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NATIONAL CONFERENCE

NATIONAL TAX PRACTICE INSTITUTE™

LEVEL 1

Non-Filers

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NONFILERS

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Course Objectives

At the completion of this class students will have an understanding of:

- Non-filer issues
- Steps to take to protect the non-filer client
- The assessment of substitute for returns

Nonfilers

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1. FILING VS. NONFILING

§1:1 Timing

A tax practitioner is frequently confronted with the following question when giving a client a return with a balance due on it: "Should I file the return right now, or wait until I have the money to pay it?"

The answer is simple. File it as soon as possible! If your client has any money at all available for payment, it should be enclosed with the return. The reason for such advice is that one of the largest penalty rates which the IRS may impose is for late filing of a return. The penalty is five percent per month, up to a maximum, of 25%, of the tax due but unpaid by the due date of the return, which works out to be an annualized rate of 60%. Therefore, if your client fails to file the return on time there is an effective annual rate of interest over 75% when you add interest and late payment penalty. The late payment penalty after notice is one percent per month, or an effective rate of 12% per year besides statutory interest. One¹ drawback of filing a timely return without remittance is that the IRS will arrive at the taxpayer's door to collect the liability much sooner than if he or she files a return late. However, the additional cost for penalties incurred to gain this time is prohibitive.

§1:2 Partial payments

Even if the late return shows a small refund send a small payment with each return, and the cancelled check will serve as proof of filing. Subsequent to filing a return without full payment, a taxpayer can remit partial payments on account. Such partial payments may prove valuable in future negotiations with the IRS regarding payment of the remaining balance. Many Revenue Officers will view these payments as an indication of the taxpayer's good faith. These payments will also reduce the unpaid balance upon which interest and penalties are accruing. Your client should assure he or she also pays all currently accruing taxes.

§1:3 Small dollar payment plans

A taxpayer may secure a 72-month payment plan for 1040 liabilities of less than \$50,000. The IRS will grant a payment plan to individual taxpayers who owe less than \$50,000. The taxpayer should respond to the IRS on the first notice by writing to the Compliance Center requesting 72 months to pay the tax liability. Your request for a payment arrangement on small dollar accounts could also be made by transmitting the new IRS Form 9465 for balances less than \$25,000 and Form 9465FS for balances over \$25,000 and less than \$50,000 in response to a notice or accompanying an original return.

§1:4 Potential criminal penalties

An additional consideration in advising your client to file returns, -even if he or she does not have the money to pay the balance of taxes due, is" there are potential criminal penalties for failure to file a tax return. Therefore, if your-client should fail to file a return, and if the Internal Revenue

Service should decide that such action constituted willful failure to file, your-client might be required to defend against a federal criminal charge.

The chances of prosecution for nonfiling are small, but certain groups are targeted by the IRS. Politicians, tax protesters, drug dealers, organized crime figures and high income professionals are prime targets for IRS prosecution. The IRS uses prosecution for its deterrent effect on the general public, and these groups get larger headlines than the average guy on the street Congress has allocated additional funds to the IRS to pursue drug dealers.

Nonfilers Criminal Enforcement

	2012	2011	2010
Investigations Initiated	320	365	401
Prosecution Recommendations	225	246	292
Indictments/Informations	240	266	230
Sentenced	217	231	247
Incarceration Rate*	89.4%	83.5%	78.9%
Average Months to Serve	45	33	43

§1:5 IRS preparation of returns

If a client has not filed, the IRS has authority to prepare a return on his or her behalf. [I.R.C. § 6020(b)] Obviously, the IRS will estimate the tax to its benefit, not that of the taxpayer. Regarding employment taxes, the assessment can later be abated if the taxpayer files returns. However, the author has found that the IRS does not readily abate 1040 liabilities prepared on the taxpayer's behalf.

§1:6 IRS preparation of 1040s by computer

The IRS prepares 1040s for nonfilers by inputting information returns into its computers and generating a liability. The IRS prepares, a dummy return based upon all information returns which the IRS has received from third parties. The taxpayer is not given credit for expenses, deductions, or other tax benefits. This procedure has resulted in many grossly erroneous assessments. Some are based upon information returns which contain erroneous taxpayer ID numbers. Since the IRS 'database contains many errors, on many occasions, notices of proposed assessments 'are mailed to incorrect addresses. The author has found that the Problem Resolution Program has been an effective way to resolve the incorrect assessments generated by this process.

2. NONFILER PROGRAM

§2:1 In general

The IRS has a nonfiler inventory of 6.8 million taxpayers, of which 1.6 million were selected for potential contact in fiscal 2004. The IRS focused on a questionable Form W-4 program as a first step in establishing higher levels of voluntary compliance with the filing requirements. One way for taxpayers to avoid filing is by inflating the number of dependents for withholding on the Form -W-4. Although the number of questionable Forms W4 .reviewed in recent years has

decreased, the IRS believes that reviewing additional W4s were improve filing and payment compliance across the W&l population. W&l would also devote more staff to the automated substitute for return (ASFR) program, which allows the IRS to create a return for a potential nonfiler so collection action on a possible tax debt can begin. With increased ASFR efforts, the IRS hopes to reduce the inventory of nonfilers.

On September 22, 2008, the Treasury Inspector General for Tax Administration (TIGTA) issued a report regarding an audit regarding the IRS's nonfiler compliance program. The report concluded that the IRS program to oversee all efforts taken to plan, control and improve efficiency in identifying and working nonfiler cases requires additional improvements. TIGTA commended IRS for many of its efforts in developing the program, which is the Service-wide Nonfiler Strategy. Nevertheless, TIGTA acknowledge that additional steps' are needed to fully implement the program as Scheduled. For example, outcome and performance measures were not yet approved and ^ adopted. There was no system to properly track and monitor cases that are worked as part of program initiatives.-As described in the audit,-individual nonfilers are taxpayers legally required to file, for whom returns have not been filed by the due dates or extended due dates of the returns.. Business nonfilers are entities that have filing requirements, for which returns have not been received by the due dates or extended due dates of the returns, and are usually 90 days past due.

3. COMPUTER PROGRAM FOR NONFILER DISCOVERY

§ 3.1 In general

Most investigations of nonfiling are initiated- because of computer matches. The IRS uses both a "Stopfiler Program" and a "Non-filer Program" to discover return delinquencies. If a taxpayer has filed tax returns in the past and then a return is not filed with the IRS for the next tax period, that taxpayer is identified as a "stopfiler" by the IRS. If information documents such as W-2s and 1099s are received by the IRS which cannot be matched with a return, that taxpayer is identified as a "nonfiler."

§ 3.2 Time of delinquency checks

Normally the IRS will initiate a delinquency check about 15 months after a 1040 is due from a nonfiler or nine months after the due date for stopfilers. For business taxes, such as 941 returns, a delinquency check is begun eight to nine weeks after the due date, of the return.

§ 3.3 Information resources

If a taxpayer retains a tax practitioner for preparation of delinquent returns, the practitioner may request information return data from the Internal Revenue Service. W-2 and 1099 information are stored in the IRS computer system in a database known as the "Information Returns Program" (IRP). Upon request by a tax practitioner with a valid power of attorney, the Internal Revenue Service will provide all of its IRP data to allow preparing a more accurate delinquent return. Therefore, if your client has lost some of her records, the IRP program will allow you to develop a more accurate return.

4. DELINQUENCY CHECK PROGRAMS

§ 4.1 Compliance initiative proposal (CIP)

Effective March 12, 1997, activities previously known as Returns Compliance Programs (RCP), Information Gathering Projects (IGP), FedState projects and Compliance 2000 initiatives were consolidated into the Compliance Initiative Proposal (CIP). The preparation, review and approval process of the CIP package is in Compliance Initiative Proposal (CIP) issued as an IRM Handbook. [IRM 5.1.11.8]

§ 4.2 Compliance initiative projects (CIP)

Compliance Initiative Project-procedures ensure conformance with Service policies and procedures regarding privacy/security and disclosure. CIPs are "characterized by the use of internal or external data to identify, quantify, evaluate and correct areas of noncompliance. They usually involve a study or other analysis of a group of individuals such as those within an occupation, industry, geographic area or specific economic activity or event. CIPs may be multifunctional in their approach Fed-State and Fed-Fed activities already covered by the implementing agreement or other authority, Return Preparer Program, Criminal Investigation and routine business operations are exempt for CIP requirements. Routine business operations include:

- (1) ordering, classifying and storing returns;
- (2) filing and verifying information; and
- (3) extending examinations to related taxpayers.

§ 4.3 Other sources

Other source workload included in this material for which CIPs are not required are Collection referrals, Criminal Investigation referrals, EP/EO referrals, Information Reports and Return Preparers Detailed information will be in the Compliance Initiative Projects Handbook,

§ 4.4 Midwest automated compliance system—MACS

MACS is an automated compliance tool that provides the capability to profile a population, identify market segments and identify issues during screening. MACS contains Return Transaction File data and certain Master File information for three years for all taxpayers who filed within a district or service/customer service center area (IMF, 1120, 1120S, 1065 and 1041 only). MACS has stringent operating restrictions to ensure the securing of the data and that taxpayer privacy is not compromised. MACS may be used for information on specific taxpayers even if only a partial name or address is known. This includes a return facsimile in either a one-year or three-year comparative format and a Cash-T analysis! This information may be used for case building or return selection decisions. A MACS facsimile may be used in lieu of the original tax return. MACS may identify potential noncompliance within a market segment and to select a sample of returns to test the level of noncompliance. [IRM 4.1.4.3.13]

The Internal Revenue Service (IRS) is contemplating the replacement of the antiquated Midwest Automated Compliance System (MACS), a system mentioned as part of the Compliance Programs and Projects Files Notice (Treasury/IRS 42.021), with a more cost-effective and technologically current system, the Compliance Data Environment (CDE). The CDE will

functionally replace the MAGS and will not expand the categories of individuals or records covered by the system, nor increase the numbers of individuals or offices having access to the records. As with the MACS the CDE will provide a centralized, open architecture information system with tax return-data and other related information that IRS employees who must analyze and deliver tax returns for examination may use for such, purposes. The secure repository will allow authorized users to access the data from their IRS networked workstation.

§ 4.5 FedState initiative procedures

The IRS is engaged in extensive information sharing with state tax authorities which allows it to more effectively discover nonfilers and other tax omissions. The IRS Fed/State Program saves government resources by partnering with **state government agencies** to enhance voluntary compliance with tax laws. This includes facilitating the exchange of taxpayer data, leveraging resources, and providing assistance to taxpayers to improve compliance and communications.

The IRS also assists state agencies by identifying and reporting information on emerging tax administration issues. This is accomplished through the IRS entering into agreements to share information with the state agencies. To ensure the privacy of all taxpayer data, the Disclosure program provides oversight and education to all employees and external partners to ensure the protection of taxpayer confidentiality rights regarding Fed/State exchanges. There are over 900 joint efforts underway. Examples include sharing examination reports, abusive scheme data, and licensing verification.

Federal tax returns and return information. "Tax returns" include Form 1040, U.S. Individual Income Tax Return, and other income tax and information returns, such as Form 941, Employer's Quarterly Federal Tax Return; Form 730, Tax on Wagering; Form 1120, U.S. Corporation Income Tax Return; various Forms 1099, U.S. Information Returns; and Form W-2, Wage and Tax Statement. The states share similar return information with the IRS. Since states have extensive information on business revenue on sales tax returns info is a valuable resource for discovering nonfiling and underreporting.

"Return information" includes everything else that has anything to do with a person's potential tax liability. Examples are any information extracted from a return like names of dependents, business location, or bank account information; the taxpayer's name, mailing address, or identification number; information on whether a return has been or will be examined or subject to any other investigation; information on transcripts of accounts or on IRS computer systems; the fact of filing a return; and whether a taxpayer HAS a balance due account.

§ 4.7 Matcher program

The Matcher program compares TIN's in an external file with those on the MACS database. Its primary purpose is to identify nonfilers. To run the Matcher Program a research request must be approved. The system administrator is the only person authorized to operate the Matcher program. Detailed instructions for the Matcher Program are in the MACS System Guide. [IRM 4.3.6.4]

5. INVESTIGATION OF NONFILERS

§ 5.1 In general

Normally the IRS will attempt to secure returns from nonfilers and stopfilers by sending notices from the Service Center requesting that returns be filed. If the taxpayer fails to file in response to computerized notices, the IRS may follow up in several ways. It may prepare tax returns for the taxpayer based upon information documents, attempt to contact the taxpayer by telephone, or assign the matter for field investigation. If the IRS determines a telephone call is warranted, it will assign the matter to the Automated Collection System (ACS). The taxpayer will be called and asked to file the return. The IRS might also call neighbors, employers and others to gather information, on the potential tax liability. Having secured this information, the IRS might then prepare a tax return on the taxpayer's behalf, if it is not filed voluntarily by the taxpayer. These returns are called Substitute for Returns (SFRs).

§ 5.2 IRS computer notices

The Internal Revenue Service will normally, issue, at least, four computer notices prior to investigating nonfiling with a personal visit or a personal phone call. These, notices are issued over a period of 26 weeks. For business taxes, the Internal Revenue Service will normally issue at least three notices spaced over a period of 22 weeks.

§ 5.3 Substitute for returns

The Automated Substitute for Return (ASFR) process prepares a Substitute for Return for individuals who fail to file after notification. ASFR uses Information Return Program (IRP) information posted to the Information Returns Master-file (IRMF), to calculate potential tax due and issue a Notice of Deficiency. If no return is secured 90 to 120 days after the Notice of Deficiency is issued, ASFR assesses the tax due based on the calculation.

◆ Note: If the taxpayer is overseas then the Service cannot assess until after 150 days.

ASFR may prepare an individual's income tax return under Section 6020(b) of the IRC and the regulations. The automated process is on the campuses. IRM 5.1.11.6.3.1

§ 5.4 Taxpayer Advocates 2011 Report

The NTA listed nonfilers SFR issues as her #6 biggest problem in the tax system for 2011.

“6. Automated “Enforcement Assessments” Gone Wild: IRS Efforts to Address the Non-Filer Population Have Produced Questionable Business Results for the IRS, While Creating Serious Burden for Many Taxpayers

Problem

The IRS’s wholesale use of automated “enforcement assessments,” i.e., the Automated Substitute for Return (ASFR) program, has increased dramatically over the past decade, placing considerable drain on IRS Collection resources, with questionable benefits for revenue collection and compliance. Yet, IRS data indicate that most of these assessments are abated or reported as uncollectible.

- a. By fiscal year (FY) 2011, the number of returns generated by the ASFR increased by 896 percent of the number assessed in FY 2002.
- b. As of March 2011, ASFR assessments accounted for 43 percent of the IRS's potentially collectible accounts receivable.
- c. In FY 2011, the IRS abated approximately 2.4 times as many ASFR TDA dollars as it collected (including refund offsets), and reported as CNC approximately four times the amount collected.
- d. From FY 2006 through FY 2011, IRS data indicate that less than ten percent of the TDA dollars established through the ASFR process has been collected.

The high volume of ASFR assessments clogs the collection process with unproductive work and artificially inflates the volume of IRS accounts receivable. It also wastes resources that the IRS could otherwise invest in cases that may be more collectible and tax assessments that are significantly more valid.

Recommendations

To improve service, reduce burden, and increase the overall effectiveness of the ASFR program, the National Taxpayer Advocate recommends that the IRS place much greater emphasis on IRS-initiated personal contacts and address verification before making assessments; expedite implementing the revised ASFR “90-day” letter; develop and implement a more realistic ASFR case-selection process; and improve the timeliness and quality of ASFR audit reconsiderations.

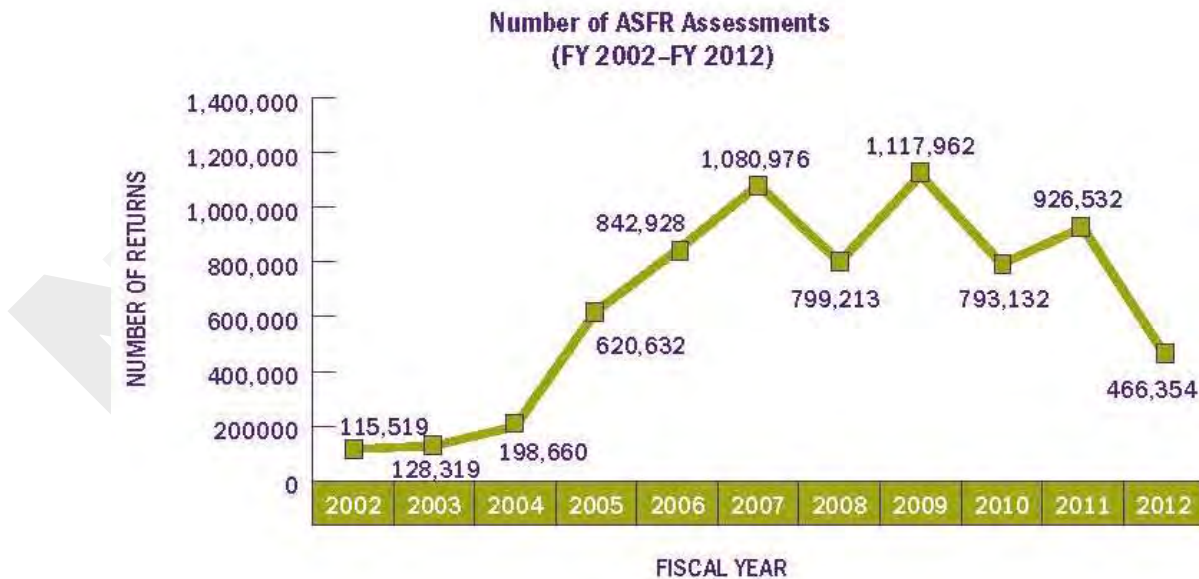
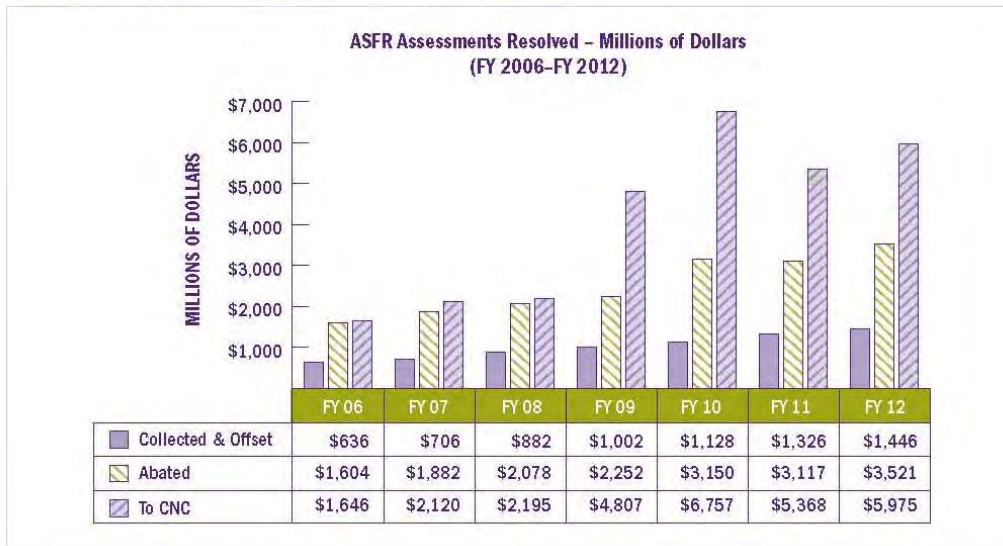


FIGURE 1.S3.2, ASFR Program Results (FY 2006–FY 2012)



§ 5.5 ASFR Assessments Decreased Dramatically in FY 2012.

In FY 2012, the IRS made 466,354 ASFR assessments, compared to 926,532 in FY 2011, 12 which represents a 50 percent decrease.¹³ Correspondingly, the ASFR dollars assessed in FY 2012 decreased at a similar rate. The IRS made approximately \$6.7 billion in ASFR assessments in FY 2012, down 54 percent from \$14.4 billion in FY 2011.¹⁴

§ 5.6 Possible Reasons for the Decrease in ASFR Assessments.

Clearly, the IRS made significant adjustments to the ASFR program in FY 2012. Reductions in ASFR assessments appear to have started in December 2011 and carried forward throughout the year. The IRS has acknowledged some adjustments were resource-driven (*i.e.*, the IRS opened fewer ASFR cases so the available staff could handle the workload in a timely manner). The IRS has initiated a new practice that limits the number of ASFR returns assessed at one time on the same taxpayer. Finally, the IRS no longer initiates an ASFR assessment if the taxpayer already has a balance due for another tax year.

§ 5.7 I.R.C. § 6020(b)

The IRS will prepare certain returns under Section 6020(b) without issuing a deficiency notice to the taxpayer. The following returns may be prepared, signed and assessed under the authority of I.R.C. § 6020(b):

- (1) Form 940, Employer's Annual Federal Unemployment Tax Return;
- (2) Form 941, Employer's Quarterly Federal Tax Return;
- (3) Form 942, Employer's Quarterly Tax Return for Household Employees;
- (4) Form 943, Employer's Annual Tax Return for Agricultural Employees;
- (5) Form 720, Quarterly Federal Excise Tax Return;
- (6) Form 2290, Heavy Vehicle Use Tax Return;

- (7) Form CT-1, Employer's Annual Railroad Retirement Tax Return;
- (8) Form 1065, U.S. Partnership Return of Income.

The following are authorized to execute returns under I.R.C. § 6020(b):

- (1) Revenue officers.
- (2) Automated Collection System (ACS) and Collection Support function (CSf) managers GS-9 and above. [IRM.5.1.11.6.8]

§ 5.8 Taxpayer delinquency investigation

If other methods fail to secure delinquent returns, the Compliance Center will generate a Taxpayer Delinquency Investigation'(TDI). The TDI will be assigned to a Revenue Officer for investigation. A small percentage of TDI's are generated by the Criminal Investigation (CI) and referred to the Collection Division for investigation as the result of informants.

§ 5.9 Taxpayer interview

When the IRS contacts a taxpayer concerning nonfiling, the IRS employee will attempt to secure sufficient information to make a tax determination. Such information might include:

- income amounts
- income sources
- filing status
- gross wages paid
- withholding amounts
- bank accounts

The information will allow the revenue officer to proceed with the next collection action, e.g., I.R.C. § 6020(b), substitute for return (SFR), or summons. [IRM 5.1.10.3.2]

§ 5.10 Nonfiler refunds of overpayments

The Taxpayer Relief Act of 1997 permits taxpayers who fail to file a return and are sent a notice of deficiency during the third year after the return due date to obtain a refund of any overpayment found by the Tax Court paid within the three-year prior period to the notice of deficiency. The Tax Court had previously held in several cases that a nonfiler who received a notice of deficiency could only get a refund within two years of the due date of the return, not three years.

6. CRIMINAL NONFILING

§ 6.1 In general

In any instance where a client has failed to file tax returns, the practitioner should be alert for indications that the IRS has referred the matter for criminal investigation. Unfortunately, we are not normally present at the first interview of our client. Therefore, we must query our client as to the first interview. If the IRS representative had a gold badge, your client may be the subject of a criminal investigation. Special Agents with the Criminal Investigation Division (CID) carry gold badges. Revenue Officers, Tax Examiners and Revenue Agents do not have badges and merely

carry photo ID's. If your client is read his "Miranda" warnings, it is a criminal investigation. If you believe that the IRS has initiated a criminal investigation, secure competent criminal tax counsel for your client immediately!

§ 6.2 Referral by collection division

An investigation of nonfiling by a Revenue Officer, Tax Examiner, or Revenue Agent also has the potential for becoming a criminal matter. All IRS agents may refer matters to the Criminal Investigation Division (CID) when they believe the taxpayer should be prosecuted for nonfiling. Revenue Officers, Tax Examiners, and Revenue Agents do not set a deadline for filing if they intend to refer a matter to the CID.

§ 6.3 Targeted individuals

Certain individuals are more likely to be prosecuted by the IRS. The Internal Revenue Manual (IRM) lists the following criterion for referring matters for criminal investigation;

Nonfiler cases should have sufficient information after the initial screening and case building process for you to determine if the known facts indicate potential fraud. If it appears that fraud may be present,

- (1) Discuss the case with the group manager and if appropriate, the Campus Fraud Coordinator.
- (2) When firm indications of fraud exist, do not contact the nonfiler or solicit the delinquent tax return(s).

Items to consider, when evaluating a potential case:

- (a) History of nonfiling—Multiple nonfiled years providing a pattern of behavior.
- (b) Repeated contacts by the Service—History of contacts by service personnel for failure to file.
- (c) Indications that the nonfiler had knowledge of filing requirements (i.e., professional with an advanced education, person who works directly in the tax field).
- (d) Age of taxpayer.
- (e) Many cash transactions (i.e., purchases by cash, cash deposits as evidenced by CTRs in the case file) .
- (f) Indications of significant unreported income (i.e., substantial interest and dividends earned, investments in IRA accounts, stock and bond transactions, high mortgage interest paid) per Information Return Processing (IRP) or Taxpayer Delinquency Investigation (TDI) documents.
- (g) Nonfiler/Nonfiler frivolous correspondence and
- (h) Frivolous returns. IRM 4.19.171.1.3.

§ 6.4 Taxpayer interview

If the Revenue Officer believes that the taxpayer might be a potential prosecution target the entire approach changes. The Internal Revenue Manual gives specific guidelines for handling matters which may be referred to CI. Revenue Officers are instructed to do the following:

1. If indicators of fraud are evident and with the concurrence of the FRS, the case will be updated to AIMS status code 17. The employee will proceed to fully develop the potential fraud issue(s) with the guidance and recommendations of the group manager and FRS. The following actions should assist the employee in developing firm indications of fraud.
 - A. Interview the taxpayer to determine the reason or the intent of the taxpayer's noncompliance.
 - B. Ask sufficient questions to determine the extent of the delinquency, including the periods and tax due.
 - C. Document verbatim, if possible, the questions asked and the taxpayer's response or lack of response.
 - D. Identify any personal reasons that could affect the taxpayer's ability to comply. If the information is unavailable from the taxpayer, attempt to secure the information from third party sources.
2. Verify income from all available sources. Methods of income verification include, but are not limited to:
 - A. CBRS data;
 - B. IDRS (cc: INOLE, IROLE, SUPOL, IRPTR, IRPOL);
 - C. Securing copies of W-2's, 1099's from employers;
 - D. Securing copies of checks issued to taxpayer from 1099 issuer;
 - E. Examining taxpayer's books and records of income and expenses;
 - F. Reviewing the last return filed. This will assist identifying income sources and deductions and exemptions used in tax computations;
 - G. Securing current financial information including checking public records for assets and a physical observation of the taxpayer's residence, place of business or both. This information will be used to determine whether the taxpayer is prospering and has the ability to pay the taxes, or not complying due to an inability to pay taxes.
3. Access to a full credit report is governed by the Fair Credit Reporting Act (Act). Besides releasing credit reports based on five "permissible" purposes, the Act also provides for the release of credit reports in response to court order or under the consumer's: written instructions. The Federal Trade Commission also interprets that consumer reporting agencies may also release full credit reports in compliance with a summons issued under I.R.C. § 7609. Where a taxing authority creditor such as the Service has tried to reduce the taxpayer's (consumer's) liability to judgment, imposed a lien on the taxpayer's property or entered into an offer-in-compromise or settlement agreement to dispose of the liability, a credit relationship exists as contemplated by the Act. Under those circumstances, the Service may obtain a full credit report of a sole proprietor, partner or fiduciary without a court order, summons or written permission. If subsequent to receipt of a full credit report for a BAL DUE investigation, fraud is discovered for a DEL RET return or a previously filed return or unreported income is discovered, a summons must be issued under 7609 for another credit report. Finally, to use a full credit report as a basis for a referral to CI, a summons must be issued under 7609, because of the third

party record keeper notice requirement The Service, however, may not obtain a full credit report of a sole proprietor, partner or fiduciary without a summons where there is no lien against the individual taxpayer. [IRM 25.1.7.4]

§ 6.5 Preparing referral

When a Collection employee determines a referral to CID is appropriate, the IRS Manual provides the following procedural guidance:

1. Procedures for developing fraud referrals and preparing Form 2797, Referral Report of Potential Criminal Fraud Cases, are in the Fraud Handbook, IRM 25.1.
2. Procedures for processing a fraud referral to Criminal Investigation (CI) are as follows:
 - A. If the revenue officer suspects fraud, he/she will discuss the issues with the group manager;
 - B. If the group manager concurs, a conference will be held with the group manager, the revenue officer and the Fraud Referral Specialist (FRS);
 - C. With the concurrence of the FRS and the group manager, the revenue officer will input ICS Sub Code 910 to the taxpayer case. Sub Code 910 will remain intact until the group manager and the FRS concur on its removal;
 - D. The revenue officer will fully develop the fraud referral with advice and guidance from the FRS and group manager;
 - E. If firm indications of fraud are determined, the revenue officer will prepare Form 2797. The fraud referral should be a detailed, factual presentation of the taxpayer's affirmative acts of fraud and the evidence supporting those affirmative acts and the taxpayer's willful intent;
 - F. Form 2797 should be submitted to the group manager and FRS for approval;
 - G. After approval the FRS will submit the Form 2797 to the CI Lead Development Center (LDC);
 - H. The CI LDC will process Form 2797 and promptly forward it to the appropriate CI Supervisory Special Agent (SSA);
 - I. Within 10 workdays of receipt of the Form 2797, the CI SSA will hold a five-way conference with the Collection group manager, revenue officer, the FRS, and the CI Special Agent. The conference evaluates the fraud referral;
 - J. CI has 30 days to evaluate the fraud referral and to make a determination to accept it or decline it. A request for an extension of time would require the approval of the Special Agent in Charge (SAC). A second five-way meeting will be held to discuss

the final determination of the case.

3. Once CI has accepted the fraud referral, CI will input TC 914, Active Criminal Investigation assignment. The TC 914 will close the module(s), however the revenue officer must do :
 - A. For IMF cases, go to the ICS Del. Ret. Module Summary screen, press the <F6> key, and then select Option "F," CI Referral (IMF only). This will close the Del. Ret. module as an acceptance to CI.
 - B. For BMF cases, once the TC 914 posts- to IDRS, the revenue officer will receive a notification that the case is closed. [IRM 5.1.11.6.2.1]

EXHIBITS

1.2.14.1.18 (Approved 08-04-2006)

Policy Statement 5-133

Delinquent returns—enforcement of filing requirements

- 1 Taxpayers failing to file tax returns due will be requested to prepare and file all such returns except in instances where there is an indication that the taxpayer's failure to file the required return or returns was willful or if there is any other indication of fraud. All delinquent returns submitted by a taxpayer, whether upon his/her own initiative or at the request of a Service representative, will be accepted. However, if indications of willfulness or fraud exist, the special procedures for handling such returns must be followed
- 2 Where it is determined that required returns have not been filed, the extent to which compliance for prior years will be enforced will be determined by reference to factors ensuring compliance and evenhanded administration of staffing and other Service resources.
- 3 Factors to be taken into account include, but are not limited to: prior history of noncompliance, existence of income from illegal sources, effect upon voluntary compliance, anticipated revenue, and collectibility, in relation to the time and effort required to determine tax due. Consideration will also be given any special circumstances existing in the case of a particular taxpayer, class of taxpayer, or industry, or which may be peculiar to the class of tax involved.
- 4 Normally, application of the above criteria will result in enforcement of delinquency procedures for not more than six (6) years. Enforcement beyond such period will not be undertaken without prior managerial approval. Also, if delinquency procedures are not to be enforced for the full six year period of delinquency, prior managerial approval must be secured.

APPENDIX 1A

Returns Compliance Record

Returns Compliance Record		1. Secured Return code	2. Case assignment code		
3. Name and latest address of taxpayer John Neverfiles 1 Delinquency Lane Rust Belt, IL 60000		26	3601-0000		
		4. Temporary TIN 999-93-9393	5. Valid TIN 911-11-1313		
		6. Program name Truck Drivers			
		7. Date issued 7-11-88	8. Date closed 12-7-88		
		9. Closed by (check one) <input type="checkbox"/> SC <input type="checkbox"/> COF <input type="checkbox"/> RR <input checked="" type="checkbox"/> RO			
10. Full Compliance Checklist (Check each type of tax verified)					
a. Income		b. Employment			
<input checked="" type="checkbox"/> Form 1040	<input type="checkbox"/> Form 1120	<input type="checkbox"/> Form 940	<input type="checkbox"/> Form 943		
<input type="checkbox"/> Form 1041	<input type="checkbox"/> Form 1120S	<input type="checkbox"/> Form 941	<input type="checkbox"/> Form W-3/W-2		
<input type="checkbox"/> Form 1065	<input type="checkbox"/> Other _____	<input type="checkbox"/> Form 942	<input type="checkbox"/> Other _____		
		c. Excise and Other			
		<input type="checkbox"/> Form 706	<input type="checkbox"/> Form 4638		
		<input type="checkbox"/> Form 720	<input type="checkbox"/> Form 1096/1099		
		<input checked="" type="checkbox"/> Form 2290	<input type="checkbox"/> Other _____		
11. Results of Investigation or Other Disposition (Check only one block)					
<input checked="" type="checkbox"/> a. Returns secured (List below)		<input type="checkbox"/> e. Not liable this period			
<input type="checkbox"/> b. All required returns previously filed—timely		(Form _____; Period _____)			
<input type="checkbox"/> c. Returns previously filed—result of program		<input type="checkbox"/> f. Unable to locate			
<input type="checkbox"/> d. No longer liable for any tax		<input type="checkbox"/> g. Referred to Examination			
		<input type="checkbox"/> h. Referred to Criminal Investigation			
		<input type="checkbox"/> i. Surveyed			
		<input type="checkbox"/> j. Shelved			
		<input type="checkbox"/> k. Program discontinued			
12. Returns Secured (Attach separate sheet, if necessary)	Form Number	Period(s)	Number of Returns	Assessible Tax Due (incl. penalty & interest)	Amount Collected
	a. 2290	8807	1	\$788.22	0
	b. 1040	1984, 1985, 1986, 1987	4	\$41,278.22	0
	c.				

Form 5488 (Rev. 8-82) Use prior issue first Part 1 Department of the Treasury — Internal Revenue Service

Instructions for Preparing and Completing Form 5488

- Item 1: Self-explanatory.
- Item 2: Use guidelines in IRM 5183.
- Items 3–6: Self-explanatory.
- Item 7: Enter the date the lead is taken into active inventory.
- Item 8: Enter the date the lead is closed or otherwise removed from active inventory.
- Items 9 and 10: Self-explanatory.
- Item 11: Check the block which refers to the program named in Item 6.
- Note: Blocks i, j, and k are not closures. Deduct these dispositions from receipts.
- Item 12: Enter the specified information for all returns secured. Assessible tax due is the gross tax, less credits, plus penalties and interest.

Returns Compliance Program Secured Return Codes (SRC)

- | | | |
|---------------------|--------------------------------------|----------------------------------|
| 10 — Canvass | 18 — FUTA State Certification | 26 — Tax protesters |
| 11 — Diesel fuel | 19 — Wagering | 27 — Self-employed professionals |
| 12 — Airway use tax | 20 — Migrant crew leaders | 28 — Reserved |
| 13 — Reverse lead | 21 — Reserved | 29 — Other |
| 14 — Reserved | 22 — Child Care/Form 942 | |
| 15 — Reserved | 23 — Agricultural Labor/Form 943 | |
| 16 — HUT | 24 — Imported rubber tires and tubes | |
| 17 — HUT (local) | 25 — Reserved | |

Form 5488 (Rev. 8-82)

APPENDIX 1B

Taxpayer Delinquency Investigations

5.

Taxpayer Delinquency Investigations

TDIs will be issued from the TDI Notice File on a weekly basis. Routine cases will receive one or two notices before a TDI is issued, unless the account history justifies the immediate issuance of the TDI.

- (1) Individual Master File Delinquency Checks — IMF delinquency and the Under-reporter programs are produced semi-annually from the Reconciliation of the Request of Notice or TDI Information Returns Program (IRP).
- (2) Business Master File Delinquency Checks — The Business Master File is checked periodically for non-filing of tax returns.
- (3) Non-Master File — NMF delinquency data produced periodically is added to the TDI Notice File as a manual delinquency check is performed.
- (4) Employee Plans Master File (EPMF) — Delinquencies will be identified by monthly analysis. Delinquent return modules for one or more plans under the same employer entity will be processed by IDRS. IDRS will record the fact of Notice and TDI issuance. No provision is made for issuance of status reports.

6.

Primary and Secondary TDI Codes

	Explanation	Comment
B	Indicates the delinquency met the criteria for the XXXXXXXXXXXXXXXXXXXX	The "B" code shows that only one notice will be issued.
E	A TC 148 with Entity Indicator 4 has been input to identify a W-4 Civil Penalty Case.	The "E" coded cases will have the fourth notice issued three weeks after the first notice is issued followed by a TDI four weeks later.
F	Reissued delinquency check on all suppressed delinquent return periods.	The "F" coded cases are for all types of tax within jurisdiction of aspecific DO or for a specific type of tax for the entire MF.
H*	Indicates notice routine was interrupted or the TDI was accelerated by a reversal or expiration of a TC 474 (with DC 77).	Prompt TP contact should be made on these cases because they usually indicate that TP has not supplied necessary information or the TDI was deliberately accelerated.
XXXXXX	XXXXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXXXX
J*	There is a module in the account in status 22 with an unreversed TC 530 present.	The "J" code indicates there is at least one account reported as currently not collectible and Form 53 should be available for reference.
L	A TC 148 with Entity Indicator 9 has been input to identify a Letter 903 (DO) case.	The "L" coded cases will have the fourth notice issued three weeks after the first notice is issued followed by a TDI six weeks later.

Selection Code	Title of Selection Code	Criteria for Selection Code
10	Repeat Nonfilers	Nonfilers who were selected for a TDI notice in the prior tax year (2000). They are under age 65, and their current year net tax due per IRP in come is XXXXX or more.
+12	Federal Employees/Retirees	Federal employees or retirees with an ASFR balance due of XXXXX or more. (Federal employee indicator "F" is on case major.) All cases with a Deceased Indicator = 1 are excluded from this selection code.
07	Offer in Compromise	Nonfilers with an accepted offer in compromise (OIC). OIC indicator "O" is on case major.
48	Age 65 Minimal Income	Nonfilers who are 65 or older, have stock sales of XXXXX or less but greater than XXXXX and total IRP income (excluding stock sales) is XXXXX or less but greater than XXXXX.
49	Reduce Unnecessary Filings	Nonfilers who received a RUF notice for the prior tax year. The RUF indicator is present.
+13	High Assessment ASFR	Nonfilers whose ASFR balance due is XXXXX or more. All cases with a Deceased Indicator = 1 are excluded from this selection code.
+14	Low Assessment ASFR	Nonfilers whose ASFR balance due is at least XXXXX but less than XXXXX. All cases with a Deceased Indicator = 1 are excluded from this selection code.
15	Low ASFR Potential	Nonfilers whose ASFR balance due is at least XXXXX but less than XXXXX. All cases with a Deceased Indicator = 1 are excluded from this selection code.
16	Installment Agreement	Nonfilers who have an open TDA indicator and a TDA(s) in installment agreement status.
05	Schedule D Stopfilers	Stopfilers who filed their prior year return with a Schedule D (Capital Gains and Losses) and the total positive income for the return was XXXXX or more. Taxpayer must have current year stock sales income per IRP greater than XXXXX.
31	High Total Positive Income (TPI) Stopfilers	Stopfilers whose total positive income per the prior year return was XXXXX or more. Current year IRP income must be XXXXX or more.
46	Passport	Nonfilers with a passport indicator and a potential tax assessment of XXXXX or more.
35	Hardship	Nonfilers with prior year currently not collectible module(s) (closing codes 24 through 32). Current year total IRP income is XXXXX or more with a net tax due of XXXXX or more.
23	Balance Due	Nonfilers with any type of income with a net tax due greater than XXXXX.
24	No Balance Due	Nonfilers with any type of income with a net tax due less than or equal to XXXXX.

+ Cases processed by the Automated Substitute for Return (ASFR) program.

__ Indicates a modified or new selection code.

NOTE: Selection Code 15 (Low ASFR Potential) is not eligible for ASFR processing at this time.

SB/SE Tax Year 2001 Selection Codes - (In descending order of priority)

Selection Code	Title of Selection Code	Criteria for Selection Code
XXXXXX	XXXXXX	XXXXXXXXXXXXXXXXXXXXXX
92	IRS Employees	Current IRS employees, including temporary, part time and seasonal employees not on active duty status. IRP documents may not be present.
XXXXXX	XXXXXX	XXXXXXXXXXXXXXXXXXXXXX
93	Federal Employee/Retirees	Federal employee or retiree with ASFR balance due of XXXXX or more.
90	OIC Non-Filer	Non-filers with an accepted offer-in-compromise.

Selection Code	Title of Selection Code	Criteria for Selection Code
78	High Income K-1	IRP income of XXXXX or more and one or more Forms K-1 meeting ASFR criteria.
77	High Income ASFR	IRP income of XXXXXX or more meeting ASFR criteria.
88	High NTD K-1	IRP income of XXXXX or more, NTD of XXXXX or more, and one or more Forms K-1 not meeting ASFR criteria.
87	High NTD	IRP income of XXXXX or more and, NTD of XXXXX or more, and no Forms K-1 not meeting ASFR criteria.
86	High Income K-1	IRP income of XXXXX or more, NTD of less than XXXXX and one or more Forms K-1 not meeting ASFR criteria.
85	High Income	IRP income of XXXXX or more, NTD of less than XXXXX and no Forms K-1 not meeting ASFR criteria.
	High ASFR Potential K-1	SFR balance due of XXXXX and one or more Forms K-1.
75	High ASFR Potential	SFR balance due of XXXXX and no Forms K-1.
74	Moderate ASFR Potential K-1	SFR balance due of at least XXXXX but less than XXXXX and one or more Forms K-1.
73	Moderate ASFR Potential	SFR balance due of at least XXXXXX, but less than XXXXXX and no Forms K-1.
72	Low ASFR Potential K-1	SFR balance due of at least XXXXXX but less than XXXXXX and one or more Forms K-1.
71	Low ASFR Potential	SFR balance due of at least XXXXXX but less than XXXXXX and no Forms K-1.
68	NEC K-1	NEC more than XXXXXX of total income, NTD is XXXXXX or more, and one or more Forms K-1.
67	NEC	NEC more than XXXXXX of total income, NTD is XXXXXX or more, and no Forms K-1.
64	K-1	One or more Forms K-1
62	Schedule SE Stop-Filer	SE Tax of XXXXXX or more on prior year return
61	High TPI Stop-Filer	TPI of XXXXXX or more on prior year return
60	Installment Agreement	One or more modules in installment agreement status
58	Expired Extensions	Expired extension of time to file for Tax Year 2001
56	CTR	CRT amount of XXXXXX or more
53	Hardship	CNC module closure and income of XXXXXX or more and NTD of XXXXXX or more

7.

IRP Selection Criteria Codes**Reference IRM 5.19**

The filing requirement for an individual liable for Self-Employment Compensation Act Tax is \$400 or more of net income. Since the current income tax return filing requirement has increased, many individuals who are liable for the SE tax may be inclined to overlook the \$400 filing requirement and believe that they are exempt from the requirement to file. Therefore, the TDI Supplement may be referenced for indications of past payments of SE tax as a basis for interrogating the taxpayer about liability for SE Tax. Certain Selection codes may reflect self employment tax information from the preceding years tax returns.

The following is a list of the Collection Case Selection Criteria Codes. The return delinquency may include IRP documents in addition to those described in the "Criteria for Selection Code" column.

Explanation of TDI Notice Codes

Notice Codes A, I, U, T and D can be input to the TIF with CC TSIGN to be analyzed during TDI analysis. Notice Codes F, V, W and Z (and sometimes A) are generated by TDI analysis. Code C is input with CC TSIGN to generate CASE CODES to the TIF.

TDI Notice Codes Input or Generated

Code	Title	Source	Explanation
A	ACCELERATED	Input or Generated	Input to accelerate account to TDI. Also generated by TDI analysis for certain cases accelerated to TDI by analysis.
I	INSUFFICIENT INFORMATION	Input	Input to delay routine notice or TDI issuance for 4 weeks, then accelerate account to TDI.
U	UNDELIVERED	Input	Input to accelerate account to TDI when a notice was returned undeliverable.
T	DUPLICATE TDI	Input	Input to force a duplicate TDI to be issued—only effective for accounts already in TDI status.
Dnn	DELAY	Input	Input to delay issuance of any notices or TDI for nn (00-15) cycle input with notice code. DO input will cause immediate issuance of next notice or TDI due.
Ca	CASE CODE	Input	Input with an alpha code which will be converted to a 4 character Case Code on the TIF.
Gn	DETERMINED GRADE LEVEL	Input	Input with numeric code to assign a grade level.
F	EXPIRED 474 DELAY	Generated	TDI issued because the number of cycles input with a TC 474 has expired.
R	REGENERATE	Input	Input to regenerate a TDI notice.
V	REVERSAL	Generated	Reversal transaction TC 475 or 592 has caused TDI issuance by reopening a module closed on the TIF.
Z	REVERSAL	Generated	TDI issued because TC 912 or 917 reversed a TC 914 or 916 which had closed a delinquent module on the TIF.
W	"W" CODED TDI	Generated	New TDI issued because TDI modules on previous TDI were closed but account contains at least one delinquent module that no longer meets closure criteria deleted closing transaction.

(1) TDI Indicator Codes

- 0— Not TDI
- 1— Open TDI
- 2— Closed TDI
- 3— Reserved
- 4— TDI Notice 1
- 5— TDI Notice 2
- 6— TDI Notice 3
- 7— TDI Notice 4
- 8— Closed Notice
- 9— Account Consideration in process
- 10— T=Transferred
- 11— X=TDI Issuance Pending
- 12— Y=Resequence Completed

(2) TDI Related Transaction Codes

Entity and tax module transactions are extracted for the Daily Transaction Register (DTR) only if the TDI Indicator is 1 — open during the current cycle. There are three types of TDI related transactions which can appear on the DTR:

- (1) Entity transactions that change the name or address of taxpayer
 - TC 013— Name Change
 - TC 014— Address Change
- (2) Entity transactions that close the entire account:
 - TC 020— Deleted entity
- (3) Transaction codes that close the module (Refer to Sections 8 for detailed description):
 - TC 003— Duplicate tax modules are not resequenced (posts to the entity)
 - TC 011— Change in EIN or SSN (posts to the entity)
 - TC 026— Delete changed EIN or SSN (posts to the entity)
 - TC 150— Return filed
 - TC 460— Extension of Time for Filing
 - TC 590— Not liable this tax period
 - TC 591— No longer liable for tax
 - TC 593— Unable to locate taxpayer
 - TC 594— Return previously filed
 - TC 595— Referred to Examination
XX
 - TC 597— Surveyed
 - TC 598— Shelved
 - TC 599— Return Secured
 - TC 610— Remittance with Return
 - TC 620— Initial Installment Payment 7004/2758
XX
XX
XX
(posts to the entity and freezes all tax modules)
XX

The following transactions will close not only the module to which they post, but also all subsequent modules for the same MFT. They are:

- TC003.
- TC011.
- TC026.
- TC150— Coded F
- TC591— (Closing codes 35, 36, 91 BMF only)
- TC593— (except closing codes 35, 36, 91 BMF only)
- TC595— (closing codes 32, 57, 82)
- TC596— (closing codes 32, 57, 82)
- TC592— Reverses any previously posted 59X

TDI Transaction Codes 590,591, 593, 594, 595, 596, 597, 598 and 599 require a two digit closing code for IDRS input.

(3) TDI Closing Codes

The TC 599 and appropriate closing code must be written on the middle left margin of each tax return secured by Collections. On TDIs, the closing code must be entered in the appropriate transaction box for TC 590, 591 and 593-598.

TDI Closing Codes

Closing Code

Definition	Tran Code	TDI Status 03	CFI SPf	Notice Status 02	TPS	Other
Return Secured						
Taxable (before prepaid credits)	599	44	69*	94	24	
Non-taxable (TC 150-0)	599	46	71	96	24	
Unassessable (Bankruptcy)	599	42	67	92	24	
Return Compliance Program	599	48	73	98	24	
IRC 6020(b) Program Unagreed	599	38	63	38		
SFR Program Unagreed	599	—	—	88		
IRC 6020(b) Program Agreed	599	39	64	39		
SFR Program Agreed	599	—	—	89		
Employee Plans	599	—	—	—		97
Exempt Organization	599	—	—	—		96
ETAP	599	—	—	90		96,97
ETE	599	—	65	—		—
Return Previously Filed						
Return previously filed	594	33	58	83	22	
Filed as spouse on joint return	594	34	59	84	23	
IRC 6020(b) Program	594	38	63	38		
SFR Program	594	—	—	88		
EPMF	594	—	—	—		74,97
No Return Secured						
Subsidiary Corporation filed under parent EIN	590			14		
Not liable for return (BMF-NMF)	590-591	25/20	50	75	20	
Income below FR (IMF)	590	26	51	76	21	
Little or no tax due (P-5-133)	590	27	52	77		
TP due refund	590	28	53	78		
6020(b)	590	38	63	38		
SFR	590	—	—	88		
EPMF	590	—	—	—		97
6020(b)	591	38	63	38		
SFR	591	—	—	88		

App. 1B

REPRESENTATION BEFORE COLLECTION DIVISION

All other cases—no longer liable	591	25	50	75	20	97
All Other Closing Transactions						
IRC 6020(b)	593-598	38	63	38		
SFR	593-598**	—	—	88		
All other cases	593-598	32	57	82		97

* Prior to 1-1-92, closing code 68 Balance due returns secured. Collection action continuing by originator.

** TC 593 prior to FY 1989 only.

Additional Codes for Input by Campus

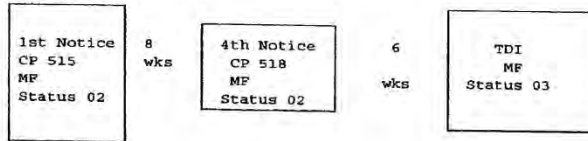
Definition	Closing Codes					
	Transaction Code	TDI Status 03	Cff SPf	Notice Status 02	TPS	Other
Short year tax return	590, 591					01*
Suppressed prior to return due date	590					03*
Alternative FR—not liable this MFT and period	590					04*
Form 11 FR deleted after notice issuance	591					11*
Unprocessable return	599					17
Return in process on or after Program Completion Date	599					18
Suppressed in notice status	590					19
System Generated Codes						
Satisfying TC in an earlier module for the same MFT	591-593					00
Short year tax return	590, 591					01*
Suppressed FOD delinquency	590					02
Generated when an open TDI module contains a dummy 150 and a TC 300	597					02
Suppressed prior to return due date	590					03*
Alternative FR—not liable this MFT and period	590					04*
Return being processed	599					06
FR deleted	591					10
TC 598 posted for 65 cycles	597					12
UNPO return coded "305"	599					13
Systemic closure of non-filer Aged Inventory	597					44
Return in block out of balance prior to delinquency check	590					54
Generated by ICS when a TC 591 or TC 593 closes an earlier module for the same type of tax	591, 593					66
Return in block out of balance after delinquency check	599					99

APPENDIX 1C

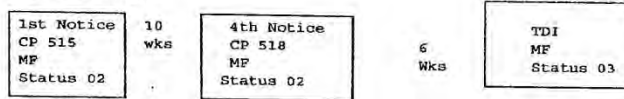
Normal Cycling of IDRS Notices for TDI Issuance

Normal Cycling of IDRS Notices and TDIs

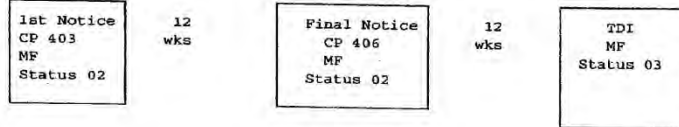
IMF, and BMF



BMF (R and Uncoded)



EPMF



APPENDIX 1D

Application for Reward for Original Information—Form 211

Form 211 (Rev. December 2007)		Department of the Treasury - Internal Revenue Service		OMB No. 1545-0409	
		Application for Award for Original Information		Date Claim Received:	
				Claim No. (completed by IRS)	
1. Name of individual claimant		2. Claimant's Date of Birth		3. Claimant's SSN or ITIN	
Harold Faust		Month Day Year 2/25/1960		999-99-9999	
4. Name of spouse (if applicable)		5. Spouse's Date of Birth		6. Spouse's SSN or ITIN	
		Month Day Year			
7. Address of claimant, including zip code, and telephone number 1234 Golf Lane Drive, Chicago, Illinois 60606					
8. Name & Title of IRS employee to whom violation was reported Joe G Etu, Manager			9. Date violation reported: 1/1/2009		
10. Name of taxpayer (include aliases) and any related taxpayers who committed the violation: Joe Taxpayer			11. Taxpayer Identification Number(s) (e.g., SSN, ITIN, or EIN): 123-45-6789		
12. Taxpayer's address, including zip code: 1111 Cheater Drive Chicago, Illinois 60606			13. Taxpayer's date of birth or approximate age: 01/01/1970		
14. State the facts pertinent to the alleged violation. (Attach a detailed explanation and all supporting information in your possession and describe the availability and location of any additional supporting information not in your possession.) Explain why you believe the act described constitutes a violation of the tax laws. Taxpayer has been claiming that he is a resident of Foreign Country but we have evidence to believe that he is a resident of the United States.					
15. Describe how you learned about and/or obtained the information that supports this claim and describe your present or former relationship to the alleged noncompliant taxpayer(s). (Attach sheet if needed.) We learned about this because Taxpayer is an employee of XYZ, Corporation, my employer.					
16. Describe the amount owed by the taxpayer(s). Please provide a summary of the information you have that supports your claim as to the amount owed. (Attach sheet if needed.)					
Declaration under Penalty of Perjury I declare under penalty of perjury that I have examined this application, my accompanying statement, and supporting documentation and aver that such application is true, correct, and complete, to the best of my knowledge.					
17. Signature of Claimant				1/30/2009	
				18. Date	

MAIL THE COMPLETED FORM TO THE ADDRESS SHOWN ON THE BACK

Form 211 (Rev. 12-2007)
SIF-PNZZ1001.1

publish.no.irs.gov

Department of the Treasury-Internal Revenue Service

General Information:

On December 20, 2006, Congress made provision for the establishment of a Whistleblower Office within the IRS. This office has responsibility for the administration of the informant award program under section 7623 of the Internal Revenue Code. Section 7623 authorizes the payment of awards from the proceeds of amounts the Government collects by reason of the information provided by the claimant. Payment of awards under 7623(a) is made at the discretion of the IRS. To be eligible for an award under Section 7623(b), the amount in dispute (including tax, penalties, interest, additions to tax, and additional amounts) must exceed \$2,000,000.00; if the taxpayer is an individual, the individual's gross income must exceed \$200,000.00 for any taxable year at issue.

Send completed form along with any supporting information to:

Internal Revenue Service
Whistleblower Office
SE: WO
1111 Constitution Ave., NW
Washington, DC 20224

Instructions for Completion of Form 211:**Questions 1 - 7**

Information regarding Claimant (Informant): Name, Date of Birth, Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN), address including zip code, and telephone number (telephone number is optional).

Questions 8 - 9

If you reported the violation to an IRS employee, provide the employee's name and title and the date the violation was reported.

Questions 10 - 13

Information about Taxpayer - Provide specific and credible information regarding the taxpayer or entities that you believe have failed to comply with tax laws and that will lead to the collection of unpaid taxes.

Question 14

Attach all supporting documentation (for example, books and records) to substantiate the claim. If documents or supporting evidence are not in your possession, describe these documents and their location.

Question 15

Describe how the information which forms the basis of the claim came to your attention, including the date(s) on which this information was acquired, and a complete description of your relationship to the taxpayer.

Question 16

Describe the facts supporting the amount you claim is owed by the taxpayer.

Question 17

Information provided in connection with a claim submitted under this provision of law must be made under an original signed Declaration under Penalty of Perjury. Joint claims must be signed by each claimant.

PRIVACY ACT AND PAPERWORK REDUCTION ACT NOTICE: We ask for the information on this form to carry out the internal revenue laws of the United States. Our authority to ask for this information is 26 USC 6109 and 7623. We collect this information for use in determining the correct amount of any award payable to you under 26 USC 7623. We may disclose this information as authorized by 26 USC 6103, including to the subject taxpayer(s) as needed in a tax compliance investigation and to the Department of Justice for civil and criminal litigation. You are not required to apply for an award. However, if you apply for an award you must provide as much of the requested information as possible. Failure to provide information may delay or prevent processing your request for an award; providing false information may subject you to penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and return information are confidential, as required by 26 U.S.C. 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is 35 minutes. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can email us at taxforms@irs.gov (please type "Forms Comment" on the subject line) or write to the Internal Revenue Service, Tax Forms Coordinating Committee, SE: W: CAR: MP: T: SP, 1111 Constitution Ave., NW, IR-6406, Washington, DC 20224.

Send the completed Form 211 to the above Washington address of the Whistleblower Office. Do NOT send the Form 211 to the Tax Forms Coordinating Committee.

APPENDIX 1E

Referral Report of Potential Criminal Fraud Cases—Form 2797

Referral Report of Potential Criminal Fraud Cases

(No Supporting Workpapers are Required with this Report)

1a. Name and Address of Taxpayer(s)			1c. Personal Data	
(Last Name)	(First Name)(s)	(MI)	Age:	_____
(Number)	(Street)		Health:	_____
(City or Town)	(State)	(zip)	Education:	_____
1b. SSN: _____	EIN: _____		Occupation:	_____

2. Basis for the suspected fraud?

- a. Omitted Income b. False Expenses/Deductions c. Failure to File or Pay Tax d. Evasion of Payment e. Altered Documents f. Other (Explain)

3a. Describe the affirmative acts that support indications of fraud and the intent to defraud.

3b. Summarize defenses given by the Taxpayer, Representative, or preparer of acts of fraud.

3c. Describe summonses served (Taxpayer and third party) and/or enforced collection measures taken against the Taxpayer's assets.

3d. List all investigative information sources checked; e.g., IDRS, CBRS, Credit Bureau, Choice Point, Public Records, DMV, etc.

4. Tax Return Information:

Note: For evasion of payment and IRC 7202 referrals complete items a, b, c, and h only.

a. What is the earliest statute expiration date? ASED CSED MM/DD/YY _____ MFT: _____ Tax Period: _____

b. Tax Period	c. Tax Return Form	d. Taxable Income (TI) Per Return	e. TI Adjustments Due to Fraud	f. Corrected TI	g. Corrected Tax	h. Tax Due to Fraud

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5. If this is a single year referral, comment on the prior and subsequent year returns.

6. Records were kept by Taxpayer or Spouse Other (specify)

Describe records (e.g. computerized or manual, single or double entry, type of journals or ledgers including subsidiary, cash receipts book, etc., or none).

7. Describe the basis or method used for the computation of the fraud adjustments.

8. Non-taxable Sources of Income Amounts			
Gifts	Loans	Inheritances	Other

9. Administrative Information:						
a. Area Office Code	b. PIA Code	c. MSSP Code	d. Service Code	e. Activity Code	f. DIF Score	h. 6501(e)? N/Y

10. Initiator:			
Name & Grade (print)	Group	Job No.	Signature

11a. Signature of Initiator's Group Manager	Date	11b. Signature of Fraud Referral Specialist	Date	11c. Signature of Fraud Referral Specialist Manager	Date

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12a. Date Referral Received by LDC: MM/DD/YY 12c. Date of Initial Conference: MM/DD/YY
 12b. Date Referral Received by SSA: MM/DD/YY 12d. Date of Disposition Conference: MM/DD/YY

13a. Evaluation by CI: Accepted for investigation Decline before investigation

13b. Conference Comments/Reasons for Declination (attach statement indicating reason(s) for declination)

14a. Special Agent Assigned to Investigation	Grade	Group	Telephone No.

14b. Cooperating Examiner/Officer Should Be Assigned Yes No

14c. Signature: (SAC/LDM if referral is declined, SSA if referral is accepted)	Date

Instructions For Referral Report Of Potential Criminal Fraud Cases (Form 2797)

Compliance personnel must complete items 1 through 11. If the space provided in items 3, 5, 6 & 7 is insufficient, a one-page continuation sheet may be attached. If the referral involves four or more tax periods use additional Forms 2797 (page one). Complete items 1a, 1b & 4b through 4h only. No other attachments are required. IRM 25.1

Item 1: Identify the taxpayer based on available information. Enter the last known address and provide an estimate of the taxpayer's age, health, and education if unknown.

Item 2: Check the appropriate box(es) and provide a brief explanation if box "F" is checked.

Item 3a: Be specific and to the point. Indicate the facts that support the indications of fraud and the intent to defraud.

Item 3b: Summarize the explanations given by the taxpayer and/or other parties indicated. Where possible, use their exact words.

Item 3c: Identify in a clear and concise manner.

Item 3d: Self-explanatory.

Items 4a through 4g: Use the tax returns and your tax computation worksheet. No explanation is required.

Item 4h: The tax computation should not include technical/statutory adjustments. Self-employment tax should be included in the computation if self-employment tax was reported on a filed tax return. For evasion of payment cases, enter the total amount of the unpaid balance of assessment.

Item 5: Briefly state your opinion why other years are not being referred.

Item 6: Place an X in the appropriate box and identify the name and title, if someone other than the taxpayer or spouse. Briefly describe the type of records maintained.

Item 7: Briefly explain how you computed the proposed adjustment(s). What was the basis/method used?

Item 8: Enter the amount (if any) in the spaces provided.

Item 9: Enter the appropriate codes/score in 9a through 9g. Enter "Y" if the six year statute is applicable; otherwise, enter "N" in item 9h.

Item 10: The initiator is the examiner/officer.

Items 11a through 11c: The signature acknowledges concurrence with the referral.

Instructions For Referral Report Of Potential Criminal Fraud Cases (Form 2797)

CI personnel must complete items 12 through 14. Use only the spaces provided. There will be ample opportunity to ask questions and examine workpapers at the initial conference.

Item 12a: Self-explanatory.

Item 12b: The date entered should be within two workdays of the date entered in item 12a.

Item 12c: This date should be established within ten workdays of the date entered in item 12b.

Item 12d: This date should be within 30 workdays of the date entered in 12b.

Item 13a: A decision must be made within thirty workdays of the date entered in item 12b.

Item 13b: A complete explanation (reasons) for the declination of the referral, in the form of an attached statement, is mandatory.

Item 14a & 14b: Completed if the referral is being accepted for investigation.

Item 14c: Required entry. Signature of the Supervisory Special Agent (SSA), if the referral is being accepted. Signature of the Lead Development Center Manager (LDM) or the Special Agent in Charge (SAC), if the referral is being declined before investigation.

APPENDIX 1F

Some Arguments—Nonfiler Enforcement

Some Arguments - Nonfiler Enforcement

Complicated arguments against the American tax system are built by stringing together unrelated ideas plucked from widely conflicting court rulings, dictionary definitions, government regulations and other sources. The Truth about Frivolous Tax Arguments addresses false arguments about the legality of not paying taxes or filing returns. Some of the most popular anti-taxation arguments include the following:

Constitutional Argument - Filing an IRS Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy.

The Truth: The courts have consistently held that disclosure of the type of routine financial information required on a tax return does not incriminate an individual or violate the right to privacy.

Compensation Argument - Wages, tips and other compensation received for personal services are not income because there is allegedly no taxable gain when a person "exchanges" labor for money.

The Truth: The Internal Revenue Code defines gross income as income from whatever source derived and includes compensation for services.

Sixteenth Amendment Argument - The Constitutional Amendment establishing the basis for income tax was never properly ratified.

The Truth: The 16th Amendment was properly ratified in 1913, and it states "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

Religious Arguments - Individuals invoke the Freedom of Religion clause of the First Amendment by taking a vow of poverty or by fraudulently claiming charitable contributions of 50% or more of their adjusted gross income.

The Truth: Taking a purported vow of poverty or claiming fraudulent contributions to filter income through a church is not legal. Many fraudulent religious organizations use funds for personal expenses.

Internal Revenue Code Arguments - There is no Internal Revenue Code that imposes taxes; only "individuals" are required to pay taxes; or IRS can only assess taxes against people who file returns; income taxes are voluntary

The Truth: The tax law is found in Title 26 of the United States Code. The requirement to file an income tax return is not voluntary and it is clearly set forth in the Internal Revenue Code (IRC) Sections 6011(a), 6012(a), et seq., and 6072(a). IRS was established July 1, 1862 by an act of Congress. Our system of taxation allows taxpayers

to determine the correct amount of tax and complete the appropriate forms "voluntarily" rather than have the government do it for them. However, any taxpayer whose income falls below the statutory amount, does not have to file a return.

Forming a Trust Argument - Forming a business trust to hold your income and assets will avoid taxes. A family estate trust will allow you to reduce or eliminate your tax liability.

The Truth: Although there are legitimate trusts and legitimate reasons why individuals establish trusts, establishing a trust, foreign or domestic, for the sole purpose of hiding your income and assets from taxation is illegal and will not absolve you of your tax liability. The underlying claims for many "untaxing" trust packages rely on other frivolous arguments--arguments that have subjected promoters, as well as willing participants, to criminal penalties. See IRS Publication 2193, "Should Your Financial Portfolio Include 'Too Good To Be True?'"

Some American citizens use these and other arguments advocating non-compliance with the tax laws. Don't be misled. Inspect promotional material carefully. Aside from being false and misleading, it often contains elaborate disclaimers such as "this report is offered as a vehicle for discussion and debate and for general informational purposes only. It does not constitute legal or professional advice and should not be relied on as a substitute for proper research and inquiries into original sources of authority." Many of these "tax experts" don't even follow their own advice but choose to file and pay their own taxes.

Source: IRS Website

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