



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.31.6

AUGUST 8, 2022

## EFFECTIVE DATE

(08-08-2022)

## PURPOSE

- (1) This transmits revised IRM 4.31.6, Pass-Through Entity Handbook, Investor Level Statute Control (ILSC) Pass-Through Examinations - CPF Procedures.

## MATERIAL CHANGES

- (1) IRM 4.31.6.1.1, Background. Added new paragraph regarding S corporations, made updates to (4).
- (2) IRM 4.31.6.1.3, Roles and Responsibilities. Updated (5) to add Appeals Technical Advisors.
- (3) IRM 4.31.6.1.6, Terms/Definitions/Acronyms, added and updated definitions.
- (4) IRM 4.31.6.1.7.1, Contact with Potentially Dangerous Taxpayers (PDT) or Caution Upon Contact (CAU) Taxpayers. Moved from IRM 4.31.6.2.2.1.
- (5) IRM 4.31.6.2, ILSC CPF Linkage. New section.
- (6) IRM 4.31.6.2.1, ILSC Package Received. New section.
- (7) IRM 4.31.6.2.1.1, Package Review. New section.
- (8) IRM 4.31.6.2.1.2, Verification of BBA Election Out (BEO). New section.
- (9) IRM 4.31.6.2.1.3, Schedule K-1 Investor Verification. New section.
- (10) IRM 4.31.6.2.1.3.1, Non-Filer Identification. New section.
- (11) IRM 4.31.6.2.1.3.2, Identification of Identity Theft Returns. New section.
- (12) IRM 4.31.6.2.1.3.3, Determine Type of Trust Investors. New section.
- (13) IRM 4.31.6.2.1.3.4, Parent/Sub. New section.
- (14) IRM 4.31.6.2.1.3.5, Spousal SSN. New section.
- (15) IRM 4.31.6.2.1.3.6, Parent/Minor. New section.
- (16) IRM 4.31.6.2.1.3.7, TE/GE Investors. Moved from IRM 4.31.6.2.2.3. Added paragraphs 1 through 4.
- (17) IRM 4.31.6.2.1.4, Statute Verification. New section.
- (18) IRM 4.31.6.2.1.5, Build Out. New section.
- (19) IRM 4.31.6.2.1.5.1, Check Materiality. New section.
- (20) IRM 4.31.6.2.1.5.2, Intent Not to Pursue Investor - Statute Protection. New section.
- (21) IRM 4.31.6.2.1.6, Identification of BBA Elect Out (BEO) Tiers. New section.
- (22) IRM 4.31.6.2.2, Linkage. New section.
- (23) IRM 4.31.6.2.2.1, Linking ILSC Investor. New section.

- (24) IRM 4.31.6.2.2.2, Notification of Beginning of Pass-through Examinations. New section.
- (25) IRM 4.31.6.2.2.3, AIMS Reject Reports. New section.
- (26) IRM 4.31.6.2.2.4, Non-Filer Procedures. New section.
- (27) IRM 4.31.6.2.2.5, Investor Returns Controlled Outside the Campus Pass-through Function (CPF). Moved from IRM 4.31.6.2.9.1 and updated.
- (28) IRM 4.31.6.2.2.6, Form 5546, Examination Return Charge-Out. Moved from IRM 4.31.6.2.3 and updated.
- (29) IRM 4.31.6.2.3, CPF Employee Group Codes. Moved from IRM 4.31.6.2.2.2 and updated to add new references regarding tiers.
- (30) IRM 4.31.6.2.4, Case Building. New section.
- (31) IRM 4.31.6.2.4.1, Key Case Administrative File. New section.
- (32) IRM 4.31.6.2.4.2, Matching the Investor's Schedule K-1 to the Investor's Return. Moved from IRM 4.31.6.2.8, Verification of Schedule K-1 Income-Loss, and updated.
- (33) IRM 4.31.6.2.4.2.1, Taxpayer Contact. New section.
- (34) IRM 4.31.6.2.4.2.2, Communicating with Divorced/Separated Taxpayers. New section.
- (35) IRM 4.31.6.2.4.3, Non-Pass-Through Issues on Investor Cases. New section.
- (36) IRM 4.31.6.2.4.4, Investor Returns Controlled Outside CPF. New section.
- (37) IRM 4.31.6.2.4.5, BBA Elect Out (BEO) Tiers. New section.
- (38) IRM 4.31.6.2.4.5.1, ILSC Tier File Set Up. New section.
- (39) IRM 4.31.6.2.4.5.2, ILSC Tier Information Request. New section.
- (40) IRM 4.31.6.2.4.5.3, ILSC Tier Screening. New section.
- (41) IRM 4.31.6.2.4.6, Review Adjustment Documents. New section.
- (42) IRM 4.31.6.2.4.6.1, Secure Amended Returns. New section.
- (43) IRM 4.31.6.2.4.7, Secure Investor Returns. New section.
- (44) IRM 4.31.6.2.4.8, Securing Carryback / Carryover Returns. New section.
- (45) IRM 4.31.6.2.4.9, Investor Return with ILCS and BBA Chapter 2/2A Linkages. New section.
- (46) IRM 4.31.6.2.4.10, Returns with ILSC and TEFRA Linkages. New section.
- (47) IRM 4.31.6.3, Power of Attorney. New section.
- (48) IRM 4.31.6.4, Transferring Cases. New section.
- (49) IRM 4.31.6.4.1, Transferring Cases into the CPF (EGC 5417). New section.
- (50) IRM 4.31.6.4.2, Transferring Cases out of the CPF. New section.
- (51) IRM 4.31.6.5, ILSC Investor Suspense. Moved from IRM 4.31.6.2.13, Related Return Suspense Files, and updated.

- (52) IRM 4.31.6.5.1, Statute Control. Moved from IRM 4.31.6.2.11, Statute Control, and updated.
- (53) IRM 4.31.6.5.1.1, Substantial Understatement of Income, Six-Year Statute. Moved from IRM 4.31.6.2.11.1.
- (54) IRM 4.31.6.5.1.2, Alpha Code Statutes. New section.
- (55) IRM 4.31.6.5.1.2.1, Non-Filer Statute Procedures. New section.
- (56) IRM 4.31.6.5.1.3, Pass-through Entity Extensions. Moved from IRM 4.31.6.2.12.2, Entity Extensions.
- (57) IRM 4.31.6.5.1.4, Investor Level Statute Extensions. Moved from IRM 4.31.6.2.12, Extension of Investor Statute, an updated.
- (58) IRM 4.31.6.5.1.4.1, Splitting Accounts. New section.
- (59) IRM 4.31.6.5.1.4.2, Restricted Consents. Moved from IRM 4.31.6.2.12.1 and updated.
- (60) IRM 4.31.6.5.1.4.3, Proceed to Statutory Notice. New section.
- (61) IRM 4.31.6.5.2, Technical Assistant Requests (TAR). New section.
- (62) IRM 4.31.6.5.3, Receipt of Amended Returns and Claims. Moved from IRM 4.31.6.2.15 and updated.
- (63) IRM 4.31.6.5.4, Appeals Suspense. New section.
- (64) IRM 4.31.6.6, Review of Key Case Report Packages. New section.
- (65) IRM 4.31.6.6.1, Type of Packages. New section.
- (66) IRM 4.31.6.6.1.1, No Change. New section.
- (67) IRM 4.31.6.6.1.2, Agreed. New section.
- (68) IRM 4.31.6.6.1.3, Unagreed without a protesting Investor. New section.
- (69) IRM 4.31.6.6.1.4, Unagreed and being forwarded to Appeals with a protesting investor controlled by the group. New section.
- (70) IRM 4.31.6.6.1.5, Appeals Closure. New section.
- (71) IRM 4.31.6.6.1.6, S Corporation Key Tier. New section.
- (72) IRM 4.31.6.6.1.7, H Freeze Release. New section.
- (73) IRM 4.31.6.6.2, Key Case Report Package Procedures. New section.
- (74) IRM 4.31.6.6.2.1, Outside Taxable Investors. New section.
- (75) IRM 4.31.6.7, Key Case Suspense. New section.
- (76) IRM 4.31.6.8, Monitoring Key Case Report Package. New section.
- (77) IRM 4.31.6.9, ILSC Tier Report Writing. New section.
- (78) IRM 4.31.6.9.1, Tier Also a Key Case. New section.
- (79) IRM 4.31.6.9.2, Writing the Tier Report. New section.
- (80) IRM 4.31.6.9.3, Tier Report Written - Prepare Investors. New section.

- (81) IRM 4.31.6.9.4, Post Tier Report Writing. New section.
- (82) IRM 4.31.6.9.4.1, Tier Full Closure. New section.
- (83) IRM 4.31.6.9.4.1.1, Tier Partial Closure. New section.
- (84) IRM 4.31.6.9.4.2, Protesting Tier Investor. New section.
- (85) IRM 4.31.6.10, ILSC Report Writing. New section.
- (86) IRM 4.31.6.10.1, Introduction - Procedures for Processing Written Reports. New section.
- (87) IRM 4.31.6.10.2, ILSC Report Writing Assessment Cases. Moved from IRM 4.31.6.3.2.
- (88) IRM 4.31.6.10.3, ILSC Report Writing Refund Cases. Moved from IRM 4.31.6.3.3.
- (89) IRM 4.31.6.10.4, Case File Requirements. New section.
- (90) IRM 4.31.6.10.4.1, Penalty Considerations. New section.
- (91) IRM 4.31.6.10.4.2, Referring Complex Issue to the Field. Moved from IRM 4.31.6.3.4.3.
- (92) IRM 4.31.6.10.5, Investor Report Writing Procedures. Moved from IRM 4.31.6.3.5, Report Writing Procedures.
- (93) IRM 4.31.6.10.6, Preparation of Examination Report. Moved from IRM 4.31.6.3.6. Added to paragraph (1) to explain additional report may be needed for POAs, and reports should reflect each adjustment and the EIN of the pass-through entity from which the adjustment came.
- (94) IRM 4.31.6.10.6.1, Special Computation for Non-Oversheltered Returns (Munro Decision). Moved from IRM 4.31.6.3.6.1.
- (95) IRM 4.31.6.10.6.2, Special Computations for Non-Filers. Moved from IRM 4.31.6.3.6.2. Added a new paragraph (1) to address SFR procedures.
- (96) IRM 4.31.6.10.6.3, IRC Section 6404(g), Suspension of Interest and Certain Penalties. Moved from IRM 4.31.6.3.6.3. Removed Note in (4).
- (97) IRM 4.31.6.10.6.4, Completion of Workpapers. Moved from IRM 4.31.6.3.6.4.
- (98) IRM 4.31.6.10.6.4.1, Report Generation System (RGS). Moved from IRM 4.31.6.3.6.4.1. Added clarification to paragraph (4) regarding non-NRP cases.
- (99) IRM 4.31.6.10.6.5, Passive Activity Losses (PAL). Moved from IRM 4.31.6.3.6.5.
- (100) IRM 4.31.6.10.6.6, Carryover/Carryback Adjustments. Moved from IRM 4.31.6.3.6.6.
- (101) IRM 4.31.6.10.6.7, Carryforward Adjustments. Moved from IRM 4.31.6.3.6.7. Made clarifying changes.
- (102) IRM 4.31.6.10.6.8, Qualified Business Income Deduction (QBID). New section incorporates IGM.
- (103) IRM 4.31.6.10.7, 30-Day Letter Procedures. Moved from IRM 4.31.6.3.7. Added paragraph (4) to address the timing of notices of deficiency.
- (104) IRM 4.31.6.10.7.1, Agreement Received. Moved from IRM 4.31.6.3.7.1. Updated paragraph (1) for when payment is received without a signed report. Added note after (1)(b).

- (105) IRM 4.31.6.10.7.2, Acceptance of Faxed Agreements. Moved from IRM 4.31.6.3.7.2. Updated to reflect current policy.
- (106) IRM 4.31.6.10.7.3, Request for Appeals. Moved from IRM 4.31.6.3.7.3. Added clarification to address ILSC tiers.
- (107) IRM 4.31.6.10.7.3.1, Protest Rebuttal. Moved from IRM 4.31.6.3.7.3.1. Added new paragraphs to instruct what to do if rebuttal not received and timeframes transfer to Appeals.
- (108) IRM 4.31.6.10.7.3.2, CPF Appeals Suspense. New section.
- (109) IRM 4.31.6.10.8, Statutory Notice of Deficiency. Moved from IRM 4.31.6.3.8. Updated the note after (1) and added a note after (2). Added instructions if there is BBA Chapter 2/2A linkages.
- (110) IRM 4.31.6.10.8.1, Petition Filed. Moved from IRM 4.31.6.3.8.1. Updated this section.
- (111) IRM 4.31.6.10.8.2, No Response. Moved from IRM 4.31.6.3.8.2.
- (112) IRM 4.31.6.10.9, No Changes. New section.
- (113) IRM 4.31.6.11, Investor Closing Procedures. Moved from IRM 4.31.6.4, Form 5344, Closing Procedures and retitled.
- (114) IRM 4.31.6.11.1, Proper Completion of Form 5344. Moved from IRM 4.31.6.4.1. Updated throughout.
- (115) IRM 4.31.6.11.2, Case File Assembly. Moved from IRM 4.31.6.4.1.1. Updated this section with instructions for paperless closings and electronic case files.
- (116) IRM 4.31.6.11.3, Partial Closures. New section.
- (117) IRM 4.31.6.11.4, Closing Employee Returns. New section.
- (118) IRM 4.31.6.12, Key Case Closing Procedures. New section.
- (119) IRM 4.31.6.12.1, Check Form 5344. New section.
- (120) IRM 4.31.6.13, Reports and Accomplishments. Moved from IRM 4.31.6.4.2.
- (121) IRM 4.31.6.13.1, Reports. Moved from IRM 4.31.6.4.2.1 and updated.
- (122) IRM 4.31.6.13.2, Accomplishments and Inventory. Moved from IRM 4.31.6.4.2.2. Removed Paragraph (1)(b)
- (123) Various editorial changes made throughout the IRM.

#### **EFFECT ON OTHER DOCUMENTS**

IRM 4.31.6, Pass-Through Entity Handbook, Investor Level Statute Control (ILSC) Pass-Through Examinations - CPF Procedures, dated 4-5-2019 is superseded.

#### **AUDIENCE**

Campus personnel working the investors in pass-through entities, S corporations, partnerships that have a valid election out of the centralized partnership audit regime or are not subject to TEFRA.

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Small Business/Self-Employed Division (SB/SE)



4.31.6

Investor Level Statute Control (ILSC) Pass-Through Examinations - CPF Procedures

## Table of Contents

### 4.31.6.1 Program Scope and Objectives

#### 4.31.6.1.1 Background

#### 4.31.6.1.2 Authority

#### 4.31.6.1.3 Roles and Responsibilities

#### 4.31.6.1.4 Program Management and Review

#### 4.31.6.1.5 Program Controls

#### 4.31.6.1.6 Terms/Definitions/Acronyms

#### 4.31.6.1.7 Related Resources

##### 4.31.6.1.7.1 Contact with Potentially Dangerous Taxpayers (PDT) or Caution Upon Contact (CAU) Taxpayers

### 4.31.6.2 ILSC CPF Linkage

#### 4.31.6.2.1 ILSC Package Received

##### 4.31.6.2.1.1 Package Review

##### 4.31.6.2.1.2 Verification of BBA Elect Out (BEO)

##### 4.31.6.2.1.3 Schedule K-1 Investor Verification

###### 4.31.6.2.1.3.1 Non-Filer Identification

###### 4.31.6.2.1.3.2 Identification of Identity Theft Returns

###### 4.31.6.2.1.3.3 Determine Type of Trust Investors

###### 4.31.6.2.1.3.4 Parent/Sub

###### 4.31.6.2.1.3.5 Spousal SSN

###### 4.31.6.2.1.3.6 Parent/Minor

###### 4.31.6.2.1.3.7 TE/GE Investors

###### 4.31.6.2.1.3.8 S Corporation Investors

##### 4.31.6.2.1.4 Statute Verification

##### 4.31.6.2.1.5 Build Out

###### 4.31.6.2.1.5.1 Check Materiality

###### 4.31.6.2.1.5.2 Intent Not to Pursue Investor - Statute Protection

##### 4.31.6.2.1.6 Identification of BBA Elect Out (BEO) Tiers

#### 4.31.6.2.2 Linkage

##### 4.31.6.2.2.1 Linking ILSC Investors

##### 4.31.6.2.2.2 Notification of Beginning of Pass-through Examination

##### 4.31.6.2.2.3 AIMS Reject Reports

##### 4.31.6.2.2.4 Non-Filer Procedures

##### 4.31.6.2.2.5 Investor Returns Controlled Outside the Campus Pass-through Function (CPF)

##### 4.31.6.2.2.6 Form 5546, Examination Return Charge-Out

- 4.31.6.2.3 CPF Employee Group Codes
- 4.31.6.2.4 Case Building
  - 4.31.6.2.4.1 Key Case Administrative File
  - 4.31.6.2.4.2 Matching the Investor's Schedule K-1 to the Investor's Return
    - 4.31.6.2.4.2.1 Taxpayer Contact
    - 4.31.6.2.4.2.2 Communicating with Divorced/Separated Taxpayers
  - 4.31.6.2.4.3 Non-Pass-Through Issues on Investor Cases
  - 4.31.6.2.4.4 Investor Returns Controlled Outside CPF
  - 4.31.6.2.4.5 BBA Elect Out (BEO) Tiers
    - 4.31.6.2.4.5.1 ILSC Tier File Set Up
    - 4.31.6.2.4.5.2 ILSC Tier Information Request
    - 4.31.6.2.4.5.3 ILSC Tier Screening
  - 4.31.6.2.4.6 Review Adjustment Documents
    - 4.31.6.2.4.6.1 Secure Amended Returns
  - 4.31.6.2.4.7 Secure Investor Returns
  - 4.31.6.2.4.8 Securing Carryback/Carryover Returns
  - 4.31.6.2.4.9 Investor Returns with ILSC and BBA Chapter 2/2A Linkages
  - 4.31.6.2.4.10 Returns with ILSC and TEFRA Linkages
- 4.31.6.3 Power of Attorney
- 4.31.6.4 Transferring Cases
  - 4.31.6.4.1 Transferring Cases into the CPF (EGC 5417)
  - 4.31.6.4.2 Transferring Cases out of the CPF
- 4.31.6.5 ILSC Investor Suspense
  - 4.31.6.5.1 Statute Control
    - 4.31.6.5.1.1 Substantial Understatement of Income, Six-Year Statute
    - 4.31.6.5.1.2 Alpha Code Statutes
      - 4.31.6.5.1.2.1 Non-Filer Statute Procedures
    - 4.31.6.5.1.3 Pass-Through Entity Extensions
    - 4.31.6.5.1.4 Investor Level Statute Extensions
      - 4.31.6.5.1.4.1 Splitting Accounts
      - 4.31.6.5.1.4.2 Restricted Consents
      - 4.31.6.5.1.4.3 Proceed to Statutory Notice
  - 4.31.6.5.2 Technical Assistant Requests (TAR)
  - 4.31.6.5.3 Receipt of Amended Returns and Claims
  - 4.31.6.5.4 Appeals Suspense
- 4.31.6.6 Review of Key Case Report Packages
  - 4.31.6.6.1 Types of Packages
    - 4.31.6.6.1.1 No Change
    - 4.31.6.6.1.2 Agreed

- 4.31.6.6.1.3 Unagreed without a protesting Investor
- 4.31.6.6.1.4 Unagreed and being forwarded to Appeals with a protesting investor controlled by the group
- 4.31.6.6.1.5 Appeals Closure
- 4.31.6.6.1.6 S Corporation Key Tier
- 4.31.6.6.1.7 H Freeze Release
- 4.31.6.6.2 Key Case Report Package Procedures
  - 4.31.6.6.2.1 Outside Taxable Investors
- 4.31.6.7 Key Case Suspense
- 4.31.6.8 Monitoring Key Case Report Package
- 4.31.6.9 ILSC Tier Report Writing
  - 4.31.6.9.1 Tier Also a Key Case
  - 4.31.6.9.2 Writing the Tier Report
  - 4.31.6.9.3 Tier Report Written - Prepare Investors
  - 4.31.6.9.4 Post Tier Report Writing
    - 4.31.6.9.4.1 Tier Full Closure
      - 4.31.6.9.4.1.1 Tier Partial Closure
    - 4.31.6.9.4.2 Protesting Tier Investor
- 4.31.6.10 ILSC Report Writing
  - 4.31.6.10.1 Introduction – Procedure for Processing Written Reports
  
  - 4.31.6.10.4 Case File Requirements
    - 4.31.6.10.4.1 Penalty Considerations
    - 4.31.6.10.4.2 Referring Complex Issue to the Field
  - 4.31.6.10.5 Investor Report Writing Procedures
  - 4.31.6.10.6 Preparation of Examination Report
    - 4.31.6.10.6.1 Special Computation for Non-Oversheltered Returns (Munro Decision)
    - 4.31.6.10.6.2 Special Computations for Non-Filers
    - 4.31.6.10.6.3 IRC Section 6404(g), Suspension of Interest and Certain Penalties
    - 4.31.6.10.6.4 Completion of Workpapers
      - 4.31.6.10.6.4.1 Report Generation System (RGS)
    - 4.31.6.10.6.5 Passive Activity Losses (PAL)
    - 4.31.6.10.6.6 Carryover/Carryback Adjustments
    - 4.31.6.10.6.7 Carryforward Adjustments
    - 4.31.6.10.6.8 Qualified Business Income Deduction (QBID)
  - 4.31.6.10.7 30-Day Letter Procedures
    - 4.31.6.10.7.1 Agreement Received
    - 4.31.6.10.7.2 Acceptance of Faxed Agreements
    - 4.31.6.10.7.3 Request for Appeals

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- 4.31.6.10.7.3.1 Protest Rebuttal
- 4.31.6.10.7.3.2 CPF Appeals Suspense
- 4.31.6.10.8 Statutory Notice of Deficiency
  - 4.31.6.10.8.1 Petition Filed
  - 4.31.6.10.8.2 No Response
- 4.31.6.10.9 No Changes
- 4.31.6.11 Investor Closing Procedures
  - 4.31.6.11.1 Proper Completion of Form 5344
  - 4.31.6.11.2 Case File Assembly
  - 4.31.6.11.3 Partial Closures
  - 4.31.6.11.4 Closing Employee Returns
- 4.31.6.12 Key Case Closing Procedures
  - 4.31.6.12.1 Check Form 5344
- 4.31.6.13 Reports and Accomplishment
  - 4.31.6.13.1 Reports
  - 4.31.6.13.2 Accomplishments and Inventory

4.31.6.1  
(04-05-2019)  
**Program Scope and Objectives**

- (1) This Internal Revenue Manual (IRM) section provides guidance on Campus Pass-through Function procedures related to field examinations of S corporations, partnerships that elect out of the Bipartisan Budget Act of 2015 (BBA) and partnerships not subject to provisions of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982.
- (2) **Purpose:** This handbook describes:
  - Screening incoming mail;
  - Campus key case procedures;
  - Campus investor procedures;
  - Key case report package procedures;
  - Releasing an H freeze;
  - Partial agreements;
  - Protecting and monitoring investor statutes;
  - Undeliverable correspondence;
  - Report writing procedures; and
  - Key case administrative file suspense.
- (3) **Audience:** Campus examination Revenue Agents (RAs) and campus RAs, Tax Compliance Officers (TCOs), Tax Examiners (TEs) and Clerks working pass-through entities and/or their investors linked on the Pass-Through Control System (PCS).
- (4) **Policy Owner:** Director, Small Business/ Self Employed (SB/SE), Headquarters Examination, Field and Campus Policy (SE:S:E:HQ:EFCP).
- (5) **Program Owner:** Program Manager, Campus Examination and Field Support (SE:S:E:HQ:EFCP:CEFS).
- (6) **Primary Stakeholders:** SB/SE, Large Business and International (LB&I), and Appeals.
- (7) **Program Goals:** Establish an electronic linkage between the pass-through entities being examined and their underlying investors in order to generate notices required by statute, monitor and control statutes, and gather closing information.
- (8) **Contact Information:** To recommend changes or make any other suggestions related to this IRM section, see IRM 1.11.6.5, Providing Feedback About an IRM Section - Outside of Clearance.

4.31.6.1.1  
(08-08-2022)  
**Background**

- (1) Election of Subchapter S status allows a business the advantages of the corporate structure of organization without being subject to the potential tax disadvantages of C corporations. Examples of the advantages include: exclusion from double taxation on distributions and the ability for the shareholder to use corporate losses. IRC 1361(a)(1) defines an "S corporation", with respect to any taxable year, as a small business corporation for which an election under IRC 1362(a) is in effect.
- (2) TEFRA was passed in 1982 to allow examinations and statutes to be controlled at the partnership level. TEFRA was replaced by BBA for tax years beginning January 1, 2018. Certain small partnerships and S corporations are not subject to TEFRA. The period to assess investors of entities not subject to TEFRA or BBA is determined at the investor level.

- (3) BBA applies to all partnerships for tax years beginning on or after January 1, 2018, but allows some eligible partnerships to elect out. Qualifying partnerships that elect out of BBA require investor level statute control. Partnership returns beginning after November 2, 2015 and before January 1, 2018 may elect into BBA. BBA does not impact S corporation entity examinations.
- (4) There are four possible partnership regimes:
  - a. BBA for partnerships whose tax year begins after December 31, 2017 or made a valid early election into BBA for years beginning after November 2, 2015 and before January 1, 2018.
  - b. Partnerships that make a valid election out of BBA for tax years beginning after December 31, 2017.
  - c. TEFRA for partnerships whose tax year begins prior to January 1, 2018 and which did not make an early election into BBA.
  - d. NonTEFRA for those partnerships whose tax year begins prior to January 1, 2018 that are not statutorily TEFRA, did not elect into TEFRA .
- (5) The Pass-Through Control System (PCS) was created to establish an electronic linkage between the pass-through entities and their underlying investors. This helps ensure that all investors are issued notices and adjusted in a timely manner. PCS linkage allows all Business Operation Divisions (BODs) to recognize when a taxpayer is subject to a pass-through examination. If an examiner chooses not to control the investors, it allows the campus to work those investors so the examiner can focus on pass-through examinations. PCS also allows the campus to systemically generate notices, control statutes, and gather closing information.

4.31.6.1.2  
(04-05-2019)  
**Authority**

- (1) Investor level statute control (ILSC) policies and procedures were established in the campuses in response to the partnership provisions of TEFRA. Similar policies will continue to be needed for S corporations and partnerships that elect out of BBA.

4.31.6.1.3  
(04-05-2019)  
**Roles and  
Responsibilities**

- (1) The Director, SB/SE, Headquarters Examination, Field and Campus Policy, Campus Exam and Field Support (SE:S:E:HQ:EFCP) is responsible for:
  - a. Coordinating and implementing linked pass-through policy changes;
  - b. Coordinating resolutions for linked pass-through related problems; and
  - c. Updating this Handbook.
- (2) The SB/SE, Program Manager, Examination Field and Campus Policy, Campus Exam & Field Support (SE:S:E:HQ:EFCP:CEFS) is responsible for:
  - a. Ensuring that linked pass-through procedural changes and computer program changes are implemented and coordinated with area office and campus examination personnel; and
  - b. Monitoring and evaluating area office and campus examination PCS quality control procedures.
- (3) Field Territory Managers, Field Area Directors, Director over LB&I Ogden and Director, Examination - Brookhaven, are responsible for ensuring that linked pass-through policies and procedures are followed.
- (4) Field Examination Managers and Campus Field Support Operations managers are responsible for:

- a. Maintaining an updated copy of IRM 4.29, Pass-Through Control System, in their respective functions;
  - b. Ensuring the training of technical and clerical employees in linked pass-through procedures; and
  - c. Establishing PCS records and acting on PCS reports in a timely manner to assure an accurate PCS database.
- (5) The ILSC Coordinator works with:
- The other campus pass-through coordinator(s), Technical Services Pass-through Coordinators (TSPCs) and the Appeals TEFRA/BBA Team
  - CPF employees and management
  - Other campus functional areas to ensure timely processing of ILSC related returns
- (6) The campus PCS Coordinator is charged with:
- Identifying and resolving technical problems
  - Identifying and coordinating the resolution of PCS systemic problems
- (7) Following are specific ILSC Coordinator responsibilities:
- a. Coordinate with campus and field pass-through coordinators on case processing issues;
  - b. Coordinate with Headquarters on any legal issues that need to be addressed by Chief Counsel;
  - c. Review key case linkage and report packages for completeness;
  - d. Provide technical support to CPF employees.

4.31.6.1.4  
(04-05-2019)  
**Program Management  
and Review**

- (1) **Program Reports:** Each year a closure goal is established for the campus.
- (2) **Program Effectiveness:** The closure goal is monitored monthly to ensure the objectives are met. The closure goal is monitored monthly to ensure the objectives are met and investor return closures are evaluated throughout the year and the goal is adjusted as needed.

4.31.6.1.5  
(04-05-2019)  
**Program Controls**

- (1) The number of statute dates are monitored to estimate if the closure goal is attainable, or if it needs to be adjusted.

4.31.6.1.6  
(08-08-2022)  
**Terms/Definitions/  
Acronyms**

- (1) There are several unique terms and acronyms used throughout this IRM:

Term	Definition
Affected Item	Any item of a partner's return that requires adjustment as a result of a TEFRA adjustment made to a partnership item. There are two types of affected items: computational and factual. Factual affected items are those that require a determination at the partner level.

<b>Term</b>	<b>Definition</b>
AIMS	Audit Information Management System (AIMS) provides inventory and activity controls of active Examination cases. It uses linkage to Integrated Data Retrieval System (IDRS) to input status changes, adjustments, and case closing actions.
BBA	Bipartisan Budget Act of 2015 (BBA). Partnership taxable years beginning on or after January 1, 2018 are subject to BBA unless the partnership meets specific criteria, at which point the partnership may elect out.
BEO	BBA Elect Out (BEO). Partnership returns that elect out of BBA for partnership taxable years beginning on or after January 1, 2018.
Build Out	This is a diagram of the pass-through entity structure that show the investor names and TIN and how they should be linked on PCS.
<i>ILSC Coordinator</i>	Campus Pass-through Function (CPF) employee who acts as a liaison between the CPF and the field offices, Appeals and counsel for Investor level statute control (ILSC) cases. They also provide technical support for the CPF.
Case File	Return information that may be paper or electronic. Electronic files are upload and stored on RGS.
CC	Command Code (CC)
Centralized Case Processing (CCP)	This function processes assessments and abatements and closes or transfers cases from the area to the campus or to files.
CPF (Formally CTF)	Campus Pass-through Function (CPF) - The CPF is the suspense unit for investor returns located in the Brookhaven campus and Ogden Pass-Through Entities (PTE). The two CPFs will be maintained to obtain and control, through the AIMS and Pass-Through Control System (PCS), any partner, shareholder or investor returns related to key cases within their jurisdiction. For details see IRM 4.31.3 and IRM 4.31.6.
EIN	Employer Identification Number. (EIN)
EUP	The Employee User Portal (EUP) is a Web hosting infrastructure. It supports an Intranet portal that allows IRS employees to access business applications and data [e.g., e-Services and Modernized e-file (MeF)]. The EUP communicates with MeF via Application Message and Data Access Service (AMDAS). The EUP infrastructure is located on the IRS Intranet.

Term	Definition
ILSC	Investor Level Statute Control (ILSC). These are pass-through entities (Form 1120-S and Form 1065) where the assessment periods are controlled at the investor level. Proceedings involve investors in S corporations and partnerships that are not subject to the TEFRA or elect out of BBA.
Investor	Partner, Shareholder, or Beneficiary - An investor return that reflects pass-through items from a pass-through entity return, which is controlled (via PCS and AIMS). Examples of investor returns includes, but is not limited to, Form 1040, Form 1041, Form 1120, Form 1120-S and Form 1065.
KIN	K-1 Imaging Network (KIN) stores Schedule K-1 images from the Service Center Recognition/ Image Processing System (SCRIPS).
Key Case	An examined pass-through return established on PCS, a Form 1065, U.S. Return of Partnership Income (NonTEFRA or BEO) or a Form 1120S, U.S. Income Tax Return for an S Corporation, that results in pass-through items to partners, shareholders, or investors (individual returns or another pass-through entity).
Linkage	The electronic relationship established in PCS between a pass-through entity and its investor.
LB&I	Large Business and International (LB&I). Serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million.
LIN	LB&I Imaging Network (LIN). The system used by LB&I to store images of returns.
NonTEFRA	Partnership returns that are statutorily excluded from TEFRA procedures. Impacts partnership returns with tax years beginning September 3, 1982 and before January 1, 2018. S corporations are also excluded from TEFRA.
PCS	Pass-Through Control System (PCS)(formally Partnership Control System) - Database used to establish an electronic linkage between a key case partnership and its underlying investors. The database is used to manage inventory, systematically generate notices, and control statutes.
Record	Information stored on the PCS database for a key case or an investor.

Term	Definition
Revenue Agent Reviewer	A Revenue Agent in the Technical Team that reviews linkage or report packages to provide a build out for linkage purposes.
SB/SE	Small Business and Self-Employed (SB/SE). Serves taxpayers who file Form 1040, Schedules C, E, F or Form 2106, as well as small businesses with assets under \$10 million.
SNOD	Statutory Notice of Deficiency, also referred to as a 90-day letter or notice of deficiency.
TS	Technical Services (TS) is the field office review staff.
Technical Services Pass-through Coordinator (TSPC)	The Pass-through Coordinator in Technical Services acts as a liaison between the area and the CPFs for BBA, ILSC and TEFRA cases. The field examiner can locate their Technical Services Pass-through Coordinator by searching their geographical area on the Partnership Knowledge Base, <i>TEFRA Overview</i> , Other Related Resources.
Technical Team	The Technical Team includes Revenue Agents and Tax Compliance Officers who provide technical support for CPF. They also prepare and write BMF reports.
TEFRA	Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. Partnerships are subject to TEFRA procedures by statute, or those excluded by statute may elect into TEFRA. Impacts partnership returns with tax years beginning September 3, 1982 and before January 1, 2018.
Tier	A pass-through entity that is a partner of a pass-through entity. An S corporation would be a tier partner of a partnership that elects out of BBA.

4.31.6.1.7  
(04-05-2019)

**Related Resources**

- (1) The following references may be helpful:
- a. IRM 4.31, Pass-Through Entity Handbook
  - b. IRM 4.4, Audit Information Management System (AIMS) - Validity and Consistency
  - c. IRM 8.19.9, Appeals Pass-Through Entity Handbook, Non-TEFRA Procedures
  - d. IRM 25.6.22, Statute of Limitation, Extension of Assessment Statute of Limitation by Consent
  - e. IRM 25.6.23, Statute of Limitation, Examination Process-Assessment Statute of Limitations Controls
  - f. *Partnership Knowledge Base*

- 4.31.6.1.7.1  
(04-21-2017)  
**Contact with Potentially Dangerous Taxpayers (PDT) or Caution Upon Contact (CAU) Taxpayers**
- (1) If you need to contact a taxpayer designated as Contact with Potentially Dangerous Taxpayers (PDT) or Caution Upon Contact (CAU), please refer to IRM 25.4, Employee Protection, for the most current guidance.
- 4.31.6.2  
(08-08-2022)  
**ILSC CPF Linkage**
- (1) When an agent requests linkage on PCS, they will submit a linkage package to the appropriate CPF. The examining agent will complete Form 14092, Investor Level Statute Control (ILSC) Linkage Check Sheet (SBSE) or Form 14093, Investor Level Statute Control (ILSC) Linkage Check Sheet (LB&I) and send to the appropriate CPF mailbox. That linkage package must be logged and tracked to ensure it is processed timely. The pass-through entity will be established on PCS and the material investors linked within 30 days, or the package should be rejected. Timely linkage is important so that the investor statutes can be protected. Delays in linkage without coordinating with the examiner, could result in the CPF having to secure investor statute extensions before rejecting the linkage package to the field if there will be less than one year on the investor statutes.
- 4.31.6.2.1  
(08-08-2022)  
**ILSC Package Received**
- (1) A linkage package should be submitted to the campus within 120 days of the key case being under examination. The campus needs sufficient time between linking and closing in order to secure the investor returns. Failure to timely link cases creates processing problems in the campus if they are controlling the investors.
- (2) In those instances where there is less than one year remaining on the statutory period of limitations for assessment of the tax for any investor the campus will control, the examining agent is responsible for securing extensions of the statutory period of limitations on all related investor returns, including tier returns and their related investors. This must be done before the campus will accept control of the returns.
- Note:** Only an unrestricted Form 872, Consent to Extend the Time to Assess Tax, should be used to secure investor statute extensions if the investors will ultimately be controlled by the campus after linkage.
- 4.31.6.2.1.1  
(08-08-2022)  
**Package Review**
- (1) The key case examiner will forward the Form 14092, Investor Level Statute Control (ILSC) Linkage Check Sheet (SBSE), or Form 14093, Investor Level Statute Control (ILSC) Linkage Check Sheet (LB&I), directly to the campus using the group email box. The linkage check sheet must be signed by the manager.
- (2) A complete package must be submitted or the campus may return it to the examiner.
- (3) The check sheets provide instructions on the contents that need to be provided to the campus. This includes a spreadsheet with a reconciliation of the Schedules K-1.

- (4) All information must be provided electronically. If the information is too large to e-mail, the examining agent should contact the ILSC Coordinator to determine the best method for submitting the information. A list of *campus TEFRA - ILSC Contacts* can be found in the Other Related Resources section, on the ILSC (Non TEFRA) Linkage page in the PCS Linkage Book on the Partnership Knowledge Base. .
- (5) An acknowledgement will be sent to the examining agent when the completed package is received.
- (6) The CPF will input an H freeze on the key case AIMS record using command code (CC) AMFRZ. An IDRS control is established on the key case using TXMOD.
- (7) The CPF will establish a key case administrative file after reviewing the package for completeness, statute consideration, and compliance with procedures.
- (8) The ILSC Coordinator will check to ensure a partnership is an ILSC case and that the examining agent made the correct audit regime determination. If not an ILSC partnership, the examining agent will be informed if the return should be worked under TEFRA or BBA.
- (9) Prior to linking the investors a Revenue Agent in the Technical Team will complete a preliminary build out analysis based upon local criteria using the Tier Structuring Tool (TST), or other method. This could include:

- a. Analyzing the build out to identify the material investors throughout the ILSC structure.

Refund Cases. See IRM 4.31.6.2.1.5.2, Intent Not to Pursue - Statute Protection.

- b. Identifying any unknown investors and looking for special allocations.
  - c. Direct any Schedule K-1 perfection that needs to be started immediately. This could be the K-1 of an unknown investor that has a large percentage of ownership.
  - d. Determine if there will be more than 100 material investors (direct and indirect).
- (10) The CPF will research and verify the Schedules K-1 Taxpayer Identification Numbers (TINs) are correct. If the TIN is incorrect, the CPF will attempt to obtain the correct TIN. If the CPF is unsuccessful, the field agent may be contacted for assistance on direct level investors that need to be linked. The preliminary build out will be updated as new information is received.
  - (11) The CPF will perform the research to verify that an investor return has been filed by using CC IMFOL or CC BMFOL. If no Transaction Code (TC) 150 is posted on Master File (MF) and the investor is material then non-filer procedures should be followed. A NMF AIMS will need to be established prior to linkage.

**Note:** Occasionally there may be no 150 posting because the return was filed but went unpostable. Look for other tax modules to see if the return may have been posted to a spouse, the wrong module or tax year. The field agent should have completed their required filing checks before submitting the

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linkage package. Unresolved return postings should be discussed with the field agent to determine how to proceed.

- (12) Only material investors should be linked. No investor (direct or indirect) should be linked if they are not on the build out. Immaterial investors not linked should be listed on the Form 15041, ILSC Pass-Through Entity Intent Not to Pursue Investor - Statute Protection. Linkage of additional investors should only be done after consultation and approval of the Revenue Agent Reviewer.
- (13) The Revenue Agent Reviewer will ensure Schedule K-1 perfection is complete. A perfected Schedule K-1 is one that has the correct entity information. Schedules K-1 may be secured using LB&I K-1 Imaging Network (KIN), Employee User Portal (EUP) or using data from yK1.
- (14) The Revenue Agent Reviewer will initiate partner linkages by providing the final build outs to the linkage TEs.
- (15) Key case administrative files must be filed in TIN sequence or may be uploaded on RGS/CEAS.
- (16) A history sheet must be included in each key case administrative file to show significant dates of key case and investor activity.

4.31.6.2.1.2  
(08-08-2022)  
**Verification of BBA Elect Out (BEO)**

- (1) If the key case partnership has elected out of BBA, the examining agent must verify the election is valid before submitting a linkage package. The CPF should also verify the election out is valid to ensure the correct partnership regime is being used. See IRM 4.31.5.2.2.1.1, Identification of Partnerships Electing out of BBA and IRM 4.31.5.2.2.1, BBA Elect Out (BEO) Partnerships.

4.31.6.2.1.3  
(08-08-2022)  
**Schedule K-1 Investor Verification**

- (1) The CPF will perform basic research of the Schedule K-1 reconciliation or Form 1065 Schedule B-2, Election OUT of the Centralized Partnership Audit Regime, also known as BBA Elect Out (BEO) to find the ultimate taxpayer before establishing linkage, including where applicable:

- a. NMF for non-filers

**Note:** NMF investors must have their filing status monitored every six months. CC IMFOL and CC BMFOL must be checked to see if a TC 150 has posted for the investor. If a TC 150 posts, delete the NMF and link the MF record. Requests to delete a linkage due to an error are submitted to the PCS Coordinator using Form 14520, PCS Linkage Deletion Request.

- b. Estate of deceased taxpayer
- c. Identity Theft Returns
- d. Grantor Trusts or Electing Small Business Trusts (ESBT)
- e. Parent/Subsidiary
- f. Spouse's SSN
- g. Individual with joint filing
- h. Parent/ Minor
- i. Employee Plan (EP)/Exempt Organization (EO) investors
- j. S corporation Investors
- k. Foreign C or S corporation

- (2) Check INOLE to verify that the name and TIN match. If there is a mismatch, check to see that the SSN/EIN is input in the correct format.
- (3) The CPF will contact the examining agent if any direct or indirect investor cannot be identified.

4.31.6.2.1.3.1  
(08-08-2022)

#### Non-Filer Identification

- (1) IMF – No TC 150 on IMFOLT.
  - a. Research CC INOLES and verify name and filing status.
  - b. Check for date of death. If date of death is before the tax period, research for cross reference EINs for an estate. Check CC IMFOLR for an alpha condition code F (final return) for the year of death. Check for a fiscal year filing during the year of death.
  - c. Check for prior name controls and cross-reference SSNs.
  - d. Check the module for the examined tax year to determine if a TC 971 with an action code of 001 or 002 exists.
  - e. Check other modules for a TC 976 to see if the return may be mis-posted.
  - f. If date of death is after the tax period, or unable to identify any prior name controls or cross-reference SSNs, then treat as NMF. See IRM 4.31.6.2.2.4, Non-Filer Procedures.
- (2) BMF – No TC 150 on CC BMFOLT.
  - a. Research CC INOLES and check for filing requirements and check for any fiscal filing requirements.
  - b. Research CC BMFOLI for the MFT for the filing requirement listed on CC INOLES.
  - c. Determine if the entity filed a fiscal return. If the entity includes a name with LLC with no TC 150 posted, this could be a disregarded entity.
 

**Note:** An ILSC case cannot have a disregarded entity. Contact the ILSC Coordinator if you think you have a disregarded entity situation.
  - d. If it is determined the taxpayer has a filing requirement, treat as NMF. See IRM 4.31.6.2.2.4, Non-Filer Procedures.

4.31.6.2.1.3.2  
(08-08-2022)

#### Identification of Identity Theft Returns

- (1) The taxpayer may or may not already be identified as having Identity Theft.
- (2) Check CC IMFOLI to see if there is a MFT 32 module which may be an indicator of ID theft.
- (3) Pull a CC TRDBV for the investor's tax year to see if the literal "Identity Theft" is present.
- (4) If you suspect the investor may be a victim of identity theft, see IRM 4.31.8, TEFRA and ILSC Examinations - Campus Identity Theft (IDT) Procedures.

4.31.6.2.1.3.3  
(08-08-2022)

#### Determine Type of Trust Investors

- (1) Partnerships electing out of BBA and those that meet the small partnership exception under TEFRA cannot have a trust as a direct partner. Partnerships with trusts as a direct partner fall under BBA or TEFRA.
- (2) Trusts with a Fiduciary Code 4 are grantor trusts. A grantor trust is not linked. Link the beneficiary/grantor that reported the Schedule K-1 amounts. See IRM 3.11.14.13.3(3), Fiduciary and Trust Code Editing.

- (3) Check for a grantor letter. This may be a letter or any disclosure statement with the return that identifies the beneficiary/grantor(s). The letter is usually located within the Form 1041. This letter is comparable to the investor K-1 and almost always is an individual.
- (4) If the grantor letter is available electronically or provided by the examining agent:
  - a. Research the investor using regular procedures.
  - b. Link the investor, bypassing the trust.
  - c. Associate the grantor letter with the Schedule K-1. Document the case file to reflect the controlling TIN of the beneficiary/grantor.
- (5) Contact the examining agent when there are questions about the trust or beneficiaries that cannot be determined. The wrong type of trust may invalidate an S corporation election.
- (6) If grantor information is not available,
  - a. Search the Form 1041, if available, for an indication of the beneficiary's TIN.
  - b. Research CCs NAMEE, NAMEI, NAMEB, TRDBV, yK-1 and Accurint to determine the beneficiary's TIN.
- (7) Trusts with a Fiduciary Code 2 are Simple Trusts or Taxable Grantor Trusts and Fiduciary Code 3 are Complex Trusts.
  - a. These taxable trusts are linked and set up per normal procedures.
  - b. Send for Schedule K-1 verification as soon as possible as a taxable beneficiary may need to be linked.
  - c. If a beneficiary is identified and deemed material during the verification process, the beneficiary will be linked at that time.

**Note:** The fiduciary code is an indicator of what the trust may be, but the returns should still be reviewed to verify it was coded correctly.

#### 4.31.6.2.1.3.4 (08-08-2022) Parent/Sub

- (1) If a corporation does not have a TC 150 posted, but shows a filing requirement 1120-14, the investor is most likely a subsidiary and filed on a consolidated return with the parent company.
- (2) Research CC BMFOLE and CC INOLES. The parent company's information should show; however, these two command codes are not tax period specific.
- (3) Research CC BMFOLT. A TC 590 should be posted with a cross-reference EIN. This is usually the parent company.
- (4) If the subsidiary has more than one parent (multiple TC 590s are posted), there was likely a parent change within the year. A review of both parent returns could verify which parent reported the Schedule K-1. It is possible that both parents reported a portion of the Schedule K-1, in which case the statutes of both would need to be protected.
- (5) If the tax period does not have a TC 590 posted but CC INOLES shows "PR" review the parent return to verify the parent reported the Schedule K-1.

- (6) If a subsidiary has both a TC 150 and 590 posted with a cross reference EIN,
  - a. Compare the dates the transactions were posted.
  - b. Research the TIN for the most recent transaction code posted to verify the entity reported the Schedule K-1.
- (7) Research and link the parent.
- (8) If the parent company has a TC 150 posting,
  - a. Verify the name and filing month on CC INOLES.
  - b. Complete two K-1 change forms (Form 13129, or equivalent) with the parent's information. Maintain them with the original K-1 and the copy of the K-1.
  - c. Link the parent.
  - d. The PCS User Special Message can be used to identify specific problems or unique situations. An example would be to enter the literal "Parent of subsidiary xx-xxxxxxx".
  - e. Notate the Form 12616-T, CPF Pass-through Examination History Sheet, or in the RGS/CEAS Case History Report, by recording the "parent of subsidiary" and the subsidiary's EIN by the parent and "subsidiary of parent" and the parent's EIN by the subsidiary.
- (9) If the parent company does not have a TC 150 posting,
  - a. Research CC BMFOLT/BMFOLE, per above instructions, to find the parent with the TC 150 (ultimate parent). If an ultimate parent is identified, link the ultimate parent.
  - b. If the parent did not file (true NMF), link the parent as NMF.
 

**Note:** Before linking NMF, ensure the parent is truly responsible to report the Schedule K-1. Correspond with the investor to determine if they are the correct reporting entity.
  - c. List the parent(s) EIN in the Remarks section of the ultimate parent's entry on the Form 12616-T or in the RGS/CEAS Case History Report.

4.31.6.2.1.3.5  
(08-08-2022)  
**Spousal SSN**

- (1) If an IMF investor does not have a TC 150 posting on CC IMFOLT determine if the taxpayer filed jointly with a spouse. Research CC IMFOLT for a TC 594 posted with a cross reference SSN. This should be the spouse and should have the TC 150 posted.
- (2) If no TC 594 or 590 has posted, research using CC INOLES or INOLEX for a cross reference SSN. This should be the spouse's SSN. Research the cross-reference SSN for the appropriate tax year using CC INOLES.
  - a. If both names are present, research CC IMFOLT for filing status and TC 150 posting. If filing status is 2, the investor filed with a spouse. Ensure the spouse's information matches the K-1. Follow normal procedures to link the spouse.
  - b. If filing status other than 2 the investor did not file with spouse. They did not file jointly and the taxpayer most likely is NMF. Follow NMF procedures.
- (3) If the taxpayer filed jointly with a spouse.

- a. Verify the spouse's name using CC INOLES and TC 150 posting using CC IMFOLT.
  - b. Complete two K-1 change forms (Form 13129, or equivalent). Maintain them with the original K-1 and the copy of the K-1.
  - c. Link the spouse.
  - d. Notate the Form 12616-T or in the RGS/CEAS Case History Report "Filed with spouse" and the spouse's SSN in the remarks section.
- 4.31.6.2.1.3.6  
(08-08-2022)  
**Parent/Minor**
- (1) In most cases, minor children under the age of 14 report their income on their parents' return.
  - (2) Research CC INOLES for the taxpayer's date of birth. Subtract the birth year from the tax year. Use the result with the information below to determine if the minor's income should have been reported on the parents' return.
    - a. For tax year 2005 and prior – if the minor was under age 14 on the last day of the tax period.
    - b. For tax year 2006 through 2008 – if the minor was under age 18 on the last day of the tax period.
    - c. For tax year 2009 and subsequent – if the minor was under age 19 (or 24 if a full-time student) on the last day of the tax period.
  - (3) Research CC IMFOLT. If the minor does not have a TC 150, locate the parent's SSN.
    - a. Research CC DUPOL. Use the last digit of the minor's birth year. (Use definer 6 (2006), 7 (2007) or 8 (2008).)
    - b. Enter the minor's SSN.
    - c. DUPOL6NNN-NN-NNNN.
    - d. RTVUE the SSN to look at the primary SSN info. Page Up to the 2nd page of RTVUE. Enter "R1" after the year, Page Up, look at the dependent info. This should list the dependent SSNs.
    - e. Link the primary SSN and complete a K-1 change form if necessary.
  - (4) If the minor has a TC 150, link the minor's SSN.
    - a. Identify the parent and establish their return on AIMS using CC AM424.
    - b. Notate the cross reference SSN on the minor's K-1 before distributing.
    - c. The IMF cases should be set up with cross-reference labels and kept together.
    - d. Continue regular processing.
- 4.31.6.2.1.3.7  
(08-08-2022)  
**TE/GE Investors**
- (1) Investors who are exempt from tax for certain reasons are designated as employee plans (EP) or exempt organizations (EO). No case will be set up for these investors. Do not link EP/EO investors.
  - (2) Research CC INOLES to determine if an investor is EP or EO. If the investor has a "P" at the end of the TIN, or the screen goes directly to CC INOLET, the investor is EP.
  - (3) The return filed gives an indication as well.
    - a. EO – 990 series (schools, churches, police organizations, fire departments, Indian tribes, foundations, charities, etc.)

- b. EP – 945,1042 (pension, retirement plan, 401K, profit sharing trust, etc.)
- c. If there is a Form 1041 filing requirement and/or charitable lead annuity trust in the name, review the return to verify the trust reported the Schedule K-1. If you have this situation, refer to the ILSC Coordinator for further guidance.

- (4) If the investor is an Employee Stock Ownership Plan (ESOP) that may have a material adjustment, contact the examining agent and have them submit a specialist referral.
- (5) Tax Exempt/Government Entity (TE/GE) investors will not be linked at the request of TE/GE. Unless a specialist referral is submitted by the examining agent, the campus will e-mail a copy of the ILSC Schedule K-1 to a TE/GE analyst whose name is provided by the SB/SE HQ TEFRA Analyst. If the TE/GE investor is subject to tax, TE/GE will pursue the investor adjustments or work with the ILSC key case agent. A copy of the ILSC key case report package will be sent to TE/GE when the case is closed.

4.31.6.2.1.3.8  
(08-08-2022)

#### **S Corporation Investors**

- (1) Check to see if the S corporation is already controlled in the field. If the return is controlled in the field, check to see if it was linked as a key case. If the S corporation linkage package was submitted with a Form 15041, alert the field agent that pass-through adjustments may impact their statute protection determination. S corporation build out changes will need to be considered if investors listed on the S corporation Form 15041 are now deemed to be material due to the BEO linkage.
- (2) Request a linkage package from the field agent if the investor was not linked as a key case.

4.31.6.2.1.4  
(08-08-2022)

#### **Statute Verification**

- (1) Check CC IMFOLT or BMFOLT to determine there is at least one year on the statute for all direct and indirect investors.
- (2) If any investors have less than a year on the statute, the ILSC Coordinator will contact the examiner and request a statute extension, or the examiner must control the investor in the field.
- (3) Once the extension is received, or the AIMS control on the investor is established, the linkage package will be processed.
- (4) The package may be rejected back to the examining agent if the statute extension or AIMS control issue cannot be resolved within two weeks.
- (5) When an investor has not filed, the examiner should be contacted to see if they will be pursuing an SFR. Investors with larger percentages of ownership should be controlled in the field. When the ownership is small, the CPF may pursue the SFR.
- (6) When the Schedule K-1 is issued to a grantor trust or Qualified Subchapter S Trust (QSST), the statute of the beneficiary must be verified.

4.31.6.2.1.5  
(08-08-2022)

#### **Build Out**

- (1) A Revenue Agent Reviewer will complete a build out document as a way to communicate linkage instructions. The build out will consist of a list of all investors that will be linked along with their EIN, TIN, Year, name, percentage of ownership and other pertinent information. The completed build outs will be kept locally on a shared drive.

4.31.6.2.1.5.1  
(08-08-2022)  
**Check Materiality**

- (1) The Revenue Agent Reviewer will check the investor materiality. Materiality should be checked if the examining agent did not already provide a Form 15041, ILSC Pass-Through Entity Intent Not to Pursue Investor - Statute Protection.
- (2) After the build out is complete, the size of the estimated key case adjustment must be allocated to each investor. Each allocated investor adjustment should be evaluated to determine if it will result in a material assessment. See IRM 4.31.6.10.2, ILSC Report Writing Assessment Cases.

4.31.6.2.1.5.2  
(08-08-2022)  
**Intent Not to Pursue Investor - Statute Protection**

- (1) Generally, all ILSC pass-through investors must have their statutes secured. However, there are times when it is clear that not all investors will be affected by an adjustment. When this occurs, Form 15041, ILSC Pass-Through Entity Intent Not to Pursue Investor - Statute Protection, may be used to secure approval to let an investor statute expire.

**Note:** When pass-through entities linked as investors get linked as a key case, this may have an impact on prior statute protection determinations. Build outs may need to be revised if investors listed on the S corporation Form 15041 are now deemed to be material due to a BEO linkage.

- (2) The examining agent or the campus may identify investors that may not be subject to adjustment and may not require statute protection. When this occurs, Form 15041, ILSC Pass-Through Entity Intent Not to Pursue Investor - Statute Protection, will be used to:
  - a. identify the investor(s) that will not be protected and linked,
  - b. the reason(s) for not protecting the statute, and
  - c. for manager approval.
- (3) Approval must be secured prior to the expiration of the investor's statute, and ideally at least 12 months prior. See IRM 25.6.23.4.5.1, Inconsistent Application of Investor Returns - ILSC.
- (4) The initiator of the Form 15041 must have their manager as well as their Department Manager or Territory Manager agree with the decision to not protect the statute by signing the Form 15041. The high level of approval is necessary since the statute will be allowed to expire.
- (5) Allowing an investor's statute to expire may make sense if it is highly likely the investor will not be adjusted. This will save resources and reduce taxpayer burden. Linking such an investor would result in unnecessary contacts with them, including requesting statute extensions and other communication.
- (6) If the CPF initiates the decision not to protect an investor statute, CPF should contact the examining agent to obtain their concurrence. The examining agent may have other information that would require the protection of an investor statute that might not otherwise appear to need protecting. Investors whose statutes are not protected will not be linked on PCS.

4.31.6.2.1.6  
(08-08-2022)

**Identification of BBA  
Elect Out (BEO) Tiers**

- (1) A BEO tier is an S corporation that is an investor in a partnership that elects out of BBA.
- (2) The Form 1120-S may also have trusts as shareholders. However, Electing Small Business Trusts (ESBT) are taxed at the trust level. Grantor trusts and Qualified Subchapter S Trusts (QSST) are by-passed and the sole beneficiary is linked. There should be no tiering beyond the shareholders of the S corporation.
- (3) When an S corporation is linked as a tier and the return is controlled in the field, the CPF will contact the field agent to request they submit a linkage package.
- (4) The ILSC Coordinator will monitor for receipt of the linkage package. Any tier files will convert to the key case file.

4.31.6.2.2  
(08-08-2022)

**Linkage**

- (1) A linkage package should be submitted to the campus within 120 days of the key case being placed under examination. The campus needs sufficient time between linking and closing the key case in order to secure the investor returns. Failure to timely link cases creates processing problems in the campus if they are controlling the investors.

4.31.6.2.2.1  
(08-08-2022)

**Linking ILSC Investors**

- (1) The CPF will process the linkage package within 30 days after receipt. After 30 days, the key case agent will verify the investor linkages by pulling up a TSUMYP.
- (2) The CPF will input CC TSLOD, using Form 8341, PCS Establish or Add. CC TSLOD accesses the MF to verify the investor TIN, name control, and Master File Tax Code (MFT). It rejects any input that does not match.

**Note:** Returns linked via CC TSLOD, that are not already on AIMS will automatically request a return. The requesting of a return will set an indicator on AIMS that will prevent the case from being able to be closed electronically. Investor returns should be established on AIMS before linkage if they will be closed electronically in the future.

- (3) A successful linking of the key case on PCS will generate AIMS control and two Forms 5546, Examination Return Charge Out, for each investor. These are referred to as a "Notification Charge-Out" and a "Flow Through Notification Charge-Out". If there is no AIMS record anywhere prior to the link, the investor return will go to the key case CPF to be suspended. If the investor has an AIMS record prior to the linkage, the link will go to the existing AIMS record. Linking the record creates a Partnership Investor Control File (PICF) code of 6 on the investor account record unless the investor is also linked to another audit regime in which case the PICF code will systemically change to 4. When only one type of linkage remains, the PICF code will systemically update to reflect remaining linkage. The PICF code of the CPF key case will be 2.

**Note:** PCS CC TSLOD will request returns from files at the time of linkage, this adds the literal "**RETURN REQUESTED**" on AIMS page 2, even though the return may be electronic. The "**RETURN REQUESTED**" will not allow an electronic blocking closure. To allow an electronic blocking closure, establish AIMS using CC AM424 rather than establishing AIMS using PCS CC TSLOD.

- (4) A CPF code is established on the linkage record for each investor based upon where the linkage is input. The CPF code determines the campus where PCS notices are generated and on which campus reports the returns appear.
- (5) The investor's percentage of profits will be entered on all linked material direct and indirect investors. (CC TSL0DK or CC TSCHG Item 06). The input of the percentage of profits is important as they will be used to determine materiality once the pass-through adjustments are finalized.
- (6) To expedite linking of the indirect investors, use CC AM424 to establish AIMS prior to linkage.
- (7) When complete, PCS linkage must match the build out. Verify that the AIMS record is fully established before building case files for the investor returns.
- (8) If a return is linked in error, prepare Form 14520, PCS Linkage Deletion Request. Form 14520 is to be approved by a manager, lead, or CPF Coordinator prior to submitting to the PCS Coordinator for processing.

#### 4.31.6.2.2.2 (08-08-2022)

#### **Notification of Beginning of Pass-through Examination**

- (1) Letter 3457, Pass Through Audit Notification, was created to notify ILSC investors of a pass-through audit. This letter is not required by law but is available to send as a courtesy to taxpayers that may not otherwise be aware of a pass-through audit.
- (2) ILSC Investors may be unaware of an examination until they receive an audit report or a request to extend the statute. These letters were created to help keep taxpayers informed and avoid any surprises.
- (3) A notification of the beginning of an ILSC pass-through audit will be issued to each ILSC investor controlled by the campus unless the field agent requests no notification be provided.
- (4) The CPF will send a Letter 3457, Pass Through Audit Notification Letter, to all investors unless specifically told not to send them on the linkage check sheet.
- (5) Do not contact the taxpayer if there is "Z" Freeze or a TC 914 on the taxpayer account. If there is a "Z" Freeze or a TC 914 on the taxpayer account, give the ILSC entity and investor information to the ILSC Coordinator for immediate, appropriate action.

#### 4.31.6.2.2.3 (08-08-2022)

#### **AIMS Reject Reports**

- (1) PCS 22-3 Report with 424 drop date.
- (2) AIMS TC 424 Reject Register. Created weekly on Control-D when a TC 424 fails to post to master file (MF). See IRM 4.4.27.5.11, TC 424 Reject Register.
- (3) When accounts loaded through CC TSL0D do not match at MF, they are listed on the AIMS transaction code 424 reject register as status 99 rejects.
  - a. These accounts do not establish on AIMS and do not produce a Form 5546, Examination Return Charge Out.
  - b. This condition may be caused by an incorrect TIN, name control, or MFT (a name control error will reject at terminal input if the LAP/NAP was up). This condition may also be caused by the lack of a TC 150 (filing of a tax return) posting on the tax module or when the requested module has moved to retention.

- c. Status 99 rejects must be worked promptly by each CPF to ensure the correct taxpayer is linked and the statute is protected.
  - d. See IRM 4.4, Audit Information Management System (AIMS) – Validity and Consistency, for instructions on resolution of TC 424 rejects.
- (4) The AIMS Duplicate Records Report is generated through the AIMS program if an attempt is made to link a taxpayer account through PCS while the account is in status 90.
- a. These accounts are identified by the “CLP” message. See IRM 4.4.27.5.6.4.2, CLP.
  - b. A TC 421 must be input to the MF, allowed to cycle in, and then the account must be reestablished on AIMS using CC AM424.

4.31.6.2.2.4  
(08-08-2022)

**Non-Filer Procedures**

- (1) The CPF will perform the basic research to verify that no return has been filed by using CC IMFOL and CC BMFOL. If no TC 150 posted on the MF, the investor return is established on NMF AIMS and linked to the key case.
- a. The AIMS NMF will be established and controlled in the CPF, and research performed utilizing Nation Access Information (NAI), CFOL CCs, NAMEE and NAMES.
- (2) Research AMDISA to determine if an NMF record already exists.
- (3) If there is not an investor record on NMF establish the record through CC AMNON.
- (4) If the investor previously filed jointly or married filing separate, both spouses will be established separately.
- (5) All ILSC investors will be established in EGC 5400.
- (6) CC AMNON establishes a NMF record on AIMS. When the investor is linked, the record is complete and can immediately be set up and moved out of EGC 5400.
- (7) The CPF will send a Letter 5639, Return Information Request, to obtain information regarding the loss, income or deduction taken on the corporation, trust or individual return. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
- (8) If the CPF cannot secure the return from the investor, the CPF will request an Information Returns Processing (IRP) transcript from the Information Returns Master File (IRMF). Use CC IRPTR to order the transcript. When the transcript is received, the CPF will associate it with the case file.
- (9) The transcript and Schedule K-1 will be screened to determine if a Substitute for Return (SFR) needs to be established. SFR procedures can be found in IRM 4.19.17, Non-Filer Program, and IRM 4.4.9, Delinquent and Substitute for Return Processing. If it is determined that an SFR is needed, one will be prepared and sent for processing. A linkage will be established to the key case after the TC 150 posts to MF.
- (10) The NMF record will be closed after the MF linkage is in place.
- (11) If there is no filing requirement, the case will remain as a NMF record. However, the adjustments may require the need to pursue SFR procedures.

4.31.6.2.2.5  
(08-08-2022)

## **Investor Returns Controlled Outside the Campus Pass-through Function (CPF)**

- (1) The controlling area needs to be contacted immediately if an investor return is controlled outside the Campus Pass-through Function (CPF). The CPF either needs to secure control of the investor return, or ensure that the controlling area does not issue a Statutory Notice of Deficiency (SNOD). Generally, only one SNOD may be issued to a ILSC investor. If the area in control of the investor return issues a SNOD and does not include the ILSC pass-through results, a petition filed by the investor may result in barring any pass-through assessments.
- (2) The CPF will send a copy of the Schedule K-1 using Form 6657, Related ILSC Pass-through Examination to:
  - a. the examining agent (Status 10 to 19) unless that agent is also examining the key case,
  - b. the other CPF, or
  - c. Appeals.

Acknowledged Form 6657 is to be returned within 10 business days and is maintained in the key case administrative file.

- (3) Securing cases in status code 06 or 08.
  - a. Contact the PBC/EGC owner using the AIMS/ERCS website to get the AIMS transferred.
  - b. Many returns are now electronically filed, so you may not receive a paper return.
  - c. Returns selected due to an amended return should not be requested, and allowed to be sent to the field.
  - d. Newly secured investor returns that are within the 26-27 month Examination Cycle should be classified for non-pass-through issues if the prior status was 06. Classification isn't required for other returns, but if large unusual items are noted, selection should be considered or referred for consideration.
- (4) The ILSC Coordinator must be involved when notifying those outside the campus of an ILSC examination when the return is in status code 2X, 3X, 4X 5X or 8X.

**Note:** If the return is in status 82 a petition was already filed and another SNOD cannot be issued.

4.31.6.2.2.6  
(08-08-2022)

## **Form 5546, Examination Return Charge-Out**

- (1) The key case CPF will receive a Form 5546, Examination Return Charge Out Sheet, labeled "Flow Through Notification" for each investor that is successfully linked on PCS and established on AIMS. If the investor's return was not previously established on AIMS, the investor's Form 5546 will generate with employee group code 5400 and will cause the income tax return to be pulled from files and sent to the key case CPF.
- (2) An investor Form 5546 labeled "Related Investor Notification" will normally come attached to the return. The Form 5546 may be left in the investor case file, but is not required.

4.31.6.2.3  
(10-01-2010)

**CPF Employee Group  
Codes**

- (1) All ILSC investor returns in the CPF are maintained in AIMS status 33.
- (2) The CPF will use the following AIMS Employee Group Codes (EGCs) to control their inventories. No other EGCs may be used.

Employee Group Code	Description	Aging Criteria
5400-5499	ILSC Returns	See below
5400	Newly Established Investor Returns	60 days
5401-5407	Incomplete Files	90 days
5408	872 to Technical for counter signature (local option)	30 days
5409	Reserved	None
5410	Classification (local option)	60 days
5411	ILSC Barred	None
5412	Technical Assistant Requests	30 days
5416	Dual Status (TEFRA to ILSC transfer)	30 Days
5417	Transfers-In (incoming to the CPF)	30 days
5418	Regular Suspense Files	None
5419	Carryback or Carryover (local option)	None
5420-5439	Report Writing	60 days*
5440-5449	30-Day Letter	60 days
5450-5459	90-Day Letter	120 days
5460	Tier Suspense	None
5461-5463	Tier Incomplete Files	90 days
5464 - 5466	Tier Report Writing	60 days
5467	Tier Report Written - Prepare Investors	30 days
5468	Post Tier Report Writing Suspense	180 days
5469	Tier Appeals Suspense	None
5470-5479	Appeals suspense - awaiting report.	None
5476	Appeals Transfer	15 days
5477	Protesting Investor Preparation	45 days
5482	Survey Cases (local option)	60 days

Employee Group Code	Description	Aging Criteria
5490	Key Case Suspense	180 days**
5491	Key Case Closing (Ogden Only)	60 days
5480-5499	Reserved for future use	None

**Note:** \*EGC 5420 may be used to manage extension requests (local option). When EGC 5420 is used to manage extension requests, the aging criteria will be 105 days.

**Note:** \*\*There may be exceptions to the 180 day limit in EGC 5490. Cases held beyond 180 days must have the approval of the ILSC Coordinator.

- (3) Where EGC ranges are provided (except 5480-5489 and 5492-5499), codes within the range may be assigned at local option. Organization Codes 5000-5399 are reserved for Correspondence Examination; 5800-5899 are for TEFRA (See IRM 4.31.3.5.1, CPF Employee Group Codes.); 5500-5699 and 5900-5999 are available for local option.
- (4) The aging criteria is the maximum amount of time a return should be sitting in an EGC. Local procedures may be created to move returns within shorter time-frames.

#### 4.31.6.2.4 (08-08-2022)

##### Case Building

- (1) The CPF will create paper or virtual case files to store case related documentation.

#### 4.31.6.2.4.1 (05-31-2004)

##### Key Case Administrative File

- (1) Key case administrative files must be filed in TIN sequence whether electronic case file (ECF) or paper. The key case administrative file includes the following:
  - a. A history sheet must be included in each key case administrative file to show significant dates of key case and investor action.
  - b. Copy of the key case return. (electronic or paper)
  - c. Form 14093 (LB) or Form 14092 (SB), Investor Level Statute Control (ILSC) Linkage Check Sheet.
  - d. Schedule K-1 Reconciliation.
  - e. Build Out.
  - f. Form 15041, if applicable.
  - g. Technical Lead sheet.
  - h. AMDISA and TSUMYP.
- (2) Quarterly, each CPF will review their linkages for each pass-through record for which it has an administrative file and for which one or more investors were linked. The linkages should be compared to the build out. There are several PCS reports that can be used for this purpose which are created weekly, monthly or quarterly on Control-D. The PCS 22-3 Report is generated quarterly on Control-D for all pass-through entities even if no new investors were linked to that pass-through entity during that quarter. When monitoring the investor linkages it is important that:

- a. Investor linkages without a full AIMS data base which appear with a name control and no statute date (424 Reject) should be reviewed to ensure the correct taxpayer was linked before they drop off AIMS or PCS;
  - b. Each Schedule K-1 investor that does not appear per the build out must be researched to determine if it needs to be re-established; and
  - c. Investors in status 90 must be checked to ensure that they have not closed prematurely.
- (3) Report 21-3(N), NonTEFRA Key Case Action Report CPF, is a weekly report listing key cases whose status codes have been updated to 27, 28, 29, 8X or 90.
- a. The CPF should follow up on key cases which were updated to status 90 (PCS 5-5(N) and PCS 5-5A(N)) to ensure that a key case report package was received by the CPF and that investors are having their 30 day letters sent timely.
- (4) PCS reports are covered in IRM 4.29.4, PCS Reports.
- (5) The key case administrative file if paper should be retained for 18 months after the last investor is closed.

#### 4.31.6.2.4.2 (08-08-2022)

#### **Matching the Investor's Schedule K-1 to the Investor's Return**

- (1) The distributive share of income or loss and other pass-through items reflected on the copy of the Schedule K-1 received from the key case CPF will be matched against the amount of the pass-through items reflected on the investor's return.
- a. Where the amounts do not reconcile, appropriate action will be taken to clarify mismatched information through taxpayer contact using Letter 5640, Schedules K-1 Verification. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
  - b. This mismatch may be attributed to a variety of situations (i.e., the name on the Schedule K-1 may be a nominee, actual losses may exceed the allowable loss limitation, etc.).
  - c. After contact, any pertinent information will be provided to the key case field examiner and/or key case CPF. Only information that would impact the audit computations should be forwarded.
  - d. If the taxpayer has not reported income or loss consistent with the Schedule K-1, and has not responded with information which explains the difference, the file will be noted for consideration of the IRC 6662 penalty. Any penalty recommended by the campus must be approved by the campus employee's manager in writing before the statutory notice of deficiency is issued. See IRM 20.1.5.2.3, Supervisory Approval of Penalties - IRC 6751 Procedural Requirements.

**Note:** Penalties established at the pass-through level by the field, must be approved by the field agent's manager.

4.31.6.2.4.2.1  
(08-08-2022)

**Taxpayer Contact**

- (1) The Service must issue quality responses to all taxpayer inquiries per IRM 1.2.1.13.3, Policy Statement 21-3, Timeliness and Quality of Taxpayer Correspondence.
- (2) A quality response must be written in plain language.
- (3) A final response or interim letter initiated within 30 days of the IRS received date is considered a timely response. Whenever possible, a quality response should be issued in less than 30 days.
  - a. A quality response is an accurate and professional communication which, based on information provided, resolves the TP's issues, requests additional information from the TP, or notifies the TP information was requested from outside the IRS.
  - b. When a quality response cannot be issued timely, an interim response is initiated by the 30th calendar day from the IRS received date using Letter 6466, Interim/Response.
  - c. All interim letters should inform the TP when a final response can be expected and should give a name/number to contact to resolve additional inquiries.
- (4) The final or interim response must read either "This is in response to your inquiry of" or "This is in response to your inquiry dated" or similar language.
- (5) Outgoing correspondence must include the reference to the date of the incoming letter or inquiry.
- (6) The letter must fully explain the action taken, even when that action is exactly what the addressee requested.
- (7) If the taxpayer's or authorized representative's correspondence/inquiry is not dated:
  - a. Use the latest postmark or private delivery service date on the envelope.
  - b. If the correspondence/inquiry from the taxpayer or authorized representative is in the form of a fax, use the date the fax was transmitted.

4.31.6.2.4.2.2  
(08-08-2022)

**Communicating with Divorced/Separated Taxpayers**

- (1) Returns and return information for individuals filing income tax returns jointly may be disclosed to either of the individuals identified on the return. This only applies to the joint return itself, including attachments to such a return (the MFT 30 module). IRC 6103(e) provides that certain limited collection information regarding one spouse must be disclosed to the other spouse relative to tax deficiencies with respect to a jointly filed return where the individuals filing such return are no longer married or no longer reside in the same household. A written or verbal request can be accepted. This also applies when the modules are split. See IRM 21.6.8, Split Spousal Assessments.
- (2) Information from the split module that must be disclosed to either spouse, if requested, includes:
  - a. Whether the Service has attempted to collect the deficiency from the other spouse;
  - b. The amount collected, if any, and how it was collected (such as refund offset, payment (which can be identified by the designated payment code (DPC)), etc.);

- c. The current collection status (i.e., installment agreement, Currently Not Collectible (CNC), etc.);
  - d. If the module is CNC, the reason (i.e., unable to locate, hardship, etc.)
- (3) Information which will not be disclosed includes:
- a. The other spouse's location;
  - b. The other spouse's name change;
  - c. The other spouse's telephone number;
  - d. Information about the other spouse's employment, income or assets;
  - e. The income level at which a CNC module will be reactivated;
  - f. The bankruptcy chapter filed by the other spouse.
- (4) Exercise caution when spouses do not have the same power of attorney (POA) to ensure the information of one spouse is not inadvertently disclosed to the POA of the other spouse.
- (5) For additional disclosure information, see IRM 21.1.3.2, General Disclosure Guidelines, and IRM 11.3.2.4, Persons Who May Have Access to Returns and Return Information Pursuant to IRC 6103(e).

**Note:** Employees with questions about disclosure can refer to the Disclosure website.

4.31.6.2.4.3  
(08-08-2022)  
**Non-Pass-Through  
Issues on Investor  
Cases**

- (1) Newly secured investor returns that are within the 26-27 month Examination Cycle must be screened for non-pass-through issues. If large, unusual or questionable items are identified, the CPF will coordinate with the key case examiner to have them possibly control and examine the return.
- (2) Investor returns and transcripts will be screened to identify any adjustment documents, amended returns, carryback, and carryover returns that will be needed to process the ILSC pass-through adjustment. If the investor is a minor child, the parent's return will need to be worked with it. These must be secured before the investor file is considered complete.

4.31.6.2.4.4  
(08-08-2022)  
**Investor Returns  
Controlled Outside CPF**

- (1) Investors outside the CPF, that are not controlled by the key case agent, must be sent a copy of the key case report package using Form 6657, Related ILSC Pass-Through Examination Information. Acknowledged Form 6657 is to be returned within 10 business days and is maintained in the key case administrative file. The examining agent or Appeals Officer controlling the return will need to prepare a report for the investors they control and issue the appropriate notices.
- (2) Generally, only one statutory notice of deficiency may be issued on ILSC cases. See IRC 6212(c). Allowing the area that controls the investor on AIMS to incorporate the pass-through adjustments along with their exam ensures that the campus does not issue a statutory notice prematurely.

4.31.6.2.4.5  
(08-08-2022)  
**BBA Elect Out (BEO)  
Tiers**

- (1) Partnerships that elect out of BBA may have S corporations as partners in the taxable year in which a valid election is made. However, to be a valid election, the partnership and any underlying S corporations cannot be required to issue more than 100 Schedules K-1 combined for the taxable year the partnership seeks to elect out of BBA.

4.31.6.2.4.5.1  
(08-08-2022)

**ILSC Tier File Set Up**

- (1) The tier case file should be updated to EGC 5461 for tier file set up while the tier return is secured and the investors linked.
- (2) Set up tier file and obtain tier return, tier Schedules K-1, amended return and other documents if applicable.
- (3) Review the build out to identify material tier investors to be linked and complete linkage. Note: Investors not shown on the build out should be documented on a Form 15041, Investor Level Statute Control (ILSC) Pass-Through Entity Intent Not to Pursue Investor - Statute Protection, with the key case file.
- (4) Letter 3457, Pass Through Audit Notification, will be sent to the tier investors when they're linked.
- (5) Monitor investor AIMS record for full display.
- (6) Follow linkage and case building guidance in prior sections of this IRM to set up investor files.
- (7) Form 15329, Campus Pass-Through Function - Tier History Sheet, should be included to document the actions taken on the case.
- (8) When the tier case file is complete, update the case to EGC 5463 for tier screening.

4.31.6.2.4.5.2  
(08-08-2022)

**ILSC Tier Information Request**

- (1) When additional information is needed or investor linkages are not complete or correct, the Technical Team reviewer completing the screening will return the tier to EGC 5462 to have additional actions completed by the Tax Examiner.
- (2) A Tax Examiner will complete the requested actions and ensure timely follow up.
- (3) Once the tier actions are complete, the Tax Examiner will update the tier to EGC 5463 for follow up screening.

4.31.6.2.4.5.3  
(08-08-2022)

**ILSC Tier Screening**

- (1) The Technical Team will review the tier return to ensure it is complete and verify investor linkages match the build out. If linkages are not complete or incorrect, return to TE in EGC 5462.
- (2) Match the key case Schedule K-1 to the tier return. Use Letter 5640, Schedules K-1 Verification, if the Schedule K-1 information does not match the tier return. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
- (3) Reconcile the Schedules K-1 to the Schedule K of the tier return to determine if there is a discrepancy. Check the tier for large, unusual or questionable items. Determine if the S corporation could have Built in Gains. If any of these exist, contact the key case agent to see if they want to examine the return.
- (4) If there are no audit issues for the tier, and all investors are linked with their statute protected, the statute for the tier can be updated to Alpha Code "**GG**". Note: Caution, care should be taken before updating a trust return statute to **GG**.
- (5) If corrective actions need to be taken, correspondence is needed, or additional information is requested, update the EGC to 5462, pending resolution.

- (6) When the tier is complete and ready for suspense, update to EGC 5460.
- 4.31.6.2.4.6  
(08-08-2022)  
**Review Adjustment Documents**
- (1) Investor returns and transcripts will be screened to identify any adjustment documents, amended returns, carryback, and carryover returns that will be needed to process the ILSC pass-through adjustment. If the investor is a minor child, the parent's return will need to be worked with it. These must be established on AIMS before the investor file is considered complete.
- 4.31.6.2.4.6.1  
(08-08-2022)  
**Secure Amended Returns**
- (1) Check the transcript for a TC 971 with an action code 010 or 013, or TC 976. Both indicate an amended return was filed but not yet accepted or disallowed.
- (2) Accepted or disallowed amended returns will have a TC 29x or 30x. If there is a TC 290 for zero, check CIS notes to verify that a determination was made.
- (3) Access AMS to check CIS for a copy of the amended return. Download a copy of the amended return into RGS/CEAS if working from an electronic case file. Print the return off of CIS if working from a paper case file.
- (4) If the return is not on CIS, use CC ESTAB to request a copy of a paper return.
- (5) If the return cannot be located, contact the taxpayer using Letter 5639, Return Information Request, to request a copy of the amended return. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
- 4.31.6.2.4.7  
(08-08-2022)  
**Secure Investor Returns**
- (1) Secure investor returns that have not been received.
- (2) If the DLN suggests an electronic return was filed, check EUP for a copy of the return. See the Document 6209, IRS Processing Codes and Information, for DLN information.
- (3) The CPF will submit a Form 2275, Records Request, Charge and Recharge, to request a special search for paper documents.
- (4) If no response, contact the taxpayer or their representative to request a copy using Letter 5639, Return Information Request. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
- (5) If a return cannot be secured, the CPF will use CC TRDBV, IMFOL, BMFOL, or yK1 to identify return information. The return information will be used as the starting point to create a report calculated at the highest rate without the benefit of any deductions.
- (6) If no return information can be found, follow non-filer procedures.
- 4.31.6.2.4.8  
(08-08-2022)  
**Securing Carryback/Carryover Returns**
- (1) In general, credits, passive activity losses, capital losses and NOLs will indicate possible carryover adjustments. Reference your local desk guide for specific types of adjustments and forms that may involve carryover adjustments. It is important to identify carryover adjustments early so the statute can be protected. Unlike carryback years, each carryover year statute needs to be protected.

- (2) Request carryback or carryover year returns.
- (3) If the DLN suggests an electronic return was filed, check EUP for a copy of the return. See the Document 6209 for DLN information.
- (4) If a paper return, the CPF will request the return using CC ESTAB.
- (5) If no response, the CPF will submit a Form 2275, Records Request, Charge and Recharge, to request a special search.
- (6) If no response, contact the taxpayer or their representative to request a copy using Letter 5639, Return Information Request. Use Letter 5662, Second Request for Taxpayer Information, if no response is received upon the first request.
- (7) If a return cannot be secured, the CPF will use CCs TRDBV, IMFOL, BMFOL, or yK1 to identify return information. The return information will be used as the starting point to create a report calculated at the highest rate without the benefit of any deductions.
- (8) If no return information can be found, follow non-filer procedures.
- (9) If carryover/carryback year is controlled in the field, request the PCS Coordinator input an AIMS Freeze Code 6 to ensure the field controlled case cannot close.
- (10) Once the return is secured, establish controls using CC TXMOD and input C/B or C/O in the IDRS Control Base.

4.31.6.2.4.9  
(08-08-2022)

**Investor Returns with  
ILSC and BBA Chapter  
2/2A Linkages**

- (1) Care must be taken when investors are linked to multiple ILSC pass-through entities, or a BBA partnership with Chapter 2/2A linkages.
- (2) An investor with ILSC pass-through and/or BBA Chapter 2/2A pass-through linkages will have a PICF code of 6.
  - a. The CPF will monitor the statute on the ILSC case and the IRC 6501(c)(12) date for Chapter 2/2A. A Form 3198, Special Handling Notice for Examination Case Processing, will be prepared and maintained with the case file. The "Other" block will be checked and the following statement added: "Dual Status Case: ILSC Pass-through Case EIN(s) and BBA Chapter 2/2A Case EIN(s)". Applicable EIN(s) will be listed on the form.

**Note:** If multiple linkages exist, a copy of a TSUMYI print can be associated in lieu of writing out all of the EINs on the form.

- (3) When more than one type of linkage exists, the key case campus must ensure that **all** campus controlled investors are in an ILSC EGC 54XX. The key case CPF may have to coordinate with the other campus.
- (4) An ILSC investor's statute is controlled by IRC 6501(a). A taxpayer linked for BBA Chapter 2/2A issues whose statute is controlled by IRC 6501(c)(12), must still have its IRC 6501(a) statute protected for ILSC adjustments.
- (5) In general, only one statutory notice should be issued to that investor. If a statutory notice must be issued before all examinations are complete, the schedule of adjustments should include all adjustments for that taxpayer.

- (6) Different actions will be required depending upon where the investor is controlled and the timing of the linkages. The following action should be taken when the ILSC linkage is established:
- a. If the investor is controlled in field the CPF will send a copy of ILSC Schedule K-1 using Form 6657, unless the investor is controlled in the same field group that controls the ILSC key case. See also IRM 4.31.6.2.4.4, Investor Returns Controlled Outside of CPF.
  - b. If an investor linked by Brookhaven is controlled in Ogden, Brookhaven will send Ogden a copy of ILSC Schedule K-1.  
  
**Note:** If an ILSC investor controlled by Brookhaven becomes linked to a BBA partnership, Ogden will send Brookhaven a copy of the BBA Schedule K-1 with BBA guidance.
  - c. If an investor is already controlled in Ogden's BBA Chapter 2/2A team, Ogden will convert the BBA investor case file to an ILSC case file for statute protection.
- (7) Investors transferred from the field into the CPF need to be reviewed to verify the linkages. All mis-routed returns with only BBA Chapter 2/2A linkages should be sent to OSC.
- (8) BSC will forward investors with only BBA Chapter 2/2A linkages to OSC.
- (9) Special care must be taken when protecting the statutes of investors linked to both a BBA Chapter 2/2A and ILSC key case. See IRM 4.31.6.5.1.4.2, Restricted Consents.

4.31.6.2.4.10  
(08-08-2022)  
**Returns with ILSC and  
TEFRA Linkages**

- (1) A case containing both ILSC pass-through and TEFRA pass-through linkages will have a PICF code of 4. The CPF will monitor the statute on the ILSC case and the one-year date on the TEFRA case. A Form 3198, Special Handling Notice for Examination Case Processing, will be prepared and maintained with the case file. The "Other" block will be checked and the following statement added: "Dual Status Case: ILSC Pass-through Case EIN(s) and TEFRA Pass-Through Case EIN(s)". Applicable EIN(s) will be listed on the form.  
  
**Note:** If multiple linkages exist, a copy of a TSUMYI print can be associated in lieu of writing out all of the EINs on the form.
- (2) When dual linkages exist, the key case campus must ensure that **all** campus controlled investors are in an ILSC EGC 54XX. The key case CPF may have to coordinate with the other campus.
- (3) Special care must be taken when protecting the statutes of investors linked to both a TEFRA and ILSC key case. See IRM 4.31.6.5.1.4.2, Restricted Consents.

4.31.6.3  
(04-05-2019)  
**Power of Attorney**

- (1) Only those representatives with a valid Power of Attorney (POA) on file for the taxable year(s) under discussion are permitted to receive information about the pass-through examination. A valid POA is provided on Form 2848, Power of Attorney and Declaration of Representative.

- a. A new POA for an investor does not need to specifically name the entity before the service can deal with the POA for the pass-through related items. However, it does need to meet specific requirements.
- b. Under section 3, on one line, under the heading "Description of Matter", the partner should insert "Income including pass-through items".
- c. Under the heading "Tax Form Number", the investor should enter the form number of the investor's return and "Form 1065" or "Form 1120-S".
- d. Under "Year(s) or Period(s)" the investor should enter the covered tax year(s).

**Note:** Each tax period should be reflected on the POA form.

- e. If an existing Form 2848 does not have the proper language, a new Form 2848, with the above statement included in section 3, should be secured.
  - f. Though not required, under Part 5 of Form 2848, it is a best practice to list each act the taxpayer authorizes the POA to perform. These would be acts other than the normal authorization to work with the examiner and exchange confidential information. Care should be taken to identify any restrictions to the POA's authority to act for the taxpayer.
- (2) A copy of the Form 2848 should be secured and maintained in the case file. The only way to determine if the POA was completed correctly for items related to a pass-through entity is to have a copy. It is best not to rely on the Centralized Authorization File (CAF) due to the special language required.
  - (3) Return information, specific to an investor, should not be disclosed to the entity or other investors. See IRC 6103.

4.31.6.4  
(08-08-2022)

#### Transferring Cases

- (1) The following sections cover the transfer of returns into and out of the CPF.

4.31.6.4.1  
(08-08-2022)

#### Transferring Cases into the CPF (EGC 5417)

- (1) Returns transferred to the CPF will be updated to EGC 5417. When the AIMS is transferred, the CPF should receive:
  - a. Return
  - b. Form 3210, if paper
  - c. Form 872, current and prior
  - d. Form 3198
  - e. Form 5344
- (2) ILSC related partner or shareholder returns that are in area office possession for examination issues will not be in the CPF physical inventory. However, these returns (not Joint Committee, Large Corporate Compliance (LCC), Coordinated Industry Case (CIC) corporate, or other corporate specialty cases) are sent to the CPF for suspense if the ILSC examination is not complete. Centralized Case Processing and Appeals will update the case to Employee Group Code 5417, Status Code 33, and the Primary and Secondary Business Codes of the CPF before transferring the case.
- (3) When a return is received, the Employee Group Code should be updated to the appropriate 54XX employee group code. The CPF will review the return to ensure it isn't Joint Committee, Large Corporate Compliance (LCC), Coordinated Industry Case (CIC) corporate, or other corporate specialty case. If the return should be held in the field, the case will be returned to the field for suspense. Review IRM 4.4.33, Transfers, before accepting the return into

inventory. AIMS should also be monitored for records in EGC 5417 where a return was not received. In such instances, the return either needs to be located, or the AIMS updated back to the prior EGC.

- (4) Generally, transferred returns will need a year on the statute. Returns transferred in with an Alpha Code "ZZ" statute need to be approved by the receiving area. See IRM Exhibit 25.6.23-3, Instructions for Updating the Statute on AIMS, for "ZZ" - Transfer of AIMS Database.
- (5) Incoming investor returns should be checked:
  - a. To verify any Form 5344 partial action was completed. The pending pass-through adjustments should be the only remaining issue.
  - b. To verify the CTF code is correct on PCS CC TSINQI.
  - c. For a Freeze Code 6. The Freeze Code 6 can be removed if being accepted for CPF control.
  - d. For an unprocessed Form 8339. If one exists, will it close out the last linkage? If so, the transferring area should be notified that the case should have been fully closed. It is the responsibility of the transferring area to close the case.
  - e. For a BBA Chapter 2/2A linkage (tax years beginning 2018).
  - f. For special instructions on Form 3198.
  - g. To verify the status codes are correct.
  - h. Establish a TXMOD control.
- (6) Incoming unagreed key case returns should be checked:
  - a. To verify that AIMS is being updated from the correct BOD.
  - b. The CTF Code is correct on PCS CC TSINQP.
  - c. To verify the status code is correct.
  - d. To verify the H freeze is in place and generally PICF Code 2. If linked to another pass-through entity the PICF CD will be 5 or 6.
  - e. For special instruction on Form 3198.
- (7) All required documents may be forwarded to the campus via e-mail if the case file is electronic.

#### 4.31.6.4.2 (08-08-2022) **Transferring Cases out of the CPF**

- (1) Generally, the campus will transfer cases to the field at their request, or protested investor returns to Appeals. The field should request returns using Form 15277, AIMS Database Transfer Request Campus Pass-Through Function (CPF). Manager's signature is required.
- (2) When the returns are transferred to the field, the CPF will include:
  - a. Form 3210
  - b. Schedule K-1
- (3) When the returns are transferred to the Appeals, the CPF will include:
  - a. Form 5344
  - b. Form 3210
  - c. Schedule K-1
  - d. Form 8339, if applicable.

- (4) Any returns being transferred that do not have a PICF Code should be sent with a Freeze Code 6, if the CPF needs the return again.
- (5) The ILSC Coordinator should review the Form 15277 to verify the linkages and ensure statute implications are considered. The ILSC Coordinator will give written approval before transferring returns to the field.

4.31.6.5  
(04-05-2019)

**ILSC Investor Suspense**

- (1) ILSC investors controlled by the CPF must be maintained and held in suspense until conclusion of the examination. Perfected taxable investors will be held in EGC 5418 until a report is ready to be written. Perfected tier investors will be held in EGC 5460.
- (2) Minimum requirements for returns held in suspense are:
  - a. Must be linked or related to a linked ILSC pass-through examination.
  - b. Protection of the taxable investor statute of limitations.
  - c. The tier statute has been verified and updated to Alpha Code "GG".
  - d. Contact the key case examiner or Appeals for a pro forma report/worst case scenario figures if an extension cannot be secured for the taxable investor.

4.31.6.5.1  
(04-05-2019)

**Statute Control**

- (1) The campus maintains the IRC 6501 statute of limitations of each taxable investor return controlled by the campus. The field is responsible for maintaining the statute control on the key case pass-through entity return and all investor returns controlled by the field. Appeals is responsible for any investor returns in their control.
  - a. If the investor returns are not linked, the key case examiner assumes total responsibility for the statute control for all of the investor returns. The key case examiner is responsible for securing extensions of the statutory period of limitations on all taxable investor returns.
  - b. Investors' returns will not be linked and controlled by the CPF on an ILSC key case if less than 12 months remain on the earliest investor statute of limitations.

**Note:** The examining agent can have investors linked with less than 12 months on the statute, if those investors are all controlled by the agent examining the ILSC entity. The examining agent is responsible for any investor returns in their control whether linked or not.

- c. A Form 895 is prepared for each investor return unless there is a Form 15041, Investor Level Statute Control (ILSC) Pass-Through Entity Intent Not to Pursue Investor - Statute Protection. The Form 895 is included in the case file. A statute database may be used instead of the Form 895. Use of the statute database should be notated on the history sheet. The use of the Form 895 or electronic database is required for statute monitoring purposes. (IRM 25.6.23, Examination Process-Assessment Statute of Limitations Controls, or IRM 4.31.6.2.1.5.2, Intent Not to Pursue Investor - Statute Protection).

4.31.6.5.1.1  
(10-01-2010)

**Substantial Understatement of Income, Six-Year Statute**

- (1) If it can be shown that a taxpayer understated his/her gross income by more than 25%, a special 6-year statute applies per IRC 6501(e). On a non-taxable, ILSC return, the computation of the substantial understatement will be made at the investor level.

- (2) The general rule is the investor's gross income includes the investor's pro rata share of the pass-through entity's gross income. Treas. Regs. 1.1366-1(c)(1) and 1.702-1(c). Trade or business gross income is the total amount of sales received or accrued prior to the reduction for cost of goods sold. Gross income in other cases is reduced by basis.
- (3) In determining whether an individual has a substantial understatement of income, you would total the gross income reported on the individual tax return and compare it to the correct total of gross income.

**Note:** Separately stated income from the pass-through entity should be included on the proper line of the Form 1040 – interest, dividends, capital gains, etc.

- (4) The following items would be totaled in arriving at the investor's gross income:
  - Wages, Salaries, Tips, etc.,
  - Interest Income (not including tax exempt interest),
  - Dividends,
  - Gross Income from Business or Farm (before cost of sales),
  - Net Gains from the Sales of Property (not the gross sales price),
  - Proportionate Share of Gross S Corporation and Partnership Income, (Gross Receipts (before cost of sales), Gross Rents, Net Gain from Form 4797, Other Income Included in Total Income, Gross Income from Farm Included in Total Income),
  - Gross Rents or Royalties, and
  - Other Income.
- (5) In establishing a 25% omission of income case, the burden may be on the government. An item other than an overstatement of basis is not considered omitted from gross income if the taxpayer adequately disclosed the item on the return or on an attached statement. The disclosure must adequately apprise the Service of the nature and approximate amount of the item; the actual dollar amount of the omission need not be disclosed. An understatement of gross income caused by an overstatement of basis is an omission from gross income for the tax period for which the assessment statute was open on July 31, 2015 and for returns filed after July 31, 2015.
- (6) Due to the requirement to use the proportionate share of gross income, it may be difficult to trigger the 25% omission rule where the individual taxpayer reports the distributive share of income or loss of the ILSC key case ownership interests.
- (7) On the other hand, this gross income test could actually trigger the 6-year statute if the investor failed to report his entire share of the entities pass-through income.
- (8) Based on Treas. Regs. 1.1366-1(c)(2) and 1.702-1(c), the amount of gross income reported by the investor depends on whether the investor reports all of his/her pro-rata share of pass-through income. If all of the pass-through income is not reported, then all of the gross income for the 25% omission test has not been reported.

**Example – Six Year Statute**

- Ann owns 25% of S, Inc., an S corporation with gross income of \$200,000 and ordinary income of \$20,000.
- This means that Ann's gross income from the S corporation is \$50,000. Also, her share of the ordinary income is \$5,000.
- If Ann only reports \$3,000 of ordinary income, and failed to report \$2,000 of ordinary income, she would also fail to report \$20,000 of gross income (2,000/5,000 of \$50,000).
- Assume Ann's only other income is \$25,000 of W-2 income. Her total gross income is \$75,000 (\$25,000 W-2 income plus \$50,000 S corp. income).
- She has omitted \$20,000 of the \$75,000 of income which is a 26.67% omission. This triggers the 6-year statute.

- (9) Be careful when computing substantial understatement of income, especially relating to pass-through entities. The pass-through entity's gross income versus pass-through taxable income should be used in the calculation. Situations where an individual fails to include his/her entire share of ILSC pass-through income can result in a 25% omission of income.

4.31.6.5.1.2  
(08-08-2022)

**Alpha Code Statutes**

- (1) Generally, ILSC taxable investor returns are controlled using their numeric IRC 6501(a) statutes. There are situations where updating an investors statute to an alpha statute may be appropriate, but most of the time it will not apply. The key case statute is generally controlled with an Alpha Code "GG" statute. See IRM Exhibit 25.6.23-3, Instructions for Updating the Statute on AIMS, for a full list and explanation of each alpha statute.
- (2) Generally, ILSC tier investor returns are controlled using an Alpha Code "GG" statute. The tier entity must be screened to ensure there are no taxable issues and investor linkage is complete per the build out before applying the alpha code statute.
- (3) When an unagreed key case is transferred to the CPF, the ILSC Coordinator should ensure that any taxable issues were assessed (if applicable) and update to the Alpha Code "GG" statute.
- (4) See IRM Exhibit 25.6.23-3, Instructions for Updating the Statute on AIMS, for a full list and explanation of each alpha statute.

4.31.6.5.1.2.1  
(08-08-2022)

**Non-Filer Statute Procedures**

- (1) Check quarterly to determine if non-master file records with an Alpha Code "EE" statute were filed for the primary or secondary spouse.
- (2) If a return was filed, the Tax Examiner will remove the Alpha Code "EE" statute and replace it with their numeric statute.

4.31.6.5.1.3  
(04-05-2019)

**Pass-Through Entity Extensions**

- (1) For ILSC pass-through cases, the statute of limitations is not controlled at the entity level, but at the taxable investor level.
- (2) Statute extensions should be secured for trusts and S corporations that are subject to tax. The tier level extension protects the entity level statute, but will not extend the period for beneficiaries or shareholders. The beneficiary or shareholder level extensions are still needed.

4.31.6.5.1.4  
(04-05-2019)  
**Investor Level Statute Extensions**

- (1) The CPF, through local procedures, will determine if contacting the key case agent is necessary before requesting extensions. Generally, the ILSC Coordinator will make the contact unless delegated to others.
- (2) When it is determined that an investor return has less than 210 days on the statute of limitations, an extension is needed to extend and protect the assessment period. See IRM 25.6.22, Extension of Assessment Statute of Limitations By Consent.

**Note:** Remember, a no change at the key case level may not be a no change at the investor level. If the investor did not properly report their Schedule K-1 items, then that investor may be subject to an assessment.

- a. The CPF will prepare a Form 872, Consent to Extend the Time to Assess Tax, for each tax period and Letter 907-F, Request to Extend Assessment Statute Related to Pass-through Entity Examination, to send to the investor(s) at the current address. On a joint return, a Form 872 must be prepared and mailed to each spouse. One copy is maintained in the case file, one copy will be mailed to each spouse separately.
- b. The Service must notify the taxpayer (or authorized representative executing a consent) as to the following rights as required by IRC 6501(c)(4)(B) on **each** occasion when the taxpayer is requested to extend the statute by consent:

- The right to refuse to extend the limitations period.
- The right to request the extension be limited to particular issues held open for further examination or appeal.
- The right to request the limitations period be extended only to a particular period of time.

The notification should be provided by sending Letter 907-F, Request to Extend Assessment Statute Related to Pass-through Entity Examination.

- c. The returned consent should be signed by the taxpayer, as it appears on the return, unless there was a name change. The consent should then be prepared as “Jane Cod, formerly Jane Bass” on the name line with the new name on the signature line.
- d. If the consent is not received in the allotted time, the examiner will prepare Letter 928-E, Request to Extend Statute Related to Pass-through Examination Follow-Up, to send to the taxpayer.

**Note:** An authorized Service official must sign the consent before the Assessment Statute Expiration Date (ASED) expires.

- e. The taxpayer or the taxpayer’s representative may request, verbally or in writing, restrictive wording on the extension. The ILSC Coordinator will review the return for other issues and verify the use of a restrictive paragraph. Refer to IRM 25.6.22.8, Restricted Consents, for instructions in preparing and securing approval of the restrictive paragraph consent.

- (3) When the signed consent is received by the CPF, it will be reviewed for accuracy. The consent will be signed by one authorized to sign on behalf of the Commissioner per Delegation Order 25-2 as set forth in IRM 1.2.2.14.2.

- a. One executed original consent form will be sent to the taxpayer with Letter 929(SC), Letter Transmitting Signed Consent Form Extending Statute of Limitation. One will be retained in the case file.
  - b. The copy of the executed original consent will be associated with the return.
  - c. The Letter 907-F will be maintained in the case file as it serves as documentation that the taxpayer was provided with their rights as required by IRC 6501(c)(4)(B).
  - d. The AIMS database statute should be updated with the extended date. When this is done, a TC 560 is automatically generated to MF to reflect the new date.
  - e. The Form 895 will be updated to the date extended or the appropriate database will be updated.
- (4) If the Form 872 received from the taxpayer is not complete, use Letter 1817, Letter to Taxpayer Regarding Consents, to request the necessary changes.
  - (5) If a partner is a parent corporation or a subsidiary in a consolidated group, the common parent must sign the consent as the agent that is authorized to act in its own name with respect to all matters relating to the tax liability for that consolidated return year. IRM 25.6.22.6.2.2, Subsidiary as Partner and as Member of a Consolidated Return.
  - (6) One consent may be used to extend the statute for partners that are parent corporations and any or all its subsidiaries that filed separate returns provided that the procedures in IRM 25.6.22.6.2.3, Parent and Subsidiary Corporations, are followed.
  - (7) For the preparation, signing and execution of consents, see IRM 25.6.22.5, Preparation of Consent Forms - General Procedures.

4.31.6.5.1.4.1  
(08-08-2022)

#### Splitting Accounts

- (1) Investors filing jointly are both required to sign a statute extension. If one spouse signs, and the other does not, then their account will need to be split. There may be other reasons to split an account, see IRM 21.6.8.4, What is MFT 31 / MFT 65.
- (2) The taxpayer's account should be split before issuing a stat notice to the non-consenting spouse. See IRM 25.6.22.6.1.1(8), Joint Returns.
- (3) For guidance on splitting an account, see IRM 21.6.8.5, Split/Transfer Module Overview.

4.31.6.5.1.4.2  
(08-08-2022)

#### Restricted Consents

- (1) Restricted consents are rarely approved for ILSC investors. Care must be taken to ensure all restricted issues are covered. Any restricted consents received by the CPF should be reviewed by the ILSC Coordinator.

**Note:** For tax years beginning before January 1, 2018, it should be noted that using the standard language included in IRM 25.6.22.8.12, Basic Restrictive Statement, in effect removes the TEFRA language. A statement must be added that the applicable TEFRA paragraphs are still valid. Without that language, the TEFRA issues may be lost.

- (2) Research the investor for other linkages. If other linkages exist, contact the examining agent to see if other restrictions exist.

- (3) Restricted consents will likely not be approved if taxpayers have investments in other pass-through entities, whether linked or not. The risk to other ongoing examinations, or potential examinations, is too high.
- (4) There is a restricted consent indicator on AIMS that signifies if a restricted consent is secured. An “R” will follow the Statute Date if a restricted consent was secured. If an extension was secured with no restriction, an “X” will follow the Statute Date.
- (5) Once the original IRC 6501 statute is gone, each existing restricted consent may be extended timely. No other restricted issues may be added after the IRC 6501 statute has passed.

**Note:** The original statute may be, for example, the six-year period for a return with a substantial omission under IRC 6501(e).

- (6) If a taxpayer is linked on PCS to both TEFRA and ILSC key cases, it is recommended that the TEFRA language not be removed.

#### 4.31.6.5.1.4.3 (08-08-2022) **Proceed to Statutory Notice**

- (1) Taxpayers will be sent a statutory notice of deficiency if they choose not to extend their statute. If the examination is still ongoing, the examining agent will need to be contacted to assist with securing extensions or preparing a “pro forma report/worst case scenario figures” including any penalties. The examining agent should be contacted 3 to 4 months before the taxpayer’s statute expires. If the examination is complete, but the taxpayer is suspended pending an Appeals hearing, the report used for the 30 day letter will be used to complete the statutory notice.
- (2) Taxpayers filing jointly must both agree to extend their statute. If either does not agree to extend their statute, the spouse that doesn’t extend will need to be issued a statutory notice. See IRM 4.31.6.5.1.4.1, Splitting Accounts.
- (3) The key case administrative file history sheet and/or build out need to be updated for any investors sent to report writing for statute protection.

#### 4.31.6.5.2 (08-08-2022) **Technical Assistant Requests (TAR)**

- (1) The Form 15339, Technical Assistance Request (TAR) Campus Pass-Through Function, should be used when needing technical assistance.
- (2) Generally, Technical Assistant Requests should be sent through the unit Lead. If the Lead cannot answer the question they will refer it to the ILSC Coordinator.
- (3) Formal TARs are questions that require a review of the case file. For example, pro forma report/worst case scenario figures are needed from the field, questions on adjustments, etc. Formal TARs are completed by CPF personnel and updated to EGC 5412 by the Lead and sent to the ILSC Coordinator or Revenue Agent in the Technical Team with a Form 3210, Document Transmittal.
- (4) In general, a TAR should be completed and include:
  - a. A detailed description of the problem
  - b. Any prior research completed
  - c. TSPC or Field Agents name, if applicable

d. Requestor's contact information

4.31.6.5.3  
(08-08-2022)  
**Receipt of Amended  
Returns and Claims**

- (1) The CPF will review all amended returns and claims received. Verify that all taxable amended returns have been assessed. If not yet assessed, they should be assessed immediately. If the statute has already expired, contact the area that sent the return and inform them of the barred statute.
- (2) Amended returns and claims include the following:
  - a. An advance payment of deficiency;
  - b. Issues related to the ILSC pass-through examination;
  - c. An adjustment related to a TEFRA partnership (years beginning prior to January 1, 2018);
  - d. An adjustment related to BBA modifications;
  - e. A Form 1045, Application for Tentative Refund, based on a carryback from or to a suspended year;
  - f. Protective claims; or
  - g. TEFRA AARs, see IRM 4.31.4, TEFRA Administrative Adjustment Request (AAR).
- (3) Procedures to follow upon receipt of a Form 1040X, Amended U.S. Individual Income Tax Return, Form 1120X, Amended U.S. Corporation Income Tax Return, amended Form 1120S, U.S. Income Tax Return for an S corporation, amended Form 1041, U.S. Income Tax Return for Estates and Trusts, and/or other taxable claim are:
  - a. Associate to the investor file and secure a copy of CC TSUMYI and IMFOLT/BMFOL;
  - b. Forward all amended returns to a technical employee for review.
- (4) Perform technical screening to determine whether the amended return is allowable. Screening involves determining if:
  - a. The taxpayer's return is already open in the field. If so, forward to the area controlling the investor,
  - b. The necessary assessments have been made, and if an assessment is required, ensure that it is made,
  - c. A formal claim disallowance is required,
  - d. The taxpayer needs to be advised that the claim filed is related to a pass-through examination and will be processed when the examination is complete. Send Letter 5663, Pass-through Related Amended Response or TEFRA/ILSC/BBACHptr2 Amended Response, or
  - e. The amended return or claim (including protective claims) is worthy of examination and requires forwarding to the field for examination and send Letter 5663, Pass-through Related Amended Response or TEFRA/ILSC/BBACHptr2 Amended Response.

If	Then
The amended return or claim is not worthy of examination and does not require forwarding to the area office.	Make necessary adjustments, or send appropriate letter if disallowing the claim.
The amended return or claim is worthy of examination.	Contact the field examiner to see if they are willing to examine it. If yes, send it directly to them. If sending to an area that is not examining the key case, then you will need to make them aware of the ILSC examination and that they would be responsible for the pass-through adjustments. Update to the area Primary Business Code (PBC), Secondary Business Code (SBC) and EGC, Send the TP Letter 5663 select para 2.
The amended return is related to a pass-through entity examination.	Send Letter 5663, para 1 – Notate amended return related to examination. Make sure there are no other items that need to be assessed.

- (5) Generally, investor claims related to a key case examination will not be processed until the key case examination is complete.
- (6) Refund claims, not related to a key case exam, will be processed and have the refund held. The refund will be released if the taxpayer requests the refund in writing and states they understand a future assessment may result in more interest. Send Letter 5641, Refund Release Response, in refund situations.
- (7) Generally S corporations are non-taxable entities. If an entity amended return is filed, it does not extend the statute of the non-taxable corporation or the shareholders. On occasion an amended S corporation return statute is improperly updated to “AA” indicating a claim statute. When the S corporation is a non-taxable entity it cannot be a claim.

4.31.6.5.4  
(08-08-2022)  
**Appeals Suspense**

- (1) See IRM 4.31.6.10.7.3.2, CPF Appeals Suspense.

4.31.6.6  
(08-08-2022)  
**Review of Key Case Report Packages**

- (1) Technical Services and Appeals will submit the key case report package through the group mailbox shown on Form 14729, Investor Level Statute Control (ILSC) Key Case Report Package Check Sheet.
- (2) The packages will be recorded in an electronic log book when received. The packages will be stored electronically on RGS/CEAS.

- (3) Review Form 14729, Investor Level Statute Control (ILSC) Key Case Report Package Check Sheet, when the package is received from Technical Services or Appeals.
- (4) The ILSC Coordinator will check PCS to verify investors are properly linked.
- (5) The ILSC Coordinator will check IDRS data to verify all CPF investors statuses, and address any short statutes.
- (6) If penalties apply, make sure lead sheets are included to support manager approval. Written supervisory approval must cover all tax years and penalties in the SNOD, including alternative penalties, if penalties are recommended by the field agent. See IRM 20.1.5.2.3.1, Documenting Supervisory Approval of Penalties.
- (7) If corrections are needed with a key case package, the CPF will contact the originating function, either Technical Services or Appeals.
- (8) Within 14 days the package should be reviewed and approved, the ILSC Coordinator will sign the Form 14729 and inform Technical Services/Appeals if the H freeze was released and if the key case can be closed, or whether it needs to be sent to the CPF for suspense. A Form 8339 is entered to reflect an item 08, Key Case Adjustment Amount, that should be shown on the Form 14729.
- (9) If not approved within 14 days, the package should be rejected with an explanation. The CPF may suspend the approval for another 14 days for the examining agent to provide additional information without rejecting the package.
- (10) Review the key case administrative file and ensure it has copies of:
  - a. Form 4605 or 4605-A (no change) and Form 886-S/X
  - b. Form 886-A or Form 5701 (if applicable)
  - c. Form 3198 or Form 5402
  - d. Form 14729
- (11) The approved key case report package will be forwarded to the ILSC group electronically within a day.

4.31.6.6.1  
(08-08-2022)

#### **Types of Packages**

- (1) In general, letters should be issued to the investors within 30 days, but no later than 60 days after the package is assigned to a report writer.
- (2) Priority needs to be given to unagreed cases so that investors can receive their notices and submit their protests. These returns should be moved to Appeals as quickly as possible.

4.31.6.6.1.1  
(08-08-2022)

#### **No Change**

- (1) Review Form 4605-A, Examination Changes - Partnerships, Fiduciaries, S Corporations, and interest Charge Domestic International Sales Corporations. The top of Form 4605-A or the Remarks section at the bottom the form should notate "NO CHANGE SUBJECT TO [AREA DIRECTOR (for SB/SE cases) or DIRECTOR, FIELD OPERATIONS (for LB&I cases)] APPROVAL".
- (2) Be aware that packages from Appeals may state they are no changes, but in reality may be upholding the examination adjustments. While Appeals did not make a change to the adjustments, there are still adjustments to be processed.

4.31.6.6.1.2  
(08-08-2022)

**Agreed**

- (1) An agreed package is where the entity has indicated they agree with the adjustments the examiner proposed by signing Form 4605, Examination Changes - Partnerships, Fiduciaries, S Corps., & Interest Charge Domestic International Sales Corporations. The signature on Form 4605 does not bind any of the investors. Each investor must agree to the entity level findings by signing their individual Form 4549, Report of Income Tax Examination Changes, which incorporates the pass-through entity's adjustments..
- (2) The entity return will not be sent to the CPF for suspense as the investors almost always agree when the key case indicates approval to the adjustments. The key case will be closed by CCP. The entity return will need to be secured if any of the investors protest.

4.31.6.6.1.3  
(08-08-2022)

**Unagreed without a protesting investor**

- (1) The entity has not agreed and it is expected that one or more investors will not agree. The key case is sent to the campus for suspense. Sometimes the key case will include an entity level protest and rebuttal. The key case is not sent to Appeals until there is at least one protesting investor.
- (2) Taxable S corporations may be sent directly to Appeals when the entity protests the taxable entity adjustments. This is not to be confused with normal pass-through adjustments which may only be protested by shareholders. If a taxable S corporation is received in the CPF, the CPF should verify that a partial assessment was made for the entity level tax before putting the return in suspense.

**Note:** Remember a taxable S corporation has its own statute. The S corporation statute must be protected until the tax liability resulting from the S corporation's activities is assessed. Once it is assessed, the statute may be updated to "GG".

4.31.6.6.1.4  
(08-08-2022)

**Unagreed and being forwarded to Appeals with a protesting investor controlled by the group**

- (1) The entity has not agreed and one of the investors controlled in the field has protested. Technical Services will send the entity and the protesting field controlled investor to Appeals.
- (2) Technical Services will submit a key case report package, Form 14729, Investor Level Statute Control (ILSC) Key Case Report Package Check Sheet, to the CPF so they can address preparing reports on the remaining investors.

4.31.6.6.1.5  
(08-08-2022)

**Appeals Closure**

- (1) A Form 4605 and Form 886-S/X will not be completed by Appeals if the case is no changed. This means appeals did not uphold any of the field's proposed adjustments.

**Note:** Review the Form 5402 to ensure that there is no change in tax. "No change" can be interpreted by some to mean the adjustments the field proposed are not changing. When field adjustments remain, the Form 4605 and Form 886-S/X must be included.

- (2) On occasion Appeals will request that SNODs be issued to all investors so they can petition the courts. Appeals should note this request in the Comments

section of the Form 14729. These should be sent to all investors even if they had not previously been issued a 30-day letter. The letters should be issued to the investors within 30 days.

4.31.6.6.1.6  
(08-08-2022)

**S Corporation Key Tier**

- (1) Partnerships electing out of BBA may have an S corporation as a partner. An S corporation may be subject to its own examination.
- (2) When the examined S corporation is a tier in a BEO partnership the partnership adjustments should be included in the S corporation report prior to sending reports to the S corporation indirect partners.
- (3) When the partnership and the S corporation close together, which will generally happen when they have the same examiner, the CPF will receive a Form 14729 for each entity. The ILSC Coordinator must ensure the partnership adjustments are included on the Form 4605 for the S corporation. If they are not included or both entities are not closing at the same time, contact should be made with the TSPC or examining agent to determine if a new report for the S corporation needs to be prepared. The entities will be closed or transferred to the CPF based on the following criteria:
  - a. If both the partnership and S corporation are agreed or a no change, the entities can be full closed. Input Form 8339 to resolve the S corporation linkage to the partnership and mark the TSCLS box on the Form 5344.
  - b. If both are unagreed, transfer the entities to the CPF.
  - c. If the partnership is agreed or a no change and the S corporation is unagreed, full close the partnership and transfer the S corporation to the CPF as an unagreed key case. The S corporation linkage to the partnership will remain open until the S corporation audit is concluded. Associate a copy of the partnership key case report package to the S corporation key case admin file. The partnership adjustment will be included in the S corporation key case report package.
  - d. If the partnership is unagreed and the S corporation is agreed or a no change, transfer both entities to the CPF.
- (4) When the partnership closes before the S corporation and the partnership report is a no change, input Form 8339 to resolve the S corporation linkage to the partnership. Associate a copy of the partnership key case report package to the S corporation key case admin file. For change cases, the partnership adjustments will be included with the S corporation report at the conclusion of the S corporation's examination. The S corporation linkage to the partnership will remain open. If the examiners are not the same, e-mail a copy of the partnership report to the examining agent or Appeals Officer who has control of the S corporation. It should be communicated that the partnership adjustments need to be included in the S corporation report.
- (5) When the S corporation closes before the partnership the ILSC Coordinator will need to review the facts and circumstances and make processing determinations.
- (6) Instructions on how to proceed on the tier investors reports should be clearly communicated to the ILSC unit.

4.31.6.6.1.7  
(08-08-2022)

**H Freeze Release**

- (1) The H freeze will be released from the key case within 14 days and documented on the Form 14729, when the CPF receives a complete package for the following:

- a. An agreed package where the entity is in agreement with the changes and it is assumed the investors will agree,
  - b. A no change package,
  - c. A report from Appeals, or
  - d. A request from Appeals to issue SNODs to all investors.
- (2) The CPF will release the H freeze after receiving an unagreed package when all partners agree after receiving a 30 day letter or their SNOD defaults.

4.31.6.6.2  
(08-08-2022)  
**Key Case Report  
Package Procedures**

- (1) The ILSC group will receive an approved key case report package electronically from the ILSC Coordinator. A copy of the key case report package will be uploaded to RGS/CEAS. Update the Report Package Received Indicator on PCS to **Y** for all direct investors.
- (2) Pull all CPF controlled direct investors to prepare for report writing and associate a copy of the key case report package to each investor file. For taxable investors not in the CPF, see IRM 4.31.6.6.2.1, Outside Taxable Investors. For tier investors not in the CPF report writing guidance will be provided by the ILSC Coordinator, see IRM 4.31.6.6.1.6, S corporation Key Tier.
- (3) The investors must be assigned to the report writer within 30 days of the key case report package being received in the ILSC group.
- (4) Prior to the assignment of a taxable investor file to a report writer the following actions should be taken:
- a. Verify the investor statute date. If the statute date was extended, verify all statute extensions are valid;
  - b. Associate any applicable documents with the investor file, and obtain IMFOLT (or BMFOLT) and TSUMYI prints, and;
  - c. Update the investor file to EGC 542X or 543X.
- (5) Prior to the assignment of a CPF tier investor file to a report writer the following actions should be taken:
- a. Verify the investor has an Alpha Code "GG" statute. A trust tier would have a live statute and would be treated as a taxable BMF investor;
  - b. Associate any applicable documents with the tier investor file, and obtain BMFOLT and TSUMYI prints;
  - c. Update the tier investor on AIMS to EGC 5464, Tier Report Writing.

4.31.6.6.2.1  
(08-08-2022)  
**Outside Taxable  
Investors**

- (1) The CPF will send a copy of the key case or tier report package using Form 6657, Related ILSC Pass-through Examination, to:
- a. the examining agent (Status 10 to 19) unless that agent is also examining the key case, or
  - b. Appeals.
- (2) If the investor is in status 06 or 08, the CPF should request AIMS control to make the changes.

- (3) Prepare Form 6657, Related ILSC Pass-Through Examination Information, and check the Pass-through report Form 4605 box and the Type of Examination.
- (4) The Form 6657 must be acknowledged by the recipient within 10 business days.
- (5) The report code must be updated to an "R" (for the field) or "A" (for Appeals) on PCS once the Form 6657 is acknowledged.
- (6) If the investor is in the other CPF, e-mail a copy of the key case or tier report package to the ILSC Coordinator. Ensure they acknowledge receiving it.

4.31.6.7  
(08-08-2022)

**Key Case Suspense**

- (1) Key cases will be forwarded to the CPF when it is unlikely that all investors will agree. The CPF will need the key case return to send to Appeals along with a protesting investor.
- (2) Technical Services will forward the unagreed key case to the CPF in EGC 5417. When Technical Services receives a key case and a protesting investor, Technical Services will send both directly to Appeals. Technical Services will inform the CPF that the return was sent to Appeals on the Form 14729.
- (3) When the CPF receives the unagreed key case, the statute will be addressed per IRM 4.31.6.5.1.2, Alpha Code Statutes, and the AIMS will be updated to EGC 5490 - Key Case Suspense.

4.31.6.8  
(08-08-2022)

**Monitoring Key Case Report Package**

- (1) The ILSC group will monitor the key case report package to determine when the linkage for all investors both direct and indirect (when applicable) has been resolved. The linkage is resolved when the investor has agreed, been no changed, SNOD defaulted or the investor has petitioned tax court.
- (2) When there are tiers, see IRM 4.31.6.9.4, Post Tier Report Writing.
- (3) When a protesting investor or investors are sent to appeals, the remaining taxable investors controlled in the CPF are updated on AIMS to EGC 5474 or 5475, Appeals Suspense, pending a new key case report package from Appeals. The original key case report package is complete and requires no further monitoring.
- (4) When the last investor linkage is resolved, notify the ILSC Coordinator that the key case report package is complete. If the key case AIMS is in EGC 5490, AIMS can be closed.
- (5) The key case admin file should be uploaded to RGS/CEAS. When all documents from the key case admin file are on RGS/CEAS there is no need to maintain a paper file.

4.31.6.9  
(08-08-2022)

**ILSC Tier Report Writing**

- (1) The Technical Team will receive the CPF controlled tier partner and needs to complete the tier report as soon as possible. The report will be reviewed, linkages checked, all amended returns associated to the file and sent to Technical Team for report writing.
- (2) The CPF tier report consists of the Form 4605, Form 886-S and workpapers. Once the report is written it should be uploaded to RGS/CEAS.

- (3) The CPF tier file will remain open until investor actions are complete.
- 4.31.6.9.1  
(08-08-2022)  
**Tier Also a Key Case**
- (1) When the tier is also a key case, coordination may be needed with the field agent on preparation of the report.
- (2) Both the partnership and S corporation adjustments should be included on the S corporation's Form 4605. If the S corporation report contains the partnership adjustments the tier investor reports can be written.
- (3) When an S corporation is also a key case the CPF will not prepare a tier report. The ILSC Coordinator will prepare report writing guidance per IRM 4.31.6.6.1.6, S corporation Key Tier.
- 4.31.6.9.2  
(08-08-2022)  
**Writing the Tier Report**
- (1) Investors below the tier waiting for the tier report will be held in suspense until the tier report is written.
- (2) Verify the investor linkages are complete per the build out.
- (3) The Technical Team report writer prepares the report and saves the tier report package in RGS/CEAS. The tier report package consists of:
- a. Form 4605-A
  - b. Form 886-X
  - c. Form 886-A, if applicable
  - d. Workpapers
  - e. Copy of key case partnership report
- (4) The tier report is not sent to the entity and is only used to prepare the investor reports.
- (5) Complete Form 8339. When the S corporation tier is linked to an ILSC partnership that has an open linkage to a BBA partnership, the Form 8339 would include element 05-T, to remove the 2's.
- (6) Prepare Form 5344 but do not add the disposal code because that will depend on the investor closure type. The Form 5344 should stay with the case file until the tier entity is ready to close after investor actions are determined.
- (7) The tier entity will remain open until investor actions are complete for this key case. Form 8339 and Form 5344 will be kept with the case file until closure.
- (8) Update AIMS to EGC 5467, Tier Report Written - Prepare Investors.
- 4.31.6.9.3  
(08-08-2022)  
**Tier Report Written - Prepare Investors**
- (1) The ILSC group will receive a tier report package from the Technical Team.
- (2) Verify the tier report package is uploaded to RGS/CEAS. For field controlled tiers, package information will be provided by the ILSC Coordinator.
- (3) Update the package received indicator on PCS to "Y" using CC TSCHG on the tier investors.
- (4) Pull all CPF controlled investors to prepare for report writing. Associate a copy of the tier report package to each investor file. For taxable investors not in the CPF, see IRM 4.31.6.6.2.1, Outside Taxable Investors.

- (5) Assign the investors to a report writer within 30 days of the ILSC group receiving the tier report package.
- (6) Prior to the assignment of a taxable investor file to a report writer the following actions should be taken:
  - a. Verify the investor statute date. If the statute date was extended verify all statute extensions are valid;
  - b. Associate any applicable documents with the investor file;
  - c. Update the investor file to EGC 542X or 543X.
- (7) Update the tier file to EGC 5468, Post Tier Report Writing Suspense.
- (8) For field controlled tiers, the ILSC group will receive report writing guidance from the ILSC Coordinator.

4.31.6.9.4  
(08-08-2022)

#### Post Tier Report Writing

- (1) ILSC group will monitor the tier report package to determine when the linkage for all tier investors has been resolved. The linkage is resolved when the investor has agreed, been no changed, SNOD defaulted or the investor has petitioned tax court.
- (2) When the last tier investor linkage is resolved the tier can be closed. See IRM 4.31.6.9.4.1, Tier Full Closure. If the tier is linked to another open key case or the ILSC key case is linked to a BBA Chapter 2 key case, see IRM 4.31.6.9.4.1.1, Tier Partial Closure.
- (3) When a direct investor to the key case files a protest, update the CPF tier on AIMS to EGC 5469, Tier Appeals Suspense. Update the remaining tier investors on AIMS to EGC 5474 or 5475, Appeals Suspense, pending a new key case report package from Appeals.
- (4) When a tier investor protests, the tier is sent to Appeals with the protesting investor and the key case.

4.31.6.9.4.1  
(08-08-2022)

#### Tier Full Closure

- (1) When the tier has no open ILSC or BBA Chapter 2/2A linkages and all tier investor linkages have been resolved, the tier can fully close.

**Note:** When an investor SNOD cannot be issued due to another open linkage, the tier may be closed as long as the tier package is documented on RGS/CEAS and associated to the investor file.

- (2) Input Form 8339.
- (3) Determine the disposal code for the tier and update the Form 5344. The disposal code will depend on the type of investor closure.
  - DC 02 - Use when the examination results in no changes to the key case entity.
  - DC 04 - Use when an agreement is obtained from all tier investors.
  - DC 08 - Use when all tier investors did not sign a report. This includes when an investor SNOD defaults.

4.31.6.9.4.1.1  
(08-08-2022)

#### Tier Partial Closure

- (1) If the tier has any open linkages remaining, input Form 8339 and determine the tier partial action:

- a. When the tier has another open ILSC linkage, update AIMS to EGC 5460, Tier Suspense, even if a BBA Chapter 2/2A open linkage exists. The ILSC linkage takes priority.
- b. When the ILSC key case has an open BBA Chapter 2/2A linkage the tier must remain open. The Form 8339 should have an 05-T. If there are no other open ILSC linkages the tier and the tier investors should be transferred to the BBA Chapter 2/2A Team.
- c. When the tier is directly linked to an open BBA Chapter 2/2A case and there are no open ILSC linkages the tier and the relevant tier investors should be transferred to the BBA Chapter 2/2A Team. Investors not relevant to the BBA Chapter 2/2A examination should be closed.
- d. Contact the BBA Chapter 2/2A Coordinator when transferring a Brookhaven ILSC case to Ogden for the BBA Chapter 2/2A linkage.

4.31.6.9.4.2  
(08-08-2022)  
**Protesting Tier Investor**

- (1) When a tier investor files a protest, the report writer will notify their ILSC Coordinator.
- (2) If the investor filing the protest is an indirect investor, the tier will be sent to Appeals along with the key case and a protesting investor. More than one protesting investor may be sent if they have different power of attorneys or they raise additional issues. IRM 4.31.6.10.7.3, Request for Appeals, provides additional processing information.
- (3) The remaining investors will be held in suspense, tier investors in EGC 5469 and taxable investors in EGC 5474 or 5475 until an Appeals decision is made.

4.31.6.10  
(10-01-2010)  
**ILSC Report Writing**

- (1) The following subsections cover the ILSC taxable investor report writing procedures. Also refer to IRM 4.10.8, Examination of Returns - Report Writing, and Training Pub 28432-102 TEFRA Report Writing (Basic) (Student Guide) as needed.

4.31.6.10.1  
(05-31-2004)  
**Introduction – Procedure  
for Processing Written  
Reports**

- (1) In general, each linked investor return must have a report written disclosing the results of the examination of the pass-through return to which the investor is linked. The CPF must secure signed agreements from each investor. One or more of the investors may choose to dispute the proposed adjustments of the pass-through entity. The report provides the investor the opportunity to agree or appeal the adjustment.
- (2) Note the investor case file, and update AIMS to EGC 542X or 543X.
- (3) This subsection includes the procedures for processing the written reports.

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**Note:** May be a pro forma report, or just worst case scenario figures instead of a key case report package when an investor report is needed for statute protection.

- f. Any penalty information;
- g. An IMFOLT (or TXMOD), TSUMY prints and Form 2848, if applicable;
- h. Schedule K-1;
- i. Form 895, statute control or statute database control notated on history sheet (IRM 25.6.23, Examination Process - Assessment Statute of Limitation Controls);
- j. Examiners must perform IDRS research to check for validity of current AIMS and PCS data and to ensure that no activity has taken place on the taxpayer's account that may affect the case such as prior assessment information (a Form 1040X, partial assessments, or other changes to the investor's account). All research performed must be documented on Form 4700-T, CPF Pass-Through Investor Workpapers (IRM 4.19.10, Examination General Overview); and
- k. Any related tax returns for a net operating loss, investment tax credit or foreign tax credit carryback and/or carryover, related tax returns for Passive loss, Alternative Minimum Tax Credit or Capital Loss carryover and any related tax returns for Tax for Children Under Age 14.
- l. If penalties are applicable and recommended by the field, the field must provide manager approval of the penalties. See IRM 4.31.6.10.4.1, Penalty Considerations.

- (2) If any of these items are not present in the investor case file (virtual or paper), the report writer must secure the information necessary for the preparation of the examination report. Depending on the statute, this may require returning the case file to another unit to secure the necessary information.

4.31.6.10.4.1  
(08-08-2022)

### Penalty Considerations

- (1) IRC 6751(b)(1), Approval of Assessment, provides in general, that no penalty under the IRC shall be assessed unless the initial determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate. If the field agent is asserting a penalty on pass-through adjustments, then their manager needs to approve that assertion. No additional approval is needed by the CPF as long as all applicable tax years are covered. The CPF should not approve a penalty on pass-through adjustments being asserted by the agent. The examining agent's immediate supervisor must approve the penalty.
- (2) IRM 20.1.5.3.4, Carrybacks and Carryovers, explains that the application of a penalty in the exam year will apply to the carryback and carryover years. Supervisor approval must cover all tax years and penalties for compliance with IRC 6751(b). If a carryback or carryover year is not listed on the approval form, the CPF can approve the penalty based upon the examining agent's approval in the exam year.
- (3) The CPF may assert penalties on an investor for items unrelated to the pass-through adjustments. For example, the investor failed to report a significant amount of income unrelated to the pass-through examination. Because the CPF is asserting the penalty, the supervisor of the CPF employee asserting the penalty must give the approval. See IRM 20.1.5.2.3, Supervisory Approval

of Penalties - IRC 6751 Procedural Requirements. Approval is required before issuing any written communication of penalties to a taxpayer that offers the taxpayer an opportunity to sign an agreement or consent to assessment or proposal of the penalty. Manager approval is not needed for any penalties automatically calculated through electronic means. See IRM 20.1.1.2.3, Approval Prerequisite to Penalty Assessments.

4.31.6.10.4.2  
(05-31-2004)

**Referring Complex Issue  
to the Field**

- (1) If, due to the complexity of the case, an employee believes that he/she cannot adequately prepare an investor audit report, the employee should consult with the ILSC Coordinator. The ILSC Coordinator will provide the employee with assistance, or work with the appropriate Technical Services Pass-through Coordinator in order to have the case worked in the field. Campus personnel should make every effort to work all campus controlled investors at the campus. However, there are times when the complexity of the case will require assistance from the field. It is the complexity of the issues, not the size of the case, that will dictate whether a case gets sent back to the field.

4.31.6.10.5  
(08-01-2006)

**Investor Report Writing  
Procedures**

- (1) The investor's return file with the key case report package will be assigned to a report writer to prepare an adjustment report.
- Note:** All investors in the same key case should be worked together to ensure that if they require a (SNOD), it is issued simultaneously. (See IRM 4.31.6.10.8, Statutory Notice of Deficiency.) Also refer to IRM 4.10.8, Examination Returns, Report Writing, and any other necessary IRM or Training Publications as needed.
- (2) The report writer must verify the statute date (considering any statute extensions), and statute control using local procedures using Form 895 or statute database.
- (3) The report writer must address penalties per IRM 4.31.6.10.4.1, Penalty Considerations.
- (4) The report writer will complete Form 4700-T, CPF Pass-Through Investor Workpapers, on all cases to reflect the investor's applicable adjustment from the pass-through entity. The report writer will maintain Form 886-X, Form 886-S or Form 886-W, the key case report package and any other documents received from the key case examination with the Form 4700-T as part of the workpapers.
- (5) The investor return will normally be adjusted to reflect the amount shown on the Form 886-X, Form 886-S or Form 886-W unless the adjustment document reflects an allowable loss and the investor did not report any activity from this pass-through return on the original return.
- a. In this situation, the report writer must consider the correspondence in the file, which explains the difference between the amounts shown on the Schedule K-1 and the return.
  - b. If the investor did not respond to the inquiry or responded that the loss was not claimed because of a limited basis or previous execution of a Form 906, the examiner should allow no loss as a result of the examination of the pass-through return.
- (6) If the key case examination resulted in a no change, the examiner will prepare Letter 5694, Investor No Adjustment, to issue to the taxpayer.

4.31.6.10.6  
(08-08-2022)  
**Preparation of Examination Report**

- (1) The report writer will input and generate three copies of Form 4549, Report of Income Tax Examination Changes, for tax and any applicable penalties. (Only two copies needed if not married.) Additionally, there should be copies for each POA. The Form 4549 must include the name, telephone number and the unique identifying number of the person to contact.
- (2) The Form 4549 should list each issue and the EIN of the pass-through entity that had the adjustment. The EIN provides a unique identifier to help the taxpayer understand where the changes came from. It also provides clarity when there are multiple pass-through adjustments with similar names. If adjustments are coming from more than one key case, the EINs and adjustment amounts should be stated separately.

4.31.6.10.6.1  
(04-05-2019)  
**Special Computation for Non-Oversheltered Returns (Munro Decision)**

- (1) In “Munro v. Commissioner, 92 T.C. 71 (1989)”, the Tax Court held that the partnership items (whether income, loss, deduction or credits) included on a taxpayer’s return should be completely ignored in determining whether a deficiency exists that is attributable to non-partnership items. Moreover, the court ruled that the Service may not assume the correctness of its proposed adjustments to partnership items for computational purposes in determining a deficiency, and that taxpayers may not offset net partnership losses against their taxable income for purposes of deficiency proceedings.
- (2) Non-oversheltered returns (and oversheltered returns related to partnership returns with tax years ending before August 6, 1997) are returns that will have a tax deficiency after the proposed adjustments (for other than TEFRA partnership items).
- (3) For non-oversheltered returns, Munro computations will continue to be used if there is an open, related TEFRA partnership proceeding.
  - a. When adjusting a taxpayer’s return for ILSC pass-through issues and the Form 4549 results in a reduced deficiency because of large TEFRA partnership losses, the report writer will prepare a report without consideration of any TEFRA partnership income or losses.
  - b. Prepare a report starting with the original return, or as amended, and remove all TEFRA issues from open TEFRA proceedings. Label this report as: “Information Only – Do Not Process”. Using this report as the starting point, prepare a report making the ILSC pass-through adjustment.
- (4) When there is an open TEFRA proceeding, the following paragraph should be used on the SNOD:
  - a. In computing the deficiency attributable to the adjustments in this notice, which adjustments are neither partnership items nor affected items, as defined by IRC 6231 (prior to amendment by the Bipartisan Budget Act of 2015 (BBA)), all TEFRA partnership items subject to an open TEFRA proceeding, whether income, loss, deduction or credits have been ignored exclusively for the purpose of computing the deficiency which is attributable to the adjustments set forth herein. All TEFRA partnership items subject to an open TEFRA proceeding have been ignored in this notice of deficiency for computational purposes only and this notice is not a substitute for any FPAA which may be issued in regard to the TEFRA

partnerships. This computation is being made pursuant to the Tax Court decision in “Munro v. Commissioner, 92 T.C. 71 (1989)”.

- (5) The following sample paragraph should be included in the explanation of items when there is an open TEFRA proceeding:
- a. The following TEFRA partnerships are subject to partnership level proceedings pursuant to the partnership audit and litigation procedures of IRC 6221 through IRC 6234 (prior to amendment by the Bipartisan Budget Act of 2015 (BBA)) with respect to the taxable year(s) and accordingly, all partnership items, whether income, loss, deductions or credits, have been disregarded for purposes of computing a deficiency attributable to the adjustments in this notice:

Entity	Adjustments
ABC Partnership	\$(30,000.00)
XYZ Partnership	(7,000.00)
HIJ Partnership	(27,700.00)
Total	\$(64,700.00)

- (6) A Munro computation may result in an inflated deficiency due to a change in tax bracket until treatment of the TEFRA items is finally determined.

4.31.6.10.6.2  
(08-08-2022)  
**Special Computations  
for Non-Filers**

- (1) When an investor has not filed a return, the report writer will proceed with SFR procedures.
- (2) Special computations exist for non-filer investors.
- a. Non-filer investors with an Information Returns Processing (IRP) transcript in the case file will have a substitute for return processed and the account will be controlled and adjusted on MF. The report writer should input a Form 4549 containing both the IRP adjustments and the ILSC pass-through adjustments. Continue processing per the ILSC procedures.
- b. Non-filer investors without an IRP transcript will be controlled and adjusted on NMF. The report writer will prepare a Form 4549 for the ILSC pass-through adjustment applying the highest tax bracket applicable for the tax period without the benefit of exemptions or deductions. Continue processing per the ILSC procedures.

4.31.6.10.6.3  
(10-01-2010)  
**IRC Section 6404(g),  
Suspension of Interest  
and Certain Penalties**

- (1) In general, the notice date for purposes of IRC 6404(g) is the date adequate notice is mailed or provided to the individual investor. For ILSC purposes it is the date a report is given to the investor. All other IRC 6404(g) rules apply.
- (2) Notification for ILSC investors will be their initial audit report. Typically, this will be a 30-day letter.
- (3) In the case of an individual who files a return on or before the due date for the return (including extensions), the Service has a 36-month period (18 months effective for tax years where the 18 month period ended on or before November 25, 2007) beginning on the later of:
- a. the date on which the return is filed; or

- b. the due date of the return without regard to extensions,  
in which to provide notice to the taxpayer specifically stating the taxpayer's liability.
  - (4) If notice is not provided to the taxpayer before the close of the 36-month period, then any imposition of interest, penalty, additions to tax or additional amounts that are calculated in reference to the 36-month period (18 months effective for tax years where the 18 month period ended on or before November 25, 2007) are suspended.
  - (5) The term suspension period means the period:
    - a. beginning on the day after the close of the 36-month period under (3) above and
    - b. ending on the date which is 21 days after the date on which notice is provided to the taxpayer.
  - (6) The exceptions to the general rule for suspension of interest and certain penalties where the Service fails to contact the taxpayer are:
    - a. any penalty imposed by IRC 6651, Failure to file tax return or to pay tax;
    - b. any interest, penalty, addition to tax, or additional amount in a case involving fraud;
    - c. any interest, penalty, addition to tax, or additional amount with respect to any tax liability shown on the return;
    - d. any interest, penalty, addition to tax, or additional amount with respect to any gross misstatement;
    - e. any interest, penalty, addition to tax, or additional amount with respect to any reportable transaction with respect to which the requirement of IRC 6664(d)(3)(A) is not met and any listed transaction (as defined in IRC 6707A(c)); or
    - f. any criminal penalty.
  - (7) The notice date must be annotated by the TE on the history sheet in the case file, and also annotated on the case file copy of the Examination report in the "Remarks" area with the following statement: "IRC 6404(g) does apply and notice was provided on (mail out date)".
  - (8) TC 971 with Action Code 064 will be input on MF for the identified cases to record the notice date. MF will automatically compute the interest with only one notice date. Cases with additional notice dates will require manually computed restricted interest (TC 340).
  - (9) All IRC 6404(g) cases where an assessment is being made will require special instructions on Form 3198. If another assessment is necessary, it must again be stated whether IRC 6404(g) applies, and if it does, the notice date for the subsequent assessment must be entered in the "Special/Restricted Interest Features" section of the Form 3198.
- 4.31.6.10.6.4  
(04-21-2017)  
**Completion of  
Workpapers**
- (1) The report writer will complete Form 4700-T, CPF Pass-Through Investor Workpapers, on all cases (see IRM 4.10.9.8, Special Situations Requiring Documentary Evidence, and IRM 4.19.13, General Case Development and Resolution) to reflect the partner's applicable adjustment from the pass-through return. The report writer will maintain Form 886-S, Form 886-W, or Form 886-Z

(or equivalent spreadsheet), and other documents received from the key case CPF, with the Form 4700-T as part of the workpapers.

4.31.6.10.6.4.1  
(08-08-2022)

**Report Generation System (RGS)**

- (1) In general, Report Generation System (RGS) is used in the CPF when preparing IMF or BMF reports. There are times when pass-through adjustments result in no change to the underlying investors. Since the pass-through adjustments are not an examination, capturing the EOAD data is not required if those adjustments will result in a no change and no report was prepared.
- (2) Reason codes should be input on RGS for each item adjusted in order to capture Examination Operational Automation Database (EOAD) data per IRM 4.10.16, Examination Operational Automation Database (EOAD). The list of reason codes can be found in IRM 4.10.16-1, IMF Issue Codes.
- (3) Most, if not all, ILSC adjustments will originate from a partnership or S corporation examination. Therefore, the reason codes from the pass-through section should be used. An exception would be an adjustment specific to the investor's return. For example, if the investor filed an amended return where the issues are not related to the entity examination. Those amended return adjustments should use non pass-through related reason codes.
- (4) The use of National Research Program (NRP) issue codes would only be applicable if the entity that was examined was part of an NRP sample. In such an instance, the case file will be clearly marked to identify it as an NRP related investor. Generally, ILSC cases will fall under non-NRP.

4.31.6.10.6.5  
(02-22-2008)

**Passive Activity Losses (PAL)**

- (1) Examiners need to ensure that all applicable forms are completed when computing the Passive Activity Losses (PAL) adjustments. The Form 8582, Passive Activity Loss Limitations worksheets do not need to be completed for all cases, but should be completed when needed. For example, they should be completed to communicate changes to the taxpayer in the case of dispositions or PAL carryovers.

4.31.6.10.6.6  
(02-22-2008)

**Carryover/Carryback Adjustments**

- (1) Case files for carryback and carryover years need to have copies of workpapers from the source year supporting the adjustments. Adjustments such as Schedule A (contributions), NOL, possibly credits and PAL credits would also require the closing documentation from the source year and computations for any carryback or carryover.
- (2) When there are PAL carryovers, for example, the case files for those years need to have all of the necessary workpapers to support the PAL adjustment. The carryover case file should have the closing documents from the source year as well as the Form 8582 reflecting the PAL carryover changes. Without the source documentation, there is nothing in the carryover year file to support the changes. This information is necessary in the event a subsequent taxpayer inquiry is made.

4.31.6.10.6.7  
(08-08-2022)

**Carryforward Adjustments**

- (1) If a carryforward adjustment is possible, the investor's statute will need to be protected on all carryforward years. For example, a capital loss carryforward is governed by the investor's IRC 6501 statute for the carryforward year. IRC 6501(h) would extend the investor's statute based on the loss year only for carrybacks.

4.31.6.10.6.8  
(08-08-2022)  
**Qualified Business  
Income Deduction  
(QBID)**

- (1) When making adjustments to tax year 2018 or later campus controlled Form 1040 investor returns linked to ILSC key case closures, the CPF will have to consider QBID.
- (2) The CPF will review the investor return to determine if the investor claimed a QBID on their original or subsequently filed tax return, currently found on page one of the Form 1040. The same process will be followed for Form 1041 taxpayers who claim a QBID deduction on their originally filed return. For 2018, QBID was reported as an “other deduction”, but later years have a QBID line on page one.
- (3) When applying these procedures, any adjustment to QBI items included on key case examination reports will be disregarded by CPF in lieu of the following procedures:
  - a. If there was no QBID claimed on the taxpayer’s filed return, skip the following steps and take no action relative to the QBID.
  - b. If there was a QBID claimed on the taxpayer’s filed Form 1040 return, add a Qualified Business Income Deduction issue in RGS using IMF Code 51040. Add an adjustment using the “Net qualified business income deduction” categorization in RGS. RGS is not used for Form 1041 adjustments.
  - d. Add a Form 14997, Adjustment to the Qualified Business Income Deduction, to the report package sent to the taxpayer.
- (4) When applying the procedures above, any adjustment to QBI items included on key-case examination report (Form 4605) by the examining agent will be #  
#  
dures will ensure the QBID adjustments are computed consistently.
- (5) If the taxpayer corresponds with Examination Field Support in response to the Form 14997, employees will review the information provided by the taxpayer and consider the proposed adjustment to QBID in light of the additional information received. If an adjustment to the QBID is warranted, the employee will make the adjustment in RGS using the issue established in paragraph (3), inputting the corrected value in the per exam field of the “Net qualified business income deduction” categorization.

4.31.6.10.7  
(08-08-2022)  
**30-Day Letter  
Procedures**

- (1) The report writer will send a Letter 525-D, 30-Day Letter Related to Pass-through Entity Examination, and two copies of Form 4549 to the investor to secure agreement to the pass-through issue(s). Report writers should always consider IRC 6404(g) and input a TC 971 with Action Code 064 whenever applicable.
- (2) The case file will be suspended for 45 days awaiting response from the taxpayer. If the taxpayer does not respond, issue a statutory notice within 30 days unless there are adjustments pending from another pass-through examination.
- (3) Generally, the 30 day letter will act as notification for purposes of IRC 6404(g).

- (4) When there is less than 60 days left on the investor's statute, the CPF should immediately issue a statutory notice of deficiency.

**Note:** When issuing a stat notice, remember that it must include all other pass-through adjustments.

4.31.6.10.7.1  
(08-08-2022)

**Agreement Received**

- (1) The assessments must be made as soon as possible after the agreement is received. Case may also be closed agreed without an executed agreement form if a full payment not specifically designated as a "6603 Deposit" is received in response to a proposed tax and penalties, and there is no evidence the taxpayer intends to file a protest. For additional agreed closing information see IRM 4.10.8.2.4.2, Execution and Receipt of Audit Reports and Waivers.

- a. Prepare and input Form 8339, PCS Change, to enter the amount of the assessment. Box 11, Change(s), will be completed with Item 5, (the investor one-year date field) with 22222222, assessment amount and time. The investor case will not be allowed to close without this entered on the investor linkage.

**Note:** The PCS will not allow anything other than 22222222 to be entered in the one year date field. An attempt to enter a real date will result in an error message.

- b. If the case is to be full closed (no TEFRA, ILSC, or BBA Chapter 2/2A linkages), the case is prepared for final closure. If there are open linkages (either TEFRA, ILSC or BBA Chapter 2/2A), a partial assessment will be made and the case will be sent to suspense to await additional packages. (See the Form 5344 procedures at IRM 4.31.6.11, Investor Closing Procedures.)

**Note:** Carryover/carryback assessment amounts and time should be included on the Form 8339 of the exam year return.

4.31.6.10.7.2  
(08-08-2022)

**Acceptance of Faxed Agreements**

- (1) Consents to assess additional tax (Form 4549, Form 870, and others) can be accepted by fax if taxpayer contact has been made and the case history documents the date of contact and the desire of the taxpayer to submit the consent by fax.

4.31.6.10.7.3  
(08-08-2022)

**Request for Appeals**

- (1) If an investor does not agree to the proposed key case adjustments and files a protest, both the key case and the investor return will be sent to the Appeals office identified in the taxpayer's protest. If the protest includes a tier return, that return will need to be sent to Appeals as well as the investor and key case. This will usually be the Appeals office that services the operation unit that examined the key case return. The protest should be reviewed to ensure the protest is complete and meets the requirements as shown in Publication 5. There must be at least 365 days remaining on the statute of limitations of any investor return received in Appeals. See Appeals IRM 8.21.2.4, Cases Not Accepted by Appeals.

- (2) Only those investors that file a protest may be sent to Appeals. To conserve the Service's overall resources, generally the key case and one protesting investor (and tier return when applicable) will be sent to Appeals for review of the protested issues. However, Appeals will accept protesting investors with

different representatives, protesting investors without representation and protesting investors with unagreed non-pass-through issues. All other investor returns should be held in suspense pending an Appeals resolution, even if the investor does not respond to the 30-day letter provided there is sufficient time on the investor statute.

- (3) Form 8339, PCS Change, will be input updating item 22, to the literal "A" on all investors sent to Appeals. This will identify that the investor is in Appeals and they will resolve the linkage. If there are no remaining open linkage the case will be closed by them.
- (4) Issue a statutory notice of deficiency when none of the unagreed investors file a protest, or there is a short statute. It is difficult to successfully resolve disputed issues when some investors are non-docketed and others are docketed.
- (5) If no investor protests were received, but there was a protest prepared at the key case level, the ILSC Coordinator should contact the POA to make sure they understand that an investor needs to file the protest.

#### 4.31.6.10.7.3.1 (06-07-2013) **Protest Rebuttal**

- (1) When the taxpayer files a protest, update the investor going to Appeals to AIMS EGC 5477 and notify the ILSC Coordinator. The ILSC Coordinator should review the protest. If a rebuttal was not previously submitted by the examining agent the ILSC Coordinator will contact the agent, provide a copy of the protest and give the examining agent an opportunity to prepare a rebuttal.
- (2) The examining agent should review the protest and provide a rebuttal within 30 days. The examining agent will mail the rebuttal to the taxpayer and/or their representative and provide the campus with a copy of the rebuttal letter to associate with the case going to Appeals. A copy of the rebuttal letter may be sent electronically to the campus. A copy of the letter should also be kept in the key case administrative file. The campus will include the protest and a rebuttal, if applicable, in the case file being sent to Appeals.
- (3) If the examining agent does not provide the rebuttal within 30 days, inform the agent that the case is being forwarded to Appeals without the rebuttal. If the examining agent still wishes to provide a rebuttal they will need to forward the rebuttal directly to Appeals with a cc to the ILSC Coordinator. Notate the agent will forward the rebuttal in the case file going to Appeals. This should also be notated in the CPF key case administrative file.
- (4) The CPF will forward the case files going to Appeals within 15 days of receiving a valid protest, unless a rebuttal or investor statute extension is being prepared. If either is requested the case will be forwarded within 15 days of receiving the rebuttal or extension. Delays are not in the best interest of the taxpayer and may require the CPF to extend the statute in order to meet Appeals time frame. Update AIMS to EGC 5476 on the investor, key case and tier (if applicable) when the files are ready to be transferred to Appeals (DC 07).

#### 4.31.6.10.7.3.2 (08-08-2022) **CPF Appeals Suspense**

- (1) The CPF will usually send the key case and one protesting investor to Appeals. More than one investor may be sent if they have different POAs.

- (2) The remaining investors will be held in suspense, tier investors in EGC 5469 and taxable investors in EGC 5474 or 5475 until an Appeals decision is made. Investors will remain in suspense as long as the statute allows. Investors who do not extend their statute will be issued a SNOD based upon the examination report.
- (3) Only investor cases sent to Appeals should have the report code on PCS updated to A.

4.31.6.10.8  
(08-08-2022)

**Statutory Notice of  
Deficiency**

- (1) If there is no response to the 30-day letter the report writer will research for other open ILSC or BBA Chapter 2/2A linkages. Generally, “only one Statutory Notice of Deficiency (SNOD) may be issued” to a taxpayer for a given tax year. See IRC 6212(c). If no other linkages exist, issue Letter 531, Notice of Deficiency. (See IRM 4.8.9, Statutory Notice of Deficiency) If there are other ILSC or BBA Chapter 2/2A linkages the investor should remain in suspense, statute permitting. If the investor will not extend the statute, the ILSC Coordinator will need to reach out to the examiner/Appeals Officer controlling the ILSC entity with open linkage for a pro forma report/worst case scenario figures. For BBA Chapter 2/2A linkages contact the BBA Chapter 2/2A Coordinator.

**Note:** If an agreement to the 30-day letter is date stamped prior to the date the 90-day letter (Letter 531) was issued, the agreed case can be processed and closed. No action will be taken to rescind the 90-day letter since an agreement was already received. If the agreement to the 30-day letter is received after the date the 90-day letter was issued, the agreed case can be closed as an agreement to the 90-day letter.

- (2) Once the SNOD is issued, the case file will be suspended for 105 days awaiting a response from the taxpayer.

**Note:** A SNOD will not be considered to be agreed without a signed agreement. A taxpayer making a payment that is equal to or greater than the balance due on the report will not be considered agreed. Without a signed agreement the SNOD will have to default before the case can be closed. The investor AIMS database is updated to status 24 and the statute expirations date must be recalculated to reflect the issuance of the SNOD.

- a. If an agreement to pass-through issues is received, assessments must be made as soon as possible after the agreement is received. The statute expiration date must be recalculated based on the Statutory Notice of Deficiency.
  - b. Prepare and input Form 8339, PCS Change, to enter the amount of the assessment. Box 11, Change(s), will be completed with Item 5, (the investor one-year date field) with 22222222, assessment amount and time. The investor case will not be allowed to close without this.
  - c. If the case is to be fully closed, meaning all ILSC and BBA Chapter 2/2A linkages were addressed, the case is prepared for final closure. If there is an open TEFRA linkage complete a partial adjustment and send the case to TEFRA suspense to await additional packages. (See Form 5344 procedures at IRM 4.31.6.11, Investor Closing Procedures.)
- (3) In some instances, a statutory notice is sent because the taxpayer refused to sign a Form 872. If a Form 872 is received after the statutory notice is issued, and the taxpayer was given plenty of time to extend their statute or file a

protest, then the statutory notice should not be rescinded. The taxpayers only option will be to file a petition. These determinations will be a judgement call made on a case by case review by the ILSC Coordinator or manager.

4.31.6.10.8.1  
(08-08-2022)  
**Petition Filed**

- (1) If a petition is filed with the Tax Court, the petitioning investor will be sent to the requesting Appeals area. Update the petitioning investor on AIMS to EGC 5476 before transferring to Docketed Appeals (DC 11). Appeals will fully close the investor when the tax court decision is final.

4.31.6.10.8.2  
(05-31-2005)  
**No Response**

- (1) If no response is received from the investor, and no petition to the Tax Court is filed, the SNOD will be defaulted and the tax assessed per the SNOD. The statute expiration date will need to be recalculated based on the defaulted SNOD.
- (2) Prepare and input Form 8339, PCS Change, to enter the amount of the assessment. Box 11, Change(s), will be completed with Item 5, (the investor one-year date field) with 22222222, assessment amount and time. The investor case will not be allowed to close without this.

**Note:** The PCS will not allow anything other than 22222222 to be entered in the one year date field. An attempt to enter a real date will result in an error message.

- (3) If the case is to be fully closed (no other TEFRA, ILSC or BBA Chapter 2/2A linkages), the case is prepared for final closure. If there are open linkages (either TEFRA, ILSC or BBA Chapter 2/2A) a partial assessment will be made and the case will be sent to suspense to await additional packages. (See Form 5344 procedures at IRM 4.31.6.11, Investor Closing Procedures.)

4.31.6.10.9  
(08-08-2022)  
**No Changes**

- (1) An Investor return who received Letter 3457 should receive a no change letter if the S corporation/partnership entity was closed no change.

4.31.6.11  
(08-08-2022)  
**Investor Closing Procedures**

- (1) Form 5344, Examination Closing Record, is prepared by the investor CPF to process ILSC pass-through adjustments each time an agreement is received by the investor CPF.
  - a. A copy of the Form 5344 will remain in the file until all pass-through issues have been resolved.
  - b. The closing function will input the PCS CC TSCLS as part of the final AMCLSE procedure.

4.31.6.11.1  
(08-08-2022)  
**Proper Completion of Form 5344**

- (1) Special attention must be given to certain entry items on Form 5344.
  - a. CC TSCLS - this block should be checked when an investor return is linked on PCS and the return will be fully closed.
  - b. Item 8 - Agreement Date (partial or final closings). Enter the earliest received date as reflected on the signed Form 4549. The date the agreement was received is required to be entered on agreed deficiency cases if the disposal code is 03, 04, or 09 and Item 12 contains an increase in tax and the MFT is 02, 05, 30, 51 or 52. If no agreement is signed, but the taxpayer full pays the deficiency prior to the issuance of a

Statutory Notice, the case will be considered agreed and closed DC 04 as of the date of payment. See IRM 4.19.13.29, Campus Exam Closing Actions.

- c. Item 13 - Disposal Code. Cases closed no change should use disposal code 01 or 02. The adjustment amount on the Form 5344, Examination Closing Record, should be blank. Cases closed agreed or unagreed will generally use disposal codes 03, 04, or 08. The adjustment amount on the Form 5344, Examination Closing Record, requires an entry other than zero. If you have a situation where the adjustments made to the entity net to zero, enter \$1. After issuance of a 90-day letter, use disposal codes 09 or 10.

<b>Disposal Code</b>	<b>When to use the disposal code.</b>
01 - No Change with Adjustments	Applies to no change examined returns (even if a 30-day letter was issued) if there is an adjustment to the tax base data such as income or deduction items but no change in tax liability or refundable credits; or tax changes fell below the tolerance level. An audit report must accompany the case file. Applies to pass-through investor returns (BBA elect out tiers), unless the key case is a no change. For carryback/carryover returns, if the return was examined to determine if there were any adjustments and the determination results in no adjustments.
02- No Change	Applies to investor returns when the key case is no changed.
03 - Agreed Prior to 30-Day Letter	Applies only to returns if an agreement is received prior to the issuance of a 30-day letter. Should not be seen in the CPF.
04 - Agreed After the 30-Day Letter	Applies only to returns if an agreement is received after the issuance of a 30-day. Applies if no agreement is signed, but the taxpayer full pays the deficiency prior to the issuance of a Statutory Notice. The payment must be a payment of tax to qualify, not a cash bond. See IRM 20.2.4.8.1, Cash Bonds.

<b>Disposal Code</b>	<b>When to use the disposal code.</b>
07 - Non-docketed Appeals	Disposal code 07 is used for returns closed to Appeals before issuance of a statutory notice of deficiency.
08 - Unagreed - Does not Agree or Requested an Appeal	This disposal code is used for unagreed refund cases.
09 - Agreed - After Notice of Deficiency	Disposal code 09 is used when a taxpayer agrees to the statutory notice of deficiency.
10 - Default - Notice of Deficiency	Applies only to returns if the taxpayer fails to file a petition or sign an agreement after the issuance of a 90-day letter or the notice goes unclaimed by the taxpayer.
11- Petitioned	Applies only to returns if the taxpayer petitions tax court after the issuance of a 90-day letter.
12 - Other	Applies to any other manner of closing not identified above, such as direct transfers to Justice Department for settlement, interest only or penalty only cases; barred assessment cases. Audit Recons if a new AIMS base was opened and the exam resulted in no change from the original examination - See IRM 4.13.3.7.2, Insufficient/Partial Documentation. Identity theft cases when closing cases and forwarding case files to Accounts Management unit at the campus.
13 - Undeliverable - Notice of Deficiency	Used when a Notice of Deficiency is returned as undeliverable.
32 - Survey	Carryback/carryover years that were secured but were not examined to determine if any adjustments applied.

- d. Item 14 - Statute Extended to Date (partial or final closings). Because of extensions on ILSC cases, care should be used to ensure that the correct information is shown on AIMS. If the IRC 6501 statute date has sufficient time remaining to make the necessary adjustment, no entry will be required. If the IRC 6501 statute has insufficient time remaining to

allow an adjustment to be made, or the IRC 6501 statute, without regard to any consents, has expired, the Statute Extended to Date should reflect the extended date.

- e. Item 28 - Examiner's Time (final closing only). Enter the technical time spent processing the return. This will include the report writing time. If prior partial closures were processed, the entry will be the total of all technical time spent on the case by the area and/or the CPF. Local procedures must be developed to record the cumulative time applied to each return by the CPF technical employees. Form 5344 will record all time applied (except the 631 or 632 "below the line" time) by technical employees, whether in the area or in the CPF.
- f. Item 30 - Examination Technique (final closing only). See IRM 4.4, Audit Information Management System (AIMS) - Validity and Consistency.
- g. Item 31 - Examiners Grade (final closing only). Enter the grade of the examiner that corresponds to the employee group code entered in item 29.
- h. Item 38-40 Block Number. If the case meets the requirements for electronic closure, use block number 40X.
- i. Item 408 - Related Return Alpha Code. Enter P. Items 405-407 should be blank unless using RGS, then only item 405 is entered. This applies to carryback and carryover years as well.
- j. Item 411 - Payment Code (final closing only). The payment code indicates if there is a payment or partial payment on the account. The codes are as follows (IRM 4.4.12.5.67.1, Valid Codes):

Payment Code	Definition
F	Full Paid
P	Part Paid
N	No Payment
O	Total Offset

- k. Item 412 - Installment Agreement Code (final closing only). Indicates if the taxpayer has an installment agreement. IRM 4.4.12.5.68, Item 412: Installment Agreement Code.

Installment Agreement Code	Definition
I	Installment Agreement Received
C	Installment Agreement requires coordination with Collection.
N	No Installment Agreement was received.

4.31.6.11.2  
(08-08-2022)

**Case File Assembly**

- (1) After completion of the required reports, Form 4549 and closing documents, Form 5344 and Form 8339 (if return is linked on PCS), the report writer should prepare the case for processing by clerical personnel. The CPF will maintain a paper file or electronically on RGS/CEAS. The case file should contain the following documents:

- a. A Form 5344; (required)
  - b. Original Return/EUP or RTVUE/TRDBV, 6020(b); (required)
  - c. Amended Return; (required if applicable)
  - d. AMDISA print; (required)
  - e. Examination Report (Form 4549) or Letter 5694; (required)
  - f. The closing document with the Agreement Date; (required if applicable)
  - g. Correspondence and Telephone Communications (in date order with most current date first); (if present)
  - h. Form 4700-T, Workpapers; (required)
  - i. Key case or tier report package with current TSUMYI (TSUMYI and TSUMYP if a tier return); (required)
  - j. Schedules K-1; (required)
  - k. Misc. documents; (if present)
  - l. Form 8339 for each key case adjustment impacting the assessment; or in lieu of the Form 8339, a TSCHG print notated with the name of the person who did the input; (required)
  - m. Form 3198; (if present)
  - n. History Sheet, Form 12616-T and/or RGS case history sheet (required). For example, paper case files may only have Form 12616-T, electronic case files returns may only have the RGS case history sheet and paper files converted to electronic files may have both.; and
  - o. Form 895. (if present)
- (2) The report writer will indicate on the history sheet or RGS case history what letters should be issued or any additional actions that may be required. The history sheet will also indicate the appropriate closing action. The report writer is responsible for instructing clerical and closing operators of the appropriate actions required based on the type of closure.
- (3) If AIMS page 2, displays “**RET-NOT-REQ**” and there are no original documents that must be returned to files the investor case can be closed paperless, providing all required documents are stored in the RGS case file. Use blocking number 40X.
- (4) If AIMS page 2, displays “**RETURN REQUESTED**” and all required documents are stored in the paper or RGS case file. Transmit Form 13181, Examination Report Generation Software (RGS) Closing Information Cover Sheet, to files in place of paper file documents and close with block number 08X or 38X. Any original documents that must be returned to files can be attached to the Form 13181. All other documents, that are copies of documents found in the RGS file, may be destroyed.
- (5) For cases closed no change (DC 02) through the GII, cases will include the following:
- a. Form 5344 on top of the file, and in any order;
  - b. Return or electronic copy;
  - c. Original Schedules K-1; (if present)
  - d. Amended return stapled to the back no DLN;
  - e. History Sheet;
  - f. AMDISA print;
  - g. Form 8339 or TSCHG print;
  - h. Key case report package, unless stored electronically on RGS/CEAS. If electronic, notate on the case history;

- i. TSUMYI Print (TSUMYP if a tier);
  - j. Efforts should be made to discard any unneeded prints in the folder.
- (6) Once the return is fully closed, it will be sent to Files.
- (7) Returns can be sent to Files paperless using blocking series 40X when:
- a. All items required to be included in the case file (see paragraph (1) or (3)), are on RGS/CEAS,
  - b. There are no original documents to return to Files, and
  - c. There is a literal on AMDISA of “Ret-Not-Req” on the second page.
- (8) If the literal “Return Requested” is on 2nd page of AMDISA, Blocking Series 18X/38X should be used and the Form 13181, Examination Report Generation Software (RGS) Closing Information Cover Sheet, can be sent to Files in place of printing all documents (see paragraph (1) or (3)). Any original paper returns should be returned to Files attached behind the Form 13181.
- (9) All other paper documents that are copies of what is in RGS/CEAS may be destroyed.

4.31.6.11.3  
(08-08-2022)  
**Partial Closures**

- (1) A partial adjustment will be made when there is another open linkage.
- (2) If the open linkage is an ILSC linkage, the case will need to remain in ILSC suspense.
- (3) If the open linkage is a BBA linkage, the case will need to be transferred to BBA Chapter 2/2A suspense. If the investor is in the CPF in Brookhaven, contact the Ogden BBA Chapter 2/2A Coordinator for transfer guidance.
- (4) If the open linkage is a TEFRA linkage, the case will be updated to TEFRA suspense in EGC 5816. Correct the statute date on AIMS to an Alpha Code **HH** statute. If the ILSC key case is a TEFRA tier ensure the TEFRA indicator for the key case and investor is set on PCS.
- (5) When there are multiple open linkages and one is an open ILSC linkage, the case must stay in ILSC suspense so the statute remains protected.

4.31.6.11.4  
(08-08-2022)  
**Closing Employee Returns**

- (1) Employee Accounts are indicated by the flashing “E” Employee indicator on AIMS specifics.
- (2) Prior to closing, the case will be forwarded to the PCS Coordinator.
- (3) The PCS Coordinator needs to provide Exam Planning and Delivery/ Examination Return Selection (EPD/ERC) with the TIN, Tax Year and a brief explanation of the adjustment. A contact person can be found at <http://mysbse.web.irs.gov/exam/tip/emplaudit/contacts/11076.aspx>.
- (4) EPD/ERC will give written permission to change the audit code. This will allow the case to be closed as normal.

4.31.6.12  
(08-08-2022)  
**Key Case Closing Procedures**

- (1) The CPF will be forwarded the key case return when indications are that the investors will not agree. The key case return is needed in the event an investor files a protest. The key case will be closed by the CPF within 30 days after all investor’s agree or all investor’s SNODs default.

4.31.6.12.1  
(08-08-2022)  
**Check Form 5344**

- (1) A completed Form 5344 must be in the file when the key case return is received in the CPF.
- (2) When the key case is ready to close, the disposal code may need to be updated depending upon how the return is closed.

<b>Disposal Code</b>	<b>When to use the disposal code.</b>
01 - No Change with Adjustments	Applies to no change with adjustments cases when no changes are made to the entity's ordinary income or loss or separately stated items reflected on the return or Schedule K-1 and an investor's return is adjusted as a result of the pass-through examination. This would include: adjustments to basis, at-risk or passive activity rules; taxable loan repayments; adjusting the investor's return to match the Schedule K-1 pass-through amount(s).
04 - Agreed After the 30-Day Letter	Applies to an agreed case if an agreement is obtained from all owners. If all signatures are received from the owners, you can close the case indicating on the entity report that agreement has been obtained from the owners.
07 - Non-docketed Appeals	Applies to returns closed to Appeals before issuance of a 90-day letter.
08 - Unagreed - Does not Agree or Requested an Appeal	Applies to Non-Taxable Income Tax Returns Forms 1041, 1065 or 1120S when the investors did not sign a report or request an Appeals conference.
11- Petitioned	Applies only to returns an investor petitions tax court after the issuance of a 90-day letter.

4.31.6.13  
(05-31-2004)  
**Reports and  
Accomplishment**

- (1) The PCS generates the administrative reports used to monitor the investor returns and the related key cases.
- (2) The level to which unit and dollar accomplishments are distributed is now restricted to the National Headquarters and the Area.

4.31.6.13.1  
(08-08-2022)  
**Reports**

- (1) Each CPF will use PCS and AIMS reports to monitor linked returns. Specific information is provided on PCS reports in IRM 4.29, Pass-Through Control System . The CPF personnel should use the Handbook if they have questions about PCS generated reports. Information on AIMS reports is provided in IRM 4.4.27, Reports.
- (2) Cases in status code 33, Employee Group Code 54XX, will be included on the CPF PCS reports. These criteria, although not all will be used for every report, are also used to determine CPF staffing levels and for specific measurements.
- (3) ILSC related partner or shareholder returns that are in area office possession for examination issues will not be in the CPF physical inventory.
- (4) SSIVL. See IRM 4.4.16.7, Other Inventory Monitoring Tools.
- (5) AIMS 4.0, Statute Control Report, is a monthly report with documentation requirements that is to be maintained for three years. See IRM 4.4.27.5.1.1, Procedures for Working Statute Control Report and IRM 25.6.23.5.6 Campus Statute Controls - Corr Exam and CPF.
- (6) PCS 2-3(N), CPF ILSC Workload, Counts ILSC key cases and ILSC investors linkages by CPF Indicator.
- (7) PCS 5-3, TEFRA CPF Investors with new ILSC Linkages. Lists returns in status code 34, employee group code 58XX to which a ILSC linkage has been added within the past three weeks. This report has a 3 month retention period.
- (8) PCS 5-5(N), Incomplete ILSC Closures and PCS 5-5A(N), Incomplete Appeals ILSC Closures. Lists ILSC key cases in status 90 with investors linked to it with no report package received indicator code. These reports have a 2 year retention period.
- (9) PCS 21-3(N), ILSC Key Case Action Report by CPF. Lists ILSC key cases which have moved into status codes 27, 28, 29, 8X or 90. This report has a 3 month retention period.
- (10) PCS 22-3, National Directory Field/CPF,
- (11) CCA 42-43 IDRS Overage Report (ORCAS) age listings.

<b>ORCAS Reports</b>
<p>This report contains all cases controlled to an IDRS employee number and can be used to:</p> <ol style="list-style-type: none"> <li>a. Identify cases requiring action.</li> <li>b. Identify specific cases for review.</li> <li>c. Monitor the size of the employees' inventories.</li> <li>d. Determine if employees are working inventory in the proper order.</li> <li>e. Set closure expectations.</li> <li>f. Identify potential management problem cases.</li> <li>g. Monitor statutes.</li> </ol>

**ORCAS Reports**

This report is available on the *ORCAS delivery database* and on Control-D every Monday morning, Report Name: "Overage Report", Job Name: CCA 4243. The CCA report will be generated by the managers. Employees may also have access to generate their own reports for cases assigned to them (local option),

Items on the Report - For each case shown, the following information is provided:

- a. TIN - Taxpayer Identification Number
- b. IRS Rcd Date - The date IRS received the case
- c. Status - Case History Status Code (A - Active, B- Background, C - Closed, M - Other long term delay, and S - Suspense)
- d. Category - Category of case
- e. Freeze Codes - Freeze Codes on the IDRS account
- f. MFT - Master File Tax
- g. Mod Per - Tax Period on assigned account
- h. Assigned Date - The date the case was assigned to a Tax Examiner
- i. Activity Code - A 10 character field on IDRS the Tax Examiner uses to enter actions taken on the case
- j. Name Ctrl - Name Control on taxpayer's account
- k. Action Date - Date of last action input on the account
- l. Age - Number of days case has aged on IDRS
- m. MF Mod Balance - Module Balance on IDRS
- n. Stat Age - Indicates statute conditions for current and previous years returns - over, expired, or days remaining on statute
- o. STAUP Cycle - Stops notices from generating until cycle listed

The Manager/Lead must review this report to ensure cases are being worked according to IRS receive dates. Annotate cases for follow-up actions by COB Monday. The reports should be maintained for two months. Highlight the cases on the report where:

- a. The TE has failed to take timely actions such as follow-up on a case when the purge date has passed.
- b. The case is in Nullified Unpostable (NLUN) category over 14 days old.
- c. The Statute of Limitations will expire within 180 days.
- d. The STAUP has expired or there is no STAUP on a balance due account.

Manager/Lead will provide the Tax Examiner with the page(s) of the report where the cases are controlled to their IDRS number. Tax Examiner will notate the actions taken on each case worked and any updates on an added comment section.

**ORCAS Reports**

The report should be returned to the Manager/Lead by the end of the employee's work week. Tax Examiners must work cases in the following priority order:

- a. Cases controlled using Category Code **NLUN**.
- b. Cases with an ASED expiring within 180 days.
- c. Cases where the taxpayer was contacted and the suspense date has expired.
- d. Cases with mismatched (erroneous) case controls, Category Codes, and/or Activity Codes.
- e. Remaining cases in oldest IRS received date order.

The Manager/Lead must also review the inventory on a weekly basis to ensure cases are being pulled and worked in statute date order. This review must include the following items:

- a. Compare the previous week's listing to the current week's listing and determine if cases or batches are being pulled in statute date order.
- b. Identify any TINs that were not pulled in statute date order.
- c. Attempt to physically locate the case(s). If located, assign the case(s) to a TE to be worked.
- d. Control the TINs of any missing cases to a TE to recreate the case file using electronic data or corresponding with the taxpayer.

The Manager/Lead will provide an annotated aged/ORCAS listing to the Department Manager each week and provide a list of TINs that were identified as not being worked in EGC age order as well as statute priority. These reports should be maintained for two months. The employee will notate the actions taken on each case.

4.31.6.13.2  
(08-08-2022)

**Accomplishments and Inventory**

- (1) Accomplishments for CPF closures where the report writing was done in the campus will be closed in employee group code 54XX according to the designated breakouts.
- (2) The results for returns are found on AIMS Table 38 which is used by Headquarters.
  - a. PCS Report 8-3(N) reflects CPF ILSC results by links closed; it also reflects inventory as of the report period for report writing and suspense.
  - b. Report 8-3(N) is a weekly report, and Table 38 is a monthly report.

**Note:** Remember PCS reports deal with linkages; AIMS Tables deal with returns.