group manager can authorize waivers of filing checks for Forms W-2G, 730 or 11C for certain types of 501(c) organizations under audit that don’t conduct gaming.

Waiver Documentation. You must document your manager’s authorization to waive a filing check on [Form 5773](#), at Section G. The explanation must include the reason used to support the waiver. Include an analysis if the waiver is based on a computation. The waiver of any filing check doesn’t relieve you from exercising due diligence in ensuring equitable and fair tax administration in any audit.

Filing Checks Not Required

You are not required to conduct a filing check for returns listed under “[Optional / Not Required***](#)” in the second column of [Table I](#). Use your professional judgment to determine whether to conduct these filing checks.

Package Audit

A [package audit](#) is a series of additional steps beyond filing checks and inspections of returns, as defined in [Attachment A](#). You can conduct a package audit for both full scope or focused audits, but it is not required. Use your professional judgment in conducting a package audit. A package audit can involve any return(s) you deem necessary.

Audit Scope

There are two types of audit scopes: [full scope audits](#) and [focused audits](#). Every audit is a focused audit, unless otherwise directed to be a full scope.

Note: The terms “*single issue audit*” and “*limited scope audit*” are obsolete. Don’t use examination technique codes 3, 8 and 9 in item 30 of [Form 5599](#), *TE/GE Examined Closing Record*, and in Reporting Compliance Case Management System (RCCMS).

Other Information

Cases selected for sample Tax Exempt Quality Measurement System (TEQMS) review won’t fail the applicable standard(s) if the examiner appropriately documents [Form 5773](#) as stated above.

For consistency, Special Review will oversee implementation of this guidance. They’ll alert the Director, EO Examinations, if they see that examiners are exceeding the scope of their authority in this guidance.

Effective Date

This interim guidance is effective immediately.

Effect on Other Documents

We’ll incorporate these procedures in [IRM 4.75.12](#) within two years from the date of this memo.

ATTACHMENTS (2)

DISTRIBUTION:

[IRS.gov \(http://www.irs.gov\)](http://www.irs.gov)

ATTACHMENT A, *Definitions*

Filing Check – Verifying the filing of a return. A filing check can be as simple as reviewing IDRS printouts with return information, such as BMFOLI and BMFOLU, but may also include inspecting filed returns, BRTVU prints, or images of filed returns, obtained first from non-taxpayer sources. See also [Attachment B](#) for characteristics of a filing check.

Package Audit – Despite its name, a package audit by itself is **not** an actual examination. It is a series of additional steps beyond a filing check, generally used in the pre-audit stage of the examination to evaluate completion and accuracy of a filed return. In a package audit process, the examiner reconciles and analyzes inconsistencies between filed returns or between the returns and other documents available prior to reviewing books and records.

Example: Before the examination of books and records, the examiner reconciles quarterly Forms 941 with a fiscal year Form 990. This is a package audit. A package audit can involve the evaluation of any return, not just employment tax returns. See also [Attachment B](#) for characteristics of a package audit.

Full Scope Audit – A full scope audit requires the examiner to consider all classified issues, large, unusual and questionable item (LUQs) and item categories on [Form 5773](#) to determine compliance. A full scope audit doesn't mean all issues and items warrant an examiner's in-depth review; only that the examiner considers all issues and items, with written comment, in order to determine which ones require an in-depth review. It is performed only when the facts and circumstances warrant (such as fraud, egregious non-compliance, undisclosed transactions, and certain training cases) or when otherwise directed.

Focused Audit – A focused audit is limited to one or more issues that have been pre-identified during a return's screening, classification, or selection process, and consideration for LUQs. Every audit is a focused audit, unless directed to conduct a full scope audit. The terms "*single issue audit*" and "*limited scope audit*" are obsolete.

ATTACHMENT B, *Filing Checks Tool* (see [IRM 4.75.12](#))

When conducting filing checks, examiners must:

- 1) Determine whether the taxpayer complies with federal tax and information return filing requirements.
- 2) Ensure returns within the taxpayer's sphere of influence have been filed.
- 3) Assess audit potential.

Characteristics of a Filing Check

- Can be as simple as inspecting IDRS printouts of filed returns.
- Is used to determine voluntary compliance with filing requirements.
- Requires minimal time. A supplemental workpaper isn't required, but an explanation of the work completed is on Form 5773, Section G.
- May also include inspecting actual returns, IDRS command code BRTVU prints, or images of filed returns, obtained first from non-taxpayer sources.
- Is always required for annual returns and notices, and employment tax returns
- A [waiver](#) of a filing check requires authorization and documentation.

Characteristics of a Package Audit

- Despite its name, is *not* by itself an examination if the taxpayer's books and records were not yet examined.
- Is not required, but can be a helpful tool for planning audit steps, as well as the scope and depth of an audit.
- Evaluates returns for completion and accuracy in reporting.
- Is more time intensive than a filing check and requires a supplemental workpaper
- Involves reconciling and analyzing for inconsistencies between filed returns, or between filed returns and other documents available to the examiner before the audit.
- Can involve any type of return, not just employment tax returns.

Table I. Filing Check Guidance Table.

| Return Categories (including prior/subsequent year returns) | Filing Check Requirement (regardless of audit scope) |
|---|---|
| Form 990, 990-EZ, or 990-N (<i>not a return</i>), for all audits of IRC 501(c), 4947(a)(1) and 527 organizations Form 990-PF, only for audits of private foundations Form 990-BL, only for audits of IRC 501(c)(21) trusts Form 5227, only for audits of IRC 4947(a)(2) split-interest trusts Form 1065, only for audits of IRC 501(d) religious and apostolic associations <i>IRM 4.75.12.9; 4.76.4.6; 4.76.5.3.1</i> | <u>Always Required*</u> |
| Form 990-T, for all audits of IRC 501(c) organizations and government-owned colleges and universities Form 1120, only for audits of taxable private foundations (PFs) Form 1041, only for audits of IRC 4947(a)(1), IRC 4947(a)(2) charitable lead trusts, taxable PFs (trusts) <i>IRM 4.75.12.9; 4.75.22.2; 4.76.4.6; 4.76.51.14.2</i> | |
| Employment Tax Returns and Withholding (Forms 940, 941-series and 945) <i>IRM 4.75.12.8; 4.75.12.10; 4.75.22.2; 4.76.50.13; 4.10.5.5</i> | |
| Information Returns (Forms W-2, W-2G, 1042-S, 1094-B, 1094-C, 1095-B, 1095-C, 1098-series, 1099-series, 8027, 8282, 8300, 8870, 8871, 8872, 8886, 8886-T, or 8899) <i>IRM 4.75.12.8; 4.75.12.12; 4.75.27.4; 4.75.22.10; 4.76.50.13; 4.10.5.6; 4.10.5.9</i> | <u>Required but Waiver-Eligible**</u> |
| Bond Returns (Form 8038-series) <i>IRM 4.75.12.15; 4.75.22.8; 4.75.31.7.4</i> | |
| Form 5500-series and Employee Benefit Returns <i>IRM 4.75.12.8; 4.75.12.13; 4.75.22.8; 4.75.31.7.3; 4.10.5.11</i> | |
| Other Related Returns (tax returns) (Forms 4720, 4720-A, 1120-POL, 730, 11-C, 1042) <i>IRM 4.75.12.8; 4.75.12.14; 4.75.22.2; 4.76.50.13</i> | |
| FBAR (Title 31) Don't discuss filing of FBAR with taxpayer. <i>IRM 4.10.5.8; 4.26.15.6.3; 4.26.16, 4.26.17, 4.76.4.6(6)</i> | |
| Related Persons' Returns (including "controlled organizations") (Forms 1040, 1041, 1120-series, 1065) <i>IRM 4.75.22.8</i> | <u>Optional / Not Required***</u> |
| Withholding Compliance Program (Questionable W-4s) <i>IRM 4.75.12.8; 4.75.12.11; 4.10.5.5.4</i> | |

***Always Required** – Complete the filing check per IRM guidelines. Document your conclusions on Form 5773, Section G. These filing checks can't be waived.

****Required but Waiver-Eligible** – These filing checks are required, but can be waived with managerial approval. Documentation of the authorization and reason is required on Form 5773, Section G.

*****Optional/Not Required** – These filing checks aren't required; explanations aren't needed. However, if information developed during the audit indicates a potential for noncompliance, you may conduct the filing check and document actions taken.

Related Return – Any return of the same taxpayer. However, a return subject to a discrepancy adjustment in [IRM 4.75.28](#), such as a Form 1040 or 1120, and any Form 4720-A, filed by a disqualified person with respect to the organization under audit, is *treated* as a "related return." See [IRM 4.75.16.1\(3\)c](#).