# MANUAL TRANSMITTAL

**4.25.6**

Department of the Treasury
**Internal Revenue Service**

**DECEMBER 7, 2021**

## EFFECTIVE DATE

(12-07-2021)

## PURPOSE

(1)     This transmits revised IRM 4.25.6, Estate and Gift Tax, Report Writing Guide for Estate and Gift Tax Examinations.

## MATERIAL CHANGES

(1)     IRM 4.25.6.1.5, Related Resources paragraph (3) was added to provide a citation to the Servicewide privacy Policy Statement 10-2 located in IRM 1.2.1.17.2.

(2)     IRM 4.25.6.2, Overview of Examination Reports, provides an introduction to the requirements of examination reports in estate and gift tax cases.

(3)     IRM 4.25.6.2.1 paragraph 1, sentence 2 was deleted. The feature described was obsoleted.

(4)     IRM 4.25.6.5 paragraph 4 was revised. All help/tips are now available through the Estate and Gift Notebook Job Aid (EG Notebook Job Aid).

(5)     IRM 4.25.6.6.7.4 paragraph 2 was deleted.

(6)     IRM 4.25.6.6.7.4 paragraph 3 was revised to clarify the general need to input data into the SDTD workbook(s) to generate an accurate state death tax deduction.

(7)     The content in 4.25.6.7 paragraph 1 was deleted. Guidance regarding estate and gift tax claim cases is in IRM 4.25.9. The note following paragraph 1 was moved to paragraph 1.

(8)     Editorial changes have been made throughout this IRM. Hyperlinks, legal citations, and IRM references were reviewed and updated as necessary.

## EFFECT ON OTHER DOCUMENTS

This material supersedes the July 29, 2019 publication of IRM 4.25.6, Estate and Gift Tax, Report Writing Guide for Estate and Gift Tax Examinations.

## AUDIENCE

This section contains instructions and guidelines for Small Business/Self-Employed Estate and Gift Tax Specialty Programs employees.

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Small Business/Self-Employed

4.25.6

# Report Writing Guide for Estate and Gift Tax Examinations

# Table of Contents

**4.25.6.1**
(07-23-2018)
**Program Scope and Objectives**

(1) **General Overview** - This IRM provides general information about the report writing procedures for estate, gift and generation-skipping transfer tax examinations.

(2) **Purpose** - This IRM explains Estate and Gift examiner report writing responsibilities so that managers, senior-level officials and examiners will be better equipped to prepare and submit accurate reports.

(3) **Audience** - This IRM is for Estate and Gift Specialty Tax managers, examiners and personnel at the campus who process estate, gift and generation-skipping transfer tax returns, refunds and claims.

(4) **Policy Owner** - Director, Examination - Specialty Policy is responsible for the administration, procedures and updates related to the technical guidance and information processing steps and methods specific to Estate and Gift Tax examiner responsibilities, IRM subsections, and forms created for the examination of returns and claims.

(5) **Program Owner** - Director, Examination - Specialty Examination owns Estate and Gift Tax Examination.

(6) **Primary Stakeholders** - Advisory Collections, Appeals, Counsel, Estate and Gift Tax Workload Selection and Delivery, Specialty Examination, and SB/SE Examination Quality & Technical Support are the primary stakeholders for this IRM.

**4.25.6.1.1**
(07-23-2018)
**Background**

(1) This section provides policies and procedures relating to estate and gift tax program specific penalty analysis, managerial approval, assessment and abatement.

**4.25.6.1.2**
(12-07-2021)
**Authority**

(1) Estate and gift tax examiners and managers assigned to examine and oversee the examination of estate and gift tax returns and issues are responsible for complying with servicewide policies and authorities set forth in IRM 1.2.1.5, Servicewide Policies and Authorities, Policy Statements for the Examining Process.

(2) Examination of estate and gift tax returns should be conducted in a manner that will promote public confidence as stated in the Mission of the Service. See IRM 1.2.1.2.1, Policy Statement 1-1.

(3) Section 3504 of P.L. 106-206 requires the Service to include an explanation of the examination and collection process, as well as information about assistance from the Taxpayer Advocate with any first report/notice of proposed deficiency. Pub 3498, The Examination Process, will be used for this purpose.

(4) Per Statement of Procedural Rules 601.506, examiners should forward any correspondence (or copy), discussions, reports and/or other material to the taxpayer at the same time the documents are sent to the representative. For more detailed information on how to mail correspondence when a POA is involved, see IRM 4.11.55.2.9, Notices and Communications.

(5) IRM 1.2.1.12.1, Policy Statement 20-1 (Formerly P—1—18)

(6) 26 U.S.C. Chapters 11 through 15, and related regulations.

4.25.6.1.3
(07-29-2019)
**Program Objectives and Review**

(1)   The National Quality Review System (NQRS) is a web-based review system used by Estate and Gift Tax Policy, Specialty Exam Quality (SEP) to generate and review reports analyzing national quality performance based upon standardized quality attributes set forth in Document 12499, Estate and Gift Tax Examination Embedded Quality Job Aid. NQRS report data is compiled by QMA on a quarterly basis, but **ad hoc** reports may be obtained monthly. The use of NQRS is explained in additional detail in IRM 4.25.1.11, Manager Embedded Quality Review and Specialty Exam National Embedded Quality Review Programs.

(2)   Operational Reviews and related NQRS reports are conducted by Territory Managers and the Chief, Estate and Gift Tax, to measure national adherence to quality standards and managerial performance and/or oversight.

(3)   Customer, i.e. taxpayer, satisfaction reports are generated by SB/SE Operation Support Research on a quarterly basis. These reports provide masked taxpayer narratives that are responsive to a pre-defined set of survey questions. The quarterly survey reports are to be used to identify areas for examination quality improvement.

(4)   Frequent front-line manager reviews are conducted under the Examination Quality Review System (EQRS), with the frequency based on annual personnel requirements.

4.25.6.1.4
(07-29-2019)
**Terms/Definitions/ Acronyms**

(1)   The following table sets forth Estate and Gift Tax program specific terms and definitions:

| Term | Definition |
|---|---|
| 30-Day letter (also known as a preliminary letter) | Letter used to transmit the examination report to the taxpayer and allow the taxpayer 30 days to request Appeals' consideration of the case, or take other actions as outlined in the specific letter. |

| Term | Definition |
|------|-----------|
| Agreed tax period | An examined tax period resulting in changes to tax and/or penalty and the taxpayer agrees by signing a Form 890, Waiver. The following scenarios are considered agreed closures even without a signature on the Form 890, Waiver:<br>• Prior to the issuance of a notice of deficiency an advance payment is received (not designated as an IRC 6603 deposit) which fully pays the deficiency.<br>• The net result of the examination is an overassessment (other than a claim for refund disallowed in full or part). |
| Closing Letter | Letter (Letter 627) used to notify the taxpayer that the estate tax examination report has been reviewed and accepted by the appropriate Director and the examination proceeding is officially closed. A Letter 627 is not automatically issued, but may be requested by the taxpayer. See IRM 4.25.10.2.7 paragraph 4 for more information. A closing letter is not issued at the conclusion of Gift Tax Return and/or Generation-skipping Transfer Tax Return examinations. |
| Deploy | Deploy or deployment is the process utilized by the Estate and Gift Notebook Job Aid to populate forms, lead sheets, work papers, letters and report documents to the specific SBU case file. |

| Term | Definition |
|------|-----------|
| Estate and Gift Tax Notebook Job Aid | This is a proprietary system comprised of an MS Office Access database and Excel workbooks used by Estate and Gift Tax Examination, Appeals and Campus personnel to generate reports and examination process and documentation (EPD). It is like RGS. |
| No Change tax period | An examined tax period resulting in no adjustment(s) to the value of the taxpayer's reported transfer(s), exclusions, deductions or credits. |
| No Change with Adjustments tax period | An examined tax period resulting in adjustment(s) to the taxpayer's reported transfer, deductions or credits, but no net change to tax and/or penalty. |
| Overassessment tax period | An examined tax period resulting in adjustment(s) that reduce the taxpayer's liability in the year examined. An overassessment becomes an overpayment when a refund is indicated (subject to the time limits prescribed for making a refund or credit). |
| Unagreed tax period | An examined tax period that results in a deficiency, a disallowed claim or refund or a change (but the adjustments impact the tax liability of another year), and the taxpayer does not agree to the findings and a report or waiver is not signed by the taxpayer. |
| Waiver | A form allowing taxpayers to waive certain restrictions or requirements. Estate and Gift Tax generally uses Form 890, Waiver of Restrictions on Assessment and Collection of Deficiency and Acceptance of Overassessment - Estate, Gift and Generation - Skipping Transfer Tax. |

(2)    The following table sets forth common Estate and Gift Tax program acronyms:

| Term | Acronym |
|------|---------|
| Estate and Gift Notebook Job Aid | EG Notebook Job Aid |
| Examination Returns Control System | ERCS |
| Estate and Gift Tax Embedded Quality Review System | EQRS or EQ |
| Estate and Gift Tax Exam Process and Documentation | EPD |
| Failure to File | FTF |
| Failure to Pay | FTP |
| Generation-skipping Transfer Tax | GSTT |
| Integrated Data Retrieval System | IDRS |
| Issue Management System | IMS |
| National Quality Review System (NQRS) | NQRS or NQ |
| State Death Tax Deduction | SDTD |

**4.25.6.1.5**
**(07-29-2019)**
**Related Resources**

(1)  The Estate and Gift Tax program is required to follow all servicewide examination procedures and those set forth in SB/SE examining process IRM. The following IRM subsections provide additional information relating to the processing, classification and examination of Estate and Gift Tax program returns and claims:

- IRM 4.25.1, Estate and Gift Tax, Estate and Gift Tax Examinations
- IRM 4.25.2, Campus Procedures for Estate Tax
- IRM 4.25.3, Planning, Classification and Selection
- IRM 4.25.4, International Estate and Gift Tax Examinations
- IRM 4.25.5, Technical Guidelines for Estate and Gift Tax Issues
- IRM 4.25.7, Estate and Gift Tax Penalty and Fraud Procedures
- IRM 4.25.8, Delinquent Returns and SFR Procedures
- IRM 4.25.9, Requests for Abatement, Claims for Refund and Doubt as to Liability in Estate and Gift Tax Cases
- IRM 4.25.10, Case Closing Procedures
- IRM 4.25.11, Special Examination Procedures
- IRM 4.25.12, Valuation Assistance
- IRM 4.25.13, Appeals, Mediation and Settlement Procedures
- IRM 4.25.14, Miscellaneous Procedures
- IRM 4.10.6, Examining Process, Examination of Returns, Penalty Considerations
- IRM 4.10.8, Examining Process, Examination of Returns, Report Writing
- IRM 20.2.10, Penalty and Interest, Interest, Interest on Estate, Excise, Employment, and Foreign Taxes

(2) Document 12499, Estate and Gift Tax Examination Embedded Quality Job Aid, is issued by Estate and Gift Tax Policy, and is relied upon for the application and interpretation of the quality attributes. The Job Aid includes complete instructions, definitions, and examples of how cases should be evaluated.

(3) IRM 1.2.1.17.2, Policy Statement 10-2, Privacy First: Ethically protecting individual privacy and safeguarding confidential tax information. This Servicewide Policy statement summarizes existing policy from IRM 10.5.1, mainly the IRS Privacy Principles section, to emphasize the importance of privacy protections as ethical principles the IRS must follow Servicewide.

| | |
|---|---|
| **4.25.6.2**<br>(12-07-2021)<br>**Examination Reports** | (1) Examiners have the responsibility to ensure examination reports are properly prepared and issued.<br><br>(2) Examination reports serve several important purposes. Examination reports:<br><br>  a.  Protect the taxpayer's "Right to be Informed." Examination reports should contain all the information necessary to ensure a clear understanding of the adjustments and identify the amounts (if any) of tax due, interest deductible, additions to the tax and assessable penalties.<br>  b.  Serve as the basis for assessment and collection action.<br>  c.  Give notice of a tax liability for purpose of interest suspension. IRC 6404(g) provides for the suspension of interest when the Service fails to provide timely and adequate notice of a tax liability. |
| **4.25.6.3**<br>(07-29-2019)<br>**Notebook Job Aid** | (1) The Estate and Gift Notebook (EG Notebook) is the only authorized report writer for Estate and Gift. Regardless of the access to other programs or systems capable of preparing reports, all Examination Reports must be created utilizing Notebook.<br><br>(2) Issue Management System (IMS) users may export data from IMS into the Notebook case file. The exported IMS data includes the TIN, taxpayer name, taxpayer contacts, and ERCS data. See The Estate and Gift Tax Notebook Job Aid Job Aid (EG Notebook Job Aid), for instructions on importing data into and exporting data from Notebook. |
| **4.25.6.3.1**<br>(12-07-2021)<br>**EG Notebook Job Aid and Technical Support** | (1) The EG Notebook Job Aid is accessible through Notebook, under the Help/Tips tab.<br><br>(2) Submit a help ticket to obtain technical support or assistance with Notebook data entry procedures. For proper routing of the service ticket, use "Estate and Gift Notebook" in the text describing the issue. |
| **4.25.6.3.2**<br>(07-23-2018)<br>**Notebook Order of Adjustment** | (1) The examiner should enter all adjustments into Notebook using the following order of adjustments:<br><br>  a.  Manual-only adjustments (e.g., increase to a Schedule B item or decrease to Schedule K item)<br>  b.  Adjustments that can be manually input **or** have a Worksheet option (e.g., Adjusted Taxable Gifts/Aggregate Tax on Gifts)<br>  c.  Adjustments that **require** the use of a Worksheet (e.g., interrelated computations, including interrelated interest). |

(2) Adjustments that require the use of Worksheet (e.g., interrelated computations, including interrelated interest) should be entered in the following order:

1.   Marital/Charitable/GSTT Interrelated computations
2.   Penalties Drawing Interest
3.   State Death Tax Deduction and State Interest Deduction
4.    Federal Interrelated Interest or 6166 Interrelated Interest

*Note:* If the examiner deviates from the above order of adjustments, calculations viewed on the preview screens may not be fully updated. Deploying Report Forms (from the Case Details screen) updates all calculations.

**4.25.6.4
(12-07-2021)
Estate and Gift
Examination Report
Forms**

(1)   The following sections provide guidance and best practices for generating estate and gift examination report forms using Notebook.

(2)   Prepare the applicable Examination Report forms for issuance to the taxpayer and authorized representatives. Generally, the Estate and Gift Tax Return Examination Report must include the following:

a.   Form 1273, Report of Estate Tax Examination Changes, is used to show the recommended adjustments. The form has two columns: "Tax Previously Assessed/Shown on Return" and "As Corrected" tax. The Form 1273 shows the recommended net deficiency or over-assessment of tax. The amounts entered in the "Shown on Return/As Previously Assessed" are the assessed tax and penalty amounts shown on a current transcript. These entries may differ from those shown on the return. Form 1273 also contains a summary of the adjustment in tax and a computation of the estate tax.

*Note:* Review Integrated Data Retrieval System (IDRS) transcripts of the account to ensure that the correct assessed tax and penalties are reflected on all reports. The IDRS transcript should be current, i.e. no older than 15 days.

b.   Form 3233, Report of Gift Tax Examination, is used for gift tax examinations.
c.   Form 6180, Adjustment to Taxable Estate, is used to summarize the net change on each schedule of the Form 706.
d.   Form 886-A, Explanation of Items, is used in estate or gift tax reports to explain each adjustment shown in the columns entitled "Shown on Return" and "As Corrected." The adjustments are entered in numerical order as reflected on the original return (Form 706 or Form 709) schedule. Each Form 886-A should be printed, titled, treated individually and organized in alphabetical order. A full and adequate description of each adjustment should be included on Form 886-A.
e.   Exhibits, worksheets, computations and other relevant documents necessary to explain changes to the taxpayer should be attached when appropriate.
f.   When an engineer, economist, or other expert report is prepared and the findings accepted by the examiner, the copy designated "Taxpayer's Copy" should be attached as an exhibit to the Form 1273 or Form 3233. If the examiner previously submitted the report to the taxpayer, an additional copy of the appraisal does not need to be attached to the report. These actions should be documented on the Form 9984, Activity Record.

g.   Except for the final report included in the closed case file, all draft reports sent to the taxpayer should be stamped or labeled "DRAFT" and dated.

h.   Form 890, Estate Tax Waiver of Restrictions on Assessment and Collection of Deficiency and Acceptance of Over-Assessment, is used to document that the taxpayer agrees to the proposed adjustments and is waiving the statutory restrictions upon assessment and collection of the deficiency in tax. The execution of this form permits the Service to assess the deficiency, schedule the over-assessment, or adjust the applicable credit amount immediately; It also stops the running of interest from the 31st day after the date of receipt until notice and demand for payment is made. Form 890 does not constitute a final closing agreement. Receipt of a signed waiver does not preclude reopening of the examination by the taxpayer or by the Service. Form 890 is used for fully and partially agreed cases. The report should reflect the exact amount of the deficiency, over-assessment, applicable credit amount, and/or penalty agreed to. The examiner should neither alter the amounts on a signed waiver nor solicit a blank signed waiver.

*Note:*   Form 890 should be date stamped when received. The Form 890 received date should also be notated in the examiner's Form 9984, Activity Record.

i.   If the amounts shown on the signed Form 890 are incorrect due to an error in computation, and the error would result in an incorrect billing or refund, the report will be re-written for the corrected amount and a statement will be made on the report explaining the change. Reviewing transcripts for penalties, tax assessments, and payments before preparing a draft report will reduce most computation errors. If the correction is in favor of the taxpayer, it is not necessary to obtain a new waiver. If the correction is against the taxpayer, a supplemental waiver for the difference between the corrected amount and the amended amount will be secured. The supplemental waiver will be clearly marked as such and stapled on top of the original waiver.

*Note:*   Form 890-T, Waiver of Restrictions on Assessment and Collection and Acceptance of Overassessment as to Transferee or Fiduciary Liability for Estate, Gift and Generation—Skipping Transfer Tax, is used for agreed transferee liability cases. See IRM 4.25.11.6, Special Examination Procedures, Transferee Liability Cases

**4.25.6.5**
**(12-07-2021)**
**Gift File Worksheets**
**Generated by Notebook**

(1)   This section provides instructions for completing various gift tax report worksheets in Notebook.

(2)   Except for penalties, most gift adjustments may be made manually through Notebook.

(3)   The gift worksheets show the underlying tax computations for the adjustments described on the Form 886-A.

(4)   For additional assistance go to the EG Notebook Job Aid.

4.25.6.5.1
(07-29-2019)
**Accounting for Changes in the Law Impacting post-2009 Gift Tax Reports Worksheet**

(1) This post-2009 worksheet accounts for changes in the law impacting post-2009 gift tax return reports. The worksheet mirrors the table computations outlined in the Form 709 instructions. The worksheet computes the applicable credit for prior periods and gift tax paid in prior periods by taking into consideration that:

- From 2010 through 2011, the top rate on gifts was 35 percent. Starting in 2012, the top rate on gifts increased to 40 percent.
- The unified credit for 2010 was $330,800, and is now indexed for inflation. See for current credit information.
- Any unified credit allocated to gifts made in periods prior to 2010 must be recalculated using current gift tax rates.

(2) The Notebook Help/Tips tab includes a PDF document with instructions for accounting for the changes to the prior unified credit. The PDF document also includes screen shot examples of the computation process. These instructions are also in the EG Notebook Job Aid.

(3) Deploy and print the Prior Unified Credit Computation Sheet. Include the Prior Unified Credit Computation Sheet as a report exhibit to show any adjustments made to the prior unified credit. This worksheet should also be uploaded into IMS as a part of the report workpapers.

(4) When examining estate tax returns, the examiner should also document the reasons for changing unified credit allocations for prior gift tax return periods.

4.25.6.5.2
(08-07-2015)
**Adjusted Taxable Gifts/Aggregate Tax on Gifts Worksheet**

(1) This Adjusted Taxable Gift and Aggregate Tax on Gifts worksheets verify Adjusted Taxable Gifts and calculate the correct Aggregate Tax on Gifts, including an IRC 2001(b) adjustment when appropriate.

4.25.6.5.3
(07-29-2019)
**Generation-skipping Transfer Tax (Schedule C) Worksheet**

(1) This Adjustment may be made manually or input by using the Generation-skipping Transfer Tax (Schedule C) worksheet (use of the worksheet is recommended). If manually-input, select the Adjustment Type and complete all fields. See the EG Notebook Job Aid, for instruction for determining the amount of the adjustment by using the worksheet.

4.25.6.5.4
(07-29-2019)
**Penalties in a Gift File**

(1) Penalties in a gift tax file cannot be entered manually. The "Gift Penalty" worksheet must be used.

4.25.6.5.4.1
(08-07-2015)
**As Returned/Previously Assessed Penalties in Gift File**

(1) Obtain a current BMFOL transcript to verify any previously assessed penalties.

(2) From the "As Returned" gift input screen, enter the as returned values from the return and click the "+" sign next to the Penalties Previously Assessed description to enter previously assessed penalties.

(3) After clicking the "+" sign next to Penalties Previously Assessed, enter the As Returned/Previously Assessed penalty information for the gift tax file as shown on the transcript data.

| | |
|---|---|
| 4.25.6.5.4.2<br>(08-07-2015)<br>**Calculating Penalties in a Gift File** | (1) To enter gift tax penalty adjustments, select the relevant gift year, then select Penalties from the Adjustments screen drop-down menu. The penalty screen will open automatically: |

    a.    Select the "Use the Worksheet to Compute Corrected Penalty Calculations" box

    b.    Select the appropriate Gift Year

    c.    Select the Penalty Type from the Add/Edit Penalty Drop Down Menu

(2) To calculate a combination of Failure to File/Failure to Pay Penalties:

    a.    If there are approved filing and/or payment extension dates, enter them in the FTF Penalty Computation Date and/or FTP Penalty Computation Date fields.

    b.    Always verify the filing and payment deadlines with a current transcript. Verify payments and the tax subject to FTF and FTP. See IRC 6651.

    c.    In the upper right portion of the screen, enter all payment information (dates and amounts). Click Add Payment for each entry.

    d.    If the Substitute for Return (SFR) rule applies, check the "Apply SFR" box.

(3) After inputting adjustments for all years in examination, click the "Update PUC Data" button, if applicable. This action imports the examination changes into the Prior Unified Credit (PUC) Computation Sheet. The "Update PUC Data" button appears only if there are both pre-2010 adjusted taxable gifts and a post-2009 estate tax and/or gift tax return under examination.

(4) IRC 6662 Accuracy/Negligence and IRC 6663 Fraud penalties may also be entered from this screen.

| | |
|---|---|
| 4.25.6.5.5<br>(07-23-2018)<br>**Gift Interest** | (1) If as a courtesy the examiner wants to provide an estimate of interest on a gift tax (or gift tax plus penalties) assessment, the examiner should use the Gift Interest icon (shown at the top of the Gift File) and input the following information into the Gift Interest Worksheet and select deploy: |

    a.    Gift Year

    b.    Amount Drawing interest

    c.    Correct Due Date

    d.    Date of Payment (estimated payment date set by examiner)

| | |
|---|---|
| 4.25.6.6<br>(07-29-2019)<br>**Estate File Worksheets Generated by Notebook** | (1) This section provides instructions for completing various estate file report worksheets in Notebook. |

(2) For additional assistance go to the Help/Tips pull-down menu within Notebook. The Help/Tips pull-down menu offers specific help and tips for new estate report drafting procedures, and provides direct access to the EG Notebook Job Aid.

(3) Most of the worksheet calculations described below may also be entered into Notebook manually. If the worksheet calculation is a variable in the interrelated computation the worksheet option must be used. It is recommended that the examiner use the worksheet calculations as the default method for all cases with interrelated or 6166 election computations.

| 4.25.6.6.1<br>(08-07-2015)<br>**Gift Tax Credit Worksheet** | (1) | A gift tax credit adjustment may be made manually or by using a worksheet. |

    a.    If the credit is limited to a fixed dollar amount, use a manual entry for the gift tax credit.

    b.    If the credit is not limited to a fixed dollar amount, use the Gift Tax Credit Worksheet.

(2)    The Gift Tax Credit Worksheet corresponds to the Form 1273, line 15 gift tax credit on pre-1977 gifts. The Worksheet functions as an alternative to Form 4808 (gift tax credit manual worksheet).

(3)    To open the Worksheet, on the Miscellaneous tab of the Adjustments screen, select Gift Tax Credit from the Adjustment Type drop-down list and click Worksheet.

(4)    To include the gift tax credit as a variable in the interrelated computation the examiner must use the Gift Tax Credit Worksheet. Additionally, for a Section 6166 election the examiner must use the Gift Tax Credit Worksheet to ensure the credit is factored into the 6166 calculations.

**4.25.6.6.2**
**(07-29-2019)**
**Tax on Prior Transfers Worksheet**

(1)    A tax on prior transfers credit (TPT) adjustment may be made manually or by using the Tax on Prior Transfer Credit worksheet (TPT Credit worksheet). If the credit is limited to a fixed dollar amount, use a manual entry.

(2)    The TPT credit worksheet corresponds to the Form 1273, line 17, and functions as an alternative to Form 3229, Computation of Credit for Tax on Prior Transfers. The TPT Credit worksheet is based on the input of transferor's tax information. Notebook will calculate the Transferee computation (second limitation) to determine the correct amount of the credit, and reflect the results on the respective Form 886-A worksheet. See the EG Notebook Job Aid for data entry instructions.

(3)    To include the TPT credit as a variable in the interrelated computation the examiner must use the TPT Credit Worksheet. Additionally, for a Section 6166 election the examiner must use the TPT Credit Worksheet to ensure the credit is factored into the 6166 calculations.

(4)    Include the TPT Credit worksheet, Form 4808, Computation of Credit for Gift Tax, (if applicable) in Part II, when there is an adjustment in the amount of credit claimed or the Gift Tax Credit worksheet generated by Notebook. The applicable schedules and computations showing the net value of the transferred property should be attached.

**4.25.6.6.3**
**(07-29-2019)**
**Foreign Death Tax Credit (Statutory)/Foreign Death Tax Credit (Treaty/Canadian Marital Credit) Worksheet**

(1)    A Foreign Death Tax Credit (FDTC) adjustment may be made manually or by using a worksheet.

    a.    If the credit is limited to a fixed dollar amount, use a manual entry for the appropriate credit.

    b.    To include the Foreign Death Tax Credit as a variable in the interrelated computation, the examiner must use the Foreign Death Tax Credit Worksheet. Additionally, for a Section 6166 election, the examiner must use the Foreign Death Tax Credit worksheet to ensure the credit is factored into the 6166 calculations.

    c.    See the EG Notebook Job Aid, for data entry instructions.

(2) The Foreign Death Tax worksheets correspond to the Form 1273, lines 16 and 18, respectively. The worksheet is based on the input of Transferor tax information. Notebook will calculate the Transferee computation (second limitation), determine the correct credit amount, and reflect the results on the respective Form 886-A worksheet. When removing Transferor data inputs, it is a best practice to use the Remove Transfer function. Do not uncheck the "Use Worksheet" box at the top of the screen. An error message may appear if not enough information is input into the worksheet's fields.

(3) Notebook is designed to generate a statutory and a treaty foreign death tax credit adjustment, the corresponding Forms 886-A and worksheets. Do not attempt to remove the credit that does not result in an adjustment; doing so will negatively impact Notebook's computations and results.

**4.25.6.6.4**
**(07-29-2019)**
**Schedule R –**
**Generation-skipping**
**Transfer Tax Worksheet**

(1) A Generation Skipping Transfer Tax (GSTT) adjustment may be made manually or by using a worksheet. If the adjustment is limited to a fixed dollar amount, use a manual entry for the GSTT. To include the GSTT as a variable in the interrelated computation or Section 6166 election, the GSTT worksheet must be used.

(2) This worksheet corresponds to the Form 1273, line 21 adjustment.

(3) Each worksheet sub-screen (for Parts I, II, III and Schedule R-1) has its own check box. Each box must be checked separately to generate the worksheet to be used. See the EG Notebook Job Aid for instructions. Possible entries include:

- Part I, GST Exemption Reconciliation, requires a reconciliation of the GST exemption amount.
- Parts II and III, Direct Skips Bearing GST Tax and Direct Skips Not Bearing GST tax (sub-worksheets are not shown) require a manual input of all correct and/or adjusted GST information. Entries should include all appropriate exemption allocations, as this information is not carried over from the exemption information input into Part I.
- This GSTT Interrelated worksheet also includes a Schedule R-1, Direct Skips from Trusts worksheet.

(4) Notebook provides a separate tool for computing a residual and/or interrelated GSTT computation. For such a case, all GSTT inputs and calculations must be done using the Interrelated GSTT screen, by selecting the "Interrelated" button on the "General Information" screen.

**4.25.6.6.5**
**(07-23-2018)**
**Penalties in an Estate File**

(1) The following section provides guidance for verifying and/or calculating the estate file penalties using Notebook.

**4.25.6.6.5.1**
**(07-23-2018)**
**Previously Assessed Penalties**

(1) The examiner should review current transcripts to verify the amount of previously assessed penalties.

(2) The "Penalties Previously Assessed" tab is used to account for penalties previously assessed (by the Service Center or in a previous examination). The following previously assessed penalties should be entered using the Form 1273 tab:

- • IRC 6651 and IRC 6662 Penalties
- • Penalty Miscellaneous
- • IRC 6663 Penalties

**4.25.6.6.5.2**
(07-29-2019)
**Estate File – Entering Penalty Adjustments Generally**

(1) In an Estate File, a penalty adjustment may be entered manually or by use of the Penalty Worksheet.

(2) Select the "Draw Interest" box to include the penalties in the interest calculation.

(3) To include the estate file penalties (except accuracy-related penalties) as a variable in the interrelated computation the examiner must use the Penalty Worksheet. Additionally, for a Section 6166 election the examiner must use the Penalty Worksheet to ensure the correct amounts are factored into the 6166 calculations.

**4.25.6.6.5.3**
(07-29-2019)
**Failure to File and/or Failure to Pay Penalties in an Estate File**

(1) On a transcript, the FTF and FTP penalties are listed separately. If the examiner is making an Adjustment to FTF/FTP (the combination penalty, where FTP reduces FTF), enter the combined total amount of both previously assessed penalties on the Penalties Previously Assessed tab using the "6651 — Failure to File/Failure to Pay" option from the drop-down list. Entering the penalties separately, followed by use of the FTF/FTP Worksheet to calculate the combination penalty, may yield an incorrect Adjustment result. Use the separate appropriate Worksheets to enter each penalty's information. See IRM 20.1.2.2, Failure to File a Tax Return or to Pay Tax—IRC 6651, and IRM 20.1.2.2.8.7, IRC 6651 Penalty Computation Examples. See the EG Notebook Job Aid.

**4.25.6.6.5.4**
(07-29-2019)
**Accuracy/Negligence and Fraud Penalties**

(1) To include accuracy, negligence, or fraud penalties in the report select the appropriate penalty type from the drop-down menu on the "Penalty Management" screen. See the EG Notebook Job Aid for penalty calculation data entry instructions.

(2) The accuracy, negligence and fraud penalty inputs must be input separately:

- a. The examiner must separately calculate the "Tax Attributable" to the assets resulting in an accuracy or negligence penalty.
- b. The examiner must also separately calculate the "Tax Attributable" to fraud.
- c. The examiner can group all 20 percent items together in one process, but 40 percent items and fraud items should both be run in their own separate processes.

(3) IRC 6662 imposes an accuracy-related penalty on any portion of an underpayment of tax attributable to any action or failure to act that results in one or more of the following:

- a. Negligence or disregard of the rules or regulations. See IRM 20.1.5.7, IRC 6662(c), Negligence or Disregard of Rules or Regulations, and IRC 6662(c).
- b. Substantial valuation misstatement. See IRM 20.1.5.9, IRC 6662(e), Substantial Valuation Misstatement, and IRC 6662(e).

      c.    Substantial estate or gift tax valuation understatement. See IRM 20.1.5.11, IRC 6662(g), Substantial Estate or Gift Tax Valuation Understatement, and IRC 6662(g).

      d.    Gross valuation misstatement. See IRM 20.1.5.9.3, IRC 6662(h), Gross Valuation Misstatement, and IRC 6662(h).

(4)    IRC 6663 imposes a penalty on any portion of an underpayment attributable to fraud. See IRM 20.1.5.12, IRC 6662(b)(6), Penalty for Underpayments Attributable to a Transaction Lacking Economic Substance. Examples of the calculation of an underpayment of tax are found in IRM 20.1.5, Exhibits.

**4.25.6.6.5.5**
**(07-29-2019)**
**Section 6662 or 6663**
**Penalty Interest**

(1)    If the examiner concludes that the interest on an accuracy, negligence, or fraud penalty is a deductible expense for the estate, the examiner should include the amount of the penalty in the interest list box as a separate, negative amount on the date interest begins to accrue for that penalty. Enter in the Notes field a description indicating that the amount entered is for the subject penalty. This option results in all interrelated amounts being affected by the interest on the subject penalty, except the subject penalty itself. See the EG Notebook Job Aid.

**4.25.6.6.6**
**(07-29-2019)**
**2032A Recapture Report**
**Tool Worksheet**

(1)    The "Form 2032A Recapture Report Tool Worksheet" is used to generate a report of an examination relating to additional estate tax resulting from a section 2032A recapture event.

(2)    This worksheet requires a manual input of all information. All amounts entered in the "Shown on Return/As Previously Assessed" fields will carry over to the "As Corrected" fields. As a result, all appropriate "As Corrected" adjustments must be manually entered. See the EG Notebook Job Aid.

**4.25.6.6.7**
**(07-23-2018)**
**Interrelated Function**
**Screens**

(1)    Use the Interrelated icon to access the interrelated computations including Federal interest (and Section 6166 Interest), marital and/or charitable deductions, and/or GST tax.

(2)    Adjustments that require the use of a Worksheet (e.g., interrelated computations, including interrelated interest) **should be computed in the following specific order of adjustments**:

      a.    Marital/Charitable Computations
      b.    GST Interrelated Computations
      c.    Penalties Drawing Interest
      d.    State Death Tax Deduction and State Interest Deduction
      e.    Federal Interest/6166 Interrelated Interest

**4.25.6.6.7.1**
**(07-29-2019)**
**Marital/Charitable**
**Interrelated**
**Computations**

(1)    Before inputting any information on this screen, the examiner should be certain that all input "As Returned" and "Adjustments" items are complete, per the Order of Adjustments. See the EG Notebook Job Aid.

(2)    All marital and charitable Deduction Adjustments will originate and auto-populate from the "Marital / Charitable Deductions" screen. See the EG Notebook Job Aid for marital/charitable deduction adjustment entry instructions.

(3)    By default, Notebook is designed to have the residue bear the expenses and taxes. The "Marital/Charitable Interrelated Worksheet" will reflect the auto-populated Residue Information (top portion of the Marital/Charitable Deductions

screen) derived from the As Returned and Adjustments inputs. These are the "corrected value." It is important that all appropriate adjustments are made and are reflected accurately on the screen.

(4) The worksheet is also designed to include deductible interest. The calculation of interrelated deductible interest is a function that should be run after performing any other interrelated computation(s) as described in the order of adjustments discussed in IRM 4.25.6.3.2, Notebook Order of Adjustments. The deductible interest will automatically populate to the "Totals of Schedule J, K, L" field on the Marital/Charitable screen after the interest deduction is computed.

(5) Certain residue information will also auto-populate from the "As Returned" and "Adjustments" previously input. The examiner should verify the residue information that is unique to the case that gives rise to the interrelated computation.

*Note:* In the event the case has an IRC 2035(b) "gross up", it should be treated as a specific bequest. It is recommended that the gross up be identified as "IRC 2035 Gross Up" in the "Name of Specific Bequest Beneficiary" field. The tax on this phantom inclusion item is typically borne by the residue. If not, the tax on the "gross up" must be accounted for as borne by other specific bequests.

(6) The "Marital/Charitable Deductions" screen (including the "Additional Information" option) provides an option that will allow the user to override the residue fields to run hypothetical calculations without having to make adjustments elsewhere.

4.25.6.6.7.2
(07-29-2019)
**Generation-skipping Transfer Tax Interrelated Computations**

(1) As with the Miscellaneous Adjustments Generation-skipping Transfer Tax (GSTT) worksheet, all information is input manually. See the EG Notebook Job Aid for instructions.

(2) For complicated Interrelated GSTT computations involving an unknown fraction or amount passing, use the "Additional Information" worksheet (click the Additional Information button).

4.25.6.6.7.3
(07-29-2019)
**Penalties Drawing Interest**

(1) See IRM 4.25.6.6.7.3 paragraph (2)(f) discussed above to calculate penalties drawing interest. See also the EG Notebook Job Aid for instructions for calculating penalties drawing interest.

4.25.6.6.7.4
(12-07-2021)
**State Death Tax Deduction**

(1) Use the State Death Tax Deduction (SDTD) worksheet to correct state estate and inheritance tax computations based upon revisions made during the course of an audit. Calculations may be made for multiple jurisdictions simultaneously. See the EG Notebook Job Aid.

(2) The SDTD calculators are Excel workbooks.

(3) Limited taxpayer's data entered in Notebook is imported into the Excel SDTD tax calculator. This data includes the returned gross estate and deductions, and the corrected gross estate and deductions, as needed (varies by jurisdiction). The examiner is responsible for completing the entries in the SDTD Excel workbook so that Notebook's calculations reflect both the "As Returned"

and "As Corrected" calculations. For example, the value of the adjusted taxable gifts included in the state computations vary by state, therefore, the Federal adjusted taxable gifts figure is not always the correct figure for the state calculation. Review the instructions on the state's Excel workbook and the state form and instructions for assistance with understanding the state calculation.

(4)   It is a best practice to input all adjustments into Notebook except the interrelated interest deduction at the time the state death tax deductions are calculated.

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**4.25.6.6.7.5**
**(07-29-2019)**
**Federal Interest Worksheet**

(1)   Notebook will compute federal interest in the Interrelated Interest Calculation screen. See the EG Notebook Job Aid for instructions. The examiner will need a current transcript to verify all prior payment dates and amounts.

(2)   The date on which interest begins to accrue is based on the information entered on the General Information screen. The examiner should verify that this date is correct.

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**4.25.6.6.7.6**
**(07-29-2019)**
**6166 Interest Calculation**

(1)   Notebook will compute the deferred and non-deferred interest amounts in cases with IRC 6166 elections. See the EG Notebook Job Aid.

*Note:*   For assistance with IRC 6166 computations input a help ticket for Estate and Gift Tax Notebook Super User calculation support. Do not contact Campus for calculation support.

(2)   If the estate has made a valid IRC 6166 election, check the "6166 Election" box on the General Information screen. Checking the "6166 Election" box changes the Interrelated Interest screen to the 6166 Interest Calculation screen. The 6166 case information (e.g., the closely held business amount) is entered through the "6166 Interest Calculation" screen.

(3)   If at any time after calculating the 6166 interest the examiner re-enters the 6166 Interest screen, the examiner should always click Calculate Interest before exiting. Exiting the screen in any other manner may zero out the interest deduction on Schedule J. The previously calculated 6166 interest deduction will not be retained.

(4)   The Form 4349 is not integrated with the 6166 interest computation, and must be filled out manually.

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**4.25.6.7**
**(08-07-2015)**
**Estate and Gift Tax Claim Cases**

(1)   The "Claims" function ("Claims" icon) should not be used when the examiner is working an open examination, and a "claim" as described above is filed by the taxpayer. Under those circumstances, the examiner should incorporate the "claim" adjustments in the examination report. The examiner and Group Manager should discuss whether a case should be worked as a regular examination or a claim.

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**4.25.6.7.1**
**(07-29-2019)**
**Setting-Up a Claim**

(1)   When creating a new estate case that is a claim, set up a "New Taxpayer Case" using the same procedures as setting up any other new case. See the EG Notebook Job Aid.

(2)   When inputting the information regarding the amount of the claim, there are two user options:

|     | a. | The Notebook claim screen requires a manual entry for all relevant claim amounts (Estate, GST, Penalties). When using the claim screen option, Notebook automatically calculates the amounts allowed and disallowed based on the "As Returned" and "Adjustments" inputs, to generate the Form 2297 and Form 3363. |

b.   To select the "Fixed Dollar" Amount option, check the "Use Fixed Dollar Amount" box. This option prompts a manual input in the "Amount of Claim", "Claim Allowed", and "Claim Disallowed" fields. This option has limited applicability (e.g., such as surveyed claims.) If the "Claim Allowed" and "Claim Disallowed" amounts do not add up to the "Amount of Claim", Notebook will prompt the user for verification.

(3)   In the event the examiner has multiple returns (estate and/or gifts) subject to claims, the examiner must set up the Estate File and Gift File as a combination case. Use the Estate case "Claim" icon for an estate claim, and the Gift case "Claim" icon for all gift claim(s).

**4.25.6.8**
(08-07-2015)
**Miscellaneous Report Writing Tools**

(1)   This section provides information on miscellaneous forms that may need to be included in the examination report.

**4.25.6.8.1**
(07-29-2019)
**State Estate Tax and State Interest Deductions**

(1)   It is not necessary to have all adjustments in Notebook at the time the state death tax calculations and state interest amounts are prepared. It is recommended that all adjustments be input into Notebook except the interrelated interest deduction at the time the state death tax deductions are calculated.

(2)   The state death tax and state interest deductions are calculated using an incorporated Excel workbook. If there are multiple state death tax jurisdictions at issue, each state will require separate data entry. All of the Excel sheet cells (except white numerical cells) are protected from erasure or change and cannot be altered by the user. The taxpayer data entered into Notebook is automatically imported into the tax worksheet. This data includes the returned gross estate and deductions, and the corrected gross estate and deductions, as defined by each jurisdiction's state death tax rules. See the EG Notebook Job Aid for instructions on entering state death tax deduction information into the Excel program and then saving the data into Notebook.

**4.25.6.8.2**
(08-07-2015)
**Portability of Deceased Spouse Unused Exclusion**

(1)   For decedents dying after December 31, 2010, with a surviving spouse, the estate may elect to port the Deceased Spouse Unused Exclusion (DSUE) amount to the decedent's surviving spouse. The surviving spouse will use any ported unused exclusion amount against any future adjusted taxable gifts or against the surviving spouse's estate tax return liability.

(2)   There are three DSUE adjustments available within Notebook.

•   Adjustments to correct overstatements or understatements of DSUE portable to a surviving spouse.
•   Adjustment to the surviving spouse's Form 709 to reduce or increase the amount of DSUE applied to an adjusted taxable gift.
•   Adjustment to the surviving spouse's Form 706 to reduce or increase the amount of DSUE applied to the tentative tax generated by the surviving spouse's gross estate.

**4.25.6.8.3**
**(12-07-2021)**
**Examination Process**
**and Documentation**
**Lead Sheets**

(1) From the onset of the examination, the examiner must document and communicate the actions taken by using mandatory and non-mandatory workpapers. See IRM 4.25.1, Estate and Gift Tax Program Exam Process and Documentation, and IRM 4.25.1.9, Estate and Gift Tax Exam Process and Documentation for additional information regarding the completion of mandatory and issue specific lead sheets.

(2) The lead sheets can be found in the Mandatory Forms folder, Lead Sheets folder or the Case Closing folder in the Notebook Forms Library. The examiner may deploy case customized lead sheets and forms from within Notebook.

(3) A "Personal Library" is also available for Notebook users. This optional enhancement allows Notebook users to create their own Word and Excel templates for future customized case deployment. The Personal Library is not overwritten by Notebook updates.

**4.25.6.9**
**(07-29-2019)**
**Forms and Letters**
**Deployed in Notebook**

(1) Notebook can be used to generate and deploy auto-populated administrative case documents (e.g., Form 3198) and letters.

(2) Closing documents are deployed from Notebook to the case "Closing Forms" folder after the examiner selects the appropriate disposal code. See the EG Notebook Job Aid for instructions on entering disposal codes and deploying closing forms. Notebook will auto-populate the administrative forms with the examiner's identifying information, taxpayer and case information, disposal codes and tax adjustment information. This information is pulled from the general input screen when the case is created and from the generated report forms (e.g., Form 1273).

(3) Notebook will auto-populate the Form 3198 with all related return information since the related returns generally close together. Before closing a related return package, the examiner must manually delete, from the Form 3198, any returns not closing at the same time. When generating the Form 3198, Notebook generates a pop-up reminder to delete the related returns, from the Form 3198, not closed with the package.