



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.70.15

NOVEMBER 20, 2023

## EFFECTIVE DATE

(11-20-2023)

## PURPOSE

- (1) This transmits IRM 4.70.15, TE/GE Exam Discrepancy Adjustments.

## MATERIAL CHANGES

- (1) The TE/GE Examinations process was created to provide a consistent and streamlined examination process across TE/GE.
- (2) This IRM was extracted from the Internal Guidance Memos (IGMs) and IRM sections tabled here:

IGM	IRM
IGM TEGE-04-0921-0018, Activity, Disposal, Source, and Status Codes, dated September 28, 2021.	IRM 4.71.4, Employee Plans Examination of Returns, Discrepancy Adjustments, dated December 8, 2020.
IGM TEGE-04-0222-0006, Elimination of requirement to post Form 3198-A as a separate workpaper in RCCMS Office Documents Folder, dated February 23, 2022.	IRM 4.75.28, Exempt Organizations Examination Procedures, Discrepancy Adjustments, dated June 8, 2017.
IGM TEGE-04-0222-0008 Discussion and Documentation of Publication 1, Notice 609, Publication 5146 and the Examination Process, dated February 28, 2022.	
IGM TEGE-04-0622-0015, Cases Subject to Mandatory Review, dated June 1, 2022.	
IGM TEGE-04-1122-0033, Letter Consolidation for Change due to Correction of Operations Closing Letter, dated November 15, 2022.	
IGM TEGE-04-0123-0003, Interim Guidance on use of Standardized Letters and Forms, dated January 10, 2023.	

## EFFECT ON OTHER DOCUMENTS

This IRM obsoletes IRM 4.71.4, Employee Plans Examination of Returns, Discrepancy Adjustments, dated December 8, 2020 and IRM 4.75.28, Exempt Organizations Examination Procedures, Discrepancy Adjustments,

dated June 8, 2017. This IRM incorporates the Interim Guidance Memos IGM TEGE-04-0921-0018, Activity, Disposal, Source, and Status Codes, dated September 28, 2021, IGM TEGE-04-0222-0006, Elimination of requirement to post Form 3198-A as a separate workpaper in RCCMS Office Documents Folder, dated February 23, 2022, IGM TEGE-04-0222-0008 Discussion and Documentation of Publication 1, Notice 609, Publication 5146 and the Examination Process, dated February 28, 2022, IGM TEGE-04-0622-0015, Cases Subject to Mandatory Review, dated June 1, 2022, IGM TEGE-04-1122-0033, Letter Consolidation for Change due to Correction of Operations Closing Letter, dated November 15, 2022, and IGM TEGE-04-0123-0003, Interim Guidance on use of Standardized Letters and Forms, dated January 10, 2023.

## **AUDIENCE**

Tax Exempt and Government Entities (TE/GE) Employees and Managers

Robert Choi  
Deputy Commissioner,  
Tax Exempt and Government Entities

4.70.15

Discrepancy Adjustments

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4.70.15.1  
(11-20-2023)  
**Program, Scope and Objectives**

- (1) **Purpose:** This manual describes situations when a Form 1040 or Form 1120 discrepancy adjustment is appropriate and the procedures for processing the adjustment.
- (2) **Audience:** This IRM provides procedures for examiners, managers, and support staff in TE/GE.
- (3) **Policy Owner:** The Directors, Employee Plans, and Exempt Organizations/ Government Entities.
- (4) **Program Owner:** The Directors, Employee Plans Examination, and Exempt Organizations Examinations, and Government Entities.

4.70.15.1.1  
(11-20-2023)  
**Background: Overview of the Discrepancy Adjustment Program**

- (1) This IRM provides an overview of the responsibilities that examiners should understand and apply in the performance of their duties in executing discrepancy adjustment compliance activities.
- (2) TE/GE established the discrepancy adjustment program to reduce the number of income tax referrals to LB&I and SB/SE for minor adjustments to income.
- (3) Discrepancy adjustments applied using these procedures aren't an examination or inspection of the taxpayer's books and records per IRC 7605(b).
- (4) The discrepancy adjustment program allows TE/GE examiners to adjust certain line items on related income tax returns for issues they find in TE/GE examinations. Discrepancy adjustments are prepared for income tax adjustments to:
  - a. Form 1040, U.S. Individual Income Tax Return.
  - b. Form 1040A, U.S. Individual Income Tax Return.
  - c. Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents.
  - d. Form 1120, U.S. Corporation Income Tax Return.
- (5) Discrepancy adjustments fall within the scope of Rev. Proc. 2005-32, IRB 2005-23 1206.

4.70.15.1.2  
(11-20-2023)  
**Authority**

- (1) Discrepancy adjustments fall within the scope of Rev. Proc. 2005-32. Discrepancy adjustments do not constitute examinations, inspections, or re-openings under IRC 7605(b). See Policy Statement 4-3, IRM 1.21.5.1(4) and IRM 1.21.5.1(5), Policy Statement 4-3, Cases closed by District Directors or Service Center Directors will not be reopened except under certain circumstances.
- (2) Examinations are conducted according to Policy Statement 1-236 (IRM 1.21.2.36), Fairness and Integrity in Enforcement Selection, and the Taxpayer Bill of Rights per IRC 7803(a)(3). The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information about the TBOR, see *Taxpayer Bill of Rights*.
- (3) Under Policy Statement 4-117 (IRM 1.2.1.5.34), examiners and managers:
  - a. Have broad authority to consider and weigh conflicting information, data, and opinions.

- b. Use professional judgement when applying examination standards for findings of fact and application of tax law to determine the correct tax liability.
  - c. Exercise authority to get the greatest number of agreements to tax determinations without sacrificing the quality or integrity of those determinations.
  - d. Resolve tax differences at the lowest level.
- (4) IRC 6201 Assessment Authority, which falls under Chapter 63 - Assessment.

4.70.15.1.3  
(11-20-2023)  
**Responsibilities**

- (1) The Directors, EO/GE and EP, are the executives responsible for providing policy and guidance for field employees and ensuring consistent application of policy, procedures and tax law to effect tax administration while protecting taxpayers' rights. See IRM 1.1.23, Tax Exempt and Government Entities Division, for additional information.
- (2) The Directors, EO Examinations, GE, and EP Examinations report to the Directors, EO/GE and EP respectively, and are responsible for the delivery of policy and guidance that impacts the field examination process. See IRM 1.1.23, Tax Exempt and Government Entities Division, for additional information.
- (3) All examiners must perform their professional responsibilities in a way that supports the IRS Mission. This requires examiners to provide top quality service and to apply the law with integrity and fairness to all.
- (4) Examiners and their managers should thoroughly acquaint themselves with the examination procedures and information contained in this IRM, as well as other resources.

4.70.15.1.4  
(11-20-2023)  
**Program Controls**

- (1) Two review groups make sure examiners conduct compliance activities per technical, procedural, and administrative requirements:
  - a. Mandatory Review / Technical.
  - b. Special Review, see IRM 4.70.7, Special Review (SR) and Tax Exempt Quality Measurement Systems (TEQMS) Procedures.
- (2) In order to ensure consistent level of managerial engagement in the process of making key strategic decisions during an exam, the examiner submits requests for approval by their manager through RCCMS.
- (3) The IRS is fully committed to protecting the privacy rights of taxpayers and employees.
  - a. For information on privacy laws, see the IRC, the Privacy Act of 1974, the Freedom of Information Act, and IRS policies and practices.
  - b. For more information about these laws, visit the *Freedom of Information Act*.
  - c. For questions about privacy, email *\*Privacy*.
  - d. For question about disclosure, email *\*Disclosure*.

4.70.15.1.5  
(11-20-2023)

**Acronyms, Documents,  
Forms, and Pubs**

(1) This manual uses the following acronyms and references the following forms.

Acronym	Definition
AIMS	Audit Information Management System
BMF	Business Master File
CCR	Case Chronology Record
CEP	Coordinated Examination Program
EFU	Exam Functional Unit
EP	Employee Plans
FAST	Field Agent Support Team
FEMA	Federal Emergency Management Agency
IDR	Information Document Request
IGM	Interim Guidance Memo
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRA	Individual Retirement Account
LB&I	Large Business and International Division
MeF	Modernized e-File
NRU	Non-Return Unit
POA	Power of Attorney
RAR	Revenue Agent Report
RCCMS	Reporting Compliance Case Management System
RGS	Report Generation Software
SB/SE	Small Business / Self-Employed Division
SEP	Simplified Employee Pension
SIMPLE	Savings Incentive Match Plan for Employees of Small Employers
SSN	Social Security Number
TC	Transaction Code
TE/GE	Tax Exempt & Government Entities Division

Acronym	Definition
TEQMS	Tax Exempt Quality Measurement System
TIN	Taxpayer Identification Number
W&I	Wage and Investment Division
WebETS	Web-Based Employee Technical Time System

Form	Name
Document 6209	IDRS Processing Codes and Information
Document 6476	Information Systems Codes Quick Reference for EP Agents/Specialists
Document 6379	Exempt Organizations Management Information Systems Codes
Document 11308	Information Systems Codes Quick Reference for GE
Form 433-D	Installment Agreement
Form 433-F	Collection/Information Statement
Form 843	Claim for Refund and Request for Abatement
Form 872	Consent to Extend the Time to Assess Tax
Form 886-A	Explanation of Items
Form 1040	U.S. Individual Income Tax Return
Form 1040A	U.S. Individual Income Tax Return
Form 1040EZ	Income Tax Return for Single and Joint Filers With No Dependents
Form 1040-X	Amended U.S. Individual Income Tax Return
Form 1045	Application for Tentative Refund
Form 1065	U.S. Return of Partnership Income
Form 1120	U.S. Corporation Income Tax Return
Form 1120-S	U.S. Income Tax Return for an S Corporation
Form 1120-X	Amended U.S. Corporation Income Tax Return
Form 1139	Corporation Application for Tentative Refund



Form	Name
Form 1725	Routing Slip
Form 2275	Records Request, Charge and Recharge
Form 2848	Power of Attorney and Declaration of Representative
Form 3177	Notice of Action for Entry on Master File
Form 3210	Document Transmittal
Form 3244-A	Payment Posting Voucher - Examination
Form 4318	Examination Workpapers Index
Form 4549-E	Income Tax Discrepancy Adjustments
Form 5456	Reviewer's Memorandum – EP/EO
Form 5464	Case Chronology Record
Form 5500	Annual Return/Report of Employee Benefit Plan
Form 5599	TE/GE Examined Closing Record
Form 5666	TE/GE Referral Information Report
Form 5772-A	Employee Plans (EP) Workpaper
Form 5773-A	Employee Plans (EP) Workpaper Summary Continuation
Form 8857	Request for Innocent Spouse Relief
Form 9439	Collectability Evaluation Form
Form 9465	Installment Agreement Request
Form 9814	Request for Mail/Shipping Service
Form 10329	Transmittal Sheet-Related Cases
Pub 1	Your Rights as a Taxpayer
Pub 5	Your Appeal Rights and How To Prepare a Protest If You Don't Agree
Pub 504	Divorced or Separated Individuals
Pub 594	The IRS Collection Process

4.70.15.1.6  
(11-20-2023)

**Overview of the  
Discrepancy Adjustment  
Program**

- (1) TE/GE established the discrepancy adjustment program to reduce the number of income tax referrals to LB&I and SB/SE for minor adjustments to income.
- (2) ) Discrepancy adjustments applied using these procedures aren't an examination or inspection of the taxpayer's books and records per IRC 7605(b).

- (3) The discrepancy adjustment program allows TE/GE examiners to adjust certain line items on related income tax returns for issues they find in TE/GE examinations. Discrepancy adjustments are prepared for income tax adjustments to
  - a. Form 1040, U.S. Individual Income Tax Return.
  - b. Form 1040A, U.S. Individual Income Tax Return.
  - c. Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents.
  - d. Form 1120, U.S. Corporation Income Tax Return.
- (4) Discrepancy adjustments fall within the scope of Rev. Proc. 2005-32, IRB 2005-23 1206.

## 4.70.15.2

(11-20-2023)

**Referrals to an  
Examination Functional  
Unit (EFU)**

- (1) Due to the fact receiving EFUs will not accept referrals under a certain dollar criterion, examiners are encouraged to make discrepancy adjustments whenever possible.
- (2) If the adjustment doesn't fall within the guidelines of the discrepancy adjustment program, make a referral Form 5666 TE/GE Referral Information Report, to the appropriate EFU, when the related income tax return:
  - a. Is a Form 1120-S, U.S. Corporation Tax Return for an S-Corporation, or other specialized Form 1120 series, such as Form 1120-L, 1120-P, etc.
  - b. Is a Form 1065, U.S. Partnership Return of Income.
  - c. Shows a net operating loss.
  - d. Was filed by a taxpayer that has filed for bankruptcy.
  - e. Was filed by a taxpayer that was dissolved, merged, or sold.
  - f. Is under the jurisdiction of LB&I or is listed in the Coordinated Industry Program (CIP) Identity File.
  - g. Was never filed.

**Note:** Delinquent Form 1040 or Form 1120 won't be secured.

- h. Is currently under examination by an EFU.
- i. Involves complex credit carry backs.
- j. Involves capitalized pension or profit-sharing costs.

**Note:** See IRM 4.70.11.15, Administrative Matters – Collateral Examinations.

**Exception:** Situations described in (a) through (d) above may be processed as discrepancy adjustment cases with the approval of the Director, EO Examinations and the affected operating division Director.

- (3) Sometimes, it's better to refer the discrepancy adjustment issues to the EFU (for example, if the related income tax return is complex or IRS should inspect the books and records in more detail to resolve the potential income tax issue).
- (4) You may examine related cases that the EFU is, or has examined, however:

If	Then
The return is open in an EFU	Refer the discrepancy issue to that examiner to resolve.

If	Then
The EFU has completed the examination	TE/GE processes the discrepancy adjustment.
The return is in inactive status (for example, unsigned in an EFU)	Make a referral to the EFU.

**Note:** The income tax return must be closed off the EFU's AIMS before it can be established as a discrepancy adjustment. Although it can take up to 365 days to drop off of the EFU's AIMS from the time they close it, you may still secure the return. However, you may ask the taxpayer for an amended return, if the return had been previously examined.

- (5) The group manager may refer any adjustment to an EFU if they determine the adjustment would be better handled outside TE/GE.
- (6) See the instructions on the back of Form 5666 and at IRM Exhibit 4.5.1-12, Instructions for Preparing Form 5666, TE/GE Referral/Information Report.
- (7) Include all documentation that supports the income tax adjustment with the Form 5666.

#### 4.70.15.3 (11-20-2023) Identifying Discrepancy Adjustments

- (1) A discrepancy adjustment may arise when there is a discrepancy between a filed income tax return and facts developed during an examination. You must identify the discrepancy during your examination and start the discrepancy adjustment process when the tax due is \$500 or more in any one year.

**Example:** If income taxes of \$400 and \$600 are due in 201812 and 201912, respectively, pursue the discrepancy adjustment for both years.

- (2) If income tax is less than \$500 per year, discuss with your group manager whether you should pursue the discrepancy adjustment.
- (3) Determine if the correct amount of income has been reported on the income tax return by researching IDRS or getting a copy of the return.
  - a. Use a RTVUE or BRTVU transcript as an original return for this purpose.
  - b. Use MeF transcript of return as an original return for this purpose.

**Note:** MeF returns are available for electronically filed returns only.

#### 4.70.15.3.1 (11-20-2023) Examples of Issues

- (1) The following are examples (not considered all inclusive) of TE/GE issues that can result in discrepancy adjustments:
  - When there's a discrepancy between information reported on an income tax return and facts developed during a TE/GE examination, or any other information TE/GE has access to, such as determination letter applications or compliance projects.
  - Compensation to employees not included on Form W-2 or Form 1099.
  - Payments to an independent contractor, for services rendered, which were not reported on a Form 1099.

- Payments to others classified incorrectly as debt payments (or loan proceeds), where there is no bona-fide debt.
- (2) The following are examples of EP issues that can result in discrepancy adjustments:

- A Plan is not qualified under IRC 401(a), and plan distributions were rolled into an IRA (traditional or Roth IRA.) The entire amount of rollovers from the non-qualified plan to either type of IRA are subject to IRC 4973 excise tax.
- An IRA-based plan does not comply with IRC 408. For each year the plan is non-compliant contributions made on behalf of each participant in excess of the “traditional IRA deduction” limit under IRC 219(b) are excess contributions subject to IRC 5973 excise tax.

**Note:** See IRM 4.70.14.2.3.2, Procedures for IRA-based Plans Found to Be in Non-compliance and Not Resolved Through a Closing Agreement.

- A participant or beneficiary didn’t receive the required minimum distributions under IRC 401(a)(9). The amounts required to be distributed are subject to IRC 4974 excise tax.
  - Unreported income due to unreported or incorrectly reported distributions from plans.
  - Taxable allocations to participant accounts in defined contribution plans due to the revocation of the tax-exempt status of the plan’s trust.
  - Taxable distributions to participants resulting from violations of IRC 72(p) loan limits.
  - Adjustment to taxpayer deductions for contributions to a plan due to non-payment, late payment, excess contributions, plan disqualification, etc.
  - Unreported income from reversion of excess plan assets after a plan termination.
  - IRC 72(t), 10% additional tax on early plan distributions.
- (3) The following are examples of EO issues that can result in discrepancy adjustments:
- Distributions for certain grants, scholarships and prizes that are not excludable from gross income.
  - Disallowance of the exclusion from gross income of a housing allowance or a parsonage allowance.
  - Capital gains or interest to a seller when an exempt organization purchases real property. Consider if the tax on capital gains can be computed with the information you have from the EO Exam. If not, make a referral to SB/SE.
  - EO Payments of interest on private parties’ loans to the EO not reported on Form(s) 1099.
  - Adjustments to the return of a taxable subsidiary of an exempt organization.
  - Payments made on behalf of officers of the organization, including, and not limited to non-accountable items (personal use of the organization’s vehicle or other assets), and other taxable payments for their personal benefit (inurement), and which were not reported on a Form W-2 or Form 1099. Consider also issuing a SFR for Form 4720, Return of Certain Excise Taxes on Charities and Other Persons Under Chapters

41 and 42 of the IRC to report either IRC 4958 or IRC 4941 excise tax liability on any applicable transactions.

- Denial of charitable deductions taken under IRC 170(c).
- Denial of business deductions under IRC 162(e) for contributions (or dues paid) for lobbying or political purposes. You may consider issuing an SFR for Form 990-T, Exempt Organization Business Income Tax Return, to report IRC 6033(e)(2) (proxy tax on non-deductible lobbying) for failing to disclose the non-deductible portion of membership dues used for lobbying or political purposes.

4.70.15.4  
(11-20-2023)

## Processing Discrepancy Adjustments

(1) Discrepancy adjustments are prepared for income tax adjustments to:

- a. Form 1040, U.S. Individual Income Tax Return
- b. Form 1040A, U.S. Individual Income Tax Return
- c. Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents
- d. Form 1120, U.S. Corporation Income Tax Return

**Note:** IRC 4973 and IRC 4974 excise tax are now handled in the discrepancy adjustment process (previously Form 5329 processing.) IRC 4973 and IRC 4974 adjustments are to be added to Form 4549-E (ITG) or Form 4549-T (TEB)) (as “other taxes”) and the issues listed on the Form 1040 RAR. Use Forms and letters listed for EP Form 1040 discrepancy adjustment to process these cases. Along with this IRM, follow IRM 4.4.14.3.2, Adjustments, to Parts II through III of Form 5329, IRM 4.4.14.3.4, Closing IRA Adjustments, from the Group to address these IRC 4973 and IRC 4974 excise tax adjustments. You will need to establish the Form 5329 on AIMS and RCCMS as a MFT 29, per the instructions reflected in IRM 4.70.15.4.2.1, Establishing Forms 1120. So, you may end up with a MFT 30 case establishment and a MFT 29 establishment on RCCMS and AIMS, with one 30-day letter for both cases that may contain duplicate records. This is acceptable and will enable the closing unit to properly assess any income and excise taxes that are due for Form 5329.

(2) Use Form 4549-E, Income Tax Discrepancy Adjustments, when making discrepancy adjustments. See IRM Exhibit 4.10.8-1, Preparation of Form 4549 / Form 4549-A, for instructions for the completion of Form 4549, which is substantially the same for Form 4549-E.

**Note:** See IRM 20.1, Penalty Handbook, for detailed information on penalties that may be applicable

(3) See IRM 4.70.11.3.1, for Case Suspense for Federally Declared Disaster, or Terrorist or Military Action procedures.

(4) You should follow the procedures below to successfully work a discrepancy adjustment:

1. Conduct IDRS research.
2. Establish the case on AIMS and RCCMS.
3. Add the case on WebETS.
4. Evaluate and control the statute of limitations.

4.70.15.4.1  
(11-20-2023)  
IDRS Research

- (1) When you determine a possible discrepancy adjustment exists, research IDRS.
- (2) Get an AMDISA print to determine if an EFU established a Form 1040 or 1120 return on AIMS.

**Note:** If so, contact the EFU to coordinate. In most instances, we refer the discrepancy issue to the EFU examiner for resolution.

- (3) Get and review BMFOLT (Form 1120) or IMFOLT (Form 1040) transcripts for each affected income tax return to determine whether the:

1. Statute of limitations needs to be extended.
2. Return was previously examined.
3. Return was amended since it was initially filed.

**Note:** Transaction code (TC) 977 or TC 976 indicate that the taxpayer filed an amended return. TC 300 or TC 290 indicate an additional assessment has been made.

4. Service Campus has already assessed tax related to the discrepancy adjustment under current consideration.

**Note:** TC 922 means the Service Campus has selected the taxpayer's Form 1040 for a possible adjustment. TC 925 means the Service Campus has selected the taxpayer's Form 1120 for a possible adjustment. If TC 922/925 is followed by TC 300 or TC 290, the Service Campus has made a tax assessment.

5. Service Campus has made any other adjustments to the taxpayer filed return.

**Note:** Refer to Document 6209 IRS Processing Codes and Information, Chapter 8 for an explanation of transaction codes (TC) and action codes.

- (4) Get and review the following IDRS prints to analyze the return:

- BMFOLT or IMFOLT print with TC 300 or TC 290 adjustments - secure and review applicable BMFOLA (Form 1120) or IMFOLA (Form 1040) transcripts to help you determine if a tax assessment has already been made for the same issue you're considering pursuing.

**Note:** Contact Mandatory Review for help in determining this.

- INOLES print to determine the last known address of the taxpayer.
- IRPTRL print for the taxpayer (and taxpayer's spouse if the applicable return is a joint return) to determine total income and total tax withheld.
- RTVUE (Form 1040) or a BRTVU (Form 1120) print to determine amounts taken into income, deductions amounts reported as income, deductions taken, credits taken and tax withheld.

**Note:** A RTVUE or BRTVU print is the equivalent of a taxpayer filed tax return if it provides sufficient detail to determine if there is a discrepancy, or if it gives sufficient line-item detail to compute income tax due.

- (5) Save all IDRS research in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.

4.70.15.4.2  
(11-20-2023)  
**Establishing the Case  
on AIMS and RCCMS**

- (1) Get your manager's approval before starting a discrepancy adjustment and document concurrence on the case chronology.
- (2) If a discrepancy adjustment is warranted, establish the tax return on AIMS through RCCMS by following the steps of IRM 4.70.15.4.2.1, Establishing Form 1040 or IRM 4.70.15.4.2.2, Establishing Form 1120.

4.70.15.4.2.1  
(11-20-2023)  
**Establishing Forms 1040**

- (1) From the RCCMS main window, select "File", then "New" then "Compliance Activity".
- (2) Select "Validate and Establish".
- (3) Check the Update AIMS box so your establishment will take place on RCCMS and AIMS.
- (4) Enter the SSN for the primary taxpayer in the "TIN" field.

**Note:** The default in the TIN Validity box next to TIN is "0" for a valid TIN.

- (5) Enter the SSN for the secondary taxpayer in the "Secondary SSN" field, if applicable.
- (6) Select the "Name" button, which will give you a pop up "Name" box for you to complete.
  - a. Input the correct name information on each line.
  - b. The spouse boxes are available if you entered a secondary SSN. They are grayed out if the secondary SSN box is left blank.
  - c. Click "OK" when finished.
  - d. Notice the "Name" field in the "Compliance Activity" window will populate based on your entries in the pop-up window.
- (7) Click on the "Address" button and input in the taxpayer's address.
- (8) For the "General" tab:
  - a. For "Type", select "1040 Return".
  - b. For "Activity Code", select the code appropriate to this Form 1040 being established.

**Note:** See Document 6476 (EP), Document 6379 (EO), or Document 11308 (GE) for the list of Activity Codes.

- c. Input the tax period.
  - d. Input the return due date.
  - e. Input the return received date.
  - f. Input the statute date.
- (9) For the "Codes" tab:
  1. Input the "Name Control".
  2. Input the "Project Code".

**Note:** This is normally the "Project Code" of the lead exam.
  3. Input the "Source Code". Generally, this will be 87.
  4. For "Master File Type", select IMF.
  5. Input the "Status Code".



**Note:** Form 1040 will normally be established in status 12.

6. For "Grade", enter the grade of the case.
7. Input the "Related Return Source Code".

**Note:** This will usually be the Source Code of your lead exam.

8. For "Return Requisition Code", select "3 - Return, Chargeout and Labels Not Requested".
  9. For "MFT Code", select 30.
  10. Ensure that the "Related Return" box is checked.
  11. Ensure that the "Flowthru" box is checked.
  12. Input the Reason for request/Related return.
  13. Input comments as appropriate.
  14. Select "Save and Close".
- (10) Don't include an individual Form 1040 compliance activity in the lead examination case file on RCCMS. This is a disclosure issue.
1. Save the taxpayer Form 1040 compliance activity in its own case.
  2. The only compliance activities that should be combined with a Form 1040 for any given taxpayer are multiple years of the same Form 1040 for the same taxpayer.
  3. Therefore, confirm that the "New Case" option is selected in RCCMS. This establishes the Form 1040 as its own compliance activity in its own case.

4.70.15.4.2.2  
(11-20-2023)  
**Establishing Forms 1120**

- (1) From the RCCMS main window, select "File", then "New", then "Compliance Activity".
- (2) Select "Validate for Establish".
- (3) Check the Update AIMS box so your establishment will take place on RCCMS and AIMS.
- (4) Enter the EIN in the "TIN" field.

**Note:** The default in the TIN Validity box next to TIN is "0" for a valid TIN.

- (5) Select the "Name" button, which will give you a pop up "Name" box for you to complete.
  1. Ensure you input the correct name information on each line.
  2. Click "OK" when finished.
  3. The "Name" field in the "Compliance Activity" window will populate based on your entries in the pop-up window.
- (6) Click on the "Address" button and fill in the taxpayer's address.
- (7) For the "General" tab:
  1. For "Type", select "1120 Return".
  2. For "Activity Code", select the code appropriate to this 1120.
 

**Note:** See Document 6476 (EP ) or Document 6379 (EO) or Document 11308 (GE) for a list of Activity Codes.
  3. Input the tax period.



4. Input the return due date.
5. Input the return received date.
6. Input the statute date.

(8) For the “Codes” tab:

1. Input the “Name Control”.
2. Input the “Project Code”.

**Note:** This is normally the “Project Code” of the lead exam.

3. Input the “Source Code”. Generally, this will be 87.
4. For “Master File Type”, select BMF.
5. Input the “Status Code”.

**Note:** Form 1120 will normally be established in status 12.

6. For “Grade”, enter the grade of the case.
7. Input the “Related Return Source Code”.

**Note:** This will usually be the Source Code of your lead exam.

8. For “Return Requisition Code”, select “3 - Return, Chargeout and Labels Not Requested”.
9. For “MFT Code”, select 02.
10. Ensure that the “Related Return” box is checked.
11. Ensure that the “Flowthru” box is checked.
12. Input the Reason for request/Related return.
13. Input comments as appropriate.
14. Select “Save and Close”.

(9) Don’t save an individual Form 1120 compliance activity in the Form 5500 or other lead examination case on RCCMS. This is a disclosure issue.

1. Save the taxpayer Form 1120 in its own case.
2. Combine with a Form 1120 for any given taxpayer only the compliance activities for multiple years of the same Form 1120 for the same taxpayer.
3. Therefore, confirm that the “New Case” option is selected in RCCMS. This will establish the Form 1120 as its own compliance activity in its own case.

4.70.15.4.2.3  
(11-20-2023)

**Establishing Forms 5329**

- (1) Follow procedures in IRM 4.4.14.3.2.1, Adjustment to Parts III through VII of Form 5329, to research and create an MFT 29 module if one is not present.
- (2) Once the entity module has been created and the return has posted, establish the case on RCCMS and AIMS through RCCMS.
- (3) From the RCCMS main window, select “File”, then “New”, then “Compliance Activity”.
- (4) Select “Validate for Establish”.
- (5) Check the Update AIMS box so your establishment will take place on RCCMS and AIMS.
- (6) Enter the SSN for the primary taxpayer in the “TIN” field.

**Note:** The default in the TIN Validity box next to TIN is “0” for a valid TIN.

- (7) Select the "Name" button, which will give you a pop up "Name" box for you to complete.
  1. Ensure you input the correct name information on each line.
  2. Click "OK" when finished.
  3. The "Name" field in the "Compliance Activity" window will populate based on your entries in the pop-up window.
- (8) Click on the "Address" button and fill in the taxpayer's address.
- (9) For the "General" tab:
  1. For "Type" select "5329 Return".
  2. For "Activity Code" select "269", Form 5329.
  3. Input the tax period.
  4. Input the return due date.
  5. Input the return received date.
  6. Input the statute date.
- (10) For the "Codes" tab:
  1. Input the "Name Control".
  2. Input the "Project Code".
 

**Note:** This is normally the "Project Code" of the lead examination.
  3. Input the "Source Code". Source Code 50 should always be used if the return has posted as evidenced by TC 150.
  4. For "Master File Type", select IMF.
  5. Input the "Status Code" as 12.
  6. For "Grade", enter the grade of the related case.
  7. Input the "Related Return Source Code".
 

**Note:** This will usually be the Source Code of your lead examination.
  8. For "Return Requisition Code", select "3 - Return, Chargeout and Labels Not Requested".
  9. For "MFT Code", select 29.
  10. Ensure that the "Related Return" box is checked.
  11. Ensure that the "Flowthru" box is not checked.
  12. Input the Reason for request/Related return.
  13. Input comments as appropriate.
  14. Select "Save and Close".
- (11) Do not save an individual Form 5329 compliance activity in the Form 5500 or other lead examination case on RCCMS.
  1. Save the Form 5329 for a taxpayer in its own case.
  2. Combine only the compliance activities for multiple years of the same Form 5329 for the same taxpayer.
  3. Confirm that the "New Case" option is selected in RCCMS. This establishes the Form 5329 as its own compliance activity in its own case.

4.70.15.4.3  
(11-20-2023)  
**Statute of Limitations**

- (1) You must ensure the statute of limitations date on any Form 1040 or 1120 is correct and protected as necessary. Secure consents to extend the statute as needed.

**Caution:** Carefully review restricted consents on discrepancy adjustment cases to ensure the restrictions are allowable. See IRM 25.6.22.8, Restricted Consents, for the limited circumstances when restricted consents may apply and for special procedures to follow.

- (2) Verify that the correct statute of limitations date is shown on RCCMS and AIMS.
- (3) The filing of Form 1040 starts the income tax statute for IRC 72(t), 10 percent additional tax on early distributions (Form 5329, Part I and Part II), but not the excise tax imposed under IRC 4973 and IRC 4974. The filing of Form 5329 either attached to the Form 1040 or filed separately, starts the excise tax statute for the tax line item for which an entry has been made. The filing of Form 5329 for a specified period on which an entry has been made with respect to IRC 4973 or IRC 4974 (including a return on which an entry has been made showing no liability for such tax for such period) shall constitute the filing of a return for all tax amounts required to be reported for the tax period.

**Note:** AIMS control must be established for the individual taxpayer's MFT 30 account. If the normal individual income tax statute is expired but you have an excise tax statute due to failure to file Form 5329, the individual MFT 30 should be updated and controlled with "II" alpha code.

- (4) When the statute of limitations is 270 days or less, as indicated by a red exclamation point (!) in RCCMS, complete the RCCMS Statute Validation Process:
  1. Check the "Statute Valid" check box in the RCCMS Compliance Activity, General tab (1 of 2).
  2. Select "Actions", "Request Statute Validation", complete the "Comment" box and submit the request for your manager's approval.

**Note:** You must use the RCCMS validation feature before you transfer or close a case with 270 days or less.

- (5) You may propose adjustments on returns with short statutes if the adjustments are significant.
  1. Get your manager's approval before you issue a 30-day letter for a return with less than 12 months left on the statute.
  2. Include Form 872 with Letter 907-A and Pub 1035 when you mail the 30-day letter to the taxpayer.
- (6) You may accept Form 872 by efax or email if you have contacted the taxpayer by phone or in-person and the case chronology:
  - documents the prior contact, and
  - the taxpayer's wish to send the executed Form 872 by efax or email.

**Note:** IRS accepts faxed signatures on Form 872 including electronic images of scanned original signatures transmitted by Enterprise Electronic Facsimile (EEFAX) or e-mail. To document the origin of an email or efax, it is necessary to preserve as correspondence the incoming email or efax that identifies the origin. Save the email or efax cover page as correspondence in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention

4.70.15.4.4  
(11-20-2023)

**Time Reporting**

- (7) Document the case chronology for all the actions you took to verify and update the statute.

- (1) Add discrepancy adjustment returns on WebETS when you establish the returns on RCCMS and AIMS.
- (2) Charge any nominal time spent on the discrepancy issue before you establish the related return on RCCMS and AIMS.
- (3) Use the appropriate activity code, which depends on the type of return to which the adjustment applies. See Document 6476 (EP) or Document 6379 (EO), or Document 11308 (GE) for the list of Activity Codes.
- (4) Verify the AIMS generated activity code within RCCMS and ensure it agrees with the activity code used on WebETS before you close the case.
- (5) Use the same project code as that on the related examination. If no other code is warranted, use "0000".
- (6) For EP, don't use a plan indicator on WebETS for the discrepancy adjustment case.

4.70.15.4.5  
(11-20-2023)

**Preparation and  
Issuance of the  
Discrepancy Adjustment  
Package**

- (1) IRM 4.70.11.3.1, Case Suspension for Federally Declared Disaster, or Terrorist or Military Action, should be considered before issuing a discrepancy adjustment package.
- (2) When possible, mask the first five digits of a taxpayer's SSN on letters, forms, notices, workpapers and emails.

**Example:** XXX-XX-9999

- (3) Use Form 4549-E to communicate the discrepancy adjustment to the taxpayer and to request taxpayer agreement with the proposed discrepancy adjustment. Type in the Form 4549-E (ITG) "Other Information" section on page two the following comments:
  - "This discrepancy adjustment doesn't constitute an examination of your tax return".
  - "See the attached Revenue Agent Report for an explanation of the issue(s)".
  - EP: If IRC 4973 or IRC 4974 excise taxes are being adjusted, the "other information" section should explain the type of "other taxes".
- (4) The discrepancy adjustment package includes:
  - a. Letter 3605, TE/GE Initial 30-day letter for Discrepancy Adjustment
  - b. Pub 1, Your Rights as a Taxpayer
  - c. Pub 5, Your Appeal Rights and How to Prepare a Protest if You Disagree
  - d. Pub 504, Divorced or Separated Individuals (if the subject return is a Form 1040 series return and the taxpayer was married)
  - e. Pub 594, The IRS Collection Process
  - f. Two copies of Form 4549-E, Income Tax Discrepancy Adjustments, (ITG) or Form 4549-T (TEB) with applicable interest and penalty calculations and explanations
  - g. Form 886-A, Explanation of Items
  - h. Form 9465, Installment Agreement Request (optional)

- i. Return envelope
- (5) Prepare Form 4549-E as the basic report form for discrepancy adjustments. Include the following comments in the “Other Information” section on page two:
- a. “This discrepancy adjustment does not constitute an examination of your tax return”.
  - b. “See the attached Form 886-A for an explanation of the issues”.
  - c. “IRC 6404(g) does not apply” or “IRC 6404(g) does apply”. See IRM 4.70.15.4.7, Interest.
- (6) Use Form 886-A for your write-up of the issues. Organize the report as follows:
- a. **Issue** – Clearly state the issues.
  - b. **Facts**– Provide pertinent details surrounding the issue.
  - c. **Law**– Provide a summary of Code sections, Revenue Rulings, court cases, etc., that relate to the issue(s) raised.
  - d. **Government’s Position**– Discuss each issue separately and apply the law and the facts relevant to each specific issue. List a summary of taxes due and the applicability of penalties.
  - e. **Taxpayer’s Position**– State the taxpayer’s position including any rebuttals the taxpayer has made on the Government’s position. If the taxpayer hasn’t provided a position on the Issue(s), a simple statement to that effect is sufficient.
  - f. **Conclusion**– Restate the Government’s position as a conclusion. If the taxpayer provides a position on the issue(s), list the Government’s rebuttal to it.
- (7) Address penalties and interest in both the work papers and the Form 886-A. See IRM 4.70.15.4.6 Penalties and IRM 4.70.15.4.7 Interest.
- (8) Mail the discrepancy adjustment package to the taxpayer by Certified Mail at the “last known address”.
- a. Get an INOLES print to obtain the taxpayer’s last known address.
  - b. Use a subsequent address if other sources confirm that the taxpayer’s address has changed from the one on INOLES.
- Note:** If you’re unsure of the validity of the subsequent address, send the certified letter to both addresses. Use “last known address” is defined in 26 CFR 301.6212 - Definition of last known address. See IRM 4.70.11.8.3.1, Returned or Undeliverable Mail for guidance on locating the taxpayer.
- (9) If the discrepancy adjustment is for a joint return:
- a. Verify the last known address for each spouse.
  - b. Send a copy of the discrepancy adjustment report to each spouse, even if they live at the same address (required by RRA 98 Section 3201(d)).
- Note:** Prepare and address each letter individually. Use the primary social security number on both letters. Letter should include POA information for each spouse.
- (10) If a Form 5500 unagreed revocation has corresponding discrepancy adjustments, you issue the 30-day letters for both the discrepancy adjustment and the proposed revocation at the same time.

4.70.15.4.6  
(11-20-2023)  
**Penalties**

- (11) Update AIMS and RCCMS to status code 13 after you issue Letter 3605.

- (1) Determine whether to propose the assessment of penalties on the discrepancy adjustments. Include a brief discussion in the work papers on which penalties apply, whether you are proposing them, a computation of the penalty, as well as a statement as to whether reasonable cause or First Time Abate (FTA) applies or was considered. See IRM 20.1, Penalty Handbook for a discussion of penalties.
- (2) Managerial approval is required (in writing) before certain penalties can be assessed. See IRC 6751(b)(1).

**Exception:** You don't need approval to assess penalties under IRC 6651, IRC 6654, and IRC 6655.

- (3) When you impose penalties on a Form 1040 or Form 1120 discrepancy adjustment:
  - a. Get your manager's approval on the CCR for the appropriate penalties before you mail the discrepancy adjustment package to the taxpayer.
  - b. Notify the taxpayer in writing that penalties are being assessed. Provide the penalty name, code section and a computation of the penalty.

**Exception:** The RGS program automatically lists the penalty name, code section, and computations as part of the Form 4549-E (ITG) or Form 4549-T (TEB) report if selected through the penalty menu.

4.70.15.4.7  
(11-20-2023)  
**Interest**

- (1) Every notice IRS sends to an individual that includes an amount of interest due must also include both, a:
  - Detailed computation of the interest charged.
  - Code section citation under which the interest is imposed.
- (2) If the IRS doesn't provide a notice to the taxpayer who has timely filed their tax return, specifically stating the taxpayer's liability within a "specified period of time", the IRS must suspend the interest. (See IRC 6404(g)). The "specified period of time" is 36 months for notices provided after November 25, 2007. (See 26 CFR 301.6404-4(a)).
- (3) Suspension of interest under IRC 6404(g):
  - Applies only to individuals, not to corporations.
  - Applies only to timely filed returns (returns filed by the original due date or by the extended due date if a valid extension was filed).
  - Has an impact on discrepancy adjustments only regarding the assessment of interest.
- (4) IRC 6404(g) does not apply to:
  - Any penalty imposed by IRC 6651
  - Any case involving fraud
  - Most listed transactions
  - Any criminal penalty
  - Certain other situations noted in IRC 6404(g)(2)

- (5) For timely filed Forms 1040 covered by the 36-month notification deadline, interest will be suspended beginning on the day after the close of the 36-month period and ends 21 days after the notice is provided. "Notice" is considered to be made when the 30-Day letter package is mailed. The suspension period begins 36 months after the later of (1) the date on which the return is timely filed, or (2) the due date of the return without regard to extensions.
- (6) IRC 6404(g) applies only if the "30-day letter" package (or similar notice) is mailed to the taxpayer after the specified period has expired.

**Example:** If on October 15, 2022, the 30-day letter is mailed for a discrepancy adjustment being proposed on a 2013 Form 1040 that is timely filed on April 15, 2019, IRC 6404(g) does not apply and interest should not be suspended for any period of time since the 30-day letter package is mailed before the end of the 36-month specified period.

- (7) If IRC 6404(g) applies, interest should be calculated on Form 4549-E (ITG) or Form 4549-T (TEB) from the original due date of the Form 1040 return through the 36 month period.
- (8) If IRC 6404(g) does apply and interest is being suspended:
  - a. Include the following in the "Other Instructions" section of the RCCMS 3198-A checksheet, and in the "Other Information" section of Form 4549-E (ITG) or Form 4549-T (TEB): "IRC 6404(g) applies, and notice was provided on (insert the date Form 4549-E was mailed to the taxpayer)".
  - b. On the file copy of Form 4549-E, add "Interest should be suspended beginning (insert the date the suspension period begins) through (insert the date the suspension period ends)".
  - c. Prepare Form 3177 and save it in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.
  - d. The Exam group manager must email the TE/GE Closing group manager when the case is closed to let them know interest is suspended and Form 3177 is in the RCCMS Office Documents folder.
- (9) If IRC 6404(g) does not apply, interest should be calculated on Form 4549-E (ITG) or Form 4549-T (TEB) from the original due date of the return through 30 days after issuing the 30-day letter. In the "Other Instructions" section of the RCCMS 3198-A checksheet and in the "Other Information" section of Form 4549-E (ITG) or Form 4549-T (TEB), include the following: "IRC 6404(g) does not apply".

4.70.15.4.8  
(11-20-2023)

**Taxpayer Responses to the 30-Day Letter (Letter 3605)**

- (1) If the taxpayer submits information that changes the discrepancy amount or penalties (but doesn't eliminate it):

EO	EP
Letter 3619, EO 30-day letter for Discrepancy Adjustment Revised Proposed Adjustment, with a revised report to the taxpayer via certified mail.	Letter 2657 with a revised report to the taxpayer. See <i>Employee Plans Examination Exhibits</i> for an example of Letter 2657.



- (2) If the taxpayer submits information that doesn't change the original report:

EO	EP
Letter 3603, EO 30-day letter for Discrepancy Adjustment after Consideration of Additional Information w/No Change to Original Proposed Adjustment, along with a copy of the original report via certified mail.	Letter 2658 along with a copy of the original report. See at <i>Employee Plans Examination Exhibits</i> for an example of Letter 2658.

- (3) If you and your manager determine that IRS needs to inspect the books and records in more detail to resolve an income tax issue, refer the case to the appropriate EFU. See IRM 4.70.15.2, Referrals to an Examination Functional Unit (EFU).
- (4) If the 30-day Letter is returned as undeliverable, try to get the correct address.
- If you find the taxpayer's correct address, re-mail the 30-day letter to the new address.  
  
**Note:** Use the date of the re-mailed letter to measure the 30 days for the taxpayer's response. See IRM 4.70.11.8.3.1, Returned or Undeliverable Mail.
  - If you can't find the taxpayer's correct address, process the case per IRM 4.70.15.7.3, Failure of the Taxpayer to Properly Respond.

4.70.15.4.8.1  
(11-20-2023)  
**Taxpayer Requests  
Extension to Reply to  
30-Day Letter**

- (1) In general, taxpayers aren't permitted extended time to reply to a 30-day letter per 26 CFR 601.105(d)(1). However, you may grant an extension under reasonable circumstances such as:
- The taxpayer retains a representative and demonstrates a need for more time to prepare a meaningful protest.
  - The taxpayer retains a new representative.
  - The taxpayer or representative is sick or injured.
  - Issues are complex and require extensive research.
- (2) Taxpayers must request extensions of time to respond to the 30-day letter in writing and explain the reason(s) why they need more time. Because many taxpayers and representatives request extensions by calling, you may grant one verbally, then confirm it in writing when you receive the written request.
- (3) Don't grant an extension if the statute of limitations will expire within 150 days until the taxpayer extends the statute of limitations by signing Form 872. Ensure there is plenty of time to process the case.
- (4) Get your manager's or designee's approval before granting the extension.
- (5) Notify the taxpayer in writing of the extension and the specific extended response date.
- (6) Normally grant no more than 30 days unless there is a good reason for additional time.



4.70.15.5

(11-20-2023)

## Agreed Case Procedures

- (1) Discrepancy adjustment cases are considered agreed if you secure a properly signed Form 4549-E from the:
  - Taxpayer
  - Taxpayer and spouse for jointly filed returns
  - Authorized POA
- (2) You can accept an EEFaxed or emailed Form 4549-E (Form 4549-A (ITG) or Form 4549-T (TEB)) if you have made taxpayer contact and the case chronology record documents the date of contact and the taxpayer's wish to submit the Form 4549-E (Form 4549-A (ITG) or Form 4549-T (TEB)) by EEFax or email.

**Note:** IRS accepts faxed signatures on Form 4549-E (Form 4549-A (ITG) or Form 4549-T (TEB)) including electronic images of scanned original signatures transmitted by Enterprise Electronic Facsimile (EEFAX) or e-mail. To document your receipt of an email or EEFax, keep the correspondence the incoming email or EEFax that identifies it. Save the email or EEFax cover page as correspondence in the RCCMS Office Documents folder using the RCCMS Naming Convention.
- (3) Stamp the received date on Form 4549-E (Form 4549-T (ITG) or Form 4549-T (TEB)).
- (4) If the taxpayer (and spouse for jointly filed returns) agrees with the discrepancy adjustment, the 30-day letter is the final letter. Closing letters aren't prepared for agreed discrepancy adjustments.
- (5) Try to secure full payment of taxes, interest, and penalties.
- (6) If the taxpayer is unable to pay the balance owed within 120 days, consider offering an installment agreement. See IRM 4.70.15.11, Claims. TE/GE Exam examiners have the same authority for installment agreements as SB/SE Exam examiners.
- (7) If you receive payment, follow the check processing procedures outlined in IRM 4.70.14.3, Payment Processing.

**Note:** Don't include a copy of Form 4549-E (Form 4549-A (ITG) or Form 4549-T (TEB)) with the payment package you send to the Service Campus. Doing so may cause double assessment of tax to occur.
- (8) If the total discrepancy adjustment to one taxpayer results in an over-assessment, or an agreed but unpaid deficiency of \$50,000 or more, you must process the case within 22 calendar days (16 business days) after the agreement is filed or the over-assessment is determined. See section 3103 of RRA '98.
- (9) Use disposal code 03/102 (AIMS/RCCMS) Agreed Tax or Penalty Change.

**Note:** If there is a related Form 5500 exam, close the 5500 exam with disposal code 04/205 (AIMS/RCCMS) Change to Related Return) unless a higher priority disposal code is appropriate.
- (10) If interest is being suspended per IRC 6404(g) as described in IRM 4.70.15.4.7, Interest.

- (11) Prepare the workpaper summary sheet along with any supplemental workpapers. Save a copy of the workpaper summary sheet (i.e., Forms 5773, 5773-A, 4318, etc.), supplemental workpapers and all other relevant documents in RCCMS, following the TE/GE RCCMS Naming Convention. The workpapers should:
  - a. Be limited to the discrepancy adjustment issue(s).
  - b. Include a discussion on IRC 72(t) when the issue involves pension distributions.
  - c. Include a brief discussion on the applicability of penalties and whether or not penalties are being assessed.
- (12) Save all IDRS research in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention. Include a current AMDISA print before you close the case.
- (13) Prepare and save Form 10329, Transmittal Sheet-Related Cases and save all workpapers, forms and letters you generated in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.
- (14) Ensure the following documents for all years are scanned and saved in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention:
  1. Form 872 (if secured)
  2. Form 2848 (if applicable)
  3. Form 4549-E Income Tax Discrepancy Adjustments
  4. A copy of the check if payment is received
- (15) Complete the RCCMS Closing tabs per IRM 4.70.15.13.1, Completion of RCCMS Tabs.
- (16) Update the case to status code 51 on RCCMS and AIMS before the case is closed from the group.

**Note:** This is done by the designated person who closes the case out of the group.

- (17) Close the case file to TE/GE Closing Group.

4.70.15.6  
(11-20-2023)  
**No Change Case  
Procedures**

- (1) If you received additional information during the 30-day period which verifies that no adjustment is warranted:
  - a. Keep a copy of the return (or applicable RTVUE or BRTVU print) in the RCCMS Office Documents folder.
  - b. Include the original return (if secured) with the closed discrepancy adjustment case file.
  - c. Prepare Form 5773 / Form 5773-A, Form 4318 (or equivalent), along with any supplemental workpapers and all other relevant documents, fully explaining why the case is being closed “no change”.
  - d. Prepare and issue:
    1. EO - Letter 5332, Acceptance of Return after Consideration of Additional information.
    2. EP - Letter 2656, Form 1040/1120 Discrepancy Adjustment Closing Letter.
- (2) Use DC “02” on AIMS and “107” on RCCMS.

- (3) Prepare and save Form 10329, Transmittal Sheet-Related Cases and save all workpapers, forms and letters you generated in the RCCMS Office Documents folder using the RCCMS Naming Convention.
- (4) Ensure the following documents for all years are scanned and saved in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention:
  - a. Copy of Form 1040/1120 (or RTVUE/BRTVU print)
  - b. Form 872 (if secured)
  - c. Form 2848 (if applicable)
- (5) Complete the RCCMS Closing tabs per IRM 4.70.15.13.1, Completion of RCCMS Closing Record.
- (6) Update the status code to 51 on RCCMS and AIMS when the case is closed from the group.

**Note:** This is done by the designated person who closes the case out of the group.

- (7) Close the case file to TE/GE Closing Group.

4.70.15.7  
(11-20-2023)  
**Unagreed Case  
Procedures**

- (1) Follow “Unagreed Case Procedures” in two situations:
  1. The taxpayer disagrees and files a protest with Appeals (or petitions the Tax Court).
  2. The taxpayer doesn’t submit a proper response to the 30-day letter.
- (2) Complete the following before you transfer unagreed case files to Mandatory Review:
  1. Scan all paper documents you exchanged with the taxpayer including envelopes or anything the taxpayer or representative marked.
  2. Scan and save all exchanged documents and relevant documents you prepared during the examination into RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.
- (3) Keep all records you upload into RCCMS or determine are no longer relevant to the case file per normal record retention requirements outlined in IRM 1.15.2 Types of Records and Their Life Cycles.

4.70.15.7.1  
(11-20-2023)  
**Taxpayer Disagrees**

- (1) If the taxpayer disagrees with the proposed adjustments, inform the taxpayer of their:
  - a. Right to discuss the proposed adjustment with a supervisor
  - b. Appeal rights
- (2) Encourage a taxpayer who doesn’t agree with the proposed adjustment to file a valid written protest for the case to go to Appeals.

**Note:** Pub 5 summarizes the protest procedure.

- (3) If there's less than one year on the statute of limitations, request a statute extension on Form 872. See IRM 4.70.12.3.8.10, Securing Consents for Form 1040 and Form 1120, for special instructions.

- Appeals won't accept cases with less than one year remaining on the statute of limitations.
- If the taxpayer refuses to extend the statute of limitations, or you can't find the taxpayer, close the case to Mandatory Review to issue a 90-Day letter instead of sending the case to Appeals.

**Note:** Before closing the case to Mandatory Review, the group manager must call the Manager of Mandatory Review to discuss the case, noting the statute expiration date.

1. Appeals won't accept cases with less than one year remaining on the statute of limitations.
2. If the taxpayer refuses to extend the statute of limitations, or you can't find the taxpayer, close the case to Mandatory Review to issue a 90-day letter instead of sending the case to Appeals.

**Note:** Before closing the case to Mandatory Review, the group manager must call the Manager of Mandatory Review to discuss the case, noting the statute expiration date.

- (4) If the taxpayer files a protest to Appeals, see IRM 4.70.15.7.1.1, Protest to Appeals.

**Note:** See Pub 5 for Form 1040/1120 protests for all the items needed for a "valid protest"..

- (5) If the formal written protest doesn't comply with the requirements in Pub 5, you may, with managerial approval return the protest to the taxpayer and grant them additional time to perfect the protest.

**Note:** The signature of only one spouse on a protest for a joint return doesn't make the protest incomplete. Also, if the only item missing from the protest is a copy of the 30-day letter, you can close the case using the copy in the file. Therefore, there is no need to return the protest to the taxpayer for perfection. Adequacy of a protest is generally not determined based on its substantive content, such as whether the protest contains sufficient factual or legal support. If a taxpayer submits a formal written protest that includes all the information required by Pub 5 addressing the issues raised in the 30-day letter, reasons for disagreement, and factual information to support their position on the issues, then you must forward the case to Appeals for their consideration. Send to Appeals regardless of whether you disagree with the taxpayer's facts or don't consider the taxpayer's position sufficiently supported. A taxpayer protest is adequate when it contains all information required by Pub 5.

- (6) If the taxpayer doesn't submit a valid protest, close the case to Mandatory Review to issue a 90-day letter.

**Note:** Before closing any cases to Mandatory Review, the group manager must call the Manager of Mandatory Review to discuss the case and statute and get mailing instructions.

- (7) If the protest is valid and changes the report, but doesn't eliminate the income tax adjustment, mail a revised report to the taxpayer. For EP, examiner will issue the revised report and create an individually designed cover letter giving

the taxpayer an additional 15 days. For EO, mail the revised report (e.g. Form 4549-E) with Letter 3619, EO 30-Day Letter for Discrepancy Adjustment - Revised Proposed Adjustments.

- If the taxpayer agrees, close the case as an agreed case.
  - If the taxpayer doesn't agree, see IRM 4.70.15.7.1.1, Protest to Appeals, and close the case to Appeals with AIMS disposal code 07 (601 on RCCMS) Unagreed – Protest to Appeals.
- (8) When closing a discrepancy adjustment to Appeals, save the final RAR and all supporting documentation for the discrepancy adjustment (e.g., loan documents and taxpayer generated documents) in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention. Use RCCMS subfolders to organize document groupings when warranted.
- (9) Follow these steps to save RGS file and upload to the RCCMS Office Documents folder:
1. Open the RGS program, highlight the case from "Case Management Window", which usually opens automatically, and hit "Select". If the "Case Management Window" doesn't automatically (or you've been working in RGS on another case, select "File", "Open" and "Case" from the "Report Generation Software" window.
  2. From the "Report Generation Software" window, select "Copy Case" from the "File" drop down menu.  
**Note:** Selecting "Move Case" removes the case from RGS once case is copied to your hard drive.
  3. From the "Copy Case(s)" window, use "Select Location" in the "Copy Case(s) To" box to navigate to the desired location on your hard drive.
  4. Select "Copy". A folder containing a file "NFORWARDI1.ZIP" (or similar name) is created.
  5. Upload this file to the RCCMS Office Documents folder.
- (10) To extract RGS information in an email (the NFORWARDI1.ZIP file):
1. Save the file to your hard drive.
  2. Open RGS.
  3. At the "Case Management" window, select "Merge".
- (11) If interest is being suspended per IRC 6404(g), follow steps in IRM 4.70.15.4.7, Interest.
- (12) Prepare Workpaper Summary Sheet (i.e., Form 5773, 5773-A, 4318, etc.) along with any supplemental workpapers and all other relevant documents. Ensure the workpapers:
- Are limited to the discrepancy adjustment issue(s).
  - Discuss IRC 72(t) when the issue involves pension distributions.
  - Briefly discuss the applicability of penalties and whether or not penalties are assessed.
- (13) Save all IDRS research in the RCCMS Office Documents folder, following the RCCMS Naming Convention.
- (14) Get a current AMDISA print and save in the RCCMS Office Documents folder before you close the case.

- (15) Secure a current IMFOLT print (Form 1040) or BMFOLT print (Form 1120) immediately before you close the case to Appeals or Mandatory Review to ensure that the Service Campus has not already made the assessment for the discrepancy adjustment. Review the IMFOLT/BMFOLT print to identify if payment was made to determine which ARDI code to use in the RCCMS closing record. Save these in the Office Documents folder in RCCMS, using the TE/GE RCCMS Naming Convention.
- (16) Complete the RCCMS closing tabs per IRM 4.70.15.13.1, Completion of RCCMS Tabs.
- (17) Prepare the RCCMS 3198-A checksheet, identifying the case as “Forward to Appeals” or “Mandatory Review”, and notate: “Unagreed Discrepancy Adjustment”, and save it in the RCCMS Office Documents folder.

**Note:** Before closing the case to Mandatory Review, the group manager must call the Manager, Mandatory Review to discuss the case, noting the statute expiration date.

- (18) If there's less than one year on the statute of limitations, see IRM 4.70.12.3.7, Statute of Limitations and Statute Control Procedures and IRM 4.70.12.3.8, EP Statute Control Procedures, for special instructions.
- (19) Close the case fully electronically.

**Note:** Consult with your manager on cases with unique circumstances that might justify closing with a paper case file.

- (20) If the taxpayer or POA submits a valid protest to Appeals, see IRM 4.70.15.7.1.1, Protest to Appeals.
- (21) If the taxpayer or POA doesn't submit a valid protest to Appeals, close the case to Mandatory Review on RCCMS.

**Note:** Before closing the case to Mandatory Review, the group manager must call the Manager of Mandatory Review to discuss the case, noting the statute expiration date. You're strongly encouraged to close the related exams (if there is one) as a ride-along case with the discrepancy adjustment.

- (22) Update the case to status code 20 on AIMS and RCCMS if the case is closed to Mandatory Review.

**Note:** If Mandatory Review later returns the case to the group with a Form 5456, it will be updated to status 13. The case stays in status 13 until the group closes it.

#### 4.70.15.7.1.1 (11-20-2023) Protest to Appeals

- (1) If the taxpayer or Power of Attorney (POA) files a valid timely protest to appeal the issues reflected in the 30-day letter, evaluate any new facts or arguments presented and prepare a revised RAR rebutting, if applicable, the new information and position.

**Note:** Issue Letter 5918, Protest Received Rebuttal / Transfer to Appeals, with the rebuttal to the protest on a Form 886-A, or with a revised RAR.

- (2) If the protest doesn't change the original conclusion:



1. Review the protest letter you received from the taxpayer or POA to Ensure it's a valid protest per Pub 5 and notify the group manager (or designee) that you received a protest.
  2. Remember that all cases moving to Appeals require a minimum of 12 months remaining on the statute of limitations.
  3. Update the RAR to address the protest and send a copy to the taxpayer and POA, if applicable.
  4. Complete the Appeals routing slip (Form 1725) for the case to go to the Appeals Office in Chicago, IL (Office Code 131).
  5. Complete the RCCMS 3198-A checksheet by selecting the box, "Forward to Appeals".
  6. Save all of the prepared forms and letters in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.
  7. Ensure all relevant paper documents have been scanned and posted to the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.
  8. Keep in your exam group all paper case documents until resolved by Appeals.
- (3) Complete the RCCMS closing tabs IRM 4.70.15.13.1, Completion of RCCMS Tabs and consider:
1. The AIMS disposal code is 07 (601 in RCCMS), *Unagreed-Protest to Appeals*.
  2. Do not make an entry for Tax, Liability, or Interest.
  3. Enter Appeals Office Code 131 in RCCMS.
  4. Enter the tax and negligence penalties on the "Unagreed Amount" line in the Individual/Business (1 of 3) tab of the Closing Record in RCCMS.
  5. When you "validate for close" in RCCMS, complete any fields that appear in red.
- (4) Before closing the case, Ensure the following items are prepared electronically and placed in RCCMS:
1. Dated 30-day letter to the taxpayer with all attachments.
  2. Taxpayer's valid protest letter with all attachments (scanned).
  3. RAR revised to address Taxpayer's Protest including rebuttal to Taxpayer's Position with Letter 5918, Protest Received Rebuttal / Transfer to Appeals, used to send the rebuttal to the Taxpayer (and POA, if applicable).
  4. Prepare the Appeals E-Check sheet in RCCMS.
  5. Complete set of all workpapers.
  6. Copy of the return.
- (5) Before going to Appeals, the group manager or designee reviews the case.
- (6) Group manager or designee:
- Review the Appeals E-Check sheet in RCCMS and update if needed.
  - Update the case in RCCMS to status 51 and close the case to TE/GE Closing Group.
- (7) The TE/GE Closing Group updates the case to status 81 and transfer the RCCMS case file(s) to Appeals.
- (8) If the group receives information while the case file is in appellate review, notify the Appeals Office immediately.

4.70.15.7.1.2  
(11-20-2023)

**Indicates Intent to Protest**

- (1) If the taxpayer doesn't protest within the 30 day period, but previously indicated his/her intention to do so, you may send Letter 923-A to the taxpayer to allow an additional 15 days to file a protest. Send Letter 923-A no later than seven calendar days after the original 30-day letter response date.

4.70.15.7.2  
(11-20-2023)

**Failure of the Taxpayer to Properly Respond**

- (1) Close the case to Mandatory Review for issuance of a statutory notice of deficiency in these situations:
  - It appears reasonable that the taxpayer or authorized representative received the 30-day letter, and the taxpayer neither agrees (e.g., signs Form 4549-E) nor protests within the 30-day period.
  - The taxpayer didn't receive the 30-day letter, but the IRS exercised due diligence in determining the taxpayer's last known address.
  - The taxpayer is temporarily away and not expected to return within a reasonable amount of time or has not returned after a reasonable extension has been granted.
  - You followed-up without success.
- (2) Update the Revenue Agent Report (RAR) to state that the taxpayer failed to respond. Save a copy of the RAR in the Office Documents folder in RCCMS.
- (3) A failure to reply to a 30-day letter is considered an unagreed case for processing purposes. Notate: "Unagreed Discrepancy Adjustment" in the "Mandatory Review" section of the RCCMS 3198-A Checksheet, item SH-M 4.0 Mandatory Review: Other (Specify).
- (4) Copy the RGS information to an email to include or associate with your case. Ensure any passwords you used to encrypt the file is noted on the CCR.
- (5) Follow these steps to save the RGS file and upload to the RCCMS Office Documents folder:
  1. Open the RGS program, highlight the case from "Case Management Window", which usually opens automatically, and hit "Select". If the "Case Management Window" doesn't automatically (or you've been working in RGS on another case, select "File", "Open" and "Case" from the "Report Generation Software" window.
  2. From the "Report Generation Software" window, select "Copy Case" from the "File" drop down menu.
 

**Note:** Selecting "Move Case" will remove case from RGS once case is copied to your hard drive.
  3. From the "Copy Case(s)" window, use "Select Location" in the "Copy Case(s) To" box to navigate to the desired location on your hard drive.
  4. Select "Copy". A folder containing a file "NFORWARD11.ZIP" (or similar name) is created.
  5. Upload this file to the RCCMS Office Documents folder.
- (6) If interest is being suspended per IRC 6404(g) as described in IRM 4.70.15.4.7, Interest.
- (7) Prepare Form 5773 or Form 5773-A, Form 4318 etc. (or equivalent) along with any supplemental workpapers and all other relevant documents. The workpapers should:
  - Be limited to the discrepancy adjustment issue(s).



- Include a discussion on IRC 72(t) when the issue involves pension distributions.
  - Include a brief discussion on the applicability of penalties and whether or not penalties are being assessed.
- (8) Save all IDRS research discussed in IRM 4.70.15.4.1, IDRS Research, in the RCCMS Office Documents folder, following the TE/GE RCCMS Naming Convention.
- (9) Get a current AMDISA print and save it in the RCCMS Office Documents folder before the case is closed.
- (10) Secure a current IMFOLT print (Form 1040) or BMFOLT print (Form 1120) immediately before you close the case to Mandatory Review to ensure that the Service Campus has not already made the assessment for the discrepancy adjustment. Save these in the Office Documents folder in RCCMS, following the TE/GE RCCMS Naming Convention.
- (11) Save a copy of Form 5773 / Form 5773-A, Form 4318, etc (or equivalent), supplemental workpapers, and all other forms and letters prepared by the examiner within RCCMS, following the RCCMS Naming Convention.
- (12) Complete the RCCMS closing tabs. Use disposal code 604 Unagreed - Without Protest, on RCCMS.
- (13) If there's less than one year on the statute of limitations, request a statute extension on Form 872.
- a. Appeals won't accept cases with less than one year remaining on the statute of limitations.
  - b. If the taxpayer refuses to extend the statute of limitations, or you can't find the taxpayer, close the case to Mandatory Review to issue a 90-day letter instead of sending the case to Appeals.
  - c. The group manager must contact the Manager of Mandatory Review if a case is closed to Review with less than one year on the statute of limitations.
- (14) Complete the following before you transfer a case to Mandatory Review:
- a. Scan all paper documents you exchanged with the taxpayer including envelopes or anything the taxpayer or representative marked.
  - b. Upload all exchanged documents and relevant documents you prepared during the examination into RCCMS.
  - c. Keep all records you upload into RCCMS or determine are no longer relevant to the case file per normal record retention requirements outlined in IRM 1.15.2, Types of Records and Their Life Cycles.
- (15) Close the case fully electronically.
- Note:** Consult with your manager on cases with unique circumstances that might justify closing with a paper case file.
- (16) The group manager will update the case to status code 20 and close the case to Mandatory Review.
- Note:** You're strongly encouraged to close the related examination (if there is one) as a ride-along case with the discrepancy adjustment.

4.70.15.8  
(11-20-2023)  
**Simultaneous Closing  
with Related Cases**

- (1) For EP, if you do a discrepancy adjustment because of an unagreed plan qualification issue, you must close it with the related unagreed case (i.e., Form 5500).

**Reminder:** Remember that if a Form 5500 unagreed revocation has corresponding discrepancy adjustments, you issue the 30-day letters for both the discrepancy adjustment and the proposed revocation at the same time.

- (2) If the related case is an unagreed:
  1. CEP case, close the discrepancy adjustment and the CEP case at the same time.
  2. Close the discrepancy adjustment case at the same time as the related unagreed EO case (i.e., Form 990) if the discrepancy adjustments are: Set up because of an unagreed EO issue OR a related case.
- (3) It is recommended, but not required, that you close a discrepancy adjustment simultaneously with a related agreed case.

**Note:** If you close the related exam separately, be sure to include copies of all materials from the related case file necessary to document the discrepancy adjustment in the discrepancy adjustment file.

**Reminder:** Before closing any cases to Mandatory Review, the group manager must call the Manager of Mandatory Review to discuss the case and get mailing instructions

4.70.15.9  
(11-20-2023)  
**Partial Agreement  
Procedures**

- (1) If agreement can be reached on one or more issues, encourage the taxpayer to enter into a partial agreement by executing a Form 4549-E covering the agreed issues.

**Example:** The taxpayer agrees to the discrepancy adjustment; however, he does not agree to the penalty associated with the adjustment to his tax liability.

- (2) Partial agreement procedures are inappropriate if the taxpayer agrees to the proposed adjustments in a specific tax period and doesn't agree with proposed adjustments in a prior or subsequent tax period.
- (3) For partial agreements, complete two separate Form 4549-E reports. Prepare:
  1. One report showing only the agreed issues and write "Partial Agreement" on top of the Form 4549-E.
  2. A second report that includes both the agreed and unagreed issues.
- (4) Send the above reports to the taxpayer with the 30-day letter and all enclosures listed on the 30-day letter.
- (5) If the taxpayer signs only the Form 4549-E "Partial Agreement" report but doesn't sign the report containing both agreed and unagreed issues, prepare an explanation of which items and amounts the taxpayer agreed to.
  1. Place this explanation in the file for Mandatory Review to mail.
  2. Do not send it to the taxpayer.
  3. Close the case as an unagreed case as outlined above.

- (6) Update the RCCMS 3198-A checksheet with an entry stating that the discrepancy adjustment is “partially agreed”.
- (7) Close the case to Mandatory Review as an unagreed case per IRM 4.70.15.7.1, Taxpayer Disagrees.

4.70.15.10  
(11-20-2023)  
**Relief from Joint &  
Several Liability**

- (1) If a discrepancy adjustment involves a Form 1040 that was filed as a joint return, follow these procedures:
  - a. If the taxpayer asks about IRC 6015 relief (innocent spouse relief), include documentation on the chronology that IRC 6015 relief was discussed. Note the taxpayer’s response, if any, about pursuing this relief.
  - b. If the taxpayer requests IRC 6015 relief, refer this matter to Classification for appropriate routing with Form 5666.
  - c. If the taxpayer submits Form 8857, Request for Innocent Spouse Relief, (or a statement that contains substantially the same information signed under penalty of perjury), and the case is closed, date stamp the receipt date on the request and refer to IRM 25.15.2.4, Direct Receipt of Form 8857, for further processing guidance.
  - d. If innocent spouse relief is requested while the case is opened, you must include an addendum to your 30-day letters to both spouses (and 90-day letters if necessary). The addendum should acknowledge receipt of the request for innocent spouse relief under IRC 6015 and inform the taxpayer that TE/GE does not make a determination of innocent spouse relief. Inform the taxpayer the determination of innocent spouse relief will be made by the appropriate IRS business unit after the discrepancy adjustment matter is concluded and the tax assessed.
  - e. Don’t solicit tax payments from the requesting spouse while a request for innocent spouse relief is pending. You may however solicit tax payments from the nonrequesting spouse. Refer the taxpayer to Pub 971, Innocent Spouse Relief.
- (2) You may refer to IRM 25.15 for more detailed information on Relief from Joint & Several Liability.

4.70.15.11  
(11-20-2023)  
**Claims**

- (1) If a taxpayer files a formal claim on Form 843, Form 1045, Form 1139, Form 1040X, or Form 1120-X, while the income tax return is open on AIMS, the Campus forwards the claim to the examiner for action.
- (2) When you receive a formal or informal claim directly from the Campus, notify CP&C Classification of the receipt of the claim. You’ll either be given assistance in ruling on the claim or be instructed to transfer the claim to the appropriate operating division for examination.
- (3) If your functional unit retains jurisdiction over the claim and the discrepancy adjustment is open, explain the disposition of the claim in the “Other Information” box of Form 4549-E; do not use the words or make reference to “examinations” or “audit”.
  1. If the claim is fully or partially allowed, enter the claim description and amount on the appropriate adjustment line of Form 4549-E.
  2. If a formal claim is fully or partially disallowed, include Form 2297, Waiver of Statutory Notification of Claim Disallowance in the discrepancy adjustment report.

4.70.15.12  
(11-20-2023)  
**Installment Agreement  
and Bankruptcy  
Procedures**

- (4) If a taxpayer who makes a credible claim that he or she is unable to manage his or her own affairs by reason of physical or mental impairment, and requests additional time to file a claim under IRC 6511(h), refer the matter to the appropriate operating division on Form 5666.
  - (5) For additional information on claims, see IRM 4.70.17, TE/GE Examinations, Claims and Abatement.
- (1) If the taxpayer is unable to pay the full amount owed, you may offer an installment agreement. You offer one by sending Form 9465, Installment Agreement Request, to the taxpayer with the 30-day letter package. See eligibility criteria at IRM 4.20.4.2(6), NRP Examination Process.
  - (2) A taxpayer owing more than \$50,000 must also complete Form 433-F, Collection Information Statement.
  - (3) If the statute of limitations is imminent, secure Form 872 or Form 872-H to allow sufficient time to process the case. See IRM 4.20.1.4, Installment Agreements, for more information on installment agreements.
  - (4) If a taxpayer submits a request for an installment agreement:
    1. Stamp the receipt date on the request.
    2. Complete Form 3177, Notice of Action for Entry on Master File, with TC 971 AC 043, Pending Installment Agreements.
    3. Fax or secure e-mail Form 3177 to the FAST within 24 hours of the taxpayer's request.
    4. Forward the request to the appropriate Campus address identified in the Form 9465 instructions.
  - (5) If the taxpayer has filed for bankruptcy, take appropriate steps to protect the government's interests.
    - You may need to coordinate with the appropriate EFU.
    - You may have to complete Form 9439, Collectability Evaluation Form when collectability becomes an issue.

**Note:** See IRM 4.27.1, Bankruptcy, Examiner Responsibilities and Procedures, for further guidance.
  - (6) The taxpayer completes Form 433-D to enter into an installment agreement.
  - (7) Keep a copy of all forms in the work papers for information purposes. Scan and save in your RCCMS Office Documents Folder.
  - (8) Input the appropriate ARDI code for the installment agreement in the RCCMS closing record (and on Form 5599 Item 42, if required). Check the installment agreement box on the RCCMS 3198-A checksheet in the Mandatory Review section.
  - (9) See IRM 4.20.14, Examination Collectability, Installment Agreements, for more information on installment agreements.
  - (10) See IRM 4.70.13.9.10, Payment Processing, for instructions on how to process payments, if received.

4.70.15.13  
(11-20-2023)  
**Closing Procedures**

- (1) Closing letters aren't required for either "agreed tax change" cases or unagreed cases.
- (2) A closing letter (Letter 2656, Form 1040/1120 Discrepancy Adjustment Closing Letter) is only required when you made contact with the taxpayer and close the case "no change".
- (3) IRC 6621(c) imposes additional interest on amounts due if IRS assesses tax of \$100,000 or more in any given tax year on a corporation.
  - IRC 6621(c) applies to Forms 1120 discrepancy adjustments.
  - IRC 6621(c) applies only to "C" corporations, not to individuals or trusts or "S" corporations.
  - The additional 2% interest applies only when a 30-day letter has been issued and only if the amount due is not paid within 30 days of the issuance of the 30-day letter.
  - To Ensure the additional 2% interest is assessed, enter the date the 30-day letter was issued, and the amount of tax and penalties due for the year in the RCCMS closing record.
- (4) Process agreed cases per IRM 4.70.15.5, Agreed Case Procedures.
- (5) Process unagreed cases per IRM 4.70.15.7, Unagreed Case Procedures.
- (6) Save copies of all workpapers, forms and letters generated by the examiner in the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention.

**Note:** Save a scanned executed copy of Form 4549-E in the RCCMS Office Documents folder if the case is agreed.

- (7) Complete the closing tabs within RCCMS according to IRM 4.70.15.13.1, Completion of RCCMS Tabs.
- (8) Update the case to the proper status code on RCCMS and AIMS (status 20 or 51) before you close the case from the group.

4.70.15.13.1  
(11-20-2023)  
**Completion of RCCMS Tabs**

- (1) The TE/GE Closing Group makes tax assessments, penalty assessments, and adjustments for prepayment credits related to discrepancy adjustments from the amounts that are listed by the examiner on the Individual/Business (1 of 3) Tab of the RCCMS closing record. Therefore, be careful to input the correct amounts.
- (2) If the case is partially agreed, indicate that the file is a partial agreement on top left corner of the General Tab of the RCCMS Closing record. Close the file to Mandatory Review with the words "discrepancy adjustment — partial agreement" typed in the remarks section of the RCCMS 3198-A checksheet.
- (3) Validate cases for closure in the RCCMS closing record using the table below.

**Note:** All RCCMS closing record items highlighted in red are required to be completed.

**Note:** Refer to IRM 4.5.2, TE/GE Examined and Non-Examined Closures, and Document 6476 (EP), Document 6476 (EO), and Document 11308 (GE), for additional Information.

RCCMS TAB	ITEM	EXPLANATION
General	Penalty Reason Code	No entry unless penalties previously assessed are being abated. See IRM Exhibit 4.5.2-2, TE/GE Penalty Reason, of IRM 4.5.2, TE/GE Examined and Non-Examined Closures for applicable codes
General	Disposal Code	<ul style="list-style-type: none"> <li>• 102 = "Agreed Tax Change"</li> <li>• 107 = "No Change"</li> <li>• 601= "Unagreed - Protest to Appeals"</li> <li>• 604 = "Unagreed - Without Protest"</li> </ul>
General	ARDI Code	An entry is required only if the disposal code is "102". Leave blank if case is being closed "no "change or is unagreed.
General	Appeals Office Code	Enter 131 if the case is going to Appeals.
General	Closing With	Make the appropriate selection in the drop down menu, but in most cases select "electronic prints".
Details	Examiner's Time	Time must be entered in whole hours and in tenths of hours.
Details	Technique Code	<ul style="list-style-type: none"> <li>• 6 - Office correspondence exam</li> <li>• 7 – Field exam - limited scope/focused examination</li> </ul>
Details	Examiner's Name	Last name, first name
Details	No Change Issue Codes	Enter "99999999" for Form 1040 with Disposal Code "107". Otherwise, no entry.
Individual/ Business (1 of 3)	Agreement Date	Insert the date the signed Form 4549-E is received.
Individual/ Business (1 of 3) Assessment Information	Tax Liability Adjustment	Insert code "300" and the amount of the increase in tax as shown on line 14 of Form 4549-E, or insert code "301" and the amount of decrease in tax resulting from the discrepancy adjustment.

RCCMS TAB	ITEM	EXPLANATION
Individual/ Business (1 of 3) Assessment In- formation	Penalties	<p>Insert code "320" and the penalty amount for civil fraud penalties. Insert code "160" for the amount of any delinquency penalty to be assessed on late filed returns.</p> <p><b>Note:</b> Accuracy related penalties should be reflected by Reference Number under Credit and Tax Computation Adjustments.</p>
Individual/ Business (1 of 3)	Interest	Leave blank. Interest will be computed and input by TE/GE Closing Group.
Individual/ Business (1 of 3)	Credit and Tax Computation Ad- justments	<p>Use reference number "888" when the adjustment to AGI and Taxable Income are the same. The dollar entry is total adjustments reflected on Line 2 of Form 4549-E. Insert penalty reference number "680" for accuracy related penalties being assessed under IRC 6662. Insert reference number "806" to reflect tax withheld (i.e., on a distribution) but not previously claimed by the taxpayer or credited to his/her account by the Campus. This is the amount from line 15 of Form 4549-E (i.e., additional withholding). Insert reference number "765" if reducing an earned income credit.</p>
Individual/ Business (1 of 3)	Unagreed Amount	Enter the tax and negligence penalties if the case is going to Appeals.



RCCMS TAB	ITEM	EXPLANATION
		<p>Applicable codes:</p> <ul style="list-style-type: none"> <li>• 1 = Fully Paid</li> <li>• 2 = Not Paid</li> <li>• 3 = Partially Paid</li> <li>• 4 = Installment Agreement with Payment</li> <li>• 5 = Installment Agreement without Payment</li> </ul>

4.70.15.13.2  
(11-20-2023)  
**Closing Letters**

- (1) Use Letter 2656 (for EP) or Letter 5332 (for EO) as the closing letter when you drop the discrepancy adjustment issue because of the taxpayer's response to the 30-day letter. See *Employee Plans Examination Exhibits* for an example of Letter 2656.
- (2) The 30-day letter is the final letter for agreed cases.

4.70.15.13.3  
(11-20-2023)  
**Case File Assembly**

- (1) Complete the following before you close a case:
  - Scan all paper documents you exchanged with the taxpayer including envelopes or anything the taxpayer or representative marked.
  - Save all exchanged documents, letters and forms you prepared during the examination into the RCCMS Office Documents folder using the TE/GE RCCMS Naming Convention. Ensure all documentation supporting the discrepancy adjustment issue is uploaded.
  - Keep all records you upload into RCCMS or determine they're no longer needed per normal record retention requirements in IRM 1.15.2, Types of Records and Their Life Cycles.
- (2) Close all cases fully electronically to increase efficiency and reduce the need to mail paper case files. Consult with your manager on cases with unique circumstances that might justify closing with a paper case file.

4.70.15.14  
(11-20-2023)  
**Cases Returned from Appeals**

- (1) Periodically, Appeals may return cases for further development.
- (2) When you receive the case, prioritize it.
- (3) After reviewing the case file and the memo from Appeals, you and your manager discuss the issues Appeals raised:
  - If you can easily address the Appeals Officer's concerns, act accordingly.
  - Get your manager's approval before you contact Appeals. The manager determines whether the proposed communication is necessary and whether it's an ex parte communication covered by RRA 98 limitations. See IRM 8.1.10 for the rules on ex parte communications.
- (4) When you complete Appeal's recommendations, return the case to Appeals or close it with your manager's input and concurrence.