

Chapter 1: Communications with the IRS

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Corrections were made to this workbook through January of 2013. No subsequent modifications were made.

CLIENT REPRESENTATION

PRACTICE BEFORE THE IRS

Circular 230 defines what constitutes practice before the IRS. This includes any presentation to the IRS involving taxpayer rights, privileges, or liabilities under federal tax laws. Practice before the IRS includes the following activities.¹

- Filing documents
- Corresponding and communicating with the IRS
- Rendering written advice for a taxpayer, transaction, or plan
- Representing a client at conferences, hearings, and meetings

TD 9527² clarifies that practice before the IRS also includes preparing a document and filing a document with the IRS.

PRACTITIONERS

Circular 230 identifies who is permitted to practice before the IRS. These individuals include practitioners who have not been disbarred or suspended from IRS practice and are either:³

- Attorneys,
- CPAs,
- Enrolled agents (EAs),
- Enrolled actuaries,
- Enrolled retirement plan agents, or
- Registered tax return preparers (discussed in the following section).

¹. Circular 230, §10.2(a)(4).

². TD 9527, 2011-27 IRB 1.

³. Circular 230, §10.3.

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Limitations on RTRP Practice

The new registered tax return preparer (RTRP) designation became effective August 2, 2011. There are some limitations on IRS practice activity for RTRPs.

RTRPs:

- Are limited to preparing and signing tax returns, refund claims, and other documents for IRS submission;
- Can only represent taxpayers before IRS agents, customer service representatives, the Taxpayer Advocate Service, and similar IRS employees for returns or claims for refund that they signed;
- **Cannot** represent taxpayers before IRS appeals officers, revenue officers, the IRS Chief Counsel, or similar IRS employees; and
- Cannot execute closing agreements, extend the statutory period for tax assessments or collection of tax, execute waivers, execute claims for refund, or sign any document on behalf of a taxpayer.

To become an RTRP, an individual must pass a competency examination in addition to tax compliance and suitability checks. However, under interim rules, individuals have until December 31, 2013, to pass the competency exam if they obtained a provisional preparer tax identification number (PTIN) prior to April 18, 2012.⁴

The IRS plans to issue a registration card or certificate to all RTRPs. This is required for the RTRP to be eligible to practice before the IRS.⁵

Practitioners Becoming Client Representatives

In addition to meeting the various requirements imposed by the IRS for becoming a qualified practitioner, practice before the IRS requires appointment by a client. The scope and nature of representation is determined by the particular form used. **The attorney, CPA, EA, enrolled actuary, or enrolled retirement plan agent uses the following forms to verify that a client has appointed them as their representative before the IRS.** Once qualified, RTRPs will also use these forms to initiate practice before the IRS.

| Form | Scope of Qualified Practitioner Authority |
|---|---|
| Form 2848, <i>Power of Attorney and Declaration of Representative</i> | Full representational authority |
| Form 8821, <i>Tax Information Authorization</i> | Receive and inspect written or oral tax information |
| Form 706, <i>U.S. Estate Tax Return</i> | Full representation of estate ^a |

^a Enrolled actuaries and enrolled retirement plan agents cannot use this form due to limitations on their IRS practice. These practitioners cannot represent an estate.

⁴ IRS Notice 2011-80, 2011-43 IRB 591.

⁵ TD 9527, 2011-27 IRB 1.

Form 2848

When a tax preparer works with the IRS on an examination or collection issue, a power of attorney (POA) is required. Because the legal and financial matters involved in taxation are complex, the IRS requires representatives who practice before the IRS to meet certain professional qualifications and standards.

Form 2848, *Power of Attorney and Declaration of Representative*, provides an individual with the authority to act on behalf of a taxpayer and to access tax return information.⁶ RTRPs are subject to the limitations discussed earlier.

Once Form 2848 is received, the IRS enters the information in the centralized authorization file (CAF). This allows an IRS employee to access the POA information and interact with the taxpayer's representative.

If Form 2848 is faxed to the IRS, it is generally added to the CAF within 48 hours. A mailed Form 2848 may take up to five days to process. Tax professionals eligible to use e-Services and who complete a Disclosure Authorization application can access client information immediately. (A discussion of e-Services is provided later in this chapter.)

Example 1. Fran Tick, the sole proprietor of Jumpin' Java, was notified by the IRS that the payment information reported on her Form 941, *Employer's Quarterly Federal Tax Return*, for the second quarter of 2011 did not agree with IRS records. Fran hired Holly, a CPA, to help resolve the issue. Both Fran and Holly must sign the following Form 2848.

⁶ IRC §6103(e)(6).

2012 Workbook

For Example 1

Form **2848**
(Rev. March 2012)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

► Type or print. ► See the separate instructions.

OMB No. 1545-0150

For IRS Use Only

Received by:

Name _____

Telephone _____

Function _____

Date ____/____/____

Part I Power of Attorney

Caution: A separate Form 2848 should be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

| | |
|---|--|
| Taxpayer name and address Fran Tick dba Jumpin' Java 101 High St. Jamocha, IL 44444 | Taxpayer identification number(s) 11-1234567 |
| | Daytime telephone number (987) 555-0987 |
| | Plan number (if applicable) |

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

| | |
|---|---|
| Name and address Holly Representative 124 Downtown Ave. Jamocha, IL 44444 | CAF No. 1111-12345R PTIN P01234567 Telephone No. (987) 555-4433 Fax No. (987) 555-1122 |
| Check if to be sent notices and communications <input checked="" type="checkbox"/> | Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/> |
| Name and address | CAF No. _____ PTIN _____ Telephone No. _____ Fax No. _____ |
| Check if to be sent notices and communications <input type="checkbox"/> | Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/> |
| Name and address | CAF No. _____ PTIN _____ Telephone No. _____ Fax No. _____ |
| | Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/> |

to represent the taxpayer before the Internal Revenue Service for the following matters:

3 Matters

| Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, etc.) (see instructions for line 3) | Tax Form Number (1040, 941, 720, etc.) (if applicable) | Year(s) or Period(s) (if applicable) (see instructions for line 3) |
|---|--|--|
| Employment Tax | 941 | Quarters ending 03/31/2011, 06/30/2011, and 09/30/2011 |
| | | |
| | | |

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the instructions for Line 4. **Specific Uses Not Recorded on CAF** ☐

5 Acts authorized. Unless otherwise provided below, the representatives generally are authorized to receive and inspect confidential tax information and to perform any and all acts that I can perform with respect to the tax matters described on line 3, for example, the authority to sign any agreements, consents, or other documents. The representative(s), however, is (are) not authorized to receive or negotiate any amounts paid to the client in connection with this representation (including refunds by either electronic means or paper checks). Additionally, unless the appropriate box(es) below are checked, the representative(s) is (are) not authorized to execute a request for disclosure of tax returns or return information to a third party, substitute another representative or add additional representatives, or sign certain tax returns.

☐ Disclosure to third parties; ☐ Substitute or add representative(s); ☐ Signing a return; _____

☐ Other acts authorized: _____

(see instructions for more information)

Exceptions. An unenrolled return preparer cannot sign any document for a taxpayer and may only represent taxpayers in limited situations. An enrolled actuary may only represent taxpayers to the extent provided in section 10.3(d) of Treasury Department Circular No. 230 (Circular 230). An enrolled retirement plan agent may only represent taxpayers to the extent provided in section 10.3(e) of Circular 230. A registered tax return preparer may only represent taxpayers to the extent provided in section 10.3(f) of Circular 230. See the line 5 instructions for restrictions on tax matters partners. In most cases, the student practitioner's (level k) authority is limited (for example, they may only practice under the supervision of another practitioner).

List any specific deletions to the acts otherwise authorized in this power of attorney: _____

For Privacy Act and Paperwork Reduction Act Notice, see the instructions.

Cat. No. 11980J

Form **2848** (Rev. 3-2012)

For Example 1

Form 2848 (Rev. 3-2012)

Page **2**

- 6 Retention/revocation of prior power(s) of attorney.** The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you **do not** want to revoke a prior power of attorney, check here ☐ **YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.**

- 7 Signature of taxpayer.** If a tax matter concerns a year in which a joint return was filed, the husband and wife must each file a separate power of attorney even if the same representative(s) is (are) being appointed. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

► **IF NOT SIGNED AND DATED, THIS POWER OF ATTORNEY WILL BE RETURNED TO THE TAXPAYER.**

| | | |
|--|------------|-----------------------|
| <i>Fran Tick</i> | 07/13/2012 | Owner |
| Signature | Date | Title (if applicable) |
| <div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <div style="border-bottom: 1px solid black; text-align: center;">Fran Tick</div> <div style="text-align: center;">Print Name</div> </div> <div style="width: 20%;"> <div style="display: flex; justify-content: space-around;"> <input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/><input type="checkbox"/> </div> <div style="text-align: center;">PIN Number</div> </div> <div style="width: 40%;"> <div style="border-bottom: 1px solid black;"></div> <div style="text-align: center;">Print name of taxpayer from line 1 if other than individual</div> </div> </div> | | |

Part II Declaration of Representative

Under penalties of perjury, I declare that:

- I am not currently under suspension or disbarment from practice before the Internal Revenue Service;
- I am aware of regulations contained in Circular 230 (31 CFR, Part 10), as amended, concerning practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:
 - a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.
 - b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.
 - c Enrolled Agent—enrolled as an agent under the requirements of Circular 230.
 - d Officer—a bona fide officer of the taxpayer's organization.
 - e Full-Time Employee—a full-time employee of the taxpayer.
 - f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).
 - g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).
 - h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
 - i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
 - k Student Attorney or CPA—receives permission to practice before the IRS by virtue of his/her status as a law, business, or accounting student working in LITC or STCP under section 10.7(d) of Circular 230. See instructions for Part II for additional information and requirements.
 - r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

► **IF THIS DECLARATION OF REPRESENTATIVE IS NOT SIGNED AND DATED, THE POWER OF ATTORNEY WILL BE RETURNED. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN LINE 2 ABOVE.** See the instructions for Part II.

Note: For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

| Designation— Insert above letter (a–r) | Licensing jurisdiction (state) or other licensing authority (if applicable) | Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information. | Signature | Date |
|--|--|---|-----------------------------|-------------------|
| b | IL | 069876543 | <i>Holly Representative</i> | 07/13/2012 |
| | | | | |
| | | | | |

Form **2848** (Rev. 3-2012)

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Reasons for POA Rejection. Form 2848 may be rejected by the IRS for several reasons. They include the following.

- The form contains a missing representative and/or taxpayer signature or signature date.
- The form contains a nonspecific identification of the tax matter and/or tax periods on line 3. (Including excessively broad wording such as “all taxes,” “all years,” or “all future periods.”)
- Box 6 is checked and no copy of the POA is attached to identify the retained representative.
- No designation is shown.
- The appropriate information is not listed in the “Licensing jurisdiction/other licensing authority” column.
- The title of the company employee being authorized is not shown.

Form 8821

At times, a representative only needs some specific information to resolve a tax issue. This information is available if a Form 8821, *Tax Information Authorization*, is filed.

Form 8821 allows an appointee to inspect and/or receive confidential tax information. It is generally limited to the specific tax matter described on the form. An appointee can be an individual, corporation, firm, organization, or partnership. Form 8821 does **not** allow the named appointee to represent the taxpayer.

Form 8821 may be rejected for the following reasons.

- A missing taxpayer signature or signature date
- Nonspecific identification of tax periods or tax matters
- An incorrect EIN/SSN that the IRS cannot identify or verify through its records

A tax information authorization, submitted via Form 8821, is also valid until revoked. It may be revoked by the taxpayer or withdrawn by the representative. It is superseded by filing a new Form 8821, and it can coexist with a POA.

Third-Party Designee Authorization

The IRS allows taxpayers to authorize the tax practitioner to discuss any questions that arise during the processing of the return by using the third-party designee authorization. An example from page 2 of Form 1040 is shown below.

You Owe 77

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? ☒ **Yes. Complete below.** ☐ **No**

Designee's name **Reggie Stird** Phone no. **217-555-0123** Personal identification number (PIN) **5 4 3 2 1**

Sign Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration is based on information provided by the taxpayer.

In addition, the taxpayer is authorizing the designee to:⁷

- Give the IRS any information that is missing from the return;
- Call the IRS for information about the processing of the return or the status of the refund or payments;
- Upon request, receive copies of notices or transcripts related to the return; and
- Respond to IRS notices about math errors, offsets, and return preparation.

The checkbox authorization **expires on the 1-year anniversary** of the due date of the tax return (not including extensions). The IRS **cannot** extend the third-party designation beyond the 12-month period.

⁷ Form 1040 Instructions.

NOTICES AND NOTICE CODES

In the past, taxpayers and practitioners were often confused by the wording of IRS notices because they used standard computer paragraphs (CP) that were not always tailored to the taxpayer's specific situation. Consequently, taxpayers could read through the entire notice and be confused as to how it impacted them. The Plain Writing Act of 2010, which was signed into law on October 13, 2010, requires federal government agencies to use "plain writing" in documents used by the public. As a result, the IRS is redesigning and revising its correspondence with taxpayers for clarity, effectiveness, and efficiency. According to the IRS, "the new format includes a plain language explanation of the nature of the correspondence, clearly states what action the taxpayer must take and presents a clear, clean design."⁸ The information contained in the redesigned notices is tailored to each taxpayer's situation.

The following are some of the most common notices and a brief explanation of their purpose. For details, background, and valuable tips on dealing with the various IRS notices, see **www.irs.gov/Individuals/Understanding-Your-IRS-Notice-or-Letter**.

⁸. *Understanding Your IRS Notice or Letter*. [www.irs.gov/Individuals/Understanding-Your-IRS-Notice-or-Letter] Accessed on Sep. 5, 2012.

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| Notice Code | Description |
|-------------|--|
| CP08 | This notice informs the taxpayer that they may qualify for the additional child tax credit. |
| CP10 | The IRS made a change to the return because it believes there is a miscalculation which affects the estimated tax payment the taxpayer wanted applied to their taxes for the following year. |
| CP10A | The IRS made a change because it believes there is a miscalculation involving the earned income credit (EIC) which affects the estimated tax payment the taxpayer wanted applied to their taxes for the following year. |
| CP11 | The IRS made a change because it believes there is a miscalculation. The taxpayer may owe money as a result of these changes. |
| CP11A | The IRS made a change because it believes there is a miscalculation involving the EIC. The taxpayer may owe money as a result of these changes. |
| CP12 | The IRS made changes to correct a miscalculation on the return. |
| CP12A | The IRS made changes to correct the EIC claimed on the return. |
| CP13 | The IRS made changes because it believes there is a miscalculation. The taxpayer's account balance is zero. |
| CP14 | The taxpayer owes money on unpaid taxes. |
| CP16 | The IRS made changes to the return that affect the taxpayer's refund. IRS records indicate that the taxpayer owes other tax debts and applied all or part of the refund to them. |
| CP21A | The IRS made the changes the taxpayer requested for the specified tax year. The taxpayer owes money as a result of the change. |
| CP21B | The IRS made the changes the taxpayer requested for the specified tax year. The taxpayer should receive a refund as a result of the change. |
| CP21E | As a result of a recent audit, the IRS made changes to the return for the specified tax year. The taxpayer owes money as a result of these changes. |
| CP23 | The IRS made changes to the return because it found a difference between the amount of estimated tax payments on the return and the amount posted to the account. The taxpayer has a balance due because of these changes. |
| CP24 | The IRS made changes to the return because it found a difference between the amount of estimated tax payments on the return and the amount posted to the account. The taxpayer has a potential overpayment because of these changes. |

Following is an example of one of the recently redesigned notices. The CP notice number is printed at the top right of each page.

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| | |
|------------------------|--------------|
| Notice | CP24 |
| Tax year | 2009 |
| Notice date | May 23, 2010 |
| Social Security number | 999-99-9999 |
| Page 2 of 3 | |

What you need to do—continued

If you don't agree with the changes

- Call [REDACTED] to review your account. You can also contact us by mail. Fill out the Contact information section, detach, and send it to us with any correspondence or documentation.
- If we don't hear from you, we'll assume you agree with the information in this notice.

Changes to your 2009 tax return

Information was changed because of the following:

- We changed the amount claimed as total payments on your tax return because there was an error in the addition of the payments section.

Your tax calculation

| Description | Your calculations | IRS calculations |
|--------------------------------|-------------------|------------------|
| Adjusted gross income, line 37 | \$5,780.00 | \$5,780.00 |
| Taxable income, line 43 | 00.00 | 00.00 |
| Total tax, line 60 | | \$00.00 |

Your payments and credits

| Description | IRS calculations |
|------------------------------------|------------------|
| Income tax withheld, line 61 | \$110.00 |
| Estimated tax payments, line 62 | 163.00 |
| Other credits, lines 63–67, 69, 70 | 438.00 |
| Other payments | 00.00 |
| Total payments and credits | \$711.00 |

Payments credited to your account for 2009

| Date received | Payment description | IRS payment locator number | Amount |
|---------------|---------------------|----------------------------|----------|
| 04/15/10 | Prior year credit | [REDACTED] | \$163.00 |



| | |
|------------------------|--------------|
| Notice | CP24 |
| Tax year | 2009 |
| Notice date | May 23, 2010 |
| Social Security number | 999-99-9999 |
| Page 3 of 3 | |

Payments credited to your account for 2009—continued

Your payments, including credits received from another tax year, are shown above. Please call [REDACTED], if any information is incorrect or missing.

Additional information

- Visit www.irs.gov/cp24.
- For tax forms, instructions, and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676).
- Check to see if you need to adjust your estimated tax payments in the future since your tax was refunded.
- Keep this notice for your records.

If you need assistance, please don't hesitate to contact us.

CAMPUS COMPLIANCE SERVICES

IRS campus compliance services have a significant impact on enforcement activities. Each year, the campuses send millions of notices as part of the correspondence examination program and the automated underreporter (AUR) system. The correspondence examination program requests verification of specific items reported on the tax return. The AUR system deals with conflicts between tax return entries and third-party information received by the IRS. These two systems are discussed in detail in the following sections.

CORRESPONDENCE EXAMINATIONS⁹

In fiscal years 2007 through 2010, IRS statistics show it conducted 4.5 million correspondence examinations, which resulted in recommending \$32 billion in additional taxes. This represents about 55% of the \$58 billion in total recommended additional taxes from all individual examinations during that period. The statistics also indicate that the average correspondence examination generated approximately \$7,000 in recommended additional taxes.¹⁰

Correspondence examinations require much less time to conduct than either office audits or field audits. Because of their efficiency and effectiveness, the IRS has increased its use of correspondence examinations over the past several years. The following chart shows that over 77% of individual tax return examinations are conducted through correspondence audits.¹¹

| | 2007 | 2008 | 2009 | 2010 |
|--|-----------|-----------|-----------|-----------|
| Total number of audits | 1,384,563 | 1,391,581 | 1,425,888 | 1,581,394 |
| Number of correspondence audits | 1,073,224 | 1,081,152 | 1,099,639 | 1,238,632 |
| Percentage of correspondence audits | 77.5% | 77.7% | 77.1% | 78.3% |
| Recommended additional taxes from all audits (billions) | \$15.7 | \$12.5 | \$14.9 | \$15.1 |
| Recommended additional taxes from all correspondence audits (billions) | \$9.3 | \$6.5 | \$7.8 | \$8.2 |
| Percentage of recommended additional taxes from correspondence audits | 59% | 52% | 52% | 54% |

Potential cuts to the IRS's budget may increase this percentage because of the need to rely more on automated processes and less on interaction with taxpayers.¹²

Taxpayers usually rely on practitioners to help them deal with correspondence examinations. Therefore, it is important that the practitioner understand this process in order to provide the best possible assistance to clients in these situations.

⁹ The primary source document for this section is a transcript of an IRS phone forum from Jul. 14, 2010. See *Campus Correspondence Audit Process and Resolution*. [www.irsvideos.gov/CampusCorrespondenceAuditProcessResolution] Accessed on Oct. 31, 2011. Information from other sources is specifically footnoted.

¹⁰ Statistics compiled from 2007–2010 IRS Data Books [www.irs.gov/uac/EOI-Tax-Stats---IRS-Data-Book] Accessed on Sep. 5, 2012.

¹¹ Ibid.

¹² *Taxpayer Advocate Service — Fiscal Year 2012 Objectives*. [www.irs.gov/pub/irs-utl/fy2012_ntaobjectives.pdf] Accessed on Oct. 31, 2011.

Criteria for Correspondence Examinations

The correspondence examination has a defined scope, with limited audit issues. It focuses on a specific schedule or line item on the tax return rather than the entire return. The audit issues are generally less complex than those covered by a field or office audit.

The correspondence examination focuses on records that support entries on a tax return or schedule. If the documents or records are not provided, the IRS disallows the item. Most of the issues are resolved through correspondence.

The IRS developed several formulas that analyze the data derived from tax returns to identify potential compliance risks. These formulas are usually updated each year using prior audit results, information from third parties, and entries made on tax returns. Analysis of prior audit data provides guidance as to which returns have a higher potential for tax adjustments.

Correspondence Examination Categories

The correspondence examination program consists of two basic categories: pre-refund audits and post-refund audits.

A **pre-refund audit** can be effective in preventing revenue loss by stopping a tax refund from being issued until the examination is completed. The pre-refund audit is only conducted when the IRS has a high degree of confidence that the outcome of the correspondence examination will result in a tax adjustment or disallowance of a tax credit, or when there is a high probability of collection risk.

The decision to conduct a pre-refund audit is based on an analysis of prior year examinations and characteristics of the return that suggest that a tax adjustment is probable. The IRS will also stop a refund from being issued if it has verified through third-party contacts that a supporting information return (e.g., a Form W-2) is false. Additionally, the IRS stops a refund if there is an unallowable condition that needs to be resolved through a correspondence examination, such as an entry for fuel tax credit when there is no business income on the return. However, when the IRS conducts the examination, it releases any overpayment not related to the examination issue.

A **post-refund audit** is conducted after the IRS analyzes the return, determines the correctness of the entries on the return, and assesses whether there is a potential tax adjustment on the return.¹³

Primary Audit Issues

Some of the primary audit issues addressed via correspondence examinations include the following.

- Earned income credit (EIC)
- Certain nonfiling conditions
- Schedule A issues
- Emerging and other issues

Earned Income Credit. Issues regarding the EIC can often be quickly concluded through a correspondence examination. The IRS receives information from third parties and other governmental agencies that it uses to validate tax return information. Information from the federal case registry provides the IRS with custodial information for a dependent or qualifying child. Information from the Social Security Administration is used to verify whether the social security number for the qualifying child is correct and to provide the names of the parents.

After analyzing the entries on tax returns with an EIC, the returns are weighted based on the potential for tax adjustment. The returns are then ranked and those with the highest potential for tax adjustment or the highest compliance risk are selected for examination.

¹³ *IRS 2009 Nationwide Tax Forums Online.* [www.irstaxforumsonline.com/sites/default/files/flash/aurccs/pdf/aurccs.pdf] Accessed on Nov. 10, 2011.

When a return with an EIC is selected for examination, the EIC portion of the refund is frozen. At this time, a CP75 notice is sent to the taxpayer advising them that the refund is being held pending an audit of the EIC amount. The notice asks for certain documentation to support the taxpayer's claim for the EIC. A sample CP75 notice follows.



CP 75 Sample Contents Page 1

Contents of This Notice - Page 1 of 2

We're Auditing Your Tax Return and Delaying Part of Your Refund

Why We're Auditing Your Tax Return

We're auditing your tax return. This audit is why we've delayed sending you the earned income credit (EIC) part of your refund. The information below explains why we're auditing your return and the information you need to send us so we can make the right decision about your taxes.

Earned Income Credit - Your child must meet three tests to be your qualifying child for EIC. The enclosed *Form 886-H-EIC, Documents You Need to Prove You Can Claim an Earned Income Credit on the Basis of a Qualifying Child or Children*, explains the tests. It also explains the information you can send to us to show you've met the tests.

Dependents - You must meet five tests to claim a dependent. The enclosed *Form 886-H-DEP, Supporting Documents for Dependency Exemptions*, explains the tests. It also explains the information you can send to us to show you've met the tests.

Filing Status - If you claimed a Head of Household filing status on your tax return, you must meet three qualifying tests. The enclosed *Form 886-H-HOH, Supporting Documents To Prove Head of Household Filing Status*, explains the qualifying tests. It also explains the information you can send to us to show you've met the tests.

Schedule C - You must have earned income to claim the EIC. Please complete and send us the enclosed *Form 11652, Questionnaire and Supporting Documentation, Form 1040 Schedule C (Profit or Loss from Business)* to help us determine if you have the right amount of earned income.

What You Need To Do Now

To get the EIC you deserve, please send us the above information within 30 days from this letter's date.

You can send us the information by mail, in the enclosed envelope, or by fax to **{appropriate #}** (not toll-free).

Fill in and send us the stub on the last page of this letter. We'll use the stub to make sure your information gets to the right person and to make sure we can call you if we have any questions.

If you can't get all your information to us in time, call us at the above number to discuss what you can do.



CP 75 Sample Contents Page 2

Contents of This Notice - Page 2 of 2

What We'll Do Once We Hear from You

We'll review the information you send us. If your information shows your return was correct, we won't make any changes to your tax return and we'll send you the EIC part of your refund. You won't need to do anything else.

If your information doesn't show your return was correct, we'll send you a report of changes we plan to make to your tax return and explain the tax you will owe. We'll also explain your right to appeal if you disagree.

Please allow us at least 30 days to review your information. After our review, we'll let you know by letter what we're going to do and explain your appeal rights if we propose changes.

Any EIC refund you claimed will be delayed while we review your information.

What Happens If You Don't Reply

If we don't hear from you within 30 days, you will not receive the EIC part of your refund. We'll send you a letter and a report disallowing the tax return items we've questioned. We'll explain how you can appeal if you disagree.

How to Get Help

You can only receive your EIC by mailing or faxing us the information we've requested.

However, we've enclosed Publication 3498-A, The Examination Process, to help you understand this review and your appeal rights. It will explain your right to have someone help or represent you. Please visit our website at www.irs.gov/eitc to learn more about the examination process.

You can also call our toll-free number **{appropriate #}** with any questions you may have about this letter or the information we need.

Your local IRS office can provide free help. You can find your nearest IRS office listed in your local phone book or at www.irs.gov/localcontacts/index.html. If you have a significant hardship, you can contact the Taxpayer Advocate Service at **{appropriate #}** (toll-free).

A Low Income Taxpayer Clinic may be able to offer you free help. The enclosed Publication 4134, Low Income Taxpayer Clinic List, lists the clinics' locations and their eligibility guidelines.

Follow These Steps

1. Read the enclosed forms and publications and call us if you have questions or need help.
2. Gather the information explained on the first page of this letter.
3. Make clear, readable copies of the information and keep the originals for your records.
4. Fill in your telephone numbers and the best time to call on the stub. (You can find the stub on the last page of this letter.)
5. You can send us your information in the enclosed envelope or you can use your own envelope. Be sure to enclose the stub. Send all information to us at the address on this letter.
6. You also can fax the stub with your documents to fax number **{appropriate #}** (not toll-free).

Remember:

If you can't get all your information to us within the 30 days, call us at our toll-free number **{appropriate #}** to discuss what you need to do.

Enclosures:

Form 886-H-EIC, Supporting Documents for Taxpayers Claiming EIC
Publication 3498-A, The Examination Process
Publication 4134, Low Income Taxpayer Clinic List
Form 11642, Questionnaire, Form 1040 Schedule C
Return Envelope

As mentioned on page 1 of the preceding CP75 notice, Schedule C filers are asked to complete Form 11652, *Questionnaire and Supporting Documentation, Form 1040 Schedule C (Profit or Loss from Business)*. This form, which is reproduced below, is used to help the IRS determine the validity of EIC claims arising from Schedule C income.

| | | |
|---|--|------------------------------|
| Form 11652 (Rev. May 2005) | Department of the Treasury — Internal Revenue Service Questionnaire and Supporting Documentation Form 1040 Schedule C (Profit or Loss from Business) | |
| Name _____ | | Social security number _____ |
| Business Address _____ | | |
| Telephone Numbers (Home) _____ (Business) _____ | | |
| Business Website (if available) _____ | | |
| 1. Please provide a description of your business. (Type of work, product sold, service provided, hours of operation, where business is conducted) _____ _____ _____ | | |
| 2. Did you receive Form(s) 1099 MISC for the income reported? No <input type="checkbox"/> Yes <input type="checkbox"/> (Please send a copy of the Form(s) 1099) _____ | | |
| 3. If you did not receive Form(s) 1099 MISC for the income reported, provide a copy of the record of income showing the customer name. Also, include the social security number or employer identification number, if available. _____ _____ | | |
| 4. Is a license a requirement of your occupation? No <input type="checkbox"/> Yes <input type="checkbox"/> Do you have a business license? No <input type="checkbox"/> Yes <input type="checkbox"/> (Please provide a copy of your license.) _____ | | |
| 5. How do you advertise for business? (Please submit copies of your advertisement and paid receipts) <input type="checkbox"/> Newspaper <input type="checkbox"/> Personal Computer <input type="checkbox"/> Flyers <input type="checkbox"/> Other (Please explain.) _____ | | |
| 6. By law, you are required to keep adequate records. What type of records do you maintain to verify business income and expenses? (Check all boxes that apply.) (Please submit copies of records.) <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"><input type="checkbox"/> Accounting Records</div> <div style="width: 33%;"><input type="checkbox"/> Computer Records</div> <div style="width: 33%;"><input type="checkbox"/> Business Bank Accounts</div> <div style="width: 33%;"><input type="checkbox"/> Paid Invoices/Receipts</div> <div style="width: 33%;"><input type="checkbox"/> Business Stationery</div> <div style="width: 33%;"><input type="checkbox"/> Insurance</div> <div style="width: 33%;"><input type="checkbox"/> Advertising</div> <div style="width: 33%;"><input type="checkbox"/> Car/Truck Expense</div> <div style="width: 33%;"><input type="checkbox"/> Rental Expense</div> <div style="width: 33%;"><input type="checkbox"/> Log Books</div> <div style="width: 33%;"><input type="checkbox"/> Ledgers</div> <div style="width: 33%;"><input type="checkbox"/> Suppliers (name & address)</div> <div style="width: 33%;"><input type="checkbox"/> Other (Please specify.) _____</div> </div> | | |
| This is not an all inclusive listing. If you have other forms of documentation to support your business, please explain and submit copies of the documents. _____ _____ | | |
| 7. Did you file state and/or local sales tax returns for the tax year? No <input type="checkbox"/> Yes <input type="checkbox"/> (Please send copies.) _____ | | |
| Note: If you claimed a refund on your return and have not received it, we will not consider your claim until we review your documentation and make a final determination regarding your tax liability. Failure to complete all parts of this questionnaire and submit documentation to verify income and expense may delay our review of your claim for refund. | | |
| Catalog Number 25988D | www.irs.gov | Form 11652 (Rev. 5-2005) |

If the taxpayer **does not** respond to the CP75 notice, the case is worked completely through an automated system. The steps in the automated system are as follows.

1. Issuance of a 30-day letter with an audit report (The case is suspended for 45 days waiting for a response.)
2. Issuance of a 90-day letter, or statutory notice of deficiency (This allows the taxpayer 90 days to petition the Tax Court regarding the proposed assessment. An additional 15 days is allowed after the expiration of the 90-day period in order to allow time for the IRS to be notified that a petition has been filed.)

Note. For information about filing a petition with the Tax Court, see www.ustaxcourt.gov/forms/Petition_Kit.pdf.

3. Closure of the examination (The proposed amount is assessed by default.)

If the taxpayer responds during any of the above steps, the system is updated to indicate that a response was received. This prevents generation of the next notice. After the taxpayer replies to the CP75 notice, the case is assigned to an examiner.

Nonfiling Conditions. The IRS receives information from third parties (Forms 1099, W-2, etc.), which it attempts to match with the tax return. If no tax return was filed, the IRS prepares a substitute for a return using third-party information.

Schedule A Issues. Schedule A issues constitute a growing part of the IRS's correspondence examination inventory. For example, the IRS has recently increased the number of correspondence examinations that deal with employee business expenses. Preliminary results indicate that this area is conducive to successful correspondence examinations. Correspondence examinations of Schedule A also cover charitable contributions.

Other Issues. There is a broad range of issues on the tax return and supporting schedules that constitute major inventory sources of correspondence examinations. These include self-employment tax and adjustments to income, such as alimony.

Opening a Correspondence Examination

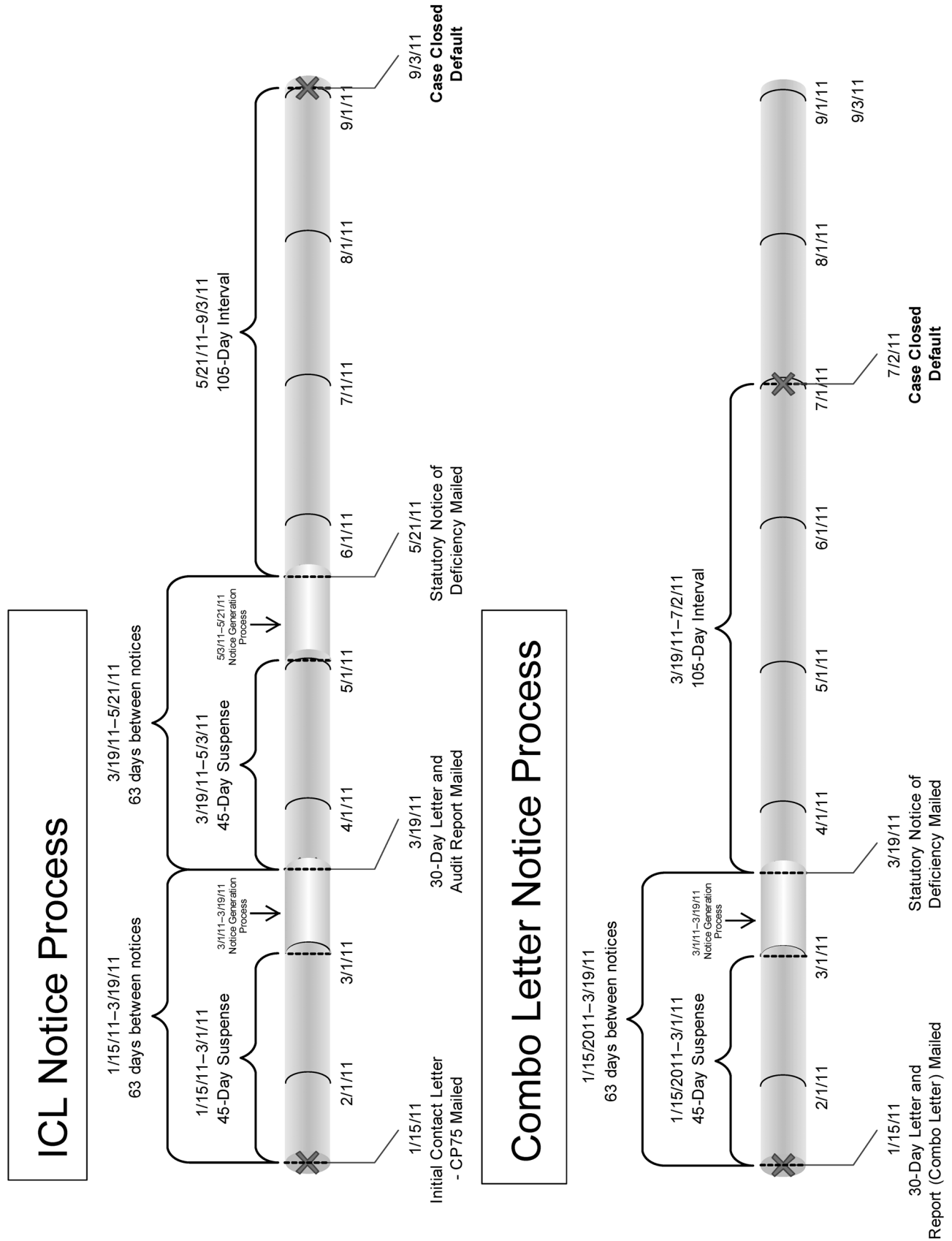
There are two general ways the correspondence examination is opened.

1. An initial contact letter (ICL)
2. A combination (combo) letter

The ICL opens most correspondence examinations. This is generally a CP75 notice for EIC issues or a 566 letter for other issues. The ICL sets forth the specifics of what is being examined and requests supporting documentation. It does not propose a balance due.

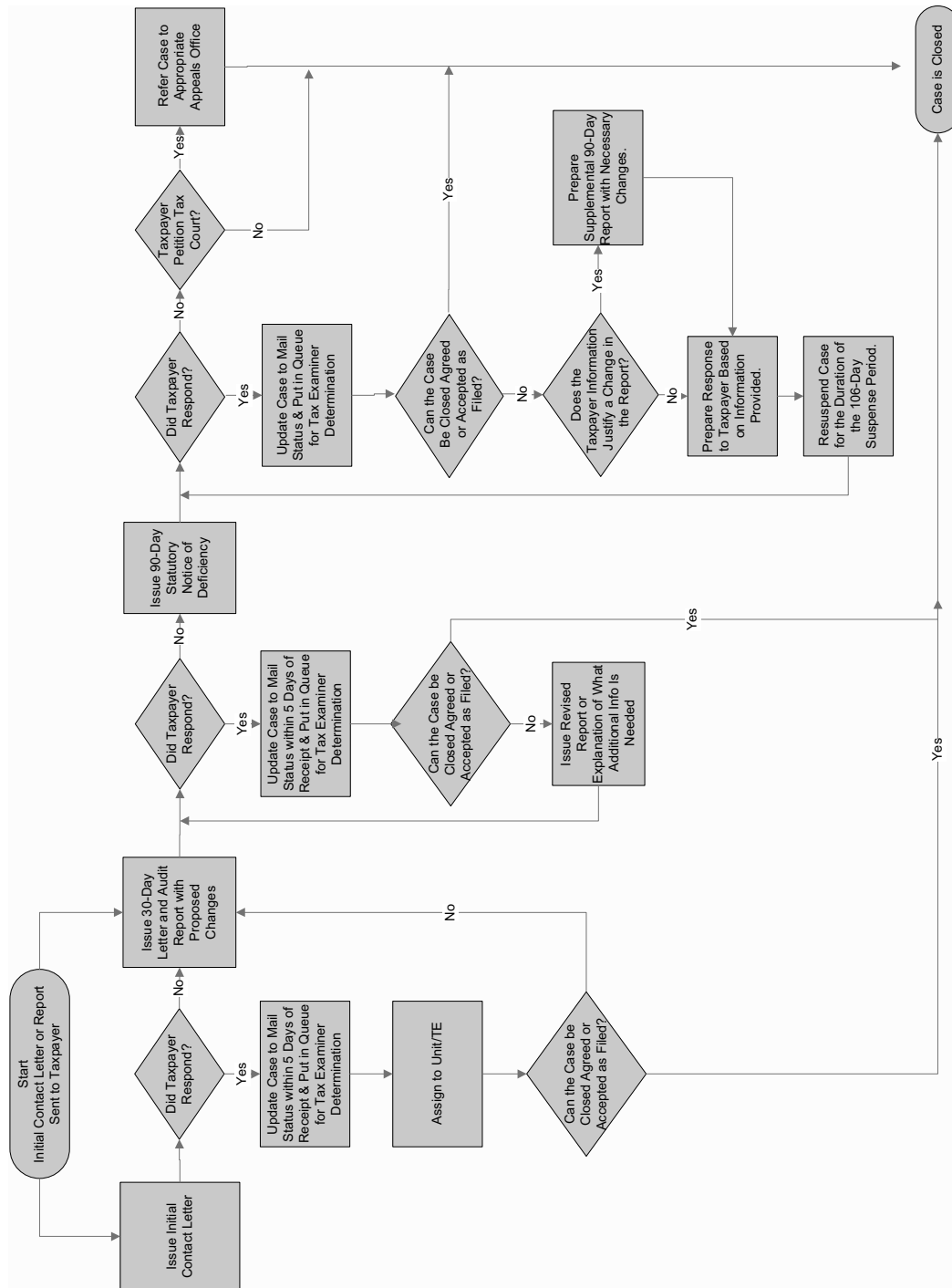
A combo letter (usually a 566B letter) combines the ICL and the 30-day letter that includes the preliminary audit report. The combo letter is used in situations in which there is reasonable certainty about the potential liability. Combo letters significantly reduce the length of the audit cycle. They also clearly present the proposed changes to the taxpayer. Combo letters are also used in nonfiling situations, although the taxpayer has already been asked to file prior to the commencement of the examination.

The following illustration compares the notice processes for an ICL and a combo letter in situations in which the taxpayer does not respond. The timelines show that the audit cycle for a combo letter is typically about two months shorter than the ICL cycle.



Workflow

The following flowchart¹⁴ illustrates the general workflow of the correspondence examination process. As the chart indicates, a case continues to move through the process until a response is received. At this point, an automated acknowledgement letter is sent to the taxpayer. A copy of the acknowledgement letter is also sent to the taxpayer's representative if Form 2848, *Power of Attorney and Declaration of Representative*, was filed with the IRS. At that point in the process, the case is assigned to an examiner, the correspondence from the taxpayer is evaluated, and appropriate follow-up actions are taken.



¹⁴ *Understanding Your IRS Notice or Letter*. [www.irs.gov/Individuals/Understanding-Your-IRS-Notice-or-Letter] Accessed on Sep. 5, 2012.

Key Points

The following seven points should be considered when responding to a correspondence examination notice.

1. **Review the tax return.** This helps the tax return preparer and the client better understand the issues that are being addressed in the correspondence examination.
2. **Read the enclosed Form 886.** This form specifies the audit issue, how to respond, and the information that is being requested. There are several versions of this form. A suffix is used to denote what program the 886 represents. The following Form 886-H-EIC outlines the documents a taxpayer can provide to demonstrate eligibility for the EIC.

| Documents You Need to Prove You Can Claim an Earned Income Credit On the Basis of a Qualifying Child or Children | | |
|--|---|---|
| Form 886-H-EIC-2010 (January 2011) | <i>Usfede puede conseguir una versión de esta forma en español llamando el número de teléfono en la primera página de la carta adjunta. You can get a Spanish version of this form, by calling the telephone number in the first page of the enclosed letter.</i> Your child must meet relationship, age, and residency requirements to qualify you for an Earned Income Credit (EIC). However, you may not need to claim a dependent child to qualify for a reduced EIC (see the reverse side of this form). | |
| | If the Child Is | Then |
| Relationship Test | Your son or daughter (including an adopted child) | GO TO THE AGE and RESIDENCY TESTS. IRS will confirm the relationship; however, we may ask you later for additional information. |
| | Your grandchild or great grandchild, stepson, stepdaughter, step-grandchild or step-great grandchild, child pending adoption, brother, sister, stepbrother or stepsister or a descendant of any of them (such as a niece or nephew), eligible foster child (placed with you by an authorized placement agency) | Send us photocopies of documents that show evidence of the relationship, such as: <ul style="list-style-type: none">• Birth certificates or other official documents of birth that verify your relationship• Marriage certificates that verify your relationship to the child• Letter from an authorized adoption agency• Letter from the authorized placement agency or applicable court document |
| | Under age 19 at the end of 2010 | GO TO THE RESIDENCY TEST. IRS will confirm the age; however, we may ask you later for additional information. |
| | Under age 24 at the end of 2010 and a full-time student for at least five months of the year | Send us photocopies of official school records showing the child was a full-time student for at least five months of the tax year. The school records should show the dates of attendance. The months of attendance don't have to be consecutive. |
| Age Test | Any age and permanently and totally disabled at any time during 2010 | Send us a letter from the child's doctor, other healthcare provider, or any social service program or agency verifying the child is permanently and totally disabled. |
| | Related to you and lived with you in the United States for more than half of 2010 | Send us photocopies of school (no report cards), medical, childcare provider (provider can't be a relative) or social service records or |
| Residency Test | Any documents you submitted must reflect your actual street address. If you filed your tax return using a P.O. Box please submit a copy of the completed Form 1093 - P.O. Box Application - stamped by the post office. | Send us a letter on official letterhead from a school, a health care provider, a social service agency, placement agency official, employer, Indian tribal official, landlord or property manager, or a place of worship that shows the name of your child's parent or guardian, your child's address and the dates that they lived with you. You may need to send more than one document to prove your child lived with you for more than half of the year |
| | Department of the Treasury-Internal Revenue Service www.irs.gov | |

Earned Income Credit for Taxpayers without a Qualifying Child

Stop here if you meet the test to claim an Earned Income Credit on the basis of a qualifying child or children as outlined on the other side. You do not need to complete this section.

You may qualify for a reduced earned income credit (EIC). The EITC Assistant link (found at irs.gov) can help you determine your eligibility and estimate the EIC amount that you may receive. Take the test below to see if you can qualify for a reduced EIC. (Note -- Your earned and adjusted gross income each must be less than \$13,460 (\$18,470 if married filing jointly).)

| | TEST | YES | NO |
|---|------|--------------------------|--------------------------|
| You (or your spouse, if you filed a joint return) were at least age 25, but under age 65, on December 31, 2010 | | <input type="checkbox"/> | <input type="checkbox"/> |
| You (and your spouse, if you filed a joint return) cannot be claimed as a dependent on another person's return. | | <input type="checkbox"/> | <input type="checkbox"/> |
| You (and your spouse, if you filed a joint return) lived in the United States for more than half of 2010. | | <input type="checkbox"/> | <input type="checkbox"/> |

If you checked **any of the "No" boxes**, you do **not** qualify for an EIC. You will receive a report, *Form 4549-EZ, Income Tax Examination Changes*, reflecting our proposed adjustment.

If you checked **all of the "Yes" boxes**, you qualify for an EIC without a qualifying child. Please sign, date, and return this page in the enclosed envelope. **If you filed a joint return both you and your spouse must sign this form.** You will receive a report, *Form 4549-EZ, Income Tax Examination Changes*, showing the amount of EIC you qualify for without a qualifying child.

Under penalties of perjury, I declare that I have examined this claim, and, to the best of my knowledge and belief, it is true, correct, and complete.

| | | | |
|-------------------------------------|-------|------------------------|-------|
| Print Name | _____ | Social Security Number | _____ |
| Signature | _____ | Date | _____ |
| Signature (For joint filed returns) | _____ | Date | _____ |

3. **Answer the questions on the attachments.** This provides the IRS with a better overall picture of the taxpayer's circumstances.
4. **Provide a contact phone number.**
5. **Respond by the due date.** Call the IRS to request an extension when more time is needed to respond.
6. **Enclose the response page from the examination notice.** This should be the first page in the response to the IRS, followed by all other documentation.
7. **Send the response in the envelope provided.** If a larger envelope is required, simply glue or tape the envelope provided (which contains the correct address) to the larger mailing envelope. This should be done even if the response includes an amended return. Some of the longest delays in the correspondence examination process are caused by mailing an amended return to a different address.

Conclusion of Examination

In a correspondence examination, the taxpayer receives a form letter that contains a report of the examiner's findings. The taxpayer is asked to sign and return an agreement if they accept the findings. The letter explains the available alternatives in the event that the taxpayer does not accept the findings. These alternatives include consideration of the case by an Appeals Office. The taxpayer is requested to inform the IRS of the choice of action within the specified period. An Appeals Office conference will be granted without submission of a written protest.¹⁵

If an agreement is not reached during an appeals conference or if the taxpayer decides to skip the appeals conference, the taxpayer may be eligible to take the case to Tax Court.

Audit Reconsideration¹⁶

Practitioners sometimes receive taxpayer requests for assistance with examinations that have been closed. Even after the close of an examination, there are options available. If the disputed amount was paid in full, the taxpayer must file a formal claim using Form 1040X, *Amended U.S. Individual Income Tax Return*.

The **audit reconsideration process** allows the IRS to informally reconsider a taxpayer's information. Many cases are resolved using this option.

The IRS accepts an audit reconsideration request in the following circumstances.

1. The taxpayer submits additional information that the IRS has not previously considered that might change the amount of tax owed or credit due.
2. The taxpayer files a return after the IRS completed a substitute return for the taxpayer.
3. The taxpayer believes the IRS made a computational or processing error in assessing their tax.
4. The liability is unpaid or credits are denied.

¹⁵ Treas. Reg. §601.105(c)(1).

¹⁶ IRS Pub. 3598, *What You Should Know About the Audit Reconsideration Process*.

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The IRS **will not** accept an audit reconsideration request in the following circumstances.

1. The taxpayer previously agreed to pay the tax owed by signing and filing one of the following agreements.
 - a. Form 906, *Closing Agreement on Final Determination Covering Specific Matters*, that is final and conclusive
 - b. A compromise agreement
 - c. Form 870-AD, *Offer to Waive Restrictions on Assessment and Collection of Tax Deficiency and to Accept Overassessment* (filed with the Appeals Office)
2. The amount of tax owed is a result of final partnership item adjustments under the Tax Equity Fiscal Responsibility Act of 1982.
3. The Tax Court issued a final determination on the tax liability.

Note. The National Taxpayer Advocate's 2011 Annual Report to Congress stated that audit reconsideration cases have increased approximately 190%, from 163,567 in fiscal year 2006 to 474,581 in fiscal year 2009. The report attributed this in part to the IRS's over-reliance on centralized, automated procedures that inspire less taxpayer confidence. Instead of an interview and review of books and records by a well-trained revenue agent, tax examiners process examinations with limited taxpayer contact and review only selected documents. These examiners rely on IRS forms and publications for guidance rather than the Code.¹⁷

Initiating Process. To start the audit reconsideration process, the taxpayer must send correspondence to the IRS that includes documentation in support of the taxpayer's position. A copy of Form 4549, *Income Tax Examination Changes*, should be included, along with contact telephone numbers.

The IRS sends the taxpayer a letter if more information is needed to reconsider the disputed issue(s). Complete information should be provided on each disputed issue. The IRS makes adjustments if the new information and tax law support the change.

After the IRS receives the documentation, it may delay its collection activity. However, collection activity may be resumed if the documentation does not sufficiently support the taxpayer's position and the taxpayer does not respond to requests for additional information within 30 days.

At the conclusion of the audit reconsideration process, the IRS informs the taxpayer that one of the following decisions was made.

- The IRS accepts the taxpayer's information and eliminates the additional tax assessment.
- The IRS accepts the taxpayer's information in part and recomputes the tax accordingly.
- The taxpayer's information did not support their claim and no tax recomputation is needed.

If the taxpayer acquiesces to the IRS's determination, they may undertake one of the following actions.

- Pay the amount due in full.
- Request an installment agreement.
- Submit an offer-in-compromise.

¹⁷ National Taxpayer Advocate, *2011 Annual Report to Congress* (Vol. 2).

If the taxpayer objects to the IRS's determination, the following options are available.

- The taxpayer may request a conference with the Appeals Office by filing a written small case request or a written protest. See IRS Pubs. 3498, *The Examination Process*, or 3498-A, *The Examination Process (Examinations by Mail)*, for more information.
- The individual may pay the amount due in full and file a formal claim using Form 1040X. This claim must be filed within three years of the date the return was filed or two years from the date the taxes were paid, whichever is later.

Note. If the IRS disallows the claim in full or in part after the taxpayer files Form 1040X, the taxpayer may request an appeals conference or may file a refund suit in federal district court or federal claims court. The taxpayer has two years from the date the claim disallowance letter was mailed to file a refund suit. The taxpayer may also file a refund suit if they do not hear from the IRS within six months of the date that Form 1040X was filed.

- If the taxpayer does nothing, the IRS will send a bill for the amount due.

AUTOMATED UNDERREPORTER (AUR)

The IRS automated underreporter (AUR) system produces taxpayer underpayment notices. AUR is defined as a case in which the income, payments, credits, or deductions reported on a tax return do not match what is reported by third parties, such as banks, businesses, and employers. The AUR program is worked primarily in a post-refund manner, which allows the IRS to correlate the Form 1040 entries against the third-party information, including Forms 1099 and W-2.

Once the systemic correlation takes place, a report of potential AUR discrepancies is generated. Once discrepancies are identified, the IRS decides how many cases it can investigate based on the resources available.

After the AUR cases are selected, they are distributed to an IRS campus, where an examiner manually reviews the raw data to see if they can reconcile the differences. If so, the matter is closed at that time and no contact with the taxpayer is made. However, if the examiner cannot reconcile the differences, contact with the taxpayer is initiated.¹⁸

AUR Notices

Following are the two predominant AUR notices.

- **CP2000.** This notice proposes additional tax, penalties, and interest, when deemed appropriate, based on the reported discrepancies.
- **CP2501.** This notice asks the taxpayer to explain the differences between the Form 1040 entries and data supplied by third parties. The CP2501 notice is sent to a taxpayer to obtain additional information prior to issuing a CP2000.¹⁹

Note. IRS Pub. 3498-A, *The Examination Process (Examinations by Mail)*, is enclosed with all CP2000 and CP2501 notices.

¹⁸ IRS 2009 Nationwide Tax Forums Online. [www.irstaxforumsonline.com/sites/default/files/flash/aurccs/pdf/aurccs.pdf] Accessed on Nov. 10, 2011.

¹⁹ IRM 4.19.3.18.1 (2009).

If a taxpayer provides supporting documentation in response to an AUR notice and the examiner determines that the information resolves the discrepancy, the case is closed with a “no change” to the taxpayer’s account. However, if the examiner determines the taxpayer’s supporting information does not resolve the discrepancy and the taxpayer agrees with the examiner’s determination, the IRS assesses additional tax based on the AUR notice and closes the case as agreed. When a taxpayer does not agree or does not respond to the AUR notice within the requisite time period, a statutory notice of deficiency is issued to assess additional tax.²⁰

Key Points

To help clients **avoid** AUR notices, practitioners should keep the following points in mind.

1. Encourage clients to keep good records of the income they receive during the year.
2. **Do not** group income amounts together. List multiple payors and amounts individually when reporting income. For example, when a taxpayer receives several Forms 1099-INT, *Interest Income*, from the same bank, each amount should be listed separately on the tax return.
3. Report the income on the tax return using the payor’s name as listed on the information return.

Example 2. Dixie receives interest income from First National Bank. When she receives a Form 1099-INT for this income, the payor is listed as Consolidated Bank Group and should be reported as such on Dixie’s tax return.

4. **Do not** net reportable income against deductible expenses.

Example 3. Fernando receives a Form 1099-G, *Certain Government Payments*, reporting a \$5,000 reimbursement for expenses incurred for a government-approved project. Fernando expended \$6,000 in completing the project. Although the net effect is a \$1,000 deduction, he should report both the \$5,000 reimbursement as income and the \$6,000 disbursement in the appropriate expense category.

5. Report income items on the correct line or schedule.

Example 4. Lacey received a Form 1099-MISC, *Miscellaneous Income*, from her tenant. The rental income she received was reported in box 7, Nonemployee Compensation, rather than box 1, Rents. Because nonemployee compensation is subject to self-employment tax as well as income tax, Lacey is likely to receive a CP2000 notice if she reports the amount on Schedule E, *Supplemental Income and Loss*. Lacey should request a corrected Form 1099-MISC from the tenant. If she cannot get a corrected Form 1099-MISC, she should attach a statement to her return explaining why she reported the amount on Schedule E.

6. Attach a statement if a Form 1099 amount is incorrect. If the Form 1099 is incorrect, the taxpayer should request a corrected Form 1099 from the issuer. The correct amount should be reported on the return. However, the statement should identify the incorrect Form 1099, explain why the amount is incorrect, and show the detail from the Form 1099, such as the payor information including the employer identification or social security number, name, and address. Frequently, a CP2000 notice can still arise when both original and corrected Forms 1099 are received. Attaching an explanation to the return usually eliminates unnecessary correspondence from the IRS.

7. Include schedules and supporting documents with the return.

Example 5. Mallory receives an IRA distribution that consists of both deductible contributions and earnings and nondeductible contributions. To avoid receiving an AUR notice, Mallory should include Form 8606, *Nondeductible IRAs*, with her return to show how she arrived at the taxable portion of the IRA distribution.

²⁰ Treasury Inspector General for Tax Administration Reference No. 2010-30-089. *Plans for Evaluating the Use of Soft Notices in Addressing Underreporting Can Be Enhanced*. Aug. 27, 2010.

The following points should be considered when **responding** to an AUR notice.

1. All returns in the AUR inventory were previously screened for unallowable items as well as audit potential and were not selected for action in either event.²¹ The Internal Revenue Manual includes the following instructions for the AUR examiner.²²
 - a. When evaluating a taxpayer's explanation for unreported income, it is not necessary to verify everything the taxpayer says. As a general rule, the issue of questionable items (those not clearly unallowable) will not be raised.
 - b. The taxpayer's explanation will generally be taken at face value, including schedules of expenses submitted by the taxpayer to offset unreported income. However, the examiner should consider the reasonableness of the explanation.
2. Review the tax return for the year covered by the CP2000 notice.
3. Review the information in the column marked "Shown on Return" and compare it with the information in the column marked "As Corrected by IRS." If the taxpayer agrees with **all** the changes the IRS is proposing, check the box in Step A on the CP2000 response page and enclose a check payable to the United States Treasury. If the taxpayer cannot pay the entire balance due, request an installment agreement. Relevant portions of a sample CP2000 notice follow.

²¹ IRM 4.19.3.1 (2011).

²² Ibid.

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Response Form

1. Review the Explanation Section to decide whether you agree or do not agree with IRS's proposed changes.
2. Complete and return the Response Form by **{due date}**.
3. If you need additional time, call us at **{toll-free #}**.

STEP A

Check only one of the three options. Then, go to Step B.

If you agree with the changes IRS is proposing, return this form with your FULL or PARTIAL payment along with the completed Installment Agreement Request for the remaining balance (if applicable).

☐ **OPTION 1** | I Agree with All Changes

I agree with the changes to my **{tax year}** tax return.

I understand that I owe **{\$ amount}** in additional tax, penalties, and interest.

I understand that the law requires IRS to charge interest on taxes that are not paid in full by **{due date}**. In addition, I understand that the IRS will charge interest until I have paid the tax in full. Certain penalties may also apply.

I understand that I can challenge these changes in the U.S. Tax Court only if IRS determines after the date I sign this form that I owe additional taxes for **{tax year}**.

I understand that I can file for a refund at a later date.

Signature _____

Date _____

If you do not agree with the changes IRS is proposing, return this form. When you return this form, include a signed statement that explains what you do not agree with. Also include copies of any documents, such as a corrected W-2, 1099, or missing forms, that support your statement.

☐ **OPTION 2** | I Do Not Agree with Some of the Changes

I've enclosed documentation to support the entries on my original return.

☐ **OPTION 3** | I Do Not Agree with Any of the Changes

I've enclosed documentation to support the entries on my original return.

STEP B

Check the applicable payment options, Then, go to Step C.

*Tip! Pay as much as you can now to keep penalty and interest charges low. Make your check or money order payable to "United States Treasury." Write "Tax Year **{tax year}** CP2000," this Social Security Number **{SSN #}** and your phone number on your check or money order.*

☐ **OPTION 1** | I'm paying the proposed balance due of **{\$ amount}**

Balance may not include all applicable penalties - refer to the Explanation Section..

☐ **OPTION 2** | I'm making a payment of \$_____ because either:

☐ I'm paying the amount I agree with or

☐ I'm making a partial payment at this time

☐ **OPTION 3** | I'd like to request a payment plan to pay the tax I owe.

Complete the Installment Agreement Request (Form 9465) and mail it along with this form. Please refer to Form 9465 instructions for applicable fees.

CP2000 (Rev.11/2004)



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3. Changes to Your Return

Note: We only show the items that have been affected by the information we received in the following chart. All other items are correct as shown on your return. Unless noted, line numbers always refer to the line number on your tax return.

| Changes to Your Tax Computation | Shown on Return | As Corrected by IRS | Difference |
|---|---------------------------|---------------------|---------------|
| Taxable Income, line 43 | { \$ amount } | { \$ amount } | { \$ amount } |
| Tax, line 44 | { \$ amount } | { \$ amount } | { \$ amount } |
| Self-Employment Tax, line 56 | { \$ amount } | { \$ amount } | { \$ amount } |
| Social security and Medicare tax on wage income not reported to employer, line 57 | { \$ amount } | { \$ amount } | { \$ amount } |
| Total Tax, line 60 | { \$ amount } | { \$ amount } | { \$ amount } |
| Making Work Pay and Government Retire Credit, line 63 | { \$ amount } | { \$ amount } | { \$ amount } |
| Earned Income Credit, line 64a | { \$ amount } | { \$ amount } | { \$ amount } |
| Additional child tax credit, line 65 | { \$ amount } | { \$ amount } | { \$ amount } |
| | (*2) Net Tax Increase | | { \$ amount } |
| Income Tax Withheld, line 61 | { \$ amount } | { \$ amount } | { \$ amount } |
| | (*1) Net Payment Decrease | | { \$ amount } |

| Summary of Proposed Changes | | | |
|---|--|--|---------------|
| Amount of Tax Increase | | | { \$ amount } |
| Payment Decrease | | | { \$ amount } |
| Interest, IRC Section 6601, from 04/15/2010 to 09/14/2011 | | | { \$ amount } |
| Total Amount You Owe | | | { \$ amount } |

(*1) Decreases to Payments increase the amount owed.
 (*2) Decreases to Credits result in an increase to Tax.

CP2000 (Rev.11/2004)

- If the issue appears to be one that can be cleared up easily, such as directing the IRS to a line on the taxpayer's original return where the income in question was combined with income from another source, an IRS customer service representative should be called. If the notice was generated from Brookhaven, Ogden, or Philadelphia, the number is 800-829-8310. If the notice was from Andover, Atlanta, Austin, or Fresno, the number is 800-829-3009.²³
- If the matter is more complex and the taxpayer disagrees with some or all of the proposed changes, a written explanation is necessary. **The taxpayer should not sign the notice.** Instead, option 2 or 3 on the response page (shown earlier) should be checked and the written statement and copies of any relevant supporting documents attached.
- It is important to respond to the AUR notice by the due date (30 days from the date of the notice or 60 days if the taxpayer lives outside the United States). If no response is sent, the IRS assumes the proposed changes are correct and a 90-day statutory notice of deficiency is issued. If more time is needed, the number on the top of the notice should be called. Document the new due date.

²³ CP 2000 Frequently Asked Questions (FAQs). [www.irs.gov/Individuals/CP-2000-Frequently-Asked-Questions-(FAQs)] Accessed on Sep. 5, 2012.

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7. The response page from the AUR notice should be enclosed.
8. A contact telephone number should be provided.
9. The response should be sent **in the return envelope provided**.

Soft Notices

Because IRS resources are not sufficient to investigate all AUR discrepancies, it is implementing a multi-year initiative to determine if so-called “soft notices” (CP2057) can be used to permanently replace the AUR program. The CP2057 notice does not require the taxpayer to pay additional tax, provide documentation, or file an amended return. Rather, the notices are designed to serve as an educational tool, encourage self-correction, and improve voluntary compliance.²⁴ If the taxpayer determines income was not reported, they are requested to file an amended tax return.


An example of a CP2057 notice follows.

| | | |
|---|--|---|
| Department of the Treasury Internal Revenue Service PO Box XXXXX City, ST XXXXX-XXXX | | Social Security Number: XXX-XX-XXXX |
| Taxpayer Name(s) PO BOX – Street Address City, State, Zip Code | | Tax Year: 2007 |
| | | To call for assistance: 1-800-829-XXXX Toll Free between 7:00 AM and 8:00 PM |
| Check Your Records to Confirm the Income You Received | | |
| Why We're Sending You This Notice The amount of income/deduction reported on your 2007 tax return is different from the amount reported to us by third party payers such as employers, financial institutions, etc. We've listed the issue(s) in question, as reported by third parties, on page three of this letter. | | |
| What You Need To Do Now Please compare the amount reported to us on page three of this letter with the amount reported on your 2007 return. If you need a copy of your return, complete Form 4506, <i>Request for Copy of Tax Return</i> , and send it to the IRS office where you filed your tax return. You can request forms at www.irs.gov or by calling 1-800-829-3676. | | |
| If the amount reported on your return is . . . | Then . . . | |
| Correct | •Do not call or respond to the IRS in reference to this letter. •Contact the payer if you believe the amount was incorrectly reported to the IRS and request that the payer verify and correct his records if necessary. If the amount is not corrected before filing future returns, you may continue to have similar reporting problems. | |
| 1 | | CP2057 |

²⁴ Treasury Inspector General for Tax Administration Reference No. 2010-30-089. *Plans for Evaluating the Use of Soft Notices in Addressing Underreporting Can Be Enhanced*. Aug. 27, 2010.

| | |
|---|--|
| If the amount reported on your return is . . . | Then: |
| Not Correct | <ul style="list-style-type: none"> • Correct your return by completing the enclosed Form 1040X, <i>Amended U.S. Individual Income Tax Return</i>. • Securely attach the completed Form 1040X to a copy of this notice and send to IRS, PO Box XXXXX, City, ST, XXXXX-XXXX. An envelope is enclosed for your convenience. <p>Failure to file an amended return may result in further action by the IRS to verify the correct amount is reported on your return.</p> |

What To Do If You Need Assistance
 If you have questions or need help, please call our toll-free number 1-800-829-XXXX.

Sincerely yours,

 XXXX XXXXXXXX
 Operations Manager

Enclosures:
 Form 1040X, *Amended U.S. Individual Income Tax Return*
 Instructions for Form 1040X
 Envelope
 Copy of this Notice

2

CP2057

PENALTY ABATEMENT²⁵

Relief from IRS penalties generally falls into four separate categories.

1. Reasonable cause
2. Statutory exceptions
3. Administrative waivers
4. Correction of IRS error

²⁵ IRM 20.1.1.3 (2011).

REASONABLE CAUSE

Reasonable cause is based on all the facts and circumstances in each situation and allows the IRS to provide relief from a penalty that would otherwise be assessed. Reasonable cause relief is generally granted when the taxpayer exercised **ordinary business care and prudence** in determining their tax obligations.

In making a determination as to whether the taxpayer exercised ordinary business care and prudence, the IRS reviews available information, including the following.

1. **Taxpayer's reason.** The taxpayer's reason should address the penalty imposed. The dates and explanations provided should clearly correspond with the events on which the penalties are based.
2. **Compliance history.** The IRS may determine that the taxpayer is not exercising ordinary business care if the same penalty was previously assessed or abated. On the other hand, if this is the taxpayer's first incident of noncompliant behavior, the IRS weighs this factor with other reasons the taxpayer gives for reasonable cause. A first-time failure to comply does not by itself establish reasonable cause.
3. **Length of time.** The IRS considers the length of time between the event cited as a reason for the noncompliance and subsequent compliance.

Example 6. Sadie and Justin file their 2010 Form 1040 on April 13, 2012. After they receive a penalty notice from the IRS, they send a response asking for penalty relief. Their letter states that dealing with the death of Justin's mother was the reason the return was filed late.

Justin's mother died in January 2011. The IRS will probably not grant penalty relief unless other factors justify the delay in filing.

4. **Circumstances beyond the taxpayer's control.** The IRS considers whether the taxpayer could have anticipated the event that caused the noncompliance. Reasonable cause generally is established when the taxpayer exercises ordinary business care and prudence but was unable to timely meet the tax obligation due to circumstances beyond their control.

Following are some of the circumstances which may establish reasonable cause for filing, paying, or depositing late.²⁶

1. **Death, serious illness, or unavoidable absence.** This may include a death or serious illness in the taxpayer's immediate family. In evaluating such a request for penalty relief, the IRS considers factors that include the following.
 - a. The relationship of the taxpayer to the other parties involved
 - b. The date of death
 - c. The dates, duration, and severity of illness
 - d. The dates and reasons for absence
 - e. How the event prevented compliance
 - f. Whether tax obligations were promptly attended to when the illness passed, or within a reasonable period after a death or return from an unavoidable absence

²⁶ IRM 20.1.1.3.2.2.

2. **Fire, casualty, natural disaster, or other disturbance.** The IRS considers factors that include the following.
 - a. Timing
 - b. Effect on the taxpayer
 - c. Steps taken to attempt to comply
 - d. Whether the taxpayer complied when it became possible
3. **Inability to obtain the necessary records to comply with a tax obligation.** The IRS considers factors such as the following in its evaluation.
 - a. Why the records were needed to comply
 - b. Why the records were unavailable and what steps were taken to obtain the records
 - c. When and how the taxpayer became aware that they did not have the records
 - d. Whether other means were explored to obtain the information
 - e. Why the taxpayer did not estimate the information
 - f. Whether the taxpayer contacted the IRS for instructions on what to do about the missing information
 - g. Whether the taxpayer promptly complied once the information was received
 - h. Supporting documentation, such as copies of letters written and responses received, that demonstrates an effort to obtain the needed information
4. **A mistake.** This is generally not in keeping with the ordinary business care and prudence standard. However, the reason for the mistake may be a supporting factor if additional facts and circumstances support the determination that the taxpayer exercised ordinary business care and prudence but nevertheless was unable to comply within the prescribed time.
5. **Erroneous advice or reliance.** This is generally not a basis for reasonable cause because the taxpayer is responsible for meeting their tax obligations and this responsibility cannot be delegated. However, other factors the IRS considers include the following.
 - a. Was the taxpayer unable to comply because they did not have access to their own records?
 - b. Was the failure to comply because of a change in the tax law that the taxpayer could not reasonably be expected to know?
6. **Ignorance of the law.** Reasonable cause may be established if the taxpayer shows ignorance of the law in conjunction with other facts and circumstances. In making this determination, the IRS considers the following factors.
 - a. The taxpayer's education
 - b. Whether the taxpayer was previously subject to the tax
 - c. Whether the taxpayer was penalized before
 - d. Whether there were recent changes in the tax law or forms that the taxpayer could not reasonably be expected to know
 - e. The level of complexity of a tax or compliance issue

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Reasonable cause relief is not available for all penalties. The following chart from the Internal Revenue Manual lists various categories of penalties for which the reasonable cause exception may be considered.

Exhibit 20.1.1-1
Penalty Relief—Application Chart

| Statute | Type of Penalty | Reasonable Cause Relief | Other Relief |
|----------------|---|-------------------------|--------------|
| IRC 6039E | Failure to Provide Information Concerning Resident Status | Yes | Yes |
| IRC 6651(a)(1) | Failure to File Tax Return | Yes | Yes |
| IRC 6651(a)(2) | Failure to Pay Tax when Due | Yes | Yes |
| IRC 6651(a)(3) | Failure to Pay within 10 Days of Notice of Additional Tax Due (Notices issued prior to 1/1/1997) | Yes | Yes |
| IRC 6651(a)(3) | Failure to Pay within 21 Days of Notice of Additional Tax Due (10 business days if amount is \$100,000 or more) (Notices issued after 12/31/1996) | Yes | Yes |
| IRC 6651(f) | Fraudulent Failure to File | No | No |
| IRC 6652(a)(1) | Failure to File Certain Information Returns | Yes | Yes |
| IRC 6652(c)(1) | Failure to File Annual Return by Exempt Organization | Yes | Yes |
| IRC 6652(c)(2) | Failure to File Returns under IRC 6034 or IRC 6043(b)) | Yes | Yes |
| IRC 6652(d)(2) | Notification of Change in Status of a Plan | Yes | Yes |
| IRC 6652(e) | Information Required in Connection with Certain Plans of Deferred Compensation—Form 5500, Annual Return/Report of Employee Benefit Plan | Yes | Yes |
| IRC 6652(h) | Failure to Give Notice to Recipients of Certain Pension, etc., Distributions | Yes | Yes |
| IRC 6652(i) | Failure to Give Written Explanation to Recipients of Certain Qualifying Rollover Distributions | Yes | Yes |
| IRC 6652(j) | Failure to File Certification with Respect to Certain Residential Rental Projects | Yes | Yes |
| IRC 6654 | Estimated Tax Penalty on Individuals | No | Yes |
| IRC 6655 | Estimated Tax Penalty on Corporations | No | No |
| IRC 6656(a) | Failure to Deposit | Yes | Yes |
| IRC 6657 | Bad Checks | Yes | Yes |
| IRC 6662 | Accuracy-Related Penalty on Underpayments | Yes* | Yes |
| IRC 6662A | Accuracy-Related Penalty on Understatements with Respect to Reportable Transactions | Yes* | Yes |
| IRC 6663 | Fraud | No | No |
| IRC 6676 | Erroneous Claim for Refund or Credit | No | Yes |
| IRC 6692 | Failure to File Actuarial Report | Yes | Yes |
| IRC 6698 | Failure to File Partnership Return | Yes | Yes |
| IRC 6699 | Failure to File S corporation Return | Yes | Yes |
| IRC 6721 | Failure to File Correct Information Reporting Returns | Yes | Yes |
| IRC 6722 | Failure to Furnish Correct Payee Statements | Yes | Yes |
| IRC 6723 | Failure to Comply with other Information Reporting Requirements | Yes | Yes |

*Reasonable cause does not apply to any portion of the underpayment (IRC 6662) or understatement (IRC 6662A) attributable to an IRC 6662(b)(6) transaction (transactions lacking economic substance within the meaning of IRC 7701(o), or failing to meet the requirements of any similar rule of law).

Note:

This list is not all-inclusive. Refer to the appropriate IRM 20.1 section for relief provisions for penalties not listed in this exhibit.

STATUTORY EXCEPTIONS

Tax legislation provides exceptions to penalties in certain situations. Specific statutory exceptions can be found in either the relevant Code sections or the accompanying regulations. For example, the Internal Revenue Manual lists the following.

| Legal Reference | Title | IRM Reference |
|---|---|--|
| IRC 6654(e)(1), (2), or (3) | Estimated Tax Penalties (ES) | IRM 20.1.3 |
| IRC 7502(a) and IRC 7502(e) (IRC 7502(e)) does not apply to deposits due after Dec. 31, 2010) | Timely Mailing Treated as Timely Filing and Paying | IRM 20.1.2 and IRM 20.1.4 |
| IRC 6724(a) or IRC 6724(c) | Waiver; Definitions and Special Rules, Information Return Penalties | IRM 20.1.7 |
| IRC 6404(f) | Abatement of any Penalty or Addition to Tax Attributable to Erroneous Written Advice by the Internal Revenue Service | IRM 20.1.1.3.3.4.1 |
| IRC 7508 | Time for Performing Certain Acts Postponed by Reason of Service in Combat Zone. This provision applies only in a Presidentially declared Combat Zone | IRM 20.1.2.1.2.1, <i>Combat Zone - IRC 7508</i> |
| IRC 7508A | Authority to Postpone Certain Deadlines by Reason of Presidentially Declared Disaster or Terroristic or Military Actions | IRM 25.16, <i>Disaster Assistance and Emergency Relief</i> |

Tax legislation that contains retroactive provisions may provide guidance on associated penalties. As a result of the retroactive provision, the IRS may issue a news release or other guidance with directions for dealing with the related penalties.

ADMINISTRATIVE WAIVERS

The IRS may formally clarify or interpret a provision to provide administrative relief from a penalty that would otherwise be assessed. An administrative waiver may be addressed in a policy statement, news release, or other formal communication stating that IRS policy is to provide relief from a penalty under specific conditions.

An administrative waiver may be necessary when there is a delay by the IRS in:

- Printing or mailing of forms,
- Publishing guidance, or
- Other conditions.

REQUESTING PENALTY RELIEF

The IRS considers requests for penalty relief received from third parties, including requests from representatives without an authorized POA. However, no taxpayer information is discussed with a third party unless a valid POA or other acceptable authorization is secured in writing from the taxpayer.

The **initial** request for penalty relief can be made either with a return that is filed or paid late, or after assessment of the penalty and notification issued to the taxpayer. To request penalty abatement, a statement should be sent to the IRS **fully explaining the facts**. All relevant supporting documentation should be included with the statement. The burden of proving entitlement to relief is generally on the taxpayer. In some cases, the IRS may request that the taxpayer pay the tax in full before it will remove or reduce the late payment penalty.²⁷

²⁷ IRM 20.1.1.3.6.1.

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If the initial request for relief is denied, the taxpayer can appeal the decision. The IRS sends a notice of disallowance, which informs the taxpayer of their appeal rights. This notice specifies the following.²⁸

- How to prepare a request for an appeal
- Where to mail the request
- When the request must be received
- What information must be included in the request for an appeal

E-SERVICES²⁹

E-Services is a suite of web-based products that allows tax professionals and payors of income to conduct business with the IRS electronically. Access to the various e-Services is limited to practitioners who meet specific qualifications. Electronic return originators (ERO) who have e-filed five or more accepted returns are eligible to use the following products.

- Disclosure authorization (DA)
- Electronic account resolution (EAR)
- Transcript delivery system (TDS)

Note. Effective November 1, 2007, all attorneys, CPAs, and EAs have unlimited access to the above products regardless of whether they e-file their client returns. However, they must first register for e-Services and submit an online e-file application. Further information is available at www.irs.gov/Tax-Professionals/Circular-230-Practitioner-e-Services-Access.

Reporting agents who are accepted IRS e-file providers are eligible to use the following products.

- EAR
- TDS

DISCLOSURE AUTHORIZATION

Eligible tax professionals may complete authorization forms, view and modify existing forms, and receive acknowledgement of accepted submissions online. Disclosure authorization (DA) allows tax professionals to electronically submit Form 2848 and Form 8821. DA expedites processing and issues an immediate acknowledgement of accepted submissions.

ELECTRONIC ACCOUNT RESOLUTION

Electronic account resolution (EAR) allows eligible tax professionals to expedite closure on clients' account problems by electronically sending/receiving account-related inquiries. Tax professionals may inquire about individual or business account problems, refunds, installment agreements, missing payments, or notices. Tax professionals must have a POA on file before accessing a client's account. The IRS response is delivered to an electronic secure mailbox within three business days.

²⁸ *Preparing a Request for Appeals*. [www.irs.gov/Individuals/Preparing-a-Request-for-Appeals-1] Accessed on Sep. 5, 2012.

²⁹ *e-Services — Online Tools for Tax Professionals*. [www.irs.gov/Tax-Professionals/e-services---Online-Tools-for-Tax-Professionals] Accessed on Sep. 5, 2012.

TRANSCRIPT DELIVERY SYSTEM

Eligible tax professionals may use the transcript delivery system (TDS) to request and receive account transcripts, wage and income information documents, tax return transcripts, and verification of nonfiling letters for both individual and business taxpayers. The record of account combines both the return transcript and account transcript in one product. Tax professionals must have a POA on file with the IRS before accessing a client's account.

Tax return transcripts list most of the line items from the tax return. They do not reflect changes after the return is processed. A tax return transcript is only available for the current year and three prior years.

Account transcripts reflect changes made to the original return, such as amendments and adjustments. They provide the following information.

- Amount of estimated payments
- Penalty paid/assessed
- Interest paid/assessed
- Interest paid to the taxpayer by the IRS
- Balance due with accruals

Account transcripts are generally available for the current year and prior three years. A sample account transcript is shown on the following page.



Internal Revenue Service United States Department of the Treasury

This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date: 03-04-2009

Response Date: 03-04-2009

Tracking Number: [REDACTED]

FORM NUMBER: 1040

TAX PERIOD: Dec. 31, 2008

TAXPAYER IDENTIFICATION NUMBER: 000-00-0100

SPOUSE TAXPAYER IDENTIFICATION NUMBER: 000-00-0200

JOHN DOE & JANE DEE

300 ANYSTREET BLVD

DALLAS, TX 77000-0000-000

--- ANY MINUS SIGN SHOWN BELOW SIGNIFIES A CREDIT AMOUNT ---

ACCOUNT BALANCE: 1,461.49

ACCRUED INTEREST: 20.97 AS OF: Aug. 03, 2009

ACCRUED PENALTY: 36.47 AS OF: Aug. 03, 2009

ACCOUNT BALANCE PLUS ACCRUALS

(this is not a payoff amount): 1,518.93

** INFORMATION FROM THE RETURN OR AS ADJUSTED **

EXEMPTIONS: 05 FILING STATUS: Married Filing Joint

ADJUSTED

GROSS INCOME: 67,000.00

TAXABLE INCOME: 41,800.00

TAX PER RETURN: 4,359.00

SE TAXABLE

INCOME TAXPAYER: 0.00

SE TAXABLE

INCOME SPOUSE: 0.00

TOTAL SELF

EMPLOYMENT TAX: 0.00

RETURN DUE DATE OR RETURN RECEIVED DATE (WHICHEVER IS LATER) Apr. 15, 2009

PROCESSING DATE Apr. 20, 2009

TRANSACTIONS

| CODE | EXPLANATION OF TRANSACTION | CYCLE | DATE | AMOUNT |
|------|-----------------------------------|----------|------------|-------------|
| 150 | Tax return filed [REDACTED] | 20091408 | 04-20-2009 | \$5,559.00 |
| 806 | W-2 or 1099 withholding | | 04-15-2009 | -\$4,100.00 |
| 276 | Penalty for late payment of tax | 20091408 | 04-20-2009 | \$1.29 |
| 196 | Interest charged for late payment | 20091408 | 04-20-2009 | \$1.20 |

IDENTITY PROTECTION PROGRAM

Note. See 2012 Volume A, Chapter 4: IRS Update, for more information regarding the IRS's efforts to minimize identity theft.

Beginning in 2008, the IRS started using identity theft indicators, which are placed on a taxpayer's account after a taxpayer has been victimized by identity theft and has provided certain substantiation documentation to the IRS. There are a number of different identity theft indicators used by the IRS to address the various types of identity theft issues that it encounters. These indicators are used to reduce taxpayer burden by:

- Distinguishing legitimate returns from fraudulent returns,
- Tracking taxpayers with identity-theft-related tax problems and issues encountered by identity theft victims, and
- Preventing victims from encountering similar complications with their tax account every filing season.

When a taxpayer with an identity theft indicator on their account files a return, the return is matched against filters that are designed to preemptively identify returns that may be fraudulently filed. If a return fails to pass any one of the filters, the return is flagged for manual review to verify that the taxpayer who filed the return is the legitimate taxpayer. This creates a delay in processing the return.

Taxpayers with identity theft indicators on their accounts will receive an IRS CP 01F letter that advises them that they will shortly receive a new identity protection personal identification number (IP PIN). The letter explains that they should safeguard the IP PIN for use in filing their tax return. Approximately one month later, the IRS sends a follow-up letter (CP 01A), that assigns a single-use 6-digit IP PIN to the taxpayer. The new IP PIN must appear on the taxpayer's return in order to bypass the filters and expedite processing for the tax year.

As part of the interview process, practitioners should ask the taxpayer if they received a letter from the IRS containing an IP PIN. When a practitioner files an electronic return for a taxpayer with an IP PIN, there is an indicator on the account that **requires** that the IP PIN be present and correct on the return prior to the return being accepted and processed. Inclusion of the IP PIN acts as an authenticator to validate that the taxpayer is the legitimate party.

Taxpayers who lose their IP PIN before filing their return can request a replacement by contacting the Identity Protection Specialized Unit. It is no longer necessary to issue an Inquiry Referral (Form 4442) to Privacy, Governmental Liaison, and Disclosure to receive a replacement IP PIN. To facilitate timely filing of returns, IRS employees will provide taxpayers who qualify for a replacement IP PIN with a generic number by telephone. The generic IP PIN will allow the taxpayers to e-file, but the returns will be delayed so the IRS can check the validity of the information. If the taxpayer is experiencing an economic burden, they should contact the Taxpayer Advocate Service.

The IP PIN is for use specifically for the tax year for which it is provided. The taxpayer will receive a new IP PIN every year for three years after the identity theft incident, or longer if the account shows that they are still an identity theft victim.³⁰

Example 7. Jacob receives an IP PIN in December 2011 that specifies it is to be used on his 2011 tax return. The IP PIN will only be valid for tax returns submitted for the 2011 tax year and for returns submitted prior to December 31, 2012.

³⁰ *Understanding Your LTR4868CS Letter.* [www.irs.gov/individuals/article/0,,id=249368,00.html] Accessed on Nov. 11, 2011.

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If married taxpayers are filing jointly and they both receive an IP PIN, only the IP PIN for the taxpayer whose social security number appears first on the return should be entered. Only one IP PIN can be submitted with any tax return submitted electronically or on paper.

For taxpayers who file returns on paper, the IP PIN should be entered in the space provided in the signature block, as shown below.

You Own It

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records. ▶

Your signature ▶ Date ▶ Your occupation ▶ Daytime phone number ▶

Spouse's signature. If a joint return, **both** must sign. ▶ Date ▶ Spouse's occupation ▶ Identity Protection PIN (see inst.) ▶

Paid Preparer Use Only

Print/Type preparer's name ▶ Preparer's signature ▶ Date ▶ Check ☐ if self-employed ▶ PTIN ▶

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no. ▶

Form **1040** (2011)

If a taxpayer believes someone may have used their SSN fraudulently, the IRS should be notified immediately by contacting the name and number printed on the notice or letter. The taxpayer should also complete Form 14039, *Identity Theft Affidavit*. This form is shown on the following pages.

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| Please submit the photocopies required above with this form using one of the following options | |
|---|--|
| BY MAIL | BY FAX |
| <p>If you received a notice from the IRS, return this form with a copy of the notice to the address contained in the notice. If you are unable to file your return electronically because the primary and/or secondary SSN was misused, submit this form with your paper return to the IRS location for your state. If you have already filed your return, submit the form with a letter of explanation to the IRS location for your state. Refer to the "Where Do You File" section of your return instructions.</p> <p>If you have not received an IRS notice and are self-reporting as being at risk for future impact to your tax account, please mail this form to:</p> <p>Internal Revenue Service P.O. Box 9039 Andover, MA 01810-0939 USA</p> | <p>If you received a notice <u>in the mail</u> from the IRS and a fax number is shown, fax this completed form with a copy of the notice to that number. Please include a cover sheet marked "Confidential." If no fax number is shown, please follow the mailing instructions.</p> <p>NOTE: The IRS does not initiate contact with taxpayers by e-mail or fax.</p> <p>If you have not received an IRS notice and are self-reporting as being at risk for future impact to your tax account, fax this form to: (978) 684-4542.</p> <p>NOTE: This is not a toll-free number. Your telephone company or a third party service provider, if applicable, may charge to send faxes.</p> |

Other helpful identity theft information may be found on www.irs.gov (keyword "identity theft"). Additionally, locations and hours of operation for Taxpayer Assistance Centers can be found at <http://www.irs.gov/localcontacts/index.html>.

Note: The Federal Trade Commission (FTC) is the central federal government agency responsible for identity theft awareness. The IRS does not share taxpayer information with the FTC. Please refer to the FTC's website at <http://www.ftc.gov> (keyword "identity theft") for additional information, protection strategies, and resources.