

IRM PROCEDURAL UPDATE

DATE: 07/05/2017

NUMBER: wi-21-0717-1096

SUBJECT: CP 10 & CP 12 Response Procedures; Processing CP86 Cases with -C Freeze; AUR Notice Responses

AFFECTED IRM(s)/SUBSECTION(s): 21.3.1

CHANGE(s):

IRM 21.3.1.5.5 updating If/Then Chart to clarify procedures.

1. A CP 10, *Math Error With Reduced Credit Elect*, is issued to notify taxpayer that an overpayment applied to the next year's tax as a credit-elect was reduced due to an error on a 1040 series return.
 - a. Research Integrated Data Retrieval System (IDRS).
 - b. Explain reason for notice.
 - c. Take actions indicated in the following table.

If	And	Then
Taxpayer agrees	A balance is due	<ol style="list-style-type: none">1. Advise taxpayer to correct their copy of the return. Remind the taxpayer the decrease in the amount of credit elect may effect the Estimated Tax (ES) payments for the first quarter.2. Request full payment.3. Refer to IRM 21.3.12.3, <i>Determine the Earliest the Taxpayer Can Full Pay</i>.
Taxpayer does not agree	A refund is due	<ol style="list-style-type: none">1. Refer to IRM 21.5.4.4.3, Processing Responses to Math Error Notices2. Math verify the return and then adjust account using oral statement if applicable.3. Request documentation only if necessary.4. Determine if the credit elect will systemically move after the adjustment. Refer to IRM 21.6.3.4.2.1, <i>Outstanding Balance Considerations Prior to Refund or Credit Elect</i>.5. Advise and explain the TOP offset to the taxpayer if the indicator shows

		<p>possibility of offset.</p> <p>6. Advise taxpayer they should receive refund in 2 to 4 weeks.</p>
Taxpayer does not agree	A balance is due	<ol style="list-style-type: none"> 1. Refer to IRM 21.5.4.4.3, <i>Processing Responses to Math Error Notices</i>, for information on working math errors. 2. Math verify the return and then adjust account using oral statement if applicable. 3. Request documentation from the taxpayer only if necessary. 4. Refer to IRM 21.3.12.3, <i>Determine the Earliest the Taxpayer Can Full Pay</i>.

IRM 21.3.1.5.8 updated If/Then Chart to add procedures for addressing a taxpayers inquiry when they receive less of a refund and disagree with math error.

1. A CP 12, *Math Error, Overpayment of \$1 or More*, is issued as a first notice to inform the taxpayer of an error in the math on an individual return that changes the refund amount. A refund hold will be applied when the account meets Notice Review criteria for certain notices (CP 12, 16, 21A and 24). The account will reflect a TC 570 with blocking series "55555" indicating the refund hold has been applied and a TC 971 AC 804, (the miscellaneous field will reflect the CP number). The hold will systemically expire 7 calendar days after the TC 971 AC 804 daily cycle. If both the AC 804 and AC 805 are present, the hold will be for 7 calendar days. Refer to table below:

If	And	Then
The taxpayer received more/less of a refund than requested	Taxpayer agrees	Advise taxpayer to correct their copy of the return.
The taxpayer received less of a refund than requested and disagrees	Adjustment will generate a refund	<ol style="list-style-type: none"> 1. Refer to IRM 21.5.4.4.3, <i>Processing Responses to Math Error Notices</i>. 2. Math verify the return and then adjust account using oral statement if applicable. 3. Request documentation from the taxpayer only if necessary. 4. Advise and explain the TOP offset to the taxpayer if indicator shows

		<p>possibility of offset.</p> <p>5. Advise taxpayer they should receive refund in 2 to 4 weeks.</p>
The taxpayer received more of a refund than requested and disagrees	Adjustment will generate a balance due	<p>1. Review the return to determine if taxpayer is correct.</p> <p>2. If the taxpayer's original filing was correct and the service sent the taxpayer more of a refund than requested, this is considered an erroneous refund. Refer to IRM 21.4.5.4, <i>Erroneous Refund Categories and Procedures</i>, to determine the appropriate category and procedures for working the case.</p> <p>EXCEPTION: Taxpayer returned their original refund check, identified by a TC 841 with a P-Freeze on the account, after self-identifying an IRS administrative error. Then taxpayer calls or writes providing substantiation of the error that occurred on their original return, then follow procedure in IRM 21.5.4.4.3, <i>Processing Responses to Math Error Notices</i>.</p> <p>CAUTION: Do Not set the - G freeze on this account per IRM 21.5.4.2.1, <i>What is Not Considered A Math Error</i>.</p>

IRM 21.3.1.5.51.2 added procedures for processing modules containing -C Freeze

1. Analyze tax module, transcript, and source document to determine if you should manually adjust interest and/or penalty. Do the following:

NOTE: CP 86 modules, currently or previously in Taxpayer Delinquent Account (TDA) status (Collection statuses 22, 24, 26 or 60), or have the following freeze codes: U-, -V, -W, -Y or TC 521 with Closing Code 81 will be

transferred to Atlanta CSCO. Do not close the Submission Processing control base nor send any paper to Atlanta CSCO. Accounts Management technicians must reassign to a unique IDRS number, 0765500001. Close your CIS case, using the close as MISC option, then reassign a new IDRS control to 0765500001.

If	Then
<p>No additional interest or penalty adjustment is necessary and</p> <ol style="list-style-type: none"> 1. There is no credit or freeze code on the account OR 2. There is a credit or freeze code on the account. 	<ol style="list-style-type: none"> 1. No account actions are required, close case. or 2. Determine if the freeze should be released following normal freeze procedures. Resolve the credit issue when appropriate. Take all account actions as required by normal procedures.
<p>Manual action is necessary</p>	<ol style="list-style-type: none"> 1. Recompute interest or FTP penalty as applicable following IRM 20.1, <i>Penalty Handbook</i>, or IRM 20.2, <i>Interest</i>. 2. Input necessary adjustments. 3. Use Hold Code 0. 4. Refer to IRM 20.2.5.6.2, <i>Manual Computations</i>, and IRM 20.1.2.1.5, <i>Manual Penalty Adjustments</i>, when manually computing and adjusting interest and penalties. 5. Due to recent changes to FTP penalty programming, Refer to the following to ensure proper procedures are being followed, when applicable: <ul style="list-style-type: none"> ▪ IRM 20.1.2.1.6, <i>Correcting Incorrect Assessments</i>, <p>NOTE: Release the G- freeze with a TC 272 for .00 when the module has been restricted with respect to a reversed refundable tax credit, except if the credit reversal is a TC 767 with CRN 000 or CRN</p>

	334. Refer to IRM 20.1.2.1.6.1.3.1, <i>Adjusting Refundable Credits Without a CRN and With CRN 334.</i>
Available credit is less than the additional amount	Assess total additional amount. EXCEPTION: If the additional amount exceeds available credit by # [REDACTED] #, assess only the available credit. Do not assess zero balance account for # [REDACTED] #.
Available credit is more than the additional amount.	Assess only the additional amount due and let the remainder be refunded.

REMINDER: Per IRC § 6631 anytime interest is manually computed as in the case of the CP 86, an explanation must be sent to the taxpayer. Refer to IRM 20.2.5.6.2, *Manual Computations*. Additional information on source documentation can be found in IRM 20.2.1.5.2.1, *Manual Calculation of Interest - Documentation*.

2. If the module contains a -C freeze, and the module does not contain a TC 166, determine if the FTF penalty needs to be assessed.

EXCEPTION: Do not assess FTF penalty if the return contains computer condition code (CCC) R.

Follow these steps to determine the amount of FTF penalty to be assessed (if any):

1. If the return appears to have been filed late, then determine the number of months (if any) subject to the penalty for filing late. See IRM 20.1.2.2.7.1 for detailed instructions. Keep in mind when timely mailing equals timely filing. See IRM 20.1.2.1.1. If the number of months subject to penalty is zero, stop. No FTF penalty is due.
2. If the return was filed late, determine the amount subject to penalty. See IRM 20.1.2.2.7.2 for detailed instructions. If the amount subject to penalty is zero or less, stop. No FTF penalty is due.
3. Multiply 5% by the number of months subject to penalty determined in step 1). This is the FTF penalty rate.
4. Multiply the amount subject to penalty determined in step 2) by the FTF penalty rate in step 3). This is the gross FTF penalty amount.
5. Determine the amount of penalty for paying late accrued during the period subject to the penalty for filing late. For each month subject to FTF penalty, the FTP penalty is 1/2 % of so much of the tax shown on the return as was not paid at the beginning of each month subject to the FTF penalty.
6. Subtract the FTP penalty determined in step 5) from the gross FTF penalty determined in step 4). This is the net FTF penalty due. Assess

this amount with TC 160 along with any FTP penalty or interest adjustment that is needed.

REMINDER: Per IRC § 6751 anytime penalty is manually computed as in the case of the CP 86, an explanation must be sent to the taxpayer. Refer to IRM 20.1.2.1.5, *Manual Penalty Adjustments*.

IRM 21.3.1.5.56 adding instructions for taxpayers requesting to fax AUR notice responses.

1. When working accounts with Automated Underreporter (AUR) involvement, it is necessary to research the account to determine where the account is in the AUR process. This can be determined by reviewing the Underreporter Process Codes listed under the Transaction Code (TC) 922 on the account. The status of an Underreporter case will be determined by the last process code posted. The definitions of the Underreporter Process Codes can be found in Section 8C, of Document 6209, *IRS Processing Codes and Information*, and in IRM 4.19.3-4, *AUR Process Codes*. Refer to the chart in paragraph 4 to determine if a case should be processed or referred to AUR.

NOTE: If additional assistance is required, contact the appropriate Automated Underreporter (AUR) Coordinator. A listing is provided under the "Who/Where" tab AUR Coordinators on the Servicewide Electronic Research Program (SERP) home page. Do not share the telephone contact information with the taxpayer.

2. **When working phones:** Review the account and determine the last processing code. Refer to the chart in paragraph 4 to determine if the call meets AUR criteria and should be transferred to AUR. If it is determined the AUR criteria has been met, transfer to the AUR numbers shown below. For calls received on the PPS line, refer to IRM 21.3.10.5, *Transfers and/or Referrals*.

REMINDER: In an attempt to maximize customer satisfaction and IRS business results, use probing questions to identify the purpose of the call and IDRS research to identify if the call should be transferred immediately after completing required taxpayer authentication in IRM 21.1.3.2.3, *Required Taxpayer Authentication*. It is important to get callers to the appropriate area that can best resolve their issue as quickly as possible.

- #92341 English (#1841 for Infrastructure Update Project (IUP) sites)
- #92342 Spanish (#1842 for IUP sites)

NOTE: The AUR product line hours of operation are 7:00 a.m. - 8:00 p.m. local time. If outside of the hours of operation, advise taxpayer of the AUR

hours of operation and provide the AUR toll free number 1-800-829-8310.

3. **When working paper:** All correspondence and Forms 1040X must be reviewed to determine if the response is related to the AUR issue or account change. Refer to the chart in paragraph (4) to determine if case meets AUR criteria. Referring the case back to the open control in AUR should be only for cases where the status allows for the referral and the case meets AUR criteria. If the change is for filing status, dependents, exemptions, claiming a credit, correcting math error etc. or you receive a Form 8379, *Injured Spouse Allocation*. **DO NOT** refer case to AUR, follow normal adjustment procedures. AUR will return all Forms 1040X and correspondence if it does not meet their criteria causing additional aging of the case. When working amended returns/claims, if it is determined the case meets AUR transfer criteria, **input a TC 971 AC 015** to indicate the case has been forwarded to Underreporter.
4. Once the status of the AUR issue is determined, use the following chart to determine the correct action to be taken:

If	Then
TC 922 but no process code is shown	<ol style="list-style-type: none"> 1. Underreporter does not have a case. Do not refer the case or call to AUR. 2. Work following normal procedures.
The last process code (PC) is 01, 03 or 06	<ol style="list-style-type: none"> 1. The AUR issue or case is pending, and the taxpayer may or may not receive a notice. Do not refer the case or call to AUR. 2. Respond to the taxpayer following normal procedures.
The last process code is 09	<ol style="list-style-type: none"> 1. AUR has not contacted the taxpayer yet. 2. Only transfer calls to AUR if they are calling about the Underreporter issue. <p>CAUTION: Do not send the TP a copy of a CP 2000 prior to the Notice Date.</p>
<ul style="list-style-type: none"> o Tax year 2007, TC 922 and a process code string of 03, 16 <p>Or</p> <ul style="list-style-type: none"> o Tax year 2008 and 	<ol style="list-style-type: none"> 1. There is no AUR case. This designates a soft notice, CP 2057, for both process code strings follow appropriate steps below. 2. If contact is a Form 1040X, do not refer to AUR. Work and respond to the taxpayer following normal procedures. 3. If a phone contact and the taxpayer asks about the CP 2057, transfer the call to AUR: <ul style="list-style-type: none"> ▪ #92341 English (#1841 for IUP)

<p>2009, TC 922 and a process code string of 07, 19.</p>	<p>sites)</p> <ul style="list-style-type: none"> ▪ #92342 Spanish (#1842 for IUP sites) <p>NOTE: All correspondence received by AM will be reviewed to determine if there is an AUR criteria involved. All situations other than AUR will be addressed by AM before routing to AUR to complete.</p> <p>NOTE: Inform the taxpayer they are being transferred. The AUR product line hours of operation are 7:00 a.m. - 8:00 p.m. local time. If outside of the hours of operation or if the caller does not want to be transferred, provide the AUR toll free number 1-800-829-8310.</p>
<p>Tax Year 2008 and 2009, a TC 922 and a process code string of 07, 49</p>	<ol style="list-style-type: none"> 1. There is no AUR case or taxpayer contact. This designates a soft notice, CP 2057 was not mailed to the taxpayer. Do not refer the case or call to AUR. 2. Continue to process the Form 1040X.
<p>Tax year 2010 through 2012, a TC 922 and a process code string of 07, 19.</p>	<ol style="list-style-type: none"> 1. There is no AUR case. This designates a soft notice, CP 2057, follow appropriate steps below. Do not refer the call to AUR. 2. If contact is a Form 1040X, do not refer to AUR. Work and respond to the taxpayer following normal procedures. <p>NOTE: For TY 2013 and subsequent, CP 2057, is reflected on IDRS with a TC 971/AC 922 on the account.</p>
<p>The last process code is 10–14,15*,16, 17,18*, or 21–29</p>	<ol style="list-style-type: none"> 1. The AUR issue or case was closed, and taxpayer will not receive a notice. Do not refer the case or call to AUR. <p>EXCEPTION: Beginning May 2015, PC 17 is used to close verified ID Theft cases based on taxpayer contact.</p> <p>NOTE: *PC 15/18: If the PC immediately preceding PC 15 or 18 is 01, 03, or 06 the case was closed without taxpayer</p>

	<p>contact.</p> <ol style="list-style-type: none"> 2. Respond to the taxpayer following normal procedures.
The last process code is 35, 36, 38, 62–64, 66 or 82, 83, 85 or 86	<ol style="list-style-type: none"> 1. AUR has closed their case and transferred it to an Examination function. 2. Respond to the taxpayer following normal procedures.
The last process code is 44, 72 or 84	<ol style="list-style-type: none"> 1. AUR has closed their case and transferred it to Campus Fraud. 2. Do not advise caller that case was referred to Campus Fraud. 3. Respond to the taxpayer following normal procedures.
The last process code is 46, 65 or 76	<ol style="list-style-type: none"> 1. AUR has closed their case and transferred it to Criminal Investigation. 2. Do not advise caller that case was referred to Criminal Investigation. 3. Respond to the taxpayer following normal procedures.
The last process code is 80	<ol style="list-style-type: none"> 1. AUR has closed their case and transferred it to Appeals. 2. Respond to the taxpayer following normal procedures.
The last process code is 30, 34, 54, 55, 57–60, 75, 77–79, 81, 95, 96, 97–99	<ol style="list-style-type: none"> 1. Case is open in AUR. Follow appropriate steps below. 2. If a telephone contact with the purpose of setting up a payment arrangement for the proposed AUR assessment and you are trained in telephone collection processes: <ol style="list-style-type: none"> a. DO NOT transfer the call to AUR. b. Instruct the taxpayer to sign their AUR notice response form by checking the “I agree with all changes” box, sign, and date their form. Instruct them to return their completed form to the address shown on the notice. If the taxpayer requests to fax their AUR notice response form instead of mailing, advise them to fax the

form to the fax number provided in the notice.

- c. AM employees should follow the procedures in IRM 21.3.12.3.5.1, *Pre-assessed Installment Agreement (IAPND) and Unassessed Modules*.

3. If a telephone contact and the taxpayer's Underreporter issue is beyond the scope of your training do not discuss the AUR issue with the caller and transfer the call to AUR:

- #92341 English (#1841 for IUP sites)
- #92342 Spanish (#1842 for IUP sites)

NOTE: Inform the taxpayer they are being transferred. The AUR product line hours of operation are 7:00 a.m. - 8:00 p.m. local time. If outside of the hours of operation or if the caller does not want to be transferred, provide the AUR toll free number 1-800-829-8310.

EXCEPTION: If the contact is an International caller, create Form 4442, *Inquiry Referral*, hand write this IRM reference in Section B and include the complete foreign address of the taxpayer.

[REDACTED]

- 4. If this is a paper case**, route the correspondence or Form 1040X to the campus where the case is assigned. The first two digits of the TC 922 DLN indicate where the case is assigned. Input *TC 971 AC 015* with the received date of the claim or amended return, as the transaction date, to indicate case has been transferred to AUR. Refer to the AUR Addresses (Open Cases) .

CAUTION: If it can be determined that the AUR issue is not included, do not route the Form

	1040X to AUR. If AUR returns the Form 1040X because it is unrelated to their issue, complete processing of Form 1040X.
<p>The last process code is 15*, 18*, 39, 47, 48, 51, 52, 69, 70, 71, 73, 74, 89, 91, 92 or 93</p>	<p>1. Case was worked and closed by AUR with no change to the tax liability and/or refundable credits. Do not refer the case or call to AUR.</p> <p>NOTE: PC *15/18: If the PC immediately preceding PC 15 or PC 18 is other than 01, 03 or 06, the taxpayer was contacted by AUR.</p> <p>NOTE: Beginning May 2015, PC 17 is used to close verified ID Theft cases based on taxpayer contact.</p> <p>2. Respond to the taxpayer following normal procedures.</p>
<p>The last process code is 20, 53, 67, 68, 87, 88, 90 or 94</p> <p>NOTE: The following are the definitions of three process codes. They are: 67 - Fully agreed (CP 2000 Notice) 87 - Fully agreed (Stat Notice) 90 - Tax assessed by default</p>	<p>1. Case was worked and closed by AUR with an adjustment to tax liability and/or refundable credits. Follow appropriate steps below.</p> <p>2. If this is a telephone contact for other than payment information or payment options do not discuss the AUR issue with the caller and transfer the call to AUR:</p> <ul style="list-style-type: none"> ▪ #92341 English (#1841 for IUP sites) ▪ #92342 Spanish (#1842 for IUP sites) <p>NOTE: Inform the taxpayer they are being transferred. The AUR product line hours of operation are 7:00 a.m. - 8:00 p.m. local time. If outside of the hours of operation or if the caller does not want to be transferred, provide the AUR toll free number 1-800-829-8310.</p> <p>3. If the taxpayer files a claim or amended return requesting a refund or abatement of tax previously assessed by AUR, route the case to AUR at the campus where the case was worked.</p>

	<p>Input a TC 971 AC 015 with the received date of the claim or amended return, as the transaction date to indicate case has been transferred to AUR. Do not route cases to AUR that do not address or do not request reconsideration of the AUR assessment. Refer to Examples below of case types NOT to be sent to AUR. If the taxpayer is denying receipt or disagrees with the amount of the AUR identified income, route the correspondence or Form 1040X, <i>Amended U.S. Individual Income Tax Return</i>, to AUR at the campus where the case was worked. The first two digits of the TC 922 DLN indicate where the case is assigned. Refer to the AUR Addresses (Open Cases) for open cases and AUR Reconsideration Request Contact Information for closed cases.</p> <p>EXCEPTION: If the taxpayer includes either Form 14039, <i>Identity Theft Affidavit</i>, or a police report, route to Identity Theft Victim Assistance (IDTVA). Do not route to AUR. Refer to IRM 25.23.2.13, <i>Case Transfer Within IDTVA</i>, for procedures.</p> <p>4. The Examples below are situations where the taxpayer is not denying the receipt or disagreeing with the amount of the AUR identified income. Do not route these types of cases to AUR. Other Category A (CAT-A) criteria may exist for the requested changes. Refer to Exhibit 21.5.3-2, <i>Examination Criteria (CAT-A) - General</i>. These Examples are not intended to be all inclusive.</p> <p>EXAMPLE: Form 1040X received with a Schedule C, reducing underreported income through expense reporting and subsequently reducing self-employment tax.</p> <p>EXAMPLE: Form 1040X received with Schedule D, adjusting the basis on the underreported capital gain.</p>
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EXAMPLE: Form 1040X filed only to change filing status and/or add a dependent.

EXAMPLE: Taxpayer sent a loose Form or Schedule to reduce underreported income through expenses or cost. Send the taxpayer an 89C Letter to request a Form 1040X.

REMINDER: A TC 240 penalty assessed by AUR for substantial understatement of income must be adjusted when decreasing the previous AUR assessment. If the adjustment is not related to the AUR assessment, do not adjust the TC 240 penalty. Refer to IRM 20.1.5.8, *IRC Section 6662(d): Substantial Understatement*, for more information on calculating the penalty. Refer to IRM 20.1.5.3.2, *Penalty Assessments and Abatements*, for information on adjusting the penalty.

NOTE: If additional assistance is required, contact the appropriate AUR Coordinator. A listing is provided under the "Who/Where" tab on the SERP home page. Do not share the telephone contact information with the taxpayer.