



Small Business/Self-Employed

Collection

Revenue Officer Training Unit 2

Coursebook



ELMS 11569

Official IRS Training Material

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**Revenue Officer Training
Unit 2**

Module K

Referrals – IMF Returns

Module K

Referrals – IMF Returns

Introduction To This Module

Introduction You will encounter situations where taxpayers neglect or refuse to file, despite your efforts to secure the tax returns. Internal Revenue Code (IRC) section 6020(b) grants the Service the authority to prepare and file these returns.

Individual Master File (IMF) cases may be:

- assessed using Automated Substitute for Return (ASFR),
 - referred to Campus Examination function in Memphis, or
 - referred to Examination using Form 3449, *Referral Report*.
-

In This Module This module contains the following lessons:

Lesson	See Page
Substitute for Return Procedures — IMF Returns	1-1

Lesson 1

Substitute for Return Procedures IMF Returns

Overview

Introduction Collection personnel strive to make voluntary compliance easier with every taxpayer contact. If all administrative measures are taken, no indications of fraud are present, and the taxpayer still refuses to file a delinquent tax return, you can refer the case to:

- Automated Substitute for Return (ASFR),
- Campus Examination function in Memphis, or
- Examination

This lesson discusses resolving an IMF Del Ret case when the taxpayer neglects or refuses to file.

**Lesson
Materials**

- Coursebook
 - IRM 1.2.14.1.18, Policy Statement 5-133
 - Form 3449, *Referral Report*
 - Laptop with ICS training database
-

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Overview, Continued

References

- IRM 5.1.11, *Delinquent Return Investigations*
 - *Integrated Collection System (ICS) User Guide*, Chapter 8, *Module Closures*
-

Objectives

At the end of this lesson, you will be able to:

- Describe the process for referring stand alone Del Rets to Automated Substitute for Return (ASFR).
 - Describe the process for referring Del Rets in combination cases to Campus Examination function in Memphis.
 - Describe the process for referring Del Rets to Examination using Form 3449, *Referral Report*.
-

In This Lesson

This lesson contains the following topics:

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Automated Substitute for Return

Introduction Automated Substitute for Return (ASFR) is an automated process that prepares a Substitute for Return for **individuals** who fail to file after notification.. Information to make the assessment comes from Information Return Program (IRP) information posted to the Information Return Master File (IRMF).

Referral Criteria You can refer **standalone** Individual Master File (IMF) Delinquent Returns (Del Rets) for ASFR processing when they meet **all** the following criteria:

- The Del Ret module is in Status 03,
- There are no unresolved Bal Due modules (status 22, 24, 26) or associated modules in status 53 or 60 on ICS or IDRS,
- IRP exists on IRPTRJ for the module,
- There are less than 60 IRP documents for the tax year referred,
- There is no current or pending TC 530 on the account,
- The Select Code is not an IRS employee or CI selection code,
- There are no -V, -W, -L, -Z, or Z- freezes on the module or account.

Do not issue a summons if the taxpayer does not respond to your attempt to secure the return because IRS already has enough information to prepare the tax return.

You must resolve any outstanding Balance Due (Bal Due) accounts before referring the Del Ret to ASFR. This results in a “stand alone” Del Ret.

Because full compliance for filing is required for an installment agreement, it is **not** an appropriate closing for a Bal Due when using Del Ret ASFR procedures.

Continued on next page

Automated Substitute for Return, Continued

Referral Actions

Prior to referring the Del Ret to ASFR, take the following actions:

- Resolve all open Bal Dues,
 - Close the Del Ret on ICS using Transfer to ASFR, and
 - Route the closed case file using local procedures.
-

ICS Activity – ASFR

Access **Willard and Stacy Austin** on the ICS training database. Close the Del Ret for 30- 200812 as a referral to ASFR. You can assume all the required criteria for ASFR processing are met. Follow the steps listed below.

Step	Action
1	Access Willard and Stacy Austin from the <i>Active Inventory</i> menu.
2	Double click on the Del Ret module 30- 200812.
3	Click “Close Mod.”
4	Click “Transfer to ASFR.”
5	Click “Close Module.”
6	Click “Exit”

Referrals to Campus Examination function in Memphis

Description There will be times when you have an Other Standalone Del Ret or a Combination Case (Combo Case) Del Ret with IRP and referral to ASFR is not appropriate. Combination cases are those where there are Bal Dues along with the Del Ret. These Del Ret cases are referred to the Campus Examination function in Memphis for SFR processing.

Criteria You can refer an Other Standalone Del Ret or a Combo Case Del Ret with IRP if it involves:

- A Del Ret ineligible for an ASFR referral,
- More than 60 IRP documents,
- A combo case (Del Ret with an open Bal Due module),
- An associated module in status 53 or 60,
- SRFMI (State Reverse File Match Initiative) data, or
- Is an international taxpayer

The Del Ret **must**:

- Result in a Bal Due, and
- IRP is posted to the Information Return Master File (IRMF) for the delinquent year

Do not issue a summons if the taxpayer does not respond to your attempt to secure the return because IRS already has enough information to prepare the tax return.

Fraud If fraud is involved, do not refer the case to Campus Examination function in Memphis. A referral to CI will be used in cases with fraud indicators.

Collectibility If you have a combination case, you must determine whether:

- it is possible to collect the tax due now and leave a stand-alone Del Ret,
- it is appropriate to close the Del Ret under Policy Statement P-5-133, or
- referral should be made that will result in new, collectible assessments of tax.

Continued on next page

Referrals to Campus Examination function in Memphis, Continued

Collect the Tax Now If the taxpayer has assets that can be levied, it may be possible to collect a related Bal Due. By closing related Bal Dues, a stand-alone Del Ret results. You may then be able to refer the Del Ret to ASFR.

Example

Mike and Joyce Fergus did not file their individual income tax for last year. They owe \$2,500 from previous years. You secured a partial collection information statement showing a bank account with a balance of \$9,822. Mr. and Mrs. Fergus have not provided you with requested information. The taxpayers have received a Letter 1058 and have not exercised their appeal rights.

You decide to levy the bank account to full pay the Bal Due. This leaves you with a stand-alone Del Ret that you refer to ASFR.

Additional SFR Assessments If collection potential exists, refer the Del Ret to Campus Examination function in Memphis using combination case procedures.

Example

David and Carol Perry owe \$8,000 in individual income taxes. They have not filed returns for the last two years. Mr. Perry is a doctor with a large practice. Mrs. Perry has her own business. They have \$40,000 equity in their residence.

Because there is likely potential of collectibility, you decide to pursue assessments for the two years of outstanding returns. You close the Del Rets using combination case procedures to refer the case to Campus Examination function in Memphis.

Continued on next page

Referrals to Campus Examination function in Memphis, Continued

Combination Case Procedures

- Refer the case to Campus Examination function in Memphis when you have determined that the Bal Due and additional SFRs are collectible.

The table below explains Campus Examination function in Memphis referral procedures:

Step	Action
1	Send an e-mail by secured messaging to the Memphis campus at “*CTR CS HINF-SFR GCP.”
2	In the subject line of the e-mail, put “HINF-SFR.”
3	In the text portion of the e-mail, put: <ul style="list-style-type: none">• Taxpayer’s TIN: NNNNNNNNN (with no dashes)• Non-filed Tax Year(s) and Total IRP income: YYYY \$\$,\$\$\$
4	Close the Del Ret on ICS using “Exam Referral.”

Referrals to Examination

Referral Criteria

You can refer the IMF Delinquent Return (Del Ret) to Examination if:

- there is insufficient or no IRP posted to the IRMF for the delinquent year,
- all IMF Del Ret referrals must meet the high income criteria for at least one of the last five unfiled years,
- the majority of the income is from a non-IRP source, or
- If the taxpayer was not contacted or located, but has material current high income and/or clear ownership of substantial assets that may be attached to satisfy a potential tax liability.

If the referral is selected, Examination will use the information you provide on Form 3449, *Referral Report*, to prepare a substitute for the return. If there is evidence of fraud, you may need to refer the Del Ret as a fraud referral to Criminal Investigation (CI). CI referrals were discussed in Module I, *Introduction to Fraud Referrals*.

- Unfiled returns referred to Examination are:
Form 1040, *U.S. Individual Income Tax Return*
Form 1120, *U.S. Corporation Income Tax Return*
-

No Referral

Referrals to Examination will **not** be made if the:

- taxpayer is an IRS employee.
 - taxpayer is not a non-filer with high income.
 - case is appropriate as an ASFR or Campus Examination function in Memphis referral.
 - taxpayer or their legal representative cannot be located.
 - case can be closed pursuant to Policy Statement 5-133.
-

Continued on next page

Referrals to Examination, Continued

**Policy
Statement
5 133**

Policy Statement 5-133 outlines general guidelines and factors to consider when determining whether to pursue enforcement of filing requirements. The filing requirements will normally be enforced for a six year period.

Policy Statement 5-133 allows the closure of a Del Ret without enforcement because the non-filing is not willful, and:

- there would be no tax due on the return; or
 - there would be minimal tax due on the return; or
 - the cost to the Service to secure a return would exceed the anticipated revenue over the statutory period of collection.
-

**Policy
Statement
5 133 Examples**

Examples of situations where we would not pursue returns due to the cost of securing the return would exceed anticipated revenue:

- Defunct corporations with no assets and no transferee possibilities,
 - Deceased taxpayers with no estate and no transferee assessment possibilities,
 - Taxpayers with incarceration terms equal to or exceeding the normal period of collection and no assets to pursue collection against have been identified,
 - Taxpayers with minimal assets and minimal earning potential due to age, illness, or other factors which permanently diminish collection potential.
-

**Policy
Statement
5 133
Not Used**

The following returns should not be closed under provisions of Policy Statement 5-133:

- Nontaxable returns, such as Form 990, *Return of Organization Exempt From Income Tax*
- Form 1065, *U.S. Return of Partnership Income*
- Returns due from IRS employee

See IRM 5.1.11.6.1(10) for further discussion of Policy Statement 5-133.

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Referrals to Examination, Continued

**ICS Activity –
P-5-133**

Use this information to complete the following ICS activity:

- You made a field call and determined Mr. Franklin is currently not collectible (CNC) for a balance due of \$86,000.
- He does not have the resources to submit an offer in compromise (OIC).
- Mr. Franklin was afforded all the appropriate taxpayer rights.
- IRP for 2008 showed income in excess of \$100,000, but the taxpayer's verifiable losses exceed that amount.

Access **Baxter Franklin** on the ICS training database. Close the Del Ret per Policy Statement 5-133 as the cost to the Service to secure a return would exceed the anticipated revenue. Follow the steps listed below.

Step	Action
1	Click "History" hot button.
2	Click "Create History."
3	Document ICS History with field investigation result.
4	Compute anticipated tax due and include in the closing narrative.
5	Return to the <i>Case Summary</i> screen.
6	Double click on Del Ret 30 200812module
7	Click "Close Mod."
8	Click "No Return Secured."
9	Click "Little or No Tax Due (P-5-133)."
10	Click "Submit Closure for Approval."
11	Click "Exit" to return to the <i>Case Summary</i> Screen.

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Referrals to Examination, Continued

Information to Secure

Secure as much information as possible during your initial contact with a taxpayer concerning sources and amounts of income earned. If the taxpayer fails to file any return you request, you can prepare a referral to Examination.

Additional income information can be secured from:

- internal sources such as:
 - ▶ Form W-2, *Wage and Tax Statement*,
 - ▶ Forms in the 1099 series, and
 - ▶ IDRS and CFOL.
- external sources such as:
 - ▶ state employment records,
 - ▶ bank statements, and
 - ▶ third parties.

Remember: The majority of income must be from a non-IRP source.

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Referrals to Examination, Continued

Referral Considerations

Before referring to Examination consider:

- the taxpayer's history of noncompliance.
- the cost to the Service of securing a return with respect to anticipated revenue.
- whether the taxpayer or their assets can be located.
- whether the taxpayer's legal representative can be located.
- can the Del Ret be referred to ASFR or the Campus Examination function in Memphis
- is the majority of income from a non-IRP source
- is the IRM income criteria met for at least one of the last five unfiled years

Continued on next page

Referrals to Examination, Continued

**Form 3449,
Referral Report**

Use Form 3449, *Referral Report*, to refer a Del Ret to Examination. You can prepare Form 3449 using the ICS template or by completing a preprinted form.

When completing Form 3449, follow the steps in this table for Additional information that will assist the receiving office (#7 on form):

Step	Action
1	State the income
2	State the amount of any withholding
3	Compute the potential tax due using Filing Status 1 or 3 with no deductions and 1 exemption
4	State which documents or sources were used to compute income and withholding
5	Document the non-IRP income and sources Note: For married taxpayers, prepare a separate Form 3449 for each liable spouse for individual income tax referrals. Filing a joint return is an election made by taxpayers filing voluntarily. Compute tax only on the basis of an individual. Use Filing Status 3 to compute the tax.
6	Describe the source and amount of income for the taxpayer, e.g., self-employed computer programmer, insurance sales, trust fund income for IMF. Remember: The majority of the high income must be from a non-IRP source. If the majority of the nonfiler's income was reported as IRP, a Form 3449 referral is NOT appropriate, see IRM 5.1.11.6.3.1, or IRM 5.1.11.6.3.2.

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Referrals to Examination, Continued

ICS Activity — Use this information to complete the following ICS activity:
Preparing
Form 3449

- Mr. Drury was afforded all appropriate taxpayer rights.
- He is a retired Federal employee and received a pension of \$147,000 in 2008.
- He is currently self-employed, with a construction company. Unreported income is an issue.
- He made two estimated tax payments on the account totaling \$419.
- You determined the tax due for a single person with no dependents and no exemptions is \$9,820.

Access **Jerry A. Drury** on the ICS training database and prepare Form 3449 for a referral. The following table explains how to prepare Form 3449.

Step	Action
1	Access Jerry A. Drury from the <i>Active Inventory</i> menu.
2	On the <i>Case Summary</i> screen, double click to access the Del Ret period.
3	Click the "Template Listings" hot button on the Case Summary screen.
4	Select "Forms (1-4000)" from the Template Listings.
5	Highlight Form 3449: Referral Report.
6	Click "Next."
7	Select the case.
8	Click "Next."
9	Select "Examination Division" for "Division / Branch to whom you are sending the referral.
10	Verify the entity information, correct if necessary.
11	Leave trade name and employer information blank.
12	Enter Period and class of tax.
13	Enter 2008 as last period filed.
14	Answer the 3 questions: Did the TP refuse to file or sign returns? Did the TP underreport tax? Is there another reason for the referral?
15	Provide any additional information.
16	Enter manager's telephone number.
17	Click "Save."
18	Click "Exit" from the Print Manager.
19	Click "Yes" at prompt.

Continued on next page

Referrals to Examination, Continued

Where to Send All Form 3449 referrals are mailed to:

IRS – Brookhaven Campus Classification
Mailstop 634, Team 302
1040 Waverly Ave.
Holtsville, NY 11742

Recommendations of Civil Penalties

If there is evidence that the taxpayer is a high-income non-filer who has repeatedly failed to file income tax returns, the taxpayer may be subject to the fraudulent failure to file penalty under IRC section 6651(f). The penalty can be as much as 75 percent of the total tax liability.

It is important that you document your facts and figures as accurately as possible. Consult your on-the-job instructor (OJI) for assistance.

IMF Del Ret Case Resolutions

Comparative Chart

This chart compares the criteria for resolving Del Ret cases using

- Automated Substitute for Return,
- Campus Examination function in Memphis, and
- Examination referral.

Criteria	ASFR	Campus Examination function in Memphis	Exam Referral
Field investigation required	Yes	Yes	Yes
Verified address or assets for taxpayer	Yes	Yes	Yes
Unresolved Bal Due(s)	No	Yes	Yes
IRP information required	Yes	Yes	No
Current or pending CNC*	No	Yes	Yes

If there is no current collection potential consider whether a referral resulting in an additional uncollectible assessment should be made.

Exhibit 1 — Navigating the World of IMF SFRs

Stand-Alone Del Ret

A stand-alone Del Ret can be referred to ASFR through ICS, unless the selection code is for an IRS employee or CI, if it

- includes no status 60 or 53 modules, and
- has IRPTR of fewer than 60 pages per tax year,

To refer through ICS, select “Transfer to ASFR.” The referral is electronically sent to the Brookhaven ASFR unit. No further action is required other than documenting the history. The case automatically closes on ICS. See IRM 5.1.11.6.3.1 for additional requirements.

Combination Case

The Del Ret in a combination Bal Due/Del Ret case can be referred to Campus Examination function in Memphis if

- there is valid IRP income, and
- you have determined the Bal Due and any additional SFRs are collectible.

To refer, send a secure e-mail to “CTR CS HINF-SFR GCP”. In the subject line of the e-mail, put “HINF-SFR”. Include the taxpayer’s TIN (no dashes), non filed tax years, and total IRP income in the e-mail text.

Close the case on ICS using “Exam Referral.”

Del Ret with Indicators

A Del Ret with little or no IRP income can be referred to Examination if

- there are other indicators, such as bank statements, expensive home or lifestyle, or sham trusts clearly demonstrating total income meeting the high income criterion in one of the last five unfiled years, and
- the case does not include indicators of fraud.

Send Form 3449, with substantiating documentation, by regular mail to: IRS – Brookhaven Campus Classification, Stop 634, Team 302, 1040 Waverly Avenue, Holtsville, NY 11742.

Continued on next page

Exhibit 1 — *Navigating the World of IMF SFRs*, Continued

SFR Reconsideration — At initial case analysis, review TXMOD for Exam ATAT project codes on all SFR balance due tax periods. They are listed adjacent to transaction code (TC 420). A list of codes are found on the ATAT website:

<http://mysbse.web.irs.gov/AboutSBSE/Exam/at/ExamAids/19335.aspx>

If these codes are found then refer to IRM 5.20.11.3 for specific instructions.

SFR reconsiderations are worked in Brookhaven. Secure the return from the taxpayer and verify that

- the return was signed,
- all schedules are attached,
- all SSNs are listed, and
- all IRP income is declared on the return.

Send the return and Form 3870 by

- secure e-mail to “*SBSE ASFR-RECONS”, or
- fax to 631-447-4017, or
- regular mail to “IRS – ASFR Operation Stop 654
1040 Waverly Avenue
Holtsville, NY 11742-9013”

Audit Reconsiderations

For an audit reconsideration, the taxpayer must have either

- been absent at the original audit, or
- now has significant documentation that was not previously available.

Secure the original RAR to determine the issues. Secure documentation only for those issues. Prepare Form 3870 and forward it and any documentation to the appropriate campus.

Module K — Lesson 1 — Exercise

Question 1

Given the following situations, state if the taxpayer's Del Ret case should be referred to Examination, ASFR or Campus Examination function in Memphis.

- a. The taxpayer does not meet high income non-filer requirements. There are no open Bal Dues. IRP information is available.

- b. The taxpayer exceeds the high-income non-filer threshold and is self employed. You have Form 1099 income for the taxpayer.

- c. The taxpayer exceeds the high-income non-filer threshold. IRMF information is available. Assets are available to satisfy the liability. Fraud is not evident. You have located and spoken with the taxpayer.

- d. The taxpayer exceeds the high-income non-filer threshold. You have Bal Dues on the taxpayer for two other years of income tax. You are able to locate the taxpayer, but have not issued a summons.

Question 2

What form is used to process a referral to Examination?

- a. Form 4844
b. Form 3449
c. Form 5604
d. Form 3870

Continued on next page

Module K — Lesson 1 — Exercise, Continued

Question 3

You can use Campus Examination function in Memphis referral procedures if fraud is involved.

True

False

Module K — Answers to Exercises

Lesson 1

Question 1

- a. ASFR
- b. ASFR
- c. ASFR
- d. Campus Examination function in Memphis

Question 2

- b. Form 3449

Question 3

False. You can use Campus Examination function in Memphis referral procedures if fraud is **not** involved.

Referral Report

To a. Examination Division c. Employee Plans Division
 b. Exempt Organization Division d. Service Center Examination Branch

Part A - To be completed by Collection Activity

1. Name and address of taxpayer		Taxpayer Identification Number
2. Trade name and business address if different from Item 1	3. Name and address of employer	
4. Period and class of tax	5. Last period for which return was filed	6. Referral information <input type="checkbox"/> a. Refusal to file or sign return <input type="checkbox"/> b. Underreported tax <input type="checkbox"/> c. Other
7. Additional Information that will assist the receiving office (taxpayer's reason for refusing to file return; basis for determining underreported tax; estimated tax due and basis for computation; etc. Continue on reverse if additional space is needed)		

8. Referring employee's signature	Post of Duty	Telephone number	Employee number	Date
9. Supervisor's signature		Telephone number	Date	

Part B - To be completed by Receiving Office

1. Disposition of Referral <input type="checkbox"/> a. Accepted on classification (no significant tax potential) <input type="checkbox"/> d. Taxpayer not liable for return <input type="checkbox"/> b. Surveyed <input type="checkbox"/> e. No change (re: Referrals concerning underreported tax) <input type="checkbox"/> c. Not deficiency (or credit) \$		
2. Reviewing official's signature	Title	Date

**SB/SE Revenue
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PowerPoint CD

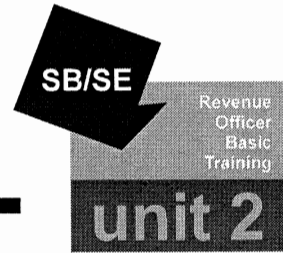
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Lesson 1

Substitute for Return Procedures

IMF Returns

Objectives



- Describe the process for referring stand alone Del Rets to ASFR.

Objectives

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- Describe the process for referring Del Rets in combination cases to Campus Examination function in Memphis.

Objectives

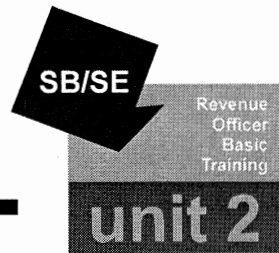
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- Describe the process for referring Del Rets to Examination using Form 3449, *Referral Report*.

ASFR Procedures



- **The Del Ret is in Status 03**
- **No unresolved Bal Dues**
- **IRP exists for the module**

ASFR Procedures

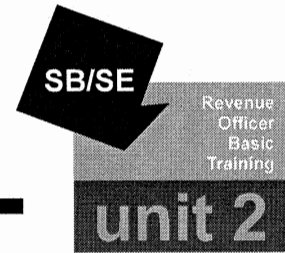
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- **Less than 60 IRP documents**
- **No current or pending TC 530s**

ASFR Procedures



- **No select code indicating IRS employee or CI**
- **No -V, -W, -L, -Z, or Z-freezes on the module or account**

Campus Examination Function in Memphis Referrals

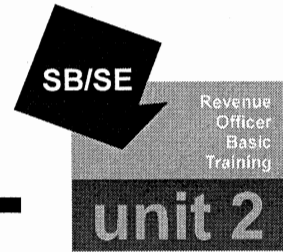
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- **Ineligible for ASFR referral**
- **More than 60 IRP documents**
- **A Combo Case (Del Ret with open Bal Due module)**
- **Modules in STAT 53 or 60**

Campus Examination Function in Memphis Referrals



- **SRFMI data**
- **International TP**
- **Must result in a Bal Due**
- **Must have IRP posted for delinquent year**

Referrals to Examination

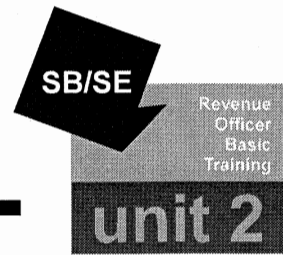
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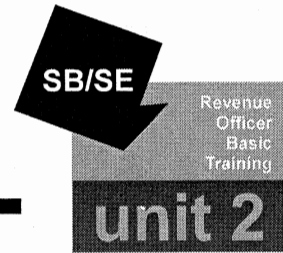
- **insufficient or no IRP income**
- **meets high income criteria at least one of the last 5 unfiled years**

Referrals to Examination



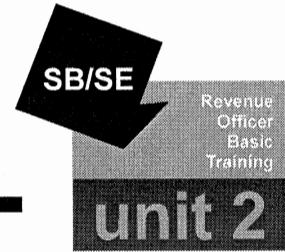
- **majority of income from non-IRP source**
- **TP has high income or substantial assets to collect from**
(Not required to contact or locate)

No Referrals to Examination



- **TP is IRS employee**
- **TP is not a high income non-filer**
- **case qualifies for ASFR or Exam in Memphis**

No Referrals to Examination



- unable to locate TP or representative
- meets provisions of Policy Statement 5-133

Policy Statement 5-133

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- **no tax due**
- **minimal tax due**
- **cost to secure returns**

Policy Statement Examples



- defunct corporation
- deceased taxpayers
- incarceration

Policy Statement Examples



- **minimal assets and consideration for**
 - Age,
 - Illness, or
 - Other debilitation

Policy Statement Not Used

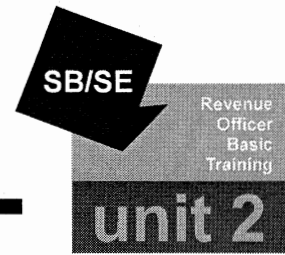
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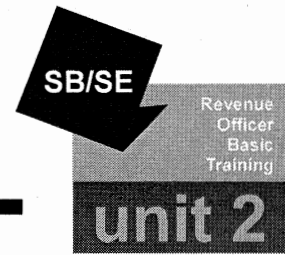
- **Nontaxable returns**
- **Partnership returns**
- **IRS employee returns**

Referral Considerations



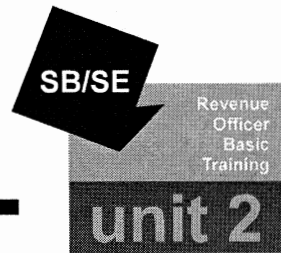
- **Compliance history**
- **Costs to secure return**
- **Able to locate taxpayer or assets**
- **Able to locate representative**

Referral Considerations



- **Able to refer to ASFR or Exam in Memphis**
- **Income from non-IRP source**
- **Met IRM income criteria at least one of the last 5 unfiled years**

Fraudulent Failure to File Penalty



- **Exam authority**
- **Revenue officer recommendation**
- **Civil vs. criminal**