



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

SMALL BUSINESS/SELF-EMPLOYED DIVISION

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MEMORANDUM FOR SB/SE TECHNICAL SERVICES EMPLOYEES

FROM: Heather J. Yocum /s/ *Heather J. Yocum*
Director, Examination Field and Campus Policy

SUBJECT: Interim Guidance for Technical Services' Review of LB&I ITP
and CTA Cases for Notices of Deficiency

Purpose: This memorandum issues guidance for SB/SE Technical Services on the preparation and issuance of notices of deficiency when LB&I's tax computation specialists (TCS) prepare tax computations outside of Report Generation Software (RGS) until IRM 4.8.9, *Statutory Notices of Deficiency*, is published. Please ensure this information is distributed to all affected employees within your organization.

Background/Source(s) of Authority: When reviewing a case for issuance of a notice of deficiency, Technical Services uses RGS to verify the return information, tax computations, and/or adjustments are correct. In addition, Technical Services uses RGS to generate the notice of deficiency letter, waivers, explanation of adjustments, and all forms required for closing, see IRM 4.8.9.8, *Case Review Prior to Preparing Notices of Deficiency*.

LB&I uses both, RGS and Bloomberg BNA Income Tax Planner (ITP) to prepare individual income tax examination reports, and BNA Corporate Tax Analyzer (CTA) to prepare Form 1120, *U.S. Corporation Income Tax Return*, computations. This change requires Technical Services to rely on the tax computation provided by LB&I and to manually prepare all forms, letters, and documents for the statutory notice.

Procedural Change: SB/SE Technical Services will accept tax and penalty computations from LB&I prepared outside of RGS and conduct a limited technical review when manually preparing the statutory notice of deficiency.

Effect Date and Effect on Other Documents: This guidance is effective immediately and will be incorporated into IRM 4.8.9, *Statutory Notices of Deficiency*, by a date not to exceed two years from the date of this memorandum.

Contact: Ronald Zarriello, Program Manager, Examination Field and Campus Policy, Field Examination General Processes.

Attachment: SBSE-04-0925-0027

Distribution: IRS.gov

Attachment Interim Guidance: SBSE-04-0925-0027

IRM 4.8.9.6.2

Closing Electronic Docketed and Non-Docketed Cases to the IRS Independent Office of Appeals (Appeals)

- (1) The tax examiner (TE) will use Report Generation Software (RGS) to perfect Form 5344, *Examination Closing Record*, if necessary, and use AMCLS to update Audit Information Management System (AIMS) to Appeals. If the TE is unable to update a case due to errors on Form 5344, the TE will return the case to the group. See case return procedures in IRM 4.8.9.8(3), *Case Review Prior to Preparing Notices of Deficiency*. The AIMS record must be updated to status code 81 on or close to the same date the electronic case is sent to Appeals through the Appeals Shared Programs Hub.

Note: When an examination report is prepared using Bloomberg BNA Income Tax Planner (ITP) or BNA Corporate Tax Analyzer (CTA) and Form 5344 requires revision, the reviewer will contact the assigned examiner to prepare an updated Form 5344 and Form 3198, *Special Handling Notice for Examination Case Processing*, as necessary.

- (2) The TE accesses the Appeals Shared Programs Hub and selects “Add New Electronic Case Receipts.” The TE completes the online referral form and includes the “docket number” in the required field only on a docketed case. The TE attaches the following documents:
- Electronic Case Receipts Check Sheet (completed by the field examiner and saved in the electronic case file). See IRM 4.10.8.12.9.3(4), *Request for Appeals Conference*.
 - Form 3198.
 - Report (e.g., Form 4549-A, *Report of Income Tax Changes (Without Taxpayer Signature)*, or Form 5278, *Statement - Income Tax Changes*).

Note: See Technical Services - Closing Docketed Paperless Electronic Cases to Appeals and Technical Services - Closing Non-docketed Paperless Electronic Cases to Appeals in the Electronic Case Procedures book for more information.

- (3) If Appeals determines that a case has been referred prematurely, they will send an email to the Technical Services group manager. The encrypted email should include Form 5402, *Appeals Transmittal and Case Memo*, and an explanation for the premature referral determination.

Note: If the only defect is that the referral is missing documents indicated on the transmittal, Account Processing and Support (APS) will request the information from the Technical Services group manager. If the issue is not resolved within 10 days, the case will be returned to the Technical Services group as a premature referral.

- (4) If a case has been selected for National Quality sample review, the TE must verify there are more than 395 days remaining on the statute prior to updating the case to status code 23. For the appropriate review type and suspense code, see Exhibit 4.8.2-1, *Technical Services Status Codes and Related Review and Suspense Type Codes*.
- For electronic case files, the TE/Technical Services group manager will email the Field Specialty Examination Quality (FSEQ) manager that the case is ready for review on Correspondence Examination Automation Support (CEAS).
 - For paper case files, the TE will ship the file overnight to the address shown on the Examination Returns Control System (ERCS) FSEQ selection notice.
 - Refer to IRM 4.8.2.3.4, *Multi-Year Examination with at Least One Unagreed Year and One Agreed/No Change Year*, for guidance where the multi-year case is not selected for review.
 - FSEQ has 10 days to review the case. For electronic case files, the FSEQ group manager will notify the Technical Services group manager that the review is complete. Paper case files will be shipped overnight.
 - When the case is returned, the TE/Technical Services group manager will update the status code to 22 and proceed with normal case closure to Appeals.

IRM 4.8.9.6.3

Electronic Case File Document (CFD) Folder - Statutory Notice of Deficiency

- (1) The reviewer reviews the electronic case file.

Note: Refer to IRM 4.46.5, *Resolving the Examination*, and IRM 4.46.6, *Workpapers and Reports Resources*, for LB&I electronic case files closed to Technical Services.

- (2) The reviewer prepares Letter 531, *Notice of Deficiency – 531*, and signs on behalf of the Technical Services territory manager. Refer to IRM 4.8.9.11, *Signing and Dating the Notice of Deficiency*. The reviewer will prepare Form 4089-B, *Notice of Deficiency-Waiver*, Form 4549-A or Form 5278, Form 886-A, *Explanation of Items*, and other notice attachments, based on the facts of the case. Documents prepared by the reviewer are saved to the RGS Case File Documents (CFD) or Office Document (OD) folder with the category "TS" at the end of the file name. Each document that makes up the statutory notice in a case file is saved separately in the RGS CFD folder. Alternatively, a statutory notice of deficiency (SNOD) file may be created, and each document saved separately and indexed.

Note: See exception for LB&I cases prepared using ITP and CTA in IRM 4.8.9.8(1).

- (3) The reviewer documents all actions and any contact with taxpayers, representatives, Counsel, Appeals, Centralized Case Processing (CCP), etc., on the activity record and saves it to the electronic case file as "100-01 Form 9984 Activity Record-TS". The reviewer specifies in the activity record the documents that make up the SNOD.

Note: Refer to RGS File Naming Conventions Job Aid and IRM 4.10.15, *Report Generation Software*, for applicable file naming conventions when saving electronically created documents in the electronic case file.

- (4) Once the statutory notice is prepared by the reviewer, the TE prints, date stamps, and issues the SNOD, and places the case in the 90-Day suspense.
- (5) A dated copy of the SNOD, including the certified or registered mail numbers, must be saved to RGS CFD folder or Issue Management System (IMS).

Note: The certified or registered mailing numbers can be found on the envelope, or the certified mailing list, and a copy must be saved in RGS CFD or IMS.

4.8.9.8

Case Review Prior to Preparing Notices of Deficiency

- (1) All cases that require a SNOD, require a limited review of unagreed issues and procedural requirements. The case should be able to withstand the scrutiny of Appeals and potential litigation in Tax Court.

Exception: Examination reports prepared using ITP and CTA are accepted as received from LB&I. Reviewers will prepare the statutory notice of deficiency based on the information provided and will perform a limited review, as outlined below and in IRM 4.8.9.8.3, *Correct Technical Conclusions*.

- (2) The scope of the case review will be sufficient to ensure the following:

- Correct technical conclusions.
- Proper consideration and computation of penalties (see exception in (1) for ITP and CTA cases).
- Accurate computation of the tax deficiency (see exception in (1) for ITP and CTA cases).
- Completion of all procedural requirements (e.g., ensuring the electronic case file is accurate, ensuring proper annotation is made on Form 3198 regarding interest (e.g., IRC 6621(c), *Determination of Rate of Interest*; IRC 6601(d), *Income Tax Reduced by Carryback or Adjustment for Certain Unused Deductions*; Rev. Rul. 99-40, etc.)).
- Managerial involvement (when warranted).
- Protection of taxpayer rights.

- (3) Reviewers must determine if the case is sufficiently correct to support the issues, which may require returning the case to the group examiner for clarification or error correction using Form 3990, *Reviewer's Report*. The reviewer should correct the error(s) in the case without returning it to the examiner, if at all possible.

Note: Refer to IRM 1.2.65.3.4, *SBSE 1-23-15, Error Tolerance Level*, for guidance whether to correct the error.

- (4) Reviewers should be aware of cycle time. Cycle time for the various stages of cases in Technical Services is represented in the chart in Exhibit 4.8.2-1. Reviewers should document their time and actions on Form 9984, *Examining Officer's Activity Record*.
- (5) If a case contains an error, Technical Services will revise the report, if possible, and prepare the notice of deficiency package in order to support the examiner's intent. At the same time, it is the duty and responsibility of reviewers to ensure the taxpayer's rights are protected during all stages of the examination process. See IRM 4.8.9.8.5.2, *New 30-Day Letter Required*, for additional information regarding when cases must be sent back to the group.

Reminder: When an examination report prepared using ITP or CTA requires revision, the reviewer will contact the assigned examiner to have an updated report, Form 5344 and Form 3198 prepared. See exception in IRM 4.8.9.8(1).

Caution: The reviewer should ensure no lead sheets, workpapers, or documents are deleted from the electronic file if any revisions are made to the report.

4.8.9.8.1

Preliminary Administrative Items Needed for Case Review

- (1) When the case is received, the case file is reviewed to ensure the following:
 - a. All returns are controlled on AIMS and ERCS, and all years are present in the electronic case file. See IRM 4.10.15 as it defines the returns that must be in RGS.
 - b. All returns (original, amended, and superseding) are reflected on Integrated Data Retrieval System (IDRS) and are in the case file.
 - c. All claims are processed and have been considered in the report.
 - d. Amended returns (Transaction Code (TC) 976/977) have been considered in the report.
 - e. The case is in Status Code 25, Review Type 034 or 035, and Suspense Type 508 or 506.
 - f. The 30-day letter was sent to the taxpayer if adequate time remained on the statute(s).
 - g. The statute of limitations is correctly reflected on AIMS/ERCS.
 - h. Form 895, *Notice of Statute Expiration*, is properly completed, if required.

Reminder: Reviewers must check the statute on Form 895 against AIMS, ERCS, and IDRS, the stamped received date, and mailing envelope. Do not rely on the statements on Form 895 or AIMS/ERCS/IDRS. Reviewers must check these items personally, to ensure the information is correctly reflected. If Form 895 statute information is correct, initial it. If Form 895 statute information is not correct, update the statute information, initial the change, prepare Form 5348, *AIMS/ERCS Update*, and submit Form 5348 with the case to the manager for

approval of both the Form 5348 and Form 895.

- i. A rejected return date may commence the IRC 6501, *Limitations On Assessment And Collection*, statute, therefore: IDRS CC TRDBV must be researched to ascertain if a rejected date exists and if so, does it impact the statute of limitation. Check for any MFT 32 modules when verifying the statute of limitation for a filed tax return or for a substitute for a return. Taxpayer Services may have established an MFT 32 module when the taxpayer legitimately files a tax return but does not respond to verify the return filing. MFT 32 modules must be researched before issuing a SNOD to protect from a potential barred statute. Refer to *Fowler v. Commissioner*, 155 T.C. No. 7 (Sept. 9, 2020), IRM 25.6.23.5.1.2, *Screening for Statute Accuracy*, IRM 25.25.6.7, *MFT 32 Procedures*, and consult local Counsel if necessary.

IRM 4.8.9.8.3

Correct Technical Conclusions

- (1) Reviewers must ensure correct technical conclusions were reached. To do so, reviewers must verify the following:

- a. Adjustments on Form 4318, *Examination Work Papers Index*, or Form 5701, *Notice of Proposed Adjustment*, reconcile to Form 4549-A, and the Form 4318 conclusions agree with the supporting workpapers.

Note: When an examination report prepared using ITP or CTA, the reviewer is not required to complete steps e, g, h, and i below. See exception in IRM 4.8.9.8(1).

- b. Taxable income per return or as previously adjusted agrees with the taxable income reflected on IMFOLR/BMFOLR as discussed earlier.
- c. Tax per return or as previously adjusted agrees with the tax amount reflected on IMFOLT/BMFOLT or TXMODA as discussed earlier.
- d. Supporting workpapers support the examiner's audit conclusions and are technically correct.
- e. To the extent possible, appropriate standard paragraphs are used to explain the adjustments in the examination report.
- f. IRP transcripts reconcile to tax returns to determine that all significant income items have been considered. However, see IRM 4.10.4.3.1(4), *Exception to the Minimum Requirements*, for procedures when no income issues were identified on the primary return.

Note: The reviewer will return the case to the examination group for further development when their IRP reconciliation identifies unreported income not already addressed in the case file and the reviewer determines an adjustment is needed.

- g. Estimated tax payments for non-filer cases are properly input in the appropriate RGS penalty screens for proper computation of applicable delinquency and estimated tax penalties.
- h. Federal income tax withholding for non-filer cases is properly categorized in RGS and is not duplicated through improper input on penalty screens.
- i. Return data was properly input in RGS by analyzing the variance report.

IRM 4.8.9.8.5

Accurate Computation of Tax Deficiency

- (1) RGS must be used to revise examination reports and explanatory standard paragraphs, to the extent possible.

Reminder: When an examination report prepared using ITP or CTA requires revision, the reviewer will contact the assigned examiner to have an updated report, Form 5344, and Form 3198 prepared.

- (2) The reviewer will ensure the RGS computation of the tax deficiency is correct. To accomplish this, reviewers should verify the following:
 - a. The Revenue Agent Report (RAR) reflects all statutory adjustments. See exception in IRM 4.8.9.8(1).
 - b. The RAR reflects correct taxable income and tax per return (or as previously adjusted), which agree with current IMFOLR/BMFOLR and IMFOLT/BMFOLT, respectively.
 - c. The RGS calculations are correct (See exception in IRM 4.8.9.8(1)).
 - d. Any credits and other taxes are properly categorized in RGS and properly reflected on the RAR (See exception in IRM 4.8.9.8(1)).
 - e. The RGS computation of tax is correct based on correct return information input as verified through variance analysis (See exception in IRM 4.8.9.8(1)).

Example: Schedule C net loss is properly input on the appropriate screen to ensure proper calculation of self-employment tax, if applicable.

Reminder: The reviewer will accept RARs prepared with ITP and CTA. See exception in IRM 4.8.9.8(1).

IRM 4.8.9.8.6

Proper Completion of All Procedural Requirements

- (1) Reviewers should ensure procedural items are properly completed by the field examiner:
 - a. Form 5344 must be properly completed and updated using the RGS file server to reflect any changes made by the reviewer. The reviewer should change the disposal code to "10," *Default*, run a validation and print a new Form 5344 before

issuing the notice of deficiency, since CCP relies on RGS for making assessments. It is also recommended to generate a new Form 3198 with the new disposal code.

Note: When an examination report is prepared using ITP or CTA and Form 5344 requires revision, the reviewer will contact the assigned examiner to prepare an updated Form 5344 and if necessary, Form 3198.

- b. Form 3198 must be flagged and notated if RGS cannot be used for some reason. Failure to do so could result in an improper assessment or a possible returned case since, absent appropriate comments, CCP will use RGS (or BNA/IMS for LB&I cases) to close the case and make any assessment.
- c. The case history record or activity record must be completed properly, including entries for any activity completed by the reviewer or manager.
- d. The reviewer should ensure that IRC 6404(g), *Suspension Of Interest And Certain Penalties Where Secretary Fails To Contact Taxpayer*, comments are included on the Form 4549, Form 3198, and Form 4318, where applicable.
- e. The reviewer should ensure Form 3198 is properly flagged for restricted interest provisions, when it is applicable. Flagging these cases alerts suspense personnel and prompts them to refer the case to the TS restricted interest coordinator for preparation of the required Form 2285, *Concurrent Determinations of Deficiencies*, prior to closure to CCP. See IRM 4.8.8.9, *Carryback Adjustments Requiring Form 2285 for Restricted Interest Cases*. See IRM 20.2.5.6.1, *Reasons to Manually Compute Interest*, for a list of reasons that require interest to be manually computed.
- f. The reviewer should ensure a 30-day letter was issued and was suspended at the group level to allow the taxpayer time to file a protest if sufficient time remained on the statute of limitations. The date on the 30-day letter and the amount of deficiency should be annotated on the Form 3198 to ensure the proper calculation of interest per IRC 6621(c). If the tax is over \$100,000, then the date and amount should be included on Form 5344 items 03 and 04. See IRM 20.2.5.8, *Large Corporate Underpayment*, for more information.
- g. For non-filer cases, the reviewer should ensure Form 13496, *IRC Section 6020(b) Certification*, is included in the case file for each substitute for return (SFR) year. If the reviewer makes any changes to the report, they must complete and sign a new Form 13496.

IRM 4.8.9.9

Preparing Notices of Deficiency

(1) The notice of deficiency is a legal determination that is presumptively correct. The notice of deficiency consists of the following:

- A letter explaining the purpose of the notice, the tax period(s) involved, the amount of the deficiency, and the taxpayer's options
- A waiver to allow the taxpayer to agree to the additional tax liability

- A statement showing how the deficiency was computed
- An explanation of the adjustments. See *Shea v. Commissioner*, 112 T.C. 183 (1999) (the failure to provide the bases for an adjustment in the notice of deficiency, as required by IRC 7522(a), *Content of tax due, deficiency, and other notices*, may constitute the raising of a new matter, thereby shifting the burden of proof to the IRS (see Tax Court Rule 142(a)(1), *Burden of Proof*).

Note: Technical Services should manually prepare the notice of deficiency documents for examination reports generated with ITP and CTA.

- (2) Overassessment and "no-change" years should **not** be included in a notice of deficiency. See IRM 4.8.9.17, *Overassessments and Claims*.
- (3) If a taxpayer has been affected by a federally declared disaster and who may qualify for relief refer to IRM 4.2.2.11.2, *Technical Services - Inventory Tracking - ERCS*.