



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.10.9

APRIL 22, 2024

## EFFECTIVE DATE

(04-22-2024)

## PURPOSE

- (1) This transmits a revision of IRM 4.10.9, Examination of Returns, Workpaper System and Case File Assembly.

## MATERIAL CHANGES

- (1) Significant changes to this IRM are listed in the table below.

Prior IRM Reference	New IRM Reference	Description of Change
N/A	Throughout	Deleted references to Form 4318-OA as the form is obsolete.
N/A	Throughout	Added procedures for electronic case files in various subsections throughout the IRM. The procedures are incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
N/A	IRM 4.10.9.1, Program Scope and Objectives	Added subsections with internal control components to provide background information, legal authorities that govern the actions covered in this IRM, roles and responsibilities, terms and acronyms, and related resources available to assist examiners when conducting audits.
IRM 4.10.9.4	IRM 4.10.9.2, Workpaper System	Added content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, about case file indexes. Moved content about lead sheets and workpapers from prior IRM 4.10.9.1 and added language to clarify lead sheets and workpapers must document the facts.

Prior IRM Reference	New IRM Reference	Description of Change
IRM 4.10.9.3	IRM 4.10.9.4, Report Generation Software (RGS)	Added content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, about the use of Report Generation Software (RGS) to create, maintain, and store examination case files.
IRM 4.10.9.5	IRM 4.10.9.5, Activity Record	Revised guidance for using the RGS Case History application. Added guidance that actions taken to digitize paper documents should be notated on the activity record, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files. Added guidance that when multiple employees notate the activity record (Form 9984) with their actions taken on a case, it should be clear who performed specific actions.
IRM 4.10.9.1	IRM 4.10.9.6, Overview of Lead Sheets and Workpapers	Changed title from “Overview” to “Overview of Lead Sheets and Workpapers.” Added language to clarify lead sheets and workpapers must document the facts. Added guidance for maintaining electronic case files, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.6	IRM 4.10.9.7, Lead Sheets	Incorporated content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, about the requirement that lead sheets be numbered and labeled and also using the generic issue lead sheet to create issue-specific lead sheets.

Prior IRM Reference	New IRM Reference	Description of Change
IRM 4.10.9.6.1	IRM 4.10.9.7.1, Administrative Lead Sheets	Updated the list of mandatory administrative lead sheets for Revenue Agents (RA) and Tax Compliance Officers (TCO), incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files. Added reference to a job aid containing procedures for completing administrative lead sheets.
IRM 4.10.9.6.2	IRM 4.10.9.7.2, Issue Lead Sheets	Incorporated content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, by adding language to clarify issue-specific lead sheets are also required for penalties and statutory issues. Moved content from deleted subsections 4.10.9.6.2.1 and 4.10.9.6.2.2 about issue lead sheet format and content. Clarified the "Law" section of the issue lead sheet includes an argument to support the Service's position. Added reference to a job aid containing procedures for completing issue lead sheets. Added information about selecting standard audit steps on the generic issue lead sheet and obtaining issue-specific audit steps from the Lead Sheet Issue Reference Guide (LSIRG).
IRM 4.10.9.6.2.1 and IRM 4.10.9.6.2.2	N/A	Deleted subsections on issue lead sheet format and content and moved the guidance to IRM 4.10.9.7.2, Issue Lead Sheets.

Prior IRM Reference	New IRM Reference	Description of Change
IRM 4.10.9.7	IRM 4.10.9.8, Workpapers	Updated language to clarify internal source documents are not required to be included in the case file and added guidance that handwritten workpapers must be digitized, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files. Added procedures for original records received from taxpayers or third parties. Moved steps for ensuring workpapers are neat, legible, grammatically correct to a job aid.
IRM 4.10.9.7.2	IRM 4.10.9.8.2, Workpapers: Indexing	Revised procedures for numbering lead sheets and workpapers. Added guidance that workpapers must be properly labeled (named) in accordance with electronic case procedures. Removed reference to Document 13005 as it is obsolete. The changes are incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.7.3	IRM 4.10.9.8.3, Workpapers: Disclosure	Updated language to clarify all information in an examination case file is sensitive but unclassified (SBU) information. Removed language regarding Other Gov TDF 15.05-11, Sensitive But Unclassified (SBU) Cover Sheet, being required for all SBU information in the case file. The changes are incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.

Prior IRM Reference	New IRM Reference	Description of Change
N/A	IRM 4.10.9.8.3.1, Extremely Sensitive Information	Added new subsection with guidance about extremely sensitive SBU information in a case file and the procedures for protecting the extremely sensitive information in the electronic and physical case files. This subsection is incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.7.4, IRM 4.10.9.7.5, and IRM 4.10.9.7.6	4.10.9.8.4, Workpapers: Documenting Certain Mandatory Items	Deleted subsections and specific content about documenting pre-plan, initial interview, and tour of business in the workpapers since the information can be found in IRM 4.10.2, Pre-Contact Responsibilities, IRM 4.10.4, Examination of Income, and IRM 4.10.3, Examination Techniques. Directed examiners to refer to the specific IRM sections for case file documentation requirements for the mandatory items.
IRM 4.10.9.7.7	IRM 4.10.9.8.5, Workpapers: Documenting Issues	Revised guidance to clarify all information critical to the case or that supports an adjustment must be saved in the RGS electronic case file and added exception note that <b>all</b> information received in response to a summons must be saved in the electronic case file, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.7.8	IRM 4.10.9.8.6, Workpapers: Documenting Penalties	Updated instructions for documenting penalties. Moved the specific procedures for documenting penalties to a job aid.

Prior IRM Reference	New IRM Reference	Description of Change
IRM 4.10.9.7.8.2	IRM 4.10.9.8.6.2, Penalties: Supervisory Approval	Revised subsection title to replace “managerial” with “supervisory.” Added note about the fraudulent failure to file (FFTF) penalty. Updated procedures for documenting managerial approval of penalties. Removed specific guidance on when penalties should be approved by the group manager since the guidance can be found in IRM 20.1.1.2.3.1, Timing of Supervisory Approval.
IRM 4.10.9.7.9	IRM 4.10.9.8.7, Documenting Fraud Consideration and Civil Fraud Penalty	Revised instructions for documenting the consideration of fraud and the development of the civil fraud penalty. Moved the specific procedures for documenting fraud to a job aid.
IRM 4.10.9.7.10	IRM 4.10.9.8.8, Documenting Return Preparer Penalty Consideration	Clarified the procedure for documenting consideration of return preparer penalties in the income tax case file.
IRM 4.10.9.7.11	N/A	Deleted the subsection on closing cases with automated workpapers and reports as the content is either outdated or contained in IRM 4.10.8, Report Writing, or IRM 4.10.15, Report Generation Software. This change is incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.7.11.1	IRM 4.10.9.8.9, Accounting Software Backup Data Files and Spreadsheets	Incorporated content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, by deleting “Electronic” from the subsection title, adding content previously found in IRM 4.10.9.8.9.2(3), Workpapers: Documenting Issues, and updating guidance about including the accounting software backup data files in RGS, when necessary.

Prior IRM Reference	New IRM Reference	Description of Change
N/A	IRM 4.10.9.10, Hardcopy Documents	Added new subsection with guidance for digitizing and disposing of hardcopy documents, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
N/A	IRM 4.10.9.11, Case File Indexing	Added new subsection with guidance for creating case file indexes for all electronic case files and saving the indexes in the electronic case file. Included procedures for saving Form 4318 in the case file. This subsection is incorporated from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.9	4.10.9.12, Case File Assembly for Closing Physical Administrative Case Files	Updated subsection title and added content to clarify the procedures in the subsection apply to physical administrative case files, incorporating content from interim guidance memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files.
IRM 4.10.9.9.2	IRM 4.10.9.12.2, Forms and Other Documents on the Inside Left of a Physical Case File	Updated subsection title. Added Form 5345-D to the list of documents to be included in the case file. Removed references to Form 885-E and Form 885-T as they are obsolete. Rearranged order of forms. Removed reference to Form 6657 since SB/SE Field examiners are no longer required to complete this form.
IRM 4.10.9.9.3	IRM 4.10.9.12.3, Forms and Other Documents Attached to Tax Returns in Physical Case Files	Updated subsection title. Removed reference to Form 875 as it is obsolete.

- (2) Minor editorial changes have been made throughout this IRM. Website addresses, legal references, and IRM references were updated as necessary.

**EFFECT ON OTHER DOCUMENTS**

IRM 4.10.9, dated August 11, 2014, is superseded. This IRM incorporates Interim Guidance Memorandum SBSE-04-0722-0032, Procedures for Electronic Case Files, dated July 27, 2022.

**AUDIENCE**

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4.10.9

Workpaper System and Case File Assembly

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4.10.9.1  
(04-22-2024)  
**Program Scope and Objectives**

- (1) **Purpose-** This IRM section provides guidelines for the development of lead sheet and workpaper content and case file organization. These guidelines are provided to promote quality and consistency in the preparation and completion of lead sheets, workpapers, and case files.
- (2) **Audience-** These procedures apply to Small Business and Self-Employed (SB/SE) Field Examination employees.
- (3) **Policy Owner-** The Director, Examination Field and Campus Policy, who reports to the Director, Examination Headquarters.
- (4) **Program Owner-** Field Examination General Processes (FEGP), which is under the Director, Examination Field and Campus Policy.
- (5) **Primary Stakeholders-** Employees in SB/SE Field Examination and end users of the examination case file (e.g., Counsel, Appeals, etc.) are the primary stakeholders for this IRM.
- (6) **Contact Information-** To recommend changes or make any other suggestions related to this IRM section, see IRM 1.11.6.5, Providing Feedback About an IRM Section - Outside of Clearance.

4.10.9.1.1  
(04-22-2024)  
**Background**

- (1) This IRM provides the purpose, format, general content, and organization of examination lead sheets, workpapers, and case files.

4.10.9.1.2  
(04-22-2024)  
**Authority**

- (1) By law, the Service has the authority to conduct examinations under Title 26, Internal Revenue Code, Subtitle F – Procedure and Administration, Chapter 78, Discovery of Liability and Enforcement of Title, Subchapter A, Examination and Inspection, which includes, but is not limited to, the following Internal Revenue Code (IRC) sections:
  - IRC 7602, Examination of books and witnesses
  - IRC 7605, Time and place of examination

4.10.9.1.3  
(04-22-2024)  
**Roles and Responsibilities**

- (1) The Director, Examination Headquarters, is the executive responsible for providing policy and guidance for Field, Specialty, and Campus Exam Operations, and ensuring consistent application of policy, procedures, and tax law to effect tax administration while protecting taxpayers' rights. See IRM 1.1.16.5.5, Examination Headquarters, for additional information.
- (2) The Director, Examination Field and Campus Policy, reports to the Director, Examination Headquarters, and is responsible for the delivery of policy and guidance that impacts the field examination process. See IRM 1.1.16.5.5.1, Examination Field and Campus Policy, for additional information.
- (3) Field Examination General Processes (FEGP), which is under the Director, Examination Field and Campus Policy, is the group responsible for providing policy and procedural guidance on standard examination processes to Field Examination. See IRM 1.1.16.5.5.1.1, Field Examination General Processes, for additional information.
- (4) Examiners and their managers should thoroughly acquaint themselves with the examination procedures and information contained in this IRM.

4.10.9.1.4  
(04-22-2024)

**Program Management  
and Review**

- (1) Periodic program reviews are conducted to:
- Assess the effectiveness of specific programs within Examination or across the organization,
  - Determine if procedures are being followed,
  - Validate policies and procedures, and
  - Identify and share best/proven practices.

4.10.9.1.5  
(04-22-2024)

**Terms and Acronyms**

- (1) The following table contains a list of terms used throughout this IRM and their definitions.

Term	Definition
Correspondence Examination Automation Support (CEAS)	A web-based application that stores electronic RGS cases and supports online access to case information, case retrieval, assignment, transfers, and closures from the group and includes functionality for online manager case reviews.
Digitize	The process of converting hardcopy documents into an electronic or digital format.
Lead Sheet Issue Reference Guide (LSIRG)	A comprehensive repository of audit steps, legal authorities, information for specific issues, and links to numerous issue-specific workbooks.
Paperless electronic closure	A process in which a case is closed with no corresponding physical (i.e., paper) administrative case file created or shipped to Files. Generally, the related electronic case file is stored in CEAS.
Report Generation Software (RGS)	The audit software program utilized in the examination process for numerous actions and tasks, including the contemporaneous maintenance of electronic case files. See IRM 4.10.15.1.1, Background.

Term	Definition
Sensitive but unclassified (SBU) data	Any information which if lost, stolen, misused, or accessed or altered without proper authorization, may adversely affect the national interest or the conduct of federal programs (including IRS operations), or the privacy to which individuals are entitled under the Privacy Act. See IRM 10.5.1.2.2, Sensitive But Unclassified (SBU) Data.

- (2) The following table lists acronyms used throughout this IRM and their definitions.

Acronym	Definition
CEAS	Correspondence Examination Automation Support
CCP	Centralized Case Processing
CFD	Case File Documents
IDRS	Integrated Document Retrieval System
KM	Knowledge Management
LSIRG	Lead Sheet Issue Reference Guide
MIP	Minimum Income Probe
NRP	National Research Program
OD	Office Documents
PSD	Portable Storage Device
PSP	Planning and Special Programs
RA	Revenue Agent
RFC	Required Filing Checks
RGS	Report Generation Software
SBU	Sensitive But Unclassified
SAR	Suspicious Activity Report
TCO	Tax Compliance Officer

4.10.9.1.6  
(04-22-2024)

#### Related Resources

- (1) Additional IRM sections examiners may refer to for lead sheet and workpaper guidance include:
  - IRM 4.2.5, Disclosure of Official Information
  - IRM 4.10.2, Pre-Contact Responsibilities
  - IRM 4.10.3, Examination Techniques
  - IRM 4.10.4, Examination of Income
  - IRM 4.10.5, Required Filing Checks
  - IRM 4.10.7, Issue Resolution
  - IRM 4.10.8, Report Writing
  - IRM 4.10.15, Report Generation Software
  - IRM 4.23.4, Employment Tax - General Procedures and Workpapers
  - IRM 4.26.6, Bank Secrecy Act Examiner Responsibilities
  - IRM 4.26.17, Report of Foreign Bank and Financial Accounts (FBAR) Procedures
  - IRM 4.33.1, Managing Electronic Records from Taxpayers and Third Parties
  - IRM 10.5.1, Privacy Policy
  - IRM 11.3, Disclosure of Official Information
- (2) The following are links to helpful resources in the *Virtual Library* on Knowledge Management (KM):
  - *Lead Sheets and Workpapers*
  - *Electronic Case Procedures*
  - *Report Generation Software (RGS) and CEAS*
  - *Required Filing Checks*
  - *Report of Foreign Bank and Financial Accounts (FBAR)*
  - *Electronic Records*
  - *Disclosure and Privacy Knowledge Base*
- (3) The *Lead Sheet Issue Reference Guide (LSIRG)*, a repository of audit steps, legal authorities, and links to numerous issue-specific workbooks, can be used to assist examiners in completing lead sheets.

4.10.9.2  
(04-22-2024)

#### Workpaper System

- (1) The workpaper system is designed to facilitate consistent organization of examination case files and eliminate duplication.
- (2) The workpaper system includes:
  - a. Case file indexes,
  - b. Form 4318, Examination Workpapers Index,
  - c. Form 9984, Examining Officer's Activity Record,
  - d. Administrative and issue lead sheets, and
  - e. Supporting workpapers.
- (3) Case file indexes are used to document all administrative and issue lead sheets, supporting workpapers, and other documents (e.g., information document requests, correspondence, case building materials, returns, etc.) in the electronic case file upon closure from the Examination group or another function (e.g., Planning and Special Programs (PSP), Technical Services). They allow other users and subsequent reviewers to verify that all documents closed with the case remain in the electronic file after closure. See IRM 4.10.9.11 for specific information on preparing case file indexes.

**Note:** Case file indexes are required for all Report Generation Software (RGS) cases. See IRM 4.10.9.4 for information about RGS.

- (4) Form 4318 is the cover sheet that indexes the lead sheets and supporting documents. It lists the issues examined and examination adjustments. See IRM 4.10.9.11 for additional information. Form 4318 pertains to one taxpayer (or both spouses for jointly filed returns) and includes all tax years under audit. For cases in which Form 4318 is not generated by RGS and there are more than three years under audit, examiners must also use Form 4318-A, Continuation Sheet for Form 4318, Examination Workpapers Index.
- (5) See IRM 4.10.9.5 for guidance on Form 9984, Examining Officer's Activity Record.
- (6) Lead sheets and workpapers are the written records that support the audit findings. Lead sheets and workpapers must document the audit activities including issues addressed during the audit, facts gathered, audit steps and techniques applied, tests performed, information obtained, and conclusions reached. They must include all the information necessary to reflect the audit trail and support the audit results. See IRM 4.10.9.7 and IRM 4.10.9.8 for additional information.

4.10.9.3  
(08-11-2014)  
**Ex Parte  
Communications**

- (1) Case files are not ex parte communications within the context of Rev. Proc. 2012-18, 2012-10 IRB. 455. It is permissible to contemporaneously include statements or documents that are pertinent to the examiner's consideration of the case. However, examiners must refrain from placing notes, memoranda, or other documents that normally would not be included in the case file in the ordinary course of developing the case if the reason for including this material is to attempt to influence Appeals' decision-making process.

**Note:** The case file must not include "gratuitous" comments in the case history, a memorandum to the file, or a transmittal document (e.g. Form 4665), if the substance of the comments would be prohibited if they were communicated to Appeals separate and apart from the case file.

- (2) See IRM 4.2.7, Ex Parte Communication Procedures, and *Ex Parte Communications Frequently Asked Questions* for additional information and guidance.

4.10.9.4  
(04-22-2024)  
**Report Generation  
Software (RGS)**

- (1) RGS is the software program utilized in the examination process for numerous actions and tasks, including the contemporaneous maintenance of electronic case files. See IRM 4.10.15.2, Report Generation Software (RGS) and Correspondence Examination Automation Support (CEAS).
- (2) All cases must be created, maintained, and stored in RGS. See IRM 4.10.15.3, Requirements to Use RGS and CEAS.

**Exception:** See *Cases Not Required to be in RGS* for a list of cases excluded from the requirement to be in RGS.

4.10.9.5  
(04-22-2024)  
**Activity Record**

- (1) Form 9984, indexed as lead sheet 100-01, should be used to document each action taken on the case. The activity record should be prepared contemporaneously and provide a complete and concise case history. Form 9984 chronicles all actions on the part of the examiner, group manager, clerical support staff, taxpayer and/or the taxpayer's representative, etc. during the course of the audit.
- (2) Form 9984 is a brief summary of actions taken and in some cases will reference other workpapers for more detail. All entries on Form 9984 should be written factually and professionally, omitting personal opinions.
- (3) Examiners using the RGS program may use the RGS Case History application in place of Form 9984; however, they must use caution when using this application because the case history entries can be lost. Examiners must create and save a new RGS Case History Report each time a new entry is made and then back up to the CEAS file server. See IRM 4.10.15.8.3, Case History, for additional information.
- (4) Information recorded on Form 9984 should include the date, location, contact code (i.e., type of contact), time charged, and an explanation of each activity or contact, including but not limited to:
  - a. Work performed prior to, during, and subsequent to taxpayer contact
  - b. Research activities
  - c. Pre-plan actions taken to determine the depth and scope of the audit
  - d. Date the tour of the business site or inspection of the taxpayer's personal residence was conducted
  - e. Brief summaries of telephone conversations
  - f. Contacts with taxpayers, representatives, and third parties
  - g. Causes for any delays by the Service (training, details, etc.)
  - h. Causes for any delays by the taxpayer, and/or representative
  - i. Actions taken to digitize paper documents relevant to the case (see IRM 4.10.9.10)
  - j. Group manager involvement (including informal discussions, formal discussions, in-process case reviews, on-the-job-visitations, workload reviews, penalty approvals, etc.)
  - k. Collateral requests and referrals
  - l. Actions with respect to the statute of limitations
  - m. Date the case was transferred to another examiner and name of the new examiner
  - n. The dates the case was (1) closed to the group manager, (2) closed by the group manager, and (3) closed by the clerical staff
- (5) Employees (other than the assigned examiner) who document their actions on the case activity record (e.g., group manager, group clerical staff, reviewer, etc.) should include their name or initials next to the entry so that it is clear who performed the specific action. This will help preserve the audit trail and make it easy for subsequent reviewers to determine who is responsible for certain actions taken.
- (6) See IRM 4.10.7.6.1.3.1, Use of Examiner Activity Reports, for additional information on use of the activity record.



4.10.9.6

(04-22-2024)

### Overview of Lead Sheets and Workpapers

- (1) Lead sheets and workpapers serve four basic purposes:
  - a. Provide a framework to plan the audit, including the analysis of internal documents, and set the scope of the audit.
  - b. Document the facts, evidence gathered, audit steps and techniques applied, tests performed, and analyses conducted during the audit process.
  - c. Support the factual and technical conclusions.
  - d. Provide a basis for review by management and other stakeholders (e.g., Treasury Inspector General for Tax Administration (TIGTA) reviewers and Counsel). Well prepared workpapers facilitate review by numerous customers.
- (2) Lead sheets and supporting workpapers constitute official government documents. They must be professional and objective in tone and language as well as free of unwarranted personal opinions and bias.
- (3) Examiners must contemporaneously update and finalize lead sheets and supporting workpapers during the audit and maintain them in the RGS electronic case file. If a physical (i.e., paper) administrative case file is required because the case is excluded from paperless electronic closure (see *Cases Excluded from Paperless Electronic Closure*), finalized lead sheets and workpapers (along with other documents pertinent to the case) must be printed and included in the physical administrative case file.
- (4) All case file documents, including lead sheets, workpapers, forms, reports, etc. must be prepared electronically or digitized, and saved in the RGS electronic case file. Refer to IRM 4.10.9.10 for required digitization procedures. Also see IRM 4.10.9.12 (5) for the pertinent documents that must be saved in the case file.

4.10.9.7

(04-22-2024)

### Lead Sheets

- (1) Examiners must use the administrative and generic issue lead sheets in the RGS program. The generic issue lead sheet must be used to create issue-specific lead sheets for all audit issues, including penalties. See IRM 4.10.15.8.9.3, Lead Sheets, and IRM 4.10.15.10, Office Documents (OD) and Case File Documents (CFD), for additional information.

**Note:** National Research Program (NRP) has specific requirements for lead sheets. Refer to IRM 4.22.4.3.1(5) and IRM 4.22.4.3.1(6), Scope and Depth of Examinations, and the *NRP website*, for additional information.

- (2) Administrative and issue lead sheets serve as an index and summary for supporting workpapers and provide the following benefits:
  - Consistent format, making the case file easier to review
  - Streamline the audit process
  - Include standard audit steps
  - Allow audit steps tailored to specific audit issues to be added

**Note:** Lead sheets do not replace the need for supporting workpapers. See IRM 4.10.9.8 for guidance on supporting workpapers.

- (3) Administrative and issue lead sheets must be numbered to agree with the reference code (i.e., issue number) assigned by RGS. See IRM 4.10.15.8.9.1, Issue Types. The lead sheet number should be shown in the footer of the

page. RGS auto-populates the lead sheet number in the footer when the lead sheet is saved within the issue. For lead sheets not saved within an issue in RGS (e.g., lead sheets for statutory issues or generic workcenter cases saved directly to the RGS Office Documents (OD) folder), examiners must ensure the lead sheet is properly numbered. Additionally, lead sheets must be properly labeled in accordance with required file naming conventions. See IRM 4.10.15.10.1, File Naming Conventions, for file naming convention requirements.

4.10.9.7.1  
(04-22-2024)

**Administrative Lead  
Sheets**

- (1) Administrative lead sheets address the administrative items requiring action and comment by the examiner (e.g., audit plan, initial discussion, required filing checks (RFC), minimum income probes (MIP)). They are also used as guides to assist the examiner with properly completing the audit. Administrative lead sheets are mandatory and are generally applicable to all income tax cases.
- (2) Administrative lead sheets do not contain an adjustment grid displaying “Per Return” and “Per Exam” amounts.
- (3) The administrative lead sheets listed below are mandatory for revenue agents (RA):
  - a. 100-02, Revenue Agent Audit Plan,
  - b. 100-03, Initial Taxpayer/Representative Discussion/Interview Check Sheet,
  - c. 100-04, Group Manager Concurrence Meeting (GMCM) and Managerial Involvement (mandatory for GS-12 and below),
  - d. 200-01, Multi-Year and Related Returns,
  - e. 300-01, Civil Penalty and Approval Form (mandatory for all deficiency and/or erroneous claim for refund or credit cases even if a penalty is not asserted), and
  - f. 400-01, Minimum Income Probe.

**Note:** If gross receipts are classified, the examiner must add the issue as a “Classified Issue” (RGS will assign a number in the 4XX series). If gross receipts are **not** classified, but are examined, the examiner must add the issue as a “New Issue” (RGS will assign a number in the 5XX series). See IRM 4.10.15.8.9.1, Issue Types, for additional guidance.

- (4) The administrative lead sheets listed below are mandatory for tax compliance officers (TCO):
  - a. 100-02, Tax Compliance Officer Audit Plan,
  - b. 100-03, Initial Taxpayer/Representative Discussion/Interview Check Sheet,
  - c. 200-01, Multi-Year and Related Returns,
  - d. 300-01, Civil Penalty and Approval Form (mandatory for all deficiency and/or erroneous claim for refund or credit cases even if a penalty is not asserted), and
  - e. 400-01, Minimum Income Probe (TCOs must use the *Initial Interview Questions and Notes* and *Initial Interview Questions and Notes Business Supplement* (for returns with Schedule C or F) workpapers within the TCO minimum income probe (MIP) workbook to document the initial interview).

**Note:** If gross receipts are classified, the examiner must add the issue as a “Classified Issue” (RGS will assign a number in the 4XX series). If gross receipts are **not** classified, but are examined, the examiner must add the issue as a “New Issue” (RGS will assign a number in the 5XX series). See IRM 4.10.15.8.9.1, Issue Types, for additional guidance.

- (5) Each administrative lead sheet must be thoroughly completed/documented for all administrative items applicable to the specific taxpayer being audited. The administrative lead sheets contain links to IRM references and other resources (e.g., job aids, websites) to assist examiners with determining the appropriate documentation requirements. Examiners should also refer to *Documenting Lead Sheets and Workpapers* job aid for supplemental guidance on completing administrative lead sheets.

**Caution:** If a lead sheet contains check boxes (e.g., Lead Sheet 100-3, Initial Taxpayer/Representative Discussion/Interview Check Sheet), they should be used to notate the applicability of an action taken. If the particular action listed on the administrative lead sheet was taken, examiners should notate the check box with an “X” or “✓” to indicate completion. Comments and/or supporting documentation to explain the action taken must be included and/or cross-referenced on the lead sheet because check boxes by themselves are not adequate supporting documentation. IRM 4.10.2.7(5), Pre-Contact Planning of Examination Activities, provides additional guidance regarding the use of check boxes.

4.10.9.7.2  
(04-22-2024)  
**Issue Lead Sheets**

- (1) Issue lead sheets are used to:
- Document the adjustments, conclusion, audit steps, facts, law, and taxpayer’s position for examined issues, and
  - Index and reference supporting workpapers.
- (2) An issue lead sheet is required for all audit issues, including penalties and statutory issues.

**Reminder:** The generic issue lead sheet in RGS must be used to create issue-specific lead sheets.

**Note:** All issues must be listed on Form 4318.

**Note:** Lead sheets are not automatically inserted into statutory issues in RGS. Lead sheets and other documents manually inserted into a statutory issue are deleted each time a tax computation is run. Therefore, lead sheets and other documents for statutory issues should be inserted directly into OD so they are not deleted. See IRM 4.10.15.8.9.3(2), Lead Sheets.

**Reminder:** NRP has specific requirements for lead sheets. Refer to IRM 4.22.4.3.1(5) and IRM 4.22.4.3.1(6), Scope and Depth of Examinations, and the *NRP website*, for additional information.

- (3) Issue lead sheets contain the following:
- Header - See IRM 4.10.9.8.1.
  - Content - See paragraph (4) below.

c. Footer - See IRM 4.10.9.8.1.

- (4) Issue lead sheets must reflect the issue name, adjustments (when applicable), conclusion, facts, law, taxpayer's position, and audit steps. This information should be presented in a logical order so reviewers can easily determine what audit steps and actions were taken to support the conclusion.

- a. **Adjustments** -- Document the adjustments resulting from the audit. The lead sheet will detail the "Per Return," "Per Exam," and "Adjustment" amounts with each adjustment referenced to the supporting workpapers.

**Note:** There are some issues that do not result in an adjustment to the tax return (e.g., innocent spouse and identity theft). For these types of issues, the examiner may delete the adjustment grid or write N/A for the "Per Return", "Per Exam", and "Adjustment" amounts.

- b. **Conclusion** - Document a conclusion summarizing the disposition of each issue.
- c. **Facts** - Document the facts upon which the adjustment is based. The statement should be in narrative form. The facts must be relevant to the issue and should be stated accurately and objectively. Facts favorable to both the Service's and taxpayer's position must be included.
- d. **Law** - Document the applicable authority relied upon to resolve the issue (both no change and adjusted issues). The applicable authority should be correctly cited and explained (if necessary). Rulings, opinions, and decisions relied upon should be clearly stated and identified in the explanation. If the adjustment is supported by multiple code sections of tax law, they all must be reflected. For example, to support a disallowance of business expenses, IRC 162(a), ordinary and necessary business expenses, and IRC 6001, lack of substantiation, should be incorporated into the narrative, if both are applicable. Include the argument to support the Service's position, by relating the facts, as previously stated, to the applicable law. See IRM 4.10.8.12.4(2), Explanation of Items.
- e. **Taxpayer's Position** - Document the taxpayer's position. The taxpayer's position should be stated objectively (in narrative form) if known. The legal authority, if any, that the taxpayer used as the basis of their argument should also be cited. If the taxpayer provided a written position statement, include and index it with the workpapers. If the taxpayer does not provide a position, the examiner should document that fact in this section of the lead sheet.
- f. **Audit Steps** - Document the procedures and the audit techniques performed during the audit. Use the "Workpaper Reference" column to index the workpaper where the actions taken for the audit steps are documented.

**Note:** The generic issue lead sheet contains standard audit steps (accessible from the drop-down menu in the "Audit Steps" section) for most issues. Issue-specific audit steps can be found in the *Lead Sheet Issue Reference Guide (LSIRG)*.

- (5) For additional guidance on creating issue lead sheets, refer to *Documenting Lead Sheets and Workpapers* job aid. Also see the TCO or RA *Lead Sheets and Workpapers* presentation.

- (6) The examiner or group manager should document all managerial discussions on the relevant issue lead sheet, Form 9984, or on lead sheet 100-04, Group Manager Concurrence Meeting (GMCM) and Managerial Involvement.

4.10.9.8  
(04-22-2024)  
**Workpapers**

- (1) Workpapers support the information included on the lead sheets and, when applicable, should reflect:
  - a. What the examiner reviewed, requested, and inspected to audit the issue. At a minimum, the workpapers should explain why the issue was audited, how a sample size was determined (when applicable), and what documents were requested and inspected.
  - b. Specific expenditures examined, verified and the conclusions reached. At a minimum, the workpaper should identify the amount examined, verified and the documents inspected (e.g., invoices, check numbers), as well as date and payee.
  - c. Questions or items raised during the audit and the conclusions reached.
  - d. Copies of issue-specific correspondence received, and relevant documents secured from the taxpayer, representative, and/or third parties (see paragraph 2 below). Care should be given to consider the facts and circumstances of a particular case when determining relevance. For example, documents containing information about a taxpayer's inventory markup percentages would be relevant when they are used to propose an adjustment to income using the Markup Method.
  - e. Internal sources (e.g., Information Return Processing (IRP) or Computer Files On Line (CFOL)) of information reviewed and the conclusions of the review.

**Note:** Secured internal documents that aren't needed to support an adjustment should not be included in the case file; however, the sources of information (e.g., IMFOLI/ BMFOLI, etc.) reviewed and the conclusion of the review must be documented in the case file.

- (2) Original records secured from the taxpayer and/or third parties must be copied, if needed to support an issue or adjustment, and the copies used as workpapers. Examiners must not alter (e.g., make notations or other markings) the taxpayer's original records. Form 2725-A, Document Receipt/History and Custody of Documents, should be issued to the taxpayer when hardcopy original records are received and temporarily retained for proposes of the examination. Form 2725-A should also be acknowledged with the taxpayer's signature when the records are returned.

**Note:** Electronic records received from a taxpayer or third party are considered "original" records. Examiners must not type on or otherwise edit the original files. "Working copy" files must be created. See IRM 4.33.1.5(5) and IRM 4.33.1.5(6), Preserving Original Records and Creating Working Copies, for additional information.

- (3) Many customers will use the case file; therefore, the quality and legibility of the workpapers are very important. In most instances, examiners should use computer software to prepare workpapers and reports in a way that will most efficiently and effectively document the audit process. Workpapers created electronically using a computer provide a product with a professional appearance. When it is necessary to prepare handwritten workpapers, they must be

legible (i.e., clear and easily read) and subsequently digitized. See IRM 4.10.9.10.

- (4) Workpapers must be neat, legible, grammatically correct, and easily understood. See *Documenting Lead Sheets and Workpapers* job aid for additional information. The appearance of the workpapers reflects the professionalism and skills of the examiner. Poorly prepared workpapers can adversely impact the Service's credibility. Additional reasons workpapers must be neat, legible, and grammatically correct are:
  - a. To assist in preparing reports.
  - b. Possible use in a court of law many months or years later. In a litigated case, the workpapers become court exhibits. As a witness in the case, the examiner must rely on his or her workpapers to answer questions regarding actions taken and conclusions reached.
  - c. Taxpayer requests for workpapers or the case file.
  - d. Efficient transfer of the case in the event the original examiner is unavailable. The new examiner must rely on the workpapers to develop issues that have already been identified, and continue the exam without duplicating actions.
  - e. Potential use in a subsequent audit.
  - f. Potential reviews performed by managers, Technical Services, Appeals, Taxpayer Advocate Service (TAS), Interest Abatement Coordinator, TIGTA, Government Accounting Office (GAO), etc.
  - g. Facilitate closing by Centralized Case Processing (CCP).
- (5) If a physical (i.e., paper) administrative case file is needed in addition to the electronic case file, the workpapers should be assembled in uniform size. If odd sized paper or documents are included, they should be folded to the appropriate size. Adding machine tapes or other small size documents should be attached to uniform-sized sheets of paper.

4.10.9.8.1  
(08-11-2014)

**Workpapers: Headers and Footers**

- (1) Workpapers must include a header and footer with the following information:
- (2) Header information:
  - a. Taxpayer's name,
  - b. Taxpayer identification number,
  - c. Tax return form numbers and years examined,
  - d. Examiner's name (or initials), and
  - e. Date workpaper was prepared.

**Note:** If a workpaper is prepared on multiple dates, the examiner should note each date that significant work was done.

- (3) Footer information - Indexed page number.

4.10.9.8.2  
(04-22-2024)

**Workpapers: Indexing**

- (1) All workpapers must be numbered and labeled.

**Example:** If the issue lead sheet reflects "Bad Debt Expense" as Issue 402, the lead sheet is indexed as 402-01.01 (with subsequent pages of the lead sheet numbered 402-01.02, 402-01.03, etc.). The workpapers associated with the issue should be numbered in chronological order as 402-02.01 (with any subsequent pages of the workpaper numbered 402-02.02, 402-02.03, etc.), 402-03.01, 402-04.01, etc.



The workpaper number should be reflected in the footer (see IRM 4.10.9.8.1 (3)). In addition, see IRM 4.10.15.10.1, File Naming Conventions, for guidance regarding naming (labeling) files within RGS.

- (2) Workpapers should be prepared using appropriate cross-referencing as follows:
  - a. Examiners should use the “Workpaper Reference” column on the administrative or issue lead sheet to point to the supporting workpaper(s). The supporting workpaper(s) must contain the documentation to explain the work performed.
  - b. It is not necessary to cross-reference all supporting workpapers to the lead sheet, however, supporting workpapers should be cross-referenced to each other when necessary to document the audit trail.
- (3) Tick marks are used to simplify documentation of conditions found and work performed. Tick marks do not need to be standardized throughout the case file, but they must be consistent throughout the workpapers for an issue. Tick mark explanations must be a part of the workpaper or included in a separate tick mark legend workpaper.
- (4) Workpapers should be indexed and labeled contemporaneously throughout the audit.
- (5) For cases requiring a physical (i.e., paper) administrative file, Document 12278, Examination Workpaper Index Reference Tabs, can be used by examiners to help index audit lead sheets and workpapers to the Form 4318. Generally, the information on each tab identifies the numeric index and the associated lead sheet as depicted on the Form 4318.

#### 4.10.9.8.3 (04-22-2024)

#### Workpapers: Disclosure

- (1) A taxpayer and/or representative can request and receive information from the examiner. Documents in the case file can be released unless the disclosure would seriously impair tax administration. Refer to IRM 4.2.5.6, Requests for Open Examination File and Workpapers.
- (2) Generally, information in a case file is Sensitive But Unclassified (SBU) data and it must be safeguarded from unauthorized disclosure. See IRM 10.5.1.2.2, Sensitive But Unclassified (SBU) Data, and IRM 4.2.5.1.1, Background.

**Note:** If an unauthorized disclosure of SBU data included in the case file occurs, examiners must follow procedures in IRM 10.5.4.3, Reporting Losses, Thefts and Disclosures.

- (3) If a Freedom of Information Act (FOIA) request is received on a case, a Disclosure manager will determine what should be released or what should be withheld in full or in part. See IRM 11.3.13.5, Review and Redacting, for additional information.
- (4) Examiners should keep their files clean of unrelated materials. For example, when examiners download information from services such as yK1 or CDW Knowledge Graph Environment (CKGE), they should immediately discard all material on unrelated parties (e.g., neighbors, prior property owners, etc.) unless such information is functionally declared necessary (e.g., to detail specific search methodology). See IRM 10.5.6.5.6, Privacy Act Requirement to Maintain Accurate, Relevant, Timely, and Complete Records, for additional

guidance. If the examiner has a question about whether information is related to the case, they should consult their group manager.

4.10.9.8.3.1  
(04-22-2024)

**Extremely Sensitive  
Information**

- (1) Some types of SBU information are more sensitive than others and thus warrant additional safeguarding measures to ensure proper protection. Examiners must use *Other Gov TD F 15-05.11*, Sensitive But Unclassified (SBU) Cover Sheet, as an additional protection measure for extremely sensitive information. See IRM 10.5.1.6.5, Marking. Examples of extremely sensitive information requiring additional safeguarding measures include, but are not limited to:

- Printed copies of Suspicious Activity Reports (SARs) protected under Title 31. See IRM 4.26.14.6, SAR Disclosure, and IRM 4.10.4.7.3, Guidelines for SAR Data Security and Disclosure Considerations.

**Caution:** SARs **must not** be saved in the RGS/CEAS electronic case file and if a physical administrative case file is maintained, SAR information must remain separate from the file. SARs received electronically from the Super User should be kept in a separate file saved in the SBU folder on the examiner's computer. When the case is closed from the group, the examiner must delete all SAR information saved to the SBU data folder and if SAR information was printed, it must be properly disposed (see IRM 10.5.1.6.10.1, Hardcopy Paper Disposition and Destruction).

- Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, marked as suspicious (i.e., the "suspicious transaction" box is checked on the form). See IRM 4.26.10.7.1(6), Form 8300 Rules.

**Caution:** Form 8300 marked as suspicious will be treated in the same manner as a SAR. The form **must not** be saved in the RGS/CEAS electronic case file and if a physical administrative case file is maintained, the information must remain separate from the file. If the form is received electronically, it should be kept in a separate file saved in the SBU folder on the examiner's computer. When the case is closed from the group, the examiner must delete all Form 8300 information saved to the SBU data folder and if Form 8300 was printed, it must be properly disposed (see IRM 10.5.1.6.10.1, Hardcopy Paper Disposition and Destruction).

- Identity of a confidential informant protected under IRC 6103(h)(4), including a whistleblower. See IRM 10.5.1.6.5, Marking, and IRM 25.2.1.3.6(1), Selecting a Claim.

**Note:** The examiner **must not** save any documentation related to a whistleblower (i.e., a claimant who files Form 211, Application for Award for Original Information – see IRM 25.2.1.1.3, Terms) in the RGS/CEAS electronic case file or physical administrative case file. All documentation related to a whistleblower claim must be kept in a separate file saved in the SBU folder on the examiner's computer. The completed whistleblower claim file should be returned to the Whistleblower Office with the Form 11369, Confi-



dential Evaluation Report on Claim for Award. See IRM 25.2.1.5, Working a Whistleblower Claim, and *Field Exam Whistleblower Claim Guidance*.

- (2) Proper use of *Other Gov TD F 15-05.11* depends on whether the extremely sensitive information is only in RGS, or if it is also included in a physical (i.e., paper) administrative file:
  - **Extremely Sensitive Information in RGS Requiring use of Other Gov TD F 15-05.11:** *Other Gov TD F 15-05.11* must be combined with the extremely sensitive information into a single PDF file. *Other Gov TD F 15-05.11* **must always** be the first page of the combined file and the file must be saved using the following file naming convention: “SBU - # - [File Name of Document]” with “#” reflecting 01, 02, 03, etc., depending on the number of extremely sensitive SBU documents. See IRM 4.10.15.10.1, File Naming Conventions, for additional information on naming requirements for RGS files.
 

**Example:** Confidential informant documentation saved in RGS would be named “SBU -01- Informant Documentation.” If the file is opened from the electronic case file, the user should see *Other Gov TD F 15-05.11* as the first page and then the informant documentation.
  - **Extremely Sensitive Information Saved in the Physical Administrative Case File:** If extremely sensitive information is saved in a physical administrative case file in addition to RGS, *Other Gov TD F 15-05.11* must also be attached to the front of the physical administrative case file. This will alert users there is SBU information in the file requiring additional protection. The extremely sensitive information should be placed in a “To be Opened by Addressee Only” envelope inside the physical administrative case file. The envelope should be labeled to indicate the type of extremely sensitive information contained inside (e.g., confidential informant information, etc.). *Other Gov TD F 15-05.11* must also be attached to the outside of the envelope.

**Reminder:** A physical administrative case file is only required if the case is excluded from paperless electronic closure (see *Cases Excluded from Paperless Electronic Closure*).

4.10.9.8.4  
(04-22-2024)  
**Workpapers:**  
**Documenting Certain**  
**Mandatory Items**

- (1) Examiners should refer to the IRM sections listed below for case file documentation requirements for the mandatory items listed:
  - **Pre-plan and initial contact:** IRM 4.10.2.3, In-depth Pre-Contact Analysis, and IRM 4.10.2.8, Initial Contact: Overview
  - **Required filing checks:** IRM 4.10.5.2.4, Case File Documentation
  - **Minimum income probes:** IRM 4.10.4, Examination of Income, and IRM 4.10.3, Examination Techniques

4.10.9.8.5  
(04-22-2024)  
**Workpapers:**  
**Documenting Issues**

- (1) All information critical to the case or that supports an adjustment must be maintained contemporaneously in the electronic case file, including lead sheets, supporting workpapers, and any other pertinent documents. For example, the following items should be contemporaneously saved in the case file (not all-inclusive):

- Workpapers and files that establish whether an issue is properly reported [relevant copies of taxpayer documents (contracts, invoices, etc.) as well as examiner-created files (pictures, web pages, etc.)].
- Taxpayer records and third-party information that support adjustments.

Examiners need to use good judgment when including information in the case file and determining whether the documents add merit or value to the case. Documents received from taxpayers and third parties should only be saved in the case file if they add merit or value to an issue or the case.

**Exception:** All records received in response to a summons must be saved in the case file. See IRM 4.33.1.8, Closing Cases with Electronic Records, and *Saving Summons Information to RGS* for instructions. Hardcopy documents (e.g., paper bank statements) received in response to a summons must be digitized by following the procedures in IRM 4.10.9.10. Note: Summoned records are original records and must not be altered or edited. See IRM 4.10.9.8 (2).

- (2) See IRM 4.10.9.8.9 for information on using a taxpayer's accounting software data backup file to create spreadsheets and PDF files that are used to conduct the audit.
- (3) Examiners can use various tools to assist in the preparation of workpapers. These may include word processing, database and spreadsheet applications. Examiners should use the tool that will provide the most utility and functionality in the most efficient and effective manner for the issue being addressed. KM is continuously updated with new releases of tax administration tools that may be helpful.
- (4) Optional workbooks are available to assist examiners in performing various complex computations including but not limited to depreciation, net operating loss, alternative minimum tax (AMT), and qualified business income deduction (QBID). These workbooks are available on the KM page for a particular issue or under *Special Applications* in the *Report Generation Software (RGS)* and *CEAS*.

4.10.9.8.6  
(04-22-2024)

**Workpapers:  
Documenting Penalties**

- (1) Consideration of penalties must be documented in all audits, including those involving tax shelters and erroneous claims for refund or credit. The applicability of penalties should be considered during the audit and, if warranted, developed as the audit progresses. Only after all facts and circumstances surrounding an audit have been developed can a determination be made as to the application of appropriate penalties. See IRM 20.1.5, Return Related Penalties.

**Exception:** The examiner **must not** document conclusions regarding a return preparer's responsibility for errors and the assertion or non assertion of the return preparer penalty in the income tax case file. See IRM 4.10.9.8.8 for additional guidance.

- (2) Whenever an audit results in a deficiency or in cases of an erroneous claim for refund or credit, the assertion or non-assertion of penalties must be documented in the case file (on lead sheet 300-1, a separate penalty lead sheet, or on a supporting workpaper). See *Documenting Lead Sheets and Workpapers* job aid for procedures on how to document penalties in the case file. The extent of the documentation will depend on the nature of the adjustments and the

amounts involved. Canned statements (e.g., “negligence penalty applicable” or “negligence penalty deemed to be not applicable”) are not sufficient.

4.10.9.8.6.1  
(08-11-2014)

**Penalties: Dollar Criteria**

- (1) The examiner must include documentation supporting assertion or non-assertion of a penalty on lead sheet 300-01 whenever the understatement of tax exceeds the dollar criteria for applying the penalty. Written managerial approval is also required. See IRM 4.10.9.8.6.2.

**Example:** The assertion or non-assertion of the substantial understatement penalty under IRC 6662(d) must be addressed when the understatement exceeds the greater of 10% (5% in the case of any taxpayer claiming the IRC 199A deduction) of the tax required to be shown on the return, or \$5,000 (\$10,000 for corporations other than S corporations or personal holding companies).

4.10.9.8.6.2  
(04-22-2024)

**Penalties: Supervisory Approval**

- (1) IRC 6751(b)(1) provides in general that no penalty under the IRC shall be assessed unless the initial determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate. See IRM 20.1.1.2.3, Approval Prerequisite to Penalty Assessments. The group manager must perform a meaningful review of the penalty determination and approve in writing the assertion of penalties. The written approval must be included in the case file.

**Note:** Civil Penalty Approval Form (Tab 2 within lead sheet 300-01 in RGS) is used to document supervisory approval of penalty assertions.

- (2) Supervisory review and approval is also required for the non-assertion of penalties when there is a substantial understatement of tax under IRC 6662(d) or an erroneous claim for refund or credit under IRC 6676. The group manager must personally approve non-assertion of the penalty, and should document their involvement on the Civil Penalty Assertion Lead Sheet (Tab 1 within lead sheet 300-01 in RGS).
- (3) Examiners must obtain written supervisory approval to abate any penalties when IRC 6751(b) or IRS policy required supervisory approval to assert the penalty, unless the penalty abatement is computational only (e.g., recomputed due to an abatement of the underlying tax, correction of an IRS error, etc.). See IRM 4.10.11.6.6.2, Claims for Refund and Requests for Abatement of Penalties. Supervisory approval of penalty abatements is documented on the Civil Penalty Abatement Lead Sheet (Tab 3 within lead sheet 300-01 in RGS).
- (4) Penalties requiring supervisory approval must be approved timely. See IRM 20.1.1.2.3.1, Timing of Supervisory Approval, for information on when penalties must be approved.

4.10.9.8.7  
(04-22-2024)

**Documenting Fraud Consideration and Civil Fraud Penalty**

- (1) During every audit, examiners must be alert to fraud indicators and assert the civil fraud penalty when there is clear and convincing evidence to prove that some part of the adjustment to taxable income and/or credits resulting in an underpayment of tax was due to civil fraud. Such evidence must show the taxpayer's intent to evade tax, which the taxpayer believed to be due.

**Note:** The fraudulent failure to file (FFTF) penalty is a counterpart of the civil fraud penalty under IRC 6663 and should be investigated and asserted in the same manner. See IRM 20.1.2.3.7.5, Fraudulent Failure to File - IRC 6651(f).

- (2) A fraud development job aid is available to assist examiners in making a determination of whether fraud should be pursued and developed. A link to the job aid is accessible from lead sheet 300-01 (Tab 1).
- (3) For every case resulting in a deficiency, examiners must document their consideration of fraud, including applicable fraud indicators, even if the civil fraud penalty is not pursued or developed. See IRM 25.1.2.3, Indicators of Fraud. Refer to *Documenting Lead Sheets and Workpapers* job aid for procedures on how to document fraud in the case file.

4.10.9.8.8  
(04-22-2024)  
**Documenting Return  
Preparer Penalty  
Consideration**

- (1) During every audit where the tax return was prepared by a tax return preparer, examiners must determine if return preparer penalties are warranted. See IRM 20.1.6.4.2, Tax Return Preparer Defined. This determination is based on the facts and circumstances of the case, including oral testimony and written evidence developed during the audit.
- (2) Examiners must exercise caution when documenting consideration of return preparer penalties in the related income tax case because the income tax audit is separate and distinct from the return preparer penalty case. Examiners must not propose or discuss return preparer penalties in the presence of the taxpayer.
- (3) When the return was prepared by a tax return preparer and the audit results in a deficiency, examiners must document consideration of return preparer penalties in the income tax case. Examiners must reference the workpapers containing the facts on lead sheet 300-01 (in the "Preparer/Promoter/Material Advisor Penalties" section).
- (4) The income tax case should reflect the return preparer's involvement in and responsibility for the preparation of the tax return. Documentation should be limited to the information necessary to demonstrate the return preparer's actions, such as:
  - a. Assertions by the taxpayer that penalties are not applicable because they relied on their return preparer.
  - b. Factual information received from the taxpayer about the return preparation.
  - c. The taxpayer's statements about his or her interaction with the preparer.
  - d. The return preparer's statements and explanations related to the preparation of the return.
- (5) Examiners should **not** document:
  - a. Information about the return preparer's conduct gathered from other sources, or
  - b. Conclusions regarding the return preparer's responsibility for errors and the assertion or non-assertion of the return preparer penalty.

4.10.9.8.9  
(04-22-2024)  
**Accounting Software  
Backup Data Files and  
Spreadsheets**

- (1) When available, the taxpayer's accounting software backup data file (e.g., QuickBooks®, Sage® (formerly Peachtree®)) is used to create spreadsheets or PDF files that contain numerous financial statement reports (e.g., trial balance, general ledger, journal, etc.) that are used to conduct the audit. During the audit, the examiner should determine what electronic records should be included in the case file. In many circumstances, the spreadsheet or PDFs, indexed to the lead sheets and workpapers, may be sufficient to support the audit adjustments.
- (2) Due to the nature of the software, the accounting software backup data file may contain a significant amount of information about transactions that are not relevant to the years under audit. Generally, the electronic accounting software backup data file should not be included in the case file when the case is closed.
- (3) Examiners should consult with their group manager regarding saving the accounting software backup file to RGS in situations where it may be critical to the case file. The facts and circumstances of the case will determine whether the accounting software backup file is critical to the case file. If the decision is made that the backup data file should be saved in RGS, the examiner should create a sub folder in the RGS Case File Documents (CFD) folder and save the backup file to a sub folder. See *Sub folders in RGS* for instructions on creating subfolders in RGS and saving files to the sub folder. The sub folder and backup file should be saved using required RGS file naming conventions. See IRM 4.10.15.10.1, File Naming Conventions.

**Note:** The accounting software backup data file will not be visible in RGS due to compatibility issues (see *What files are not compatible with RGS?*). The backup file will only be viewable in Windows Explorer and CEAS.

**Note:** Sub folders created in RGS are not viewable in CEAS. All files display in CEAS without sub folder distinction.

- (4) Original portable storage devices (PSD) (e.g., CDs, DVDs, thumb drives) containing the accounting software backup data files received from taxpayers should be handled in accordance with IRM 4.33.1.9.1, Disposing of Portable Storage Devices (PSDs).

4.10.9.9  
(08-11-2014)  
**Special Situations  
Requiring Documentary  
Evidence**

- (1) The following situations require special documentary evidence:
  - a. A fiduciary relationship.
  - b. A corporate name change or reorganization.
  - c. A bankruptcy or receivership.

**Note:** When special situations occur that may impact processing, examiners should notate the "Special Features - Other Instructions" section of Form 3198, Special Handling Notice for Examination Case Processing.

- (2) Documentary evidence is needed to:
  - a. Validate a return filed after one of the situations in IRM 4.10.9.9 occurred.
  - b. Determine the authority for the execution of waivers and reports.
  - c. Determine the authority for the execution of a consent to extend the time to assess tax.
  - d. Determine the authority to receive refunds.

- (3) To the extent the required documentation is not already attached to the return, examiners should secure the following documentary evidence:
- a. To verify a fiduciary relationship for a decedent, obtain Form 56, Notice Concerning Fiduciary Relationship, and Form 1310, Statement of Person Claiming Refund Due to a Deceased Taxpayer, where a refund is due. Form 1310 should also be secured when only one of the taxpayers filing a joint return is deceased. Examiners must also secure a certified copy of the legal document giving the fiduciary authorization to act for the taxpayer. These legal documents include letter of testamentary and letter of guardianship.
  - b. When a corporation's name has changed or a corporation has reorganized, the examiner must obtain copies of documents certifying the changes filed with, or received from, the state in which the successor corporation is incorporated.
  - c. If a bankruptcy or receivership is involved, secure the name of the party legally entitled to any refund which may be due. See IRM 4.4.3.8, Refunds to Other Taxpayers, Group Responsibility, for guidance.

4.10.9.10  
(04-22-2024)  
**Hardcopy Documents**

- (1) For cases started on or after July 27, 2022, all hardcopy documents (e.g., documents (including original returns) and correspondence received from taxpayers and third parties, handwritten workpapers, documents received from other IRS functions and offices, etc.) that are relevant to the case, must be digitized and included in the electronic case file.

**Exception:** If a paper case file from a prior audit is received when an audit reconsideration case is assigned, it should not be digitized by the examiner.

**Reminder:** All information received in response to a summons must be retained in the case file. See *Saving Summons Information to RGS*.

- (2) Digitize the hardcopy document by converting it to an electronic format (e.g., PDF). Follow the steps below to digitize a hardcopy document:
1. Date stamp the hardcopy document, if required, with the date received by the IRS.
  2. Use an IRS scanner or other IRS approved device to scan all pages of the hardcopy document (front and back if the hardcopy document contains information on both sides) in sequential order.
  3. Send the digital document by secure transmission to the appropriate workstation (e.g., use the "scan to email" option on the copier multifunctional device to send an encrypted email with the digital document to the examiner's IRS email account).
  4. Compare the digital document to the hardcopy document to ensure it is legible and complete.
  5. Document the activity record with actions taken to date stamp (if required), digitize, and verify the digital document.
  6. Save the digital document to the RGS CFD or OD folder of the applicable taxpayer using established file naming conventions. See IRM 4.10.15.10, Office Documents (OD) and Case File Documents (CFD), for guidance on the appropriate RGS folder to which the digitized document should be saved and IRM 4.10.15.10.1, File Naming Conventions, for naming convention requirements.



7. Back up the case to the CEAS file server. See IRM 4.10.15.3.1(2), CEAS Inventory Management.
- (3) **Original returns and potentially altered or fabricated documents for fraud cases must be retained even after they are digitized.** These documents **must not** be destroyed.
  - Cases in which fraud is indicated based on hard copy documents are excluded from paperless electronic closure (see *Cases Excluded from Paperless Electronic Closure*) and the documents must be digitized and also retained in the physical (i.e., paper) administrative case file.
  - For secured delinquent returns, follow the instructions in *Delinquent Return Secured*.
- (4) Original taxpayer records should generally be returned to the taxpayer and/or representative. See IRM 4.10.9.8 (2).

**Reminder:** The taxpayer and/or representative should acknowledge the return of the original records on Form 2725-A, Document Receipt/History and Custody of Documents.

- (5) All other hardcopy documents must be destroyed after they are digitized and the case is backed up to the file server, or when the case is closed from the group. See IRM 1.15.3.2(1), Destroying Records in the Custody of the IRS, to determine the appropriate method to destroy records.

4.10.9.11  
(04-22-2024)  
**Case File Indexing**

- (1) Form 4318, Examination Workpapers Index, must be saved in the RGS CFD folder and labeled with the prefix “001-01” at the beginning of the file name. See IRM 4.10.15.8.12(2), Reports, for information on generating Form 4318 in RGS. Also see IRM 4.10.15.10.1, File Naming Conventions, for information on RGS file naming conventions. If the case is excluded from paperless electronic closure (see *Cases Excluded from Paperless Electronic Closure*), Form 4318 must also be printed and included in the physical (i.e., paper) administrative case file.

**Note:** For paperless electronic closure cases with no corresponding physical administrative case file, some of the items shown on Form 4318 with a “600” reference code won’t match what’s in the case file. For example, Form 4318 is currently hard coded to index correspondence with reference code 605, information document requests with reference code 610, and case building with reference code 650. For electronic cases, the file naming convention for these types of documents doesn’t include a reference code. The documents are saved with a descriptive and category name. For example, if a physical administrative case file is required, Letter 2205, Initial Contact, would be printed and included in the paper file as workpaper 605-01, which reconciles to reference code 605 (correspondence) on Form 4318. In the electronic case file, Letter 2205 is named (labeled) as “LETTER - 202207021358 2205” (see *RGS File Naming Conventions job aid* for reference).

- (2) Prior to closure from the group, Technical Services, etc., a case file index must be created for all documents saved in the electronic case file. Two separate listings of documents saved in OD (e.g., lead sheets, supporting workpapers, etc.) and documents saved in CFD (e.g., reports, returns, letters, etc.) must be prepared and saved to the appropriate folder (OD or CFD) in RGS. A case file

index is required for all RGS cases, including cases in the RGS generic workcenter (see IRM 4.10.15.9, Generic Workcenter).

- a. Examiners may use an approved screen capture program, such as the TechSmith Snagit application, to create the case indexes. See *Create Case File Indexes job aid* for instructions on creating the case indexes and saving them in the electronic case using Snagit.
- b. Additional indexes must be created each time documents are added to the electronic case file by another Exam function (for example, if actions in Technical Services lead to the creation of additional documents in the case file).

**Note:** The modified date associated with each PDF file in the case may not always match the modified dates shown on the case file index, as the modified date updates each time a case is moved to the file server.

- c. The indexes must be labeled with the prefixes “000 - [two-digit document number] - OD” and “000 - [two-digit document number] - CFD”, respectively, at the beginning of the file names. See IRM 4.10.15.10.1, File Naming Conventions, for specific naming convention requirements for case file indexes.

4.10.9.12  
(04-22-2024)

**Case File Assembly for  
Closing Physical  
Administrative Case  
Files**

- (1) All cases must be fully electronic (see IRM 4.10.9.6 (4)) and most cases are closed using paperless electronic closure. However, cases excluded from paperless electronic closure (see *Cases Excluded from Paperless Electronic Closure*) require the creation of a physical (i.e., paper) administrative case file before the case is closed from the group. This section provides case file assembly instructions for physical administrative case files. Proper assembly of a case file helps to minimize delays, administrative problems, and procedural errors. The physical administrative case file must be shipped to the next function (e.g., CCP, PSP, or Technical Services) at the same time the electronic case file is closed out of the group. See IRM 4.10.15.12.2(3), Examined Closures - Manager Responsibilities.
- (2) Each case should be placed in a separate folder. A case constitutes all examined returns and workpapers with the same type of tax for the same taxpayer. Within the folder, the oldest year should be placed on top, followed by the other years in order, with the most current year on the bottom.

**Note:** Refer to IRM 4.10.8.15.3, Case Folder Color, for procedural requirements regarding the use of color file folders when closing certain types of cases (e.g., red folder required if there are 180 days or less remaining on the statute).

- (3) All related case folders should be kept together with the key case folder on top. Form 3198 is required for the key and each related case. The examiner must record the related or key case in the “Related Taxpayers or Key Cases” section of Form 3198.
- (4) If more than one folder is used to hold returns, workpapers, or related cases, they should be numbered to ensure they are not separated in error. For example, if there are three folders for one case, number the folders “1 of 3”, “2 of 3”, and “3 of 3”.
- (5) Examiners must follow the instructions listed in this section for:



- a. Forms attached to the outside of the case folder. See IRM 4.10.9.12.1.
- b. Forms attached to the inside left of the case folder. See IRM 4.10.9.12.2.
- c. Forms and other documents enclosed within the case folder. See IRM 4.10.9.12.3.
- d. Forms and other documents to be attached to tax returns. See IRM 4.10.9.12.4.

- (6) The forms, reports and/or documents listed below will not be required in every case. While the list is not all inclusive, it addresses the most common items.

4.10.9.12.1  
(08-11-2014)

**Forms on the Outside of  
a Physical Case File**

- (1) When the following forms are required, they must be attached to the outside of the case folder and placed in the following order (top to bottom):

- a. Form 3210, Document Transmittal
- b. *Other Gov TDF 15-05.11*, Sensitive But Unclassified (SBU) Cover Sheet. See IRM 4.10.9.8.3.1.
- c. Form 895, Notice of Statute Expiration
- d. Form 3198, Special Handling Notice for Examination Case Processing

**Note:** For cases with agreed and unpaid deficiencies over \$100,000, examiners must check the “Over \$100,000 Agreed and Unpaid” box in the “Expedite Processing” section.

- e. Form 10329, Transmittal Sheet-Related Cases (companion to Form 3198)
- f. Form 3185, Transfer of Return

4.10.9.12.2  
(04-22-2024)

**Forms and Other  
Documents on the  
Inside Left of a Physical  
Case File**

- (1) Forms and other documents to be attached to the inside left of the case folder should be assembled in the following order (top to bottom):

- a. Form 2363, Master File Entity Change
- b. Information On Line Entity Summary (INOLES), Audit Management Display System All (AMDISA), and a TXMODA (current within 30 days of closure)
- c. Copy of the approved Form 5345-D, Examination Request-ERCS (Examination Returns Control System) Users

**Note:** See IRM 4.10.9.12.4 for Form 5345-D with certain source codes that must be attached to the tax return.

- d. Form 5346, Examination Information Report
- e. Form 2725-A, Document Receipt/History and Custody of Documents
- f. PSDs (when approved for use) enclosed in envelope(s) or protective jacket(s)

**Note:** Examiners should refer to IRM 4.33.1.8.1, Labeling and Location of Portable Storage Devices (PSDs), for requirements pertaining to PSDs in the case file.

4.10.9.12.3  
(04-22-2024)

**Forms and Other  
Documents Inside a  
Physical Case File**

- (1) In order to create a well organized, professional appearing case, the lead sheets and workpapers in the case folder should be arranged in packages (groups). The packages should be clipped or stapled together and placed inside the case folder in the following order (top to bottom).

- a. Form 9440, Taxpayer Levy Source and Contact Information. See IRM 4.20.1.3.2, Form 9440, Taxpayer Levy Source and Contact Information.

- b. Waiver and acceptance forms, such as:  
Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment  
Form 886-S, Partners' Share of Income, Deduction and Credits  
Form 886-X, Shareholders' Share of Income, Deductions, and Credits  
Form 886-Z, TEFRA Partners' Shares of Income  
Form 2297, Waiver of Statutory Notification of Claim Disallowance  
Form 2504, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment  
Form 3363, Acceptance of Proposed Disallowance of Claim for Refund or Credit
- c. Form 4665, Report Transmittal
- d. Form 3999, Statute Expiration Report
- e. Taxpayer's protest and correspondence in unagreed cases
- f. Form 3213, Engineer's Memorandum Report
- g. Form 3963, International Examiner's Report
- h. Examination report with appropriate attachments (agreed or unagreed)
- i. Form 433-D, Installment Agreement, Form 9465, Installment Agreement Request, and Form 2159, Payroll Deduction Agreement, must be placed on top of Form 5344

**Note:** When any of these forms are enclosed in a case file, Form 3198 should be flagged so CCP will remove the form and send it to the appropriate Campus.

- j. Original tax return(s) or electronic prints if used in lieu of the original return and related attachments or CC ESTAB/ELFREQ prints reflecting the requesting of the original return. The oldest tax period should be on the top and progress down to the most current year.
- k. Workpapers - Form 4318, Examination Workpapers Index, will be the first page followed by Form 9984, Examining Officer's Activity Record, and then additional workpapers. See IRM 4.10.9.2 for additional guidance.

4.10.9.12.4  
(08-11-2014)

**Forms and Other Documents Attached to Tax Returns in Physical Case Files**

- (1) Forms and other documents to be attached to the tax return include:

- a. Form 5344, Examination Closing Record (one for each tax period) - must be attached to the face of the return

**Note:** If partially agreed, see IRM 4.10.8.6, Partially Agreed Cases.

**Note:** If the return you are closing must be recharged to a specific location, complete Form 2275, Records Charge and Recharge, and place it on top of Form 5344. Form 3198 must contain instructions regarding where to send (recharge) the return.

- b. Compliance Evaluation print out. See IRM 4.10.16.1.2.5, Completion of the Compliance Evaluation Screen.
- c. Form 1900, Income Tax Survey
- d. Form 3244-A, Payment Posting Voucher - Examination - must be attached to first page of return
- e. Consents to extend the time to assess tax (e.g., Form 872, Form 872-A, Form 872-B, Form 872-F, Form 872-M, Form 872-O, Form 872-N) - one of the two executed copies stapled to the reverse of the first page of the tax return on top of any other attached forms
- f. Copy of an executed Form 872-T, Notice of Termination of Special Consent to Extend the Time to Assess Tax Attributable to Partnership

- Items - must be attached to the back of the first page of the tax return to which it applies. See IRM 25.6.22.7.1.6, Location of Executed Form 872-T in Case File.
- g. Form 56, Notice Concerning Fiduciary Relationship — stapled to reverse of the first page of the tax return
  - h. Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer
  - i. Form 2848, Power of Attorney and Declaration of Representative, or copy of CAF record (IDRS CC CFINK) —stapled to reverse of the first page of the tax return
  - j. Form 8821, Tax Information Authorization
  - k. Form 843, Claim for Refund and Request for Abatement, Form 1040X or Form 1120X, amended returns
  - l. Form 1045, Application for Tentative Refund, or Form 1139, Corporation Application for Tentative Refund —stapled to the tax return giving rise to tentative carryback adjustment. Attach a copy of Form 1045 or Form 1139 to each carryback/carryforward year.
  - m. Form 906, Closing Agreement on Final Determination Covering Specific Matters
  - n. Copy of requests (e.g., Form 5345-D, Examination Request-ERCS (Examination Returns Control System) Users; Form 5346, Examination Information Report; or Form 5354, Examination Request Non-Master File) using source code 45 (reference and information return), source code 60 (examination information report), or source code 99 (other)
  - o. Form 5546, Examination Return Charge-Out Sheet, and applicable transcripts
  - p. Form 2198, Determination of Liability for Personal Holding Company Tax

4.10.9.13  
(08-11-2014)  
**Mailing Cases**

- (1) See IRM 4.10.1.4.8, Shipping Personally Identifiable Information (PII), and IRM 10.5.1.6.9.3, Shipping through Private Delivery Carrier, for procedures that must be followed when mailing cases, including the preparation and use of Form 3210, Document Transmittal.
- (2) Each case folder should be secured with a rubber band or strap. All related case folders should be grouped together with rubber bands, straps, or boxed together, as appropriate.
- (3) The RGS case must be forwarded to the next function (CCP, PSP, Technical Services) on the same day the paper case file is shipped.

