



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.19.10

DECEMBER 18, 2024

## EFFECTIVE DATE

(01-02-2025)

## PURPOSE

- (1) This transmits revised IRM 4.19.10, Liability Determination, Campus Examination Fraud.

## MATERIAL CHANGES

- (1) Updated title of this IRM. The new title is Campus Examination Fraud. The content of this IRM is focused on providing instructions and guidance for identifying fraud and preparing fraud referrals. All general examination procedures have been removed. Many of the subsections have been reorganized for clarity, readability, to reduce duplication, and to update and/or add missing content. See the information below for the new IRM locations and for a description of the information that was removed or reorganized within this IRM.
- (2) IRM 4.19.10.1, Program Scope and Objectives - Reworded paragraph (1) to state the purpose of Campus Examination Fraud. Removed the verbiage related to the General Examination Overview.
- (3) IRM 4.19.10.1.1, Background - Added overview, duties and campus details regarding fraud referrals. Added the objective of the Office of Fraud Enforcement previously located in IRM 4.19.10.4 (1). Removed the information regarding general examinations.
- (4) IRM 4.19.10.1.2, Authority - Reorganized the content to improve readability by splitting the information into 4 paragraphs.
- (5) IRM 4.19.10.1.3, Responsibilities - Added the responsibilities for the Director, Program Manager, Department Manager, and Manager to meet the requirements listed in IRM 1.11.2.2.4(4).
- (6) IRM 4.19.10.1.4, Program Management and Review - Split paragraph 1 into 2 paragraph to improve readability.
- (7) IRM 4.19.10.1.5, Program Controls - Reorganized content to improve readability by splitting it into multiple paragraphs.
- (8) IRM 4.19.10.1.7, Related Resources - Updated formatting of the links and added a link to the Fraud IRM and to SERP.
- (9) IRM 4.19.10.1.7.1, Correspondence Examination Letters - Deleted subsection because the content does not relate to Campus Examination Fraud procedures. Content was relocated to IRM 4.19.13.2.3, Correspondence Examination Letters.
- (10) IRM 4.19.10.1.7.2, Standard Suspense Periods for Correspondence Examination - Deleted subsection because the content does not relate to Campus Examination Fraud procedures. Content was relocated to IRM 4.19.13.2.4, Standard Suspense Period for Correspondence Examination.
- (11) IRM 4.19.10.2, Campus Examination Fraud Contacts - Retitled subsection to reflect the new fraud content.
  - a. Added list of fraud contacts previously listed in IRM 4.19.10.4 (4).
  - b. Added a definition of each fraud contact.
  - c. Removed content not related to Campus Examination Fraud procedures. The content was relocated to IRM 4.19.13.2.5, Campus Return Selection.

- (12) IRM 4.19.10.2.1, Responsibilities of the Functional Fraud Coordinator (FFC) - SB/SE only - New subsection added to relocate content previously found in IRM 4.19.10.4.3, Responsibilities of the Functional Fraud Coordinator (FFC) - SB/SE only.
- a. Removed the note and moved the content to paragraph (2). Added a bullet list to make it easier to identify the campus alignments.
  - b. Reorganized the content of the remaining paragraphs to display topics in order of occurrence and remove redundancies.
  - c. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
- (13) IRM 4.19.10.2.2, Responsibilities of the Exam Fraud Coordinator (EFC) - TS Only - New subsection added to relocate content previously found in IRM 4.19.10.4.4, Responsibilities of the Exam Fraud Coordinator (EFC). Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
- (14) IRM 4.19.10.2.3, Responsibilities of the Brookhaven CFC (BCFC) and the Austin EFC - New subsection added to relocate content previously found in IRM 4.19.10.4.5.1, Responsibilities of the Brookhaven CFC (BCFC) and the Austin EFC.
- a. Content was reorganized to improve flow, display topics in order of occurrence and remove redundancies.
  - b. Reworded paragraph (1) to improve clarity and added a new paragraph to separate denial and acceptance instructions.
  - c. Added a note: In Austin, designated Tax Compliance Officers (TCO) are assigned to assist to the EFC. The EFC will assist the Fraud TCOs with case development.
  - d. Combined subparagraphs (d), (e) and (i) and added link to IRM 4.19.10.3.7, Program Letters and Actions to Close Case.
  - e. Combined subparagraphs (g), (h), and (j). Added links to IRM 4.19.10.5, Supervisory Approval of Penalties and Bans and 4.19.10.6, Ten-Year Ban.
  - f. Added another Note: For the TS fraud program, designated Fraud Tax Compliance Officers (TCOs) are responsible for duties in paragraph (3) subparagraphs (d) thru (f).
  - g. Added new paragraphs to separate the responsibilities related to the workbook, HQ Updates and additional responsibilities.
- (15) IRM 4.19.10.2.4, Responsibilities of the Campus Fraud Coordinator (CFC) - New subsection added to relocate content previously found in IRM 4.19.10.4.5.
- a. Updated content to improve clarity per plain language guidelines. The overall meaning of the content did not change.
  - b. Added the information from paragraph (5) to paragraph (1). This caused the remaining paragraphs to renumber.
- (16) IRM 4.19.10.2.4.1, Additional Duties of the CFC - New subsection added to relocate content previously found in IRM 4.19.10.4.5.4.
- (17) IRM 4.19.10.2.5, Responsibilities of the Fraud Enforcement Advisor (FEA) - New subsection added to relocate content previously found in IRM 4.19.10.4.8.
- (18) IRM 4.19.10.2.6, Responsibilities of the Correspondence Examination Technicians (CET) and the Tax Examiners (TE) - New subsection added to relocate content previously found in IRM 4.19.10.4.2. Content was reorganized or reworded to display topics in order of occurrence or for better flow, improve clarity, and to remove redundancies. The overall meaning of the content did not change.

- (19) IRM 4.19.10.3, Fraud Development and Referrals. Retitled this subsection to incorporate content relocated from IRM 4.19.10.4.
  - a. The content of paragraph (1) was replaced with the definition of fraud. The objective of the OFE was moved to IRM 4.19.10.2, Campus Examination Fraud Contacts.
  - b. Moved the content from paragraph (2) to paragraph (4).
  - c. Added the criteria needed establish fraud and a link to the Fraud Handbook in paragraphs (2) and (3).
  - d. Relocated the contact information in paragraph (4) to IRM 4.19.10.2, Campus Examination Fraud Contacts.
  - e. The disclosure content was deleted from this IRM because it does not relate to fraud. This content can be found in IRM 4.19.13.9, Power of Attorney and Other Third-Party Authorizations.
- (20) IRM 4.19.10.3.1, Identifying Fraud in Correspondence Examination - New subsection added to relocate content previously found in IRM 4.19.10.4.1.
- (21) IRM 4.19.10.3.2, Centralized Fraud Development Procedures, Brookhaven and Austin Only - New subsection added to relocate content previously found in IRM 4.19.10.4.7. Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
- (22) IRM 4.19.10.3.3, Statute Considerations - New subsection added to relocate content previously found in IRM 4.19.10.4.11. Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
  - a. A link was added to the IRM 25.6.1.9.5, Special Assessment Periods - Related to Return or Item on Return.
  - b. Added a paragraph to explain that there must be 13 months remaining on the ASER for fraud referrals.
- (23) IRM 4.19.10.3.4, Status 24 (90-Day) Referrals - New subsection added to relocate content previously found in IRM 4.19.10.4.6.
- (24) IRM 4.19.10.3.5, Coordination with Counsel - New subsection added to relocate content previously found in IRM 4.19.10.4.5.2. The content of this subsection was split into 2 paragraphs to improve readability.
- (25) IRM 4.19.10.3.6, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures - New subsection added to relocate content previously found in IRM 4.19.10.4.9. Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
- (26) IRM 4.19.10.3.6.1, Transfer of Fraud Case for Area (Field) Examination - New subsection added to relocate content previously found in IRM 4.19.10.4.9.1.
- (27) IRM 4.19.10.3.7, Program Letters and Actions to Close Case - New subsection added to relocate content previously found in IRM 4.19.10.4.10. Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
  - a. Moved content from paragraph (2) and (3) to paragraph (1) and added the Fraud TCO as a responsible contact.
  - b. Moved content from paragraph (1) to new paragraph (2) and new paragraph (3).

- c. Incorporated the content from the note to the new paragraph (2) and new paragraph (3). The note now contains a reminder that the Austin Fraud EFC is responsible for assisting the TCO with case development.
  - d. Added a note after paragraph (1): The Austin Fraud EFC is responsible for assisting the fraud TCO with case development.
  - e. Moved the instructions to use the transfer check sheet to the new paragraph (4).
- (28) IRM 4.19.10.3.7.1, Initial Contact Letter (ICL) and Response Procedures - New subsection added to relocate content previously found in IRM 4.19.10.4.10.1.
- (29) IRM 4.19.10.3.7.2, 30-Day Letter Procedures - New subsection added to relocate content previously found in IRM 4.19.10.4.10.2.
- (30) IRM 4.19.10.3.7.3, 90-Day Letter Procedures - New subsection added to relocate content previously found in IRM 4.19.10.4.10.3. This section was also retitled to add the word "Letter".
  - a. Subsection reorganized to display topics in order of occurrence and remove redundancies. Reworded content to improve flow, clarity and readability. The overall meaning of the content did not change.
- (31) IRM 4.19.10.3.7.4, Manual Interim Letters on Cases in Status 17 - New subsection added to relocate content previously found in IRM 4.19.10.4.9.2.
  - a. Title shorted to improve readability
  - b. Subsection reorganized to improve flow and clarity. Split content into multiple paragraphs, added link to the Policy Statement P-21-3 procedures and added additional Interim Letters with links to SNIP.
- (32) IRM 4.19.10.3.7.5, Third Party Notification Procedures for Campus Fraud Cases - New subsection added to relocate content previously found in IRM 4.19.10.4.12.
- (33) IRM 4.19.10.4, Withholding Only Cases - Subsection retitled to reflect the content relocated from IRM 4.19.10.4.10.4. The content related to fraud development was relocated to 4.19.10.3.
- (34) IRM 4.19.10.4.1, Identifying Fraud in Correspondence Examination - This subsection was deleted. The content was relocated to IRM 4.19.10.3.1, Identifying Fraud in Correspondence Examination.
- (35) IRM 4.19.10.4.2, Responsibilities of the Correspondence Examination Technicians (CET) and the Tax Examiners (TE) - This subsection was deleted. The content was relocated to IRM 4.19.10.2.6, Responsibilities of the Correspondence Examination Technicians (CET) and the Tax Examiners (TE)
- (36) IRM 4.19.10.4.3, Responsibilities of the Functional Fraud Coordinator (FFC) - SB/SE - This subsection was deleted. The content was relocated to IRM 4.19.10.2.1, Responsibilities of the Functional Fraud Coordinator (FFC) - SB/SE.
- (37) IRM 4.19.10.4.4, Responsibilities of the Exam Fraud Coordinator (EFC) - TS Only - This subsection was deleted. The content was relocated to, IRM 4.19.10.2.2, Responsibilities of the Exam Fraud Coordinator (EFC) - TS Only
- (38) IRM 4.19.10.4.5, Responsibilities of the Campus Fraud Coordinator (CFC) - This subsection was deleted. The content was relocated to IRM 4.19.10.2.4, Responsibilities of the Campus Fraud Coordinator (CFC)
- (39) IRM 4.19.10.4.5.1, Responsibilities of the Brookhaven CFC (BCFC) and the Austin EFC- This subsection was deleted. The content was relocated to IRM 4.19.10.2.3, Responsibilities of the Brookhaven CFC (BCFC) and the Austin EFC

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- (40) IRM 4.19.10.4.5.2, Coordination with Counsel - This subsection was deleted. The content was relocated to IRM 4.19.10.3.5, Coordination with Counsel
  - (41) IRM 4.19.10.4.5.3, Supervisory Approval of Penalties and Bans- This subsection was deleted. The content was relocated to IRM 4.19.10.5, Supervisory Approval of Penalties and Bans.
  - (42) IRM 4.19.10.4.5.4, Additional Duties of the CFC- This subsection was deleted. The content was relocated to IRM 4.19.10.2.4.1, Additional Duties of the CFC.
  - (43) IRM 4.19.10.4.6, Status 24 (90-Day) Referrals- This subsection was deleted. The content was relocated to IRM 4.19.10.3.4, Status 24 (90-Day) Referrals.
  - (44) IRM 4.19.10.4.7, Centralized Fraud Development Procedures, Brookhaven and Austin Only - This subsection was deleted. The content was relocated to IRM 4.19.10.3.2, Centralized Fraud Development Procedures, Brookhaven and Austin Only.
  - (45) IRM 4.19.10.4.8, Responsibilities of the Fraud Enforcement Advisor (FEA) - This subsection was deleted. The content was relocated to IRM 4.19.10.2.5, Responsibilities of the Fraud Enforcement Advisor (FEA).
  - (46) IRM 4.19.10.4.9, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures - This subsection was deleted. The content was relocated to IRM 4.19.10.3.6, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures.
  - (47) IRM 4.19.10.4.9.1, Transfer of Fraud Case for Area (Field) Examination - This subsection was deleted. The content was relocated to IRM 4.19.10.3.6.1, Transfer of Fraud Case for Area (Field) Examination.
  - (48) IRM 4.19.10.4.9.2, Monitoring the Issuance of Manual Interim Letters on Open Mail Cases in Status 17 - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7.4, Monitoring the Issuance of Manual Interim Letters on Open Mail Cases in Status 17.
  - (49) IRM 4.19.10.4.10, Program Letters and Actions to Close Case - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7, Program Letters and Actions to Close Case.
  - (50) IRM 4.19.10.4.10.1, Initial Contact Letter (ICL) and Response Procedures - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7.1, Initial Contact Letter (ICL) and Response Procedures.
  - (51) IRM 4.19.10.4.10.2, 30-Day Letter Procedures - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7.2, 30-Day Letter Procedures.
  - (52) IRM 4.19.10.4.10.3, 90-Day Procedures - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7.3, 90-Day Procedures
  - (53) IRM 4.19.10.4.10.4, Withholding Only Cases - This subsection was deleted. The content was relocated to IRM 4.19.10.4, Withholding Only Cases.
  - (54) IRM 4.19.10.4.11, Statute Consideration - This subsection was deleted. The content was relocated to IRM 4.19.10.3.3, Statute Consideration.
  - (55) IRM 4.19.10.4.12, Third Party Notification Procedures for Campus Fraud Cases - This subsection was deleted. The content was relocated to IRM 4.19.10.3.7.5 Third Party Notification Procedures for Campus Fraud Cases.
  - (56) IRM 4.19.10.4.13, Ten-Year Earned Income Tax Credit (EITC), Child Tax Credit (CTC)/Additional Child Tax Credit (ACTC)/Credit for Other Dependents (ODC), and American Opportunity Tax Credit

(AOTC) Ban Procedures - This subsection was deleted. The content was relocated to IRM 4.19.10.6, Ten-Year Ban

- (57) IRM 4.19.10.5, Supervisory Approval of Penalties and Bans - This subsection was retitled to reflect the content relocated from IRM 4.19.10.4.5.3, Supervisory Approval of Penalties and Bans.
- a. Added a new paragraph (1) to include fraud descriptions. This change shifted all other paragraphs down.
  - b. Updated new paragraph (2) to include fraud contact guidance.
  - c. Updated new paragraph (5) to add a link to IRM 25.1.14.4, Campus Examination Procedures and Fraud Development.
  - d. The content regarding the Questionable Refund Program (QRP) was relocated to IRM 4.19.14.9
- (58) IRM 4.19.10.6, Potential Return Preparer Scheme Identification - This subsection was deleted. The content was relocated to IRM 4.19.10.7, Potential Return Preparer Scheme Identification.
- (59) IRM 4.19.10.6.1, Return Preparer Penalties - This subsection was deleted. The content was relocated to IRM 4.19.10.7.4, Return Preparer Penalties.
- (60) IRM 4.19.10.6.2, Office of Professional Responsibility - This subsection was deleted. The content was relocated to IRM 4.19.10.7.5, Office of Professional Responsibility.
- (61) IRM 4.19.10.3.7, Potential Return Preparer Scheme Identification - This subsection was retitled to reflect the content that was removed from IRM 4.19.10.6, Potential Return Preparer Scheme Identification. The content was split into multiple subsections to improve clarity. This subsection only contains the content from paragraph (1) and (2) regarding the identification process.
- a. Three new subsections were added to list the referral process for the examiner, the fraud coordinator, and the HQ analyst.
  - b. The content regarding the Master File Tax (MFT) 31 can be found in IRM 4.19.13.22.1, Bankruptcy Procedures - Examination Bankruptcy Coordinator Instructions, paragraph (6).
- (62) IRM 4.19.10.7.1, Return Preparer Scheme Referral Process for Examiners - New subsection added to incorporate the content removed from IRM 4.19.10.6 paragraph (3)(a).
- (63) IRM 4.19.10.7.2, Return Preparer Scheme Process for CFC/EFC - New subsection added to incorporate the content removed from IRM 4.19.10.6 paragraph (3)(b), paragraph (4), paragraph (5) and paragraph (7).
- (64) IRM 4.19.10.7.3, Return Preparer Scheme Process for HQ Analyst - New subsection added to incorporate the content removed from IRM 4.19.10.6 paragraph (6).
- (65) IRM 4.19.10.7.4, Return Preparer Penalties - New subsection added to incorporate the content relocated from IRM 4.19.10.6.1.
- (66) IRM 4.19.10.7.5, Office of Professional Responsibility - New subsection added to incorporate the content relocated from IRM 4.19.10.6.2.
- (67) Editorial changes throughout the IRM including:
- replaced W&I with TS and replaced Wage and Investment with Taxpayer Services
  - updates to IRM links and references
  - plain language updates

#### EFFECT ON OTHER DOCUMENTS

IRM 4.19.10, dated December 07, 2023, effective date 01-02-2024, is superseded.



**AUDIENCE**

This IRM is intended for the use of the Small Business/Self-Employed (SB/SE) and Taxpayer Services (TS) Campus Examination Operations.

Ishmael Alejo  
Director, Refundable Credits Program Management (RCPM)  
Taxpayer Services





4.19.10

Campus Examination Fraud

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4.19.10.1  
(01-02-2025)  
**Program Scope and  
Objectives**

- (1) **Purpose:** This IRM offers guidance to campus examination employees working potential fraud cases. It includes information for identifying potential fraud, preparing a fraud package, the referral process, and other related fraud issues. The IRS Mission Statement includes enforcing the tax law with integrity and fairness to all. Servicewide Policy Statement 1-236, Fairness and Integrity in Enforcement Selection states IRS employees are expected to carry out their duties with integrity and fairness. Employees must exercise their professional judgement, not personal opinions, in conducting enforcement responsibilities. See IRM 1.2.1.2.36 , Policy Statement 1-236, Fairness and Integrity in Enforcement Selection for the full statement.
- (2) **Audience:** This IRM is intended for use by Taxpayer Services (TS) and Small Business/Self-Employed (SB/SE) Campus Examination.
- (3) **Policy Owner:** Taxpayer Services (TS), Return Integrity and Compliance Services (RICS), Refundable Credits Program Management (RCPM), Exam Policy and Coordination (EPC), Non-EITC is responsible for clearing and publishing this IRM. The policy information in this IRM is owned and updated by TS and SB/SE Headquarters (HQ) Analysts.
- (4) **Program Owner:** The Director of Refundable Credits Program Management (RCPM).
- (5) **Primary Stakeholders:** Taxpayer Services (TS) and Small Business/Self Employed (SB/SE).
- (6) **Contact Information:** To recommend changes or provide feedback for this IRM section, send an email to the IRM author or use the SERP Feedback Application.

4.19.10.1.1  
(01-02-2025)  
**Background**

- (1) This IRM provides an overview of fraud, fraud contact information, fraud referral procedures, and fraud references to be used by examination employees in the performance of their duties.
- (2) TS Refundable Credits Exam Operations (RCEO) and SB/SE Campus Examination employees support the mission of the Internal Revenue Service (IRS) by maintaining an enforcement presence and encouraging the taxpayers correct reporting of income, deductions and credits, and estate, gift, employment, and certain excise taxes, so as to instill the highest degree of public confidence in the tax system's integrity, fairness, and efficiency.
- (3) The goal of the Campus Examination Fraud Program is to ensure SB/SE Examination, TS Examination and Automated Underreporter (AUR) employees independently identify indicators of fraud.
- (4) TS and SB/SE Campus Examination are both referred to as "Examination", "Campus Examination", or "Correspondence Examination".
- (5) The Austin TS Campus Examination function is the designated centralized site for working TS fraud cases.
  - a. They will only accept fraud referrals originating from an examination function.
  - b. Cases will be transferred to SB/SE Area Office for development if the case contains complex issues that are inappropriate for development within the TS campus.

- (6) The Brookhaven SB/SE Examination function is the designated centralized site for working fraud cases.
- (7) The primary objective of the Office of Fraud Enforcement (OFE) is to foster voluntary compliance through the recommendation of a criminal investigation and civil penalties. SB/SE and TS Campus Examination Operations have a program which includes assertion of the Civil Fraud Penalty (CFP) and imposition of the Ten-Year Ban for the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), the Additional Child Tax Credit (ACTC), the Credit for Other Dependents (ODC), and American Opportunity Tax Credit (AOTC).

4.19.10.1.2  
(12-03-2018)  
**Authority**

- (1) The Internal Revenue Service has the authority to conduct examinations, make assessments, and apply penalties under Title 26 of the Internal Revenue Code, Subtitle F, Procedure and Administration.
- (2) Additional information relating to conducting examinations is contained in 26 CFR 601.105, Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
- (3) Examiners conduct correspondence examinations for multiple programs using Internal Revenue Code, Regulations, Policy Statements, and Policies and Procedures relevant to Correspondence Exam.
- (4) The authority for the assertion of the Ten-Year Ban when there is a final determination that the taxpayer's claim for credit is due to fraud is found in:
  - IRC 32(k)(1) for Earned Income Tax Credit (EITC)
  - IRC 24(g)(1) for Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), and Other Dependent Credits (ODC)
  - IRC 25A(b)(4) for American Opportunity Tax Credit (AOTC)

4.19.10.1.3  
(01-02-2025)  
**Responsibilities**

- (1) The Director, Refundable Credits Program Management (RCPM), provides oversight and monitors the performance of the examination operations and acts as the liaison between the RCEO campuses and other headquarters functions.
- (2) The Program Manager is responsible for developing and implementing necessary plans and schedules for the accomplishment of the organization's objectives.
- (3) The Department Manager is responsible for planning work to be accomplished by subordinates, setting/adjusting long and short-term priorities, and preparing schedules for completion of work. They assign work to subordinates based on priorities, and use frontline managers to direct, coordinate, and oversee the work.
- (4) The Frontline Manager is responsible for assigning, directing, and reviewing the work of subordinate employees. They also plan and carry out training and development of employees, evaluate employees' work performance, and perform all other related administrative functions.
- (5) Examination employees are often first to see a tax return or document. Therefore, they have a vital role in recognizing returns, taxpayers, preparers, and others who may be attempting to avoid their responsibilities. As such, campus examination employees are responsible for:

- Identifying fraud indicators,
- Gathering evidence within their scope,
- Discussing potential cases with the appropriate contact,
- Referring potential fraud cases for further investigation,
- Asserting applicable penalties, and
- Imposing the 10-Year Ban.

(6) Per IRC 7803(a)(3) all employees must understand and follow the *Taxpayer Bill of Rights (TBOR)*.

4.19.10.1.4  
(12-09-2020)  
**Program Management  
and Review**

- (1) Audits are conducted by TS RCEO and SB/SE Campus Operations employees.
- (2) Headquarters (HQ) is responsible for:
  - a. Analyzing audit results,
  - b. Performing program reviews, and
  - c. Monitoring the rule-based applications used to select inventory.
- (3) HQ uses these results to make data-based decisions to improve quality, improve case selection, and to ensure the integrity of the selection methods.
- (4) W&I Program Management (PM) is responsible for providing oversight and monitoring the performance results of the EITC and Non-EITC programs for the TS campuses.
- (5) SB/SE Examination Planning and Performance Analysis provides support and monitors the program results for the SB/SE campuses.

4.19.10.1.5  
(12-09-2020)  
**Program Controls**

- (1) Managers use the Embedded Quality Review System (EQRS) to review cases for accuracy and timeliness. National quality reviewers use the National Quality Review System (NQRS) for national product reviews. Both capture the results in the online EQRS database system. The database is partitioned, and the review results are **not** combined.
- (2) Managers and reviewers use Data Collection Instruments (DCIs) to input case review results. The Master Attribute Job Aid (MAJA) that provides information specific to Exam Paper and Phones is located on the *EQRS/NQRS Campus SharePoint Support Site (EQ Web)*.
- (3) EQRS/NQRS report data is available through the database as well as in the monthly Campus Operations Business Results reports. Managers use the EQRS database to generate:
  - Employee Feedback Reports
  - Standardized Reports
  - Ad Hoc Reports
- (4) Follow proper retention and disposition requirements when utilizing Form 3210, Document Transmittal, as outlined in Document 12990, Records Control Schedules.

4.19.10.1.6  
(01-01-2023)  
**Acronyms**

- (1) The following is a listing of definitions for the most common acronyms used in this IRM:

Acronym	Term/Definition
ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
BCFC	Brookhaven Campus Fraud Coordinator
CET	Correspondence Exam Technician
CFC	Campus Fraud Coordinator
CFP	Civil Fraud Penalty
CPS	Correspondence Production Services
CTC	Child Tax Credit
EFC	Exam Fraud Coordinator
FFC	Functional Fraud Coordinator
FEA	Fraud Enforcement Advisor
IDRS	Integrated Data Retrieval System
ODC	Credit for Other Dependent
RCEO	Refundable Credits Exam Operations
RICS	Return Integrity Compliance Services
RCPM	Refundable Credits Program Management
RPPWG	Return Preparer Penalty Working Group
SB/SE	Small Business/Self Employed
ST	Status
TS	Taxpayer Services
TAS	Taxpayer Advocate Service

- (2) The definition for more acronyms commonly used in Examination can be found in the *IRS Acronyms Database*.

4.19.10.1.7  
(01-02-2025)

#### Related Resources

- (1) Examination employees are responsible for researching and using information contained in all reference materials. Other IRM chapters provide information on single topics that pertain to more than one function. Links to the most commonly used reference materials are listed below:
- *IRM Part 4, Examining Process*
  - *IRM Part 3, Submission Processing*
  - *IRM Part 21, Customer Account Services*
  - *IRM Part 25, Special Topics*
  - *Campus Fraud Development Process*
  - *Published Products Catalog*
  - *SERP IRMs*

4.19.10.2  
(01-02-2025)  
**Campus Examination  
Fraud Contacts**

- (1) The primary role of the fraud campus examination contact is to assist with the identification and appropriate referral of cases showing indicators of potential fraud.
- (2) Campus examination employees will contact the applicable fraud coordinator depending on the structure of the fraud program within their business unit and campus:
  - a. **Functional Fraud Coordinator (FFC)** is a fraud specialist assigned to a function or operation within SB/SE campuses. The FFC is responsible for reviewing Form 13549, Campus Fraud Lead Sheet, for potential fraud issues, conducting research to establish a pattern of non-compliance, and referring cases to the Campus Fraud Coordinator (CFC).
  - b. **Examination Fraud Coordinator (EFC)** is a fraud liaison assigned to each TS examination campus and is the primary point of contact with the FEA assigned to the campus. The EFC's role is to provide insights and feedback. See IRM 4.19.10.2.2, Responsibilities of the Exam Fraud Coordinator (EFC) - TS only.
  - c. **Campus Fraud Coordinator (CFC)** is a fraud liaison assigned to each SB/SE campus and is the primary point of contact with the FEA assigned to that campus.
  - d. **Fraud Enforcement Advisor (FEA)** -The FEA collaborates with the CFC/EFC in developing potential fraud cases, and schedules site visits when needed.

**Note:** In the TS campuses, fraud development is centralized in Austin. In the SB/SE campuses, fraud development is centralized in Brookhaven.

4.19.10.2.1  
(01-02-2024)  
**Responsibilities of the  
Functional Fraud  
Coordinator (FFC) -  
SB/SE only**

- (1) The Functional Fraud Coordinator (FFC) is available to help with potential fraud referrals in their functions and serve as the point of contact for employees, leads, and managers.
- (2) FFCs are assigned to functions or operations within SB/SE campuses; an FFC is assigned to each of the AUR operations. The AUR function is aligned under the SB/SE Division and the referral process is handled under the SB/SE Campus Exam Fraud program. AUR FFCs will also follow the procedures in IRM 4.19.3.5.8.3, AUR Functional Fraud Coordinator Responsibilities. Campuses are aligned as indicated below:
  - Atlanta and Austin are aligned with Cincinnati.
  - Fresno is aligned with Ogden.
  - Andover and Brookhaven are aligned with Brookhaven.
  - Philadelphia is aligned with Philadelphia.

**Note:** An FFC may also be located in Classification or Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) Units when applicable.

- (3) Upon receipt of the Form 13549 Campus Fraud Lead Sheet, the FFC must accept or decline the referral within 10 business days. This includes the transfer of cases to a co-aligned campus.
- (4) The FFC will:
  - a. Review the Form 13549 to determine if potential fraud exist.



- b. Confirm all sections of the Form 13549 have been completed and has been signed by the supervisor/lead.
  - c. Review additional supporting documents included in the package.
  - d. Ensure the Tax Examiner (TE) provided detailed information on the apparent and specific indicators of potential fraud.
  - e. Conduct preliminary IDRS research on the tax year submitted for fraud development.
  - f. The FFC will also review prior and subsequent years to determine if the same issue/pattern or other fraud related matters exist for case development.
- (5) If the case is in status 24 and a Notice of Deficiency was issued, The FFC will contact the CFC immediately and make a prompt decision regarding the case. The issuance of a notice of deficiency does not preclude subsequent fraud development; but it does create some additional considerations. See IRM 4.19.10.3.4, Status 24 (90-Day) Referrals.

**Caution:** Cases referred for fraud development, after the issuance of a Notice of Deficiency must be **expedited**. The referral must be based on taxpayer responses and documents received after the issuance of the Notice of Deficiency. The CFC and the FEA will request Counsel's assistance to determine the appropriate course of action, if needed.
- (6) If there is less than one year remaining on the ASER, the FFC will decline the referral and return it to the SB/SE exam team. However, the FFC will continue to make a determination on the merit of the referral. If the referral has merit but fraud development is impractical, due to administrative time, the FFC will determine if the same issue(s) exist in a subsequent year(s).
- (7) If the CFC approves fraud development on the subsequent year(s), the FFC will scan the applicable case information from the declined year and forward the information to the CFC for case development on the subsequent year(s).
- (8) The FFC will review the account for:
  - Questionable Refund Program (QRP) Indicators. Refer to IRM 4.19.14.9.2, QRP Source Code and Project Codes for more information.
  - RIVO involvement. If TC 971 with AC 136, 134, 099, or 617 is present in the current, prior, or subsequent year **do not** refer, unless false or altered documents are present.
  - CI or Exam indicators.
  - Identity Theft indicators. Refer to IRM 25.23, Identity Protection and Victim Assistance for more information.
- (9) If the referral is accepted the FFC will:
  - a. Update and document all research and activities on Form 13549, Campus Fraud Lead Sheet. See Exhibit 4.19.10-1.
  - b. Update the taxpayer information and Functional Fraud Coordinator sections in the Centralized Campus Fraud Monitoring Workbook. SB/SE will follow the instructions included under the separate tab in the workbook.
  - c. Update the AUR system, when applicable, by inputting the appropriate suspense process code. If the case is being transferred from AUR, no tax or credit adjustments will be input. The AUR discrepancy will be addressed as part of the examination.

- d. Rename the Form 13549 to include the referral number (e.g., 0001-23PH-F13549).
- e. Place the most current Form 13549 in the case file.
- f. Save a copy of the Form 13549 to the shared storage drive.
- g. Forward the fraud package to the appropriate CFC for consideration.

(10) If the referral is declined the FFC will:

- a. Update the Form 13549 Section VI, Explanation for Declination. The explanation must provide the originator a clear understanding of why the case could not be developed for fraud.
- b. Return the Form 13549 to the team supervisor/lead.

(11) Refer to IRM 25.1.14, Campus Examination Fraud Procedures for additional information.

#### 4.19.10.2.2

(01-01-2023)

#### **Responsibilities of the Exam Fraud Coordinator (EFC) - TS Only**

- (1) The EFC serves as the point of contact for the Correspondence Exam Technician (CET), Tax Examiner (TE), and team supervisor/lead. They are available to help with potential fraud referrals in their function.
- (2) Upon receipt of the Form 13549 the EFC will:
  - a. Accept or decline the referral within 21 business days, which includes contacting the FEA within 10 business days to discuss the case,
  - b. Update the case to EGC 5024, and
  - c. Review the fraud package.
- (3) The EFC will review the Form 13549 and any additional supporting documents to determine if the potential for fraud is present. This review includes:
  - a. Confirming all sections of the Form 13549 have been completed and the form has been signed by the supervisor/lead.
  - b. Confirming the CET/TE provided detailed information on the apparent and specific indicators of fraud.
  - c. Conducting IDRS research and documenting the results on Form 13549, Section III, Fraud Indicators and Development Actions. Refer to Exhibit 4.19.10-1, Campus Fraud Lead Sheet.
  - d. Reviewing the account for potential identity theft indicators. If found follow IRM 4.19.13.28, Campus Exam Identity Theft.
- (4) The EFC is responsible for updating the sections below in the Centralized Campus Fraud Monitoring Workbook:
  - Taxpayer Identification,
  - Campus Fraud Coordinator, and
  - Fraud Enforcement Advisor Recommendation.
- (5) In addition to the actions above, the Austin EFC will follow the procedures in IRM 4.19.10.2.3, Responsibilities of the Brookhaven CFC (BCFC) and the Austin EFC and IRM 4.19.10.3.2, Centralized Fraud Development Procedures, Brookhaven and Austin Only.
- (6) For additional information, see IRM 25.1.14, Campus Examination Fraud Procedures.
- (7) If the referral is **declined** the EFC will:

- a. List the reason for the declination on Form 13549 Section VI, Explanation for Declination.
- b. Update the case to the prior EGC.
- c. Return the Form 13549 to the CET/TE supervisor/lead.

**Exception:** If a potential TS Campus Exam fraud referral is declined, the case will **not** be returned to the originating campus. Austin Correspondence Exam will keep and finish working the case.

- (8) If the referral is **accepted** the EFC will contact the FEA to discuss the facts of the case and take the actions listed below:

If	And	Then
The FEA concurs the case should be developed by Correspondence Examination.	The referral originated in TS Campus Exam <b>other than</b> Austin	The EFC will: <ol style="list-style-type: none"> <li>1. Complete Form 13549 with the facts of the case and results of the research.</li> <li>2. Secure FEA recommendation to transfer case to Austin Exam on Form 13549.</li> <li>3. Transfer the case to Austin Exam.</li> </ol>
The FEA concurs the case should be developed by Correspondence Examination.	The referral originated in the <b>Austin</b> TS Campus Exam	The Austin EFC will: <ol style="list-style-type: none"> <li>1. Complete Form 13549 with the facts of the case and results of the research.</li> <li>2. Secure FEA recommendation to update case on AIMS to status 17 on Form 13549.</li> <li>3. Follow the procedures in IRM 4.19.10.3.2, Centralized Fraud Development Procedures, Brookhaven and Austin only.</li> </ol>

If	And	Then
The FEA concurs the case should be developed by Field Office Examination.	The referral originated in <b>any</b> TS Campus Exam	The EFC will: <ol style="list-style-type: none"> <li>1. Complete Form 13549 with the facts of the case and results of the research.</li> <li>2. Secure FEA recommendation to transfer the case to the field on Form 13549.</li> <li>3. Follow the transfer procedures in IRM 4.19.10.3.6, AIMS Case Control and PSP Transfer Procedures.</li> </ol>
The FEA concurs that the case should be referred to CI for criminal investigation consideration.	The referral originated in <b>any</b> TS Campus Exam.	The EFC will: <ol style="list-style-type: none"> <li>1. Complete Form 13549 and Form 2797, with the facts of the case and results of the research.</li> <li>2. Secure FEA recommendation to update case on AIMS to ST 18.</li> <li>3. Transfer case to CI per IRM 25.1.3, Criminal Referrals.</li> </ol>

4.19.10.2.3  
(01-02-2025)

**Responsibilities of the  
Brookhaven CFC (BCFC)  
and the Austin EFC**

- (1) The BCFC/Austin EFC is responsible for verifying the Form 13549 is complete and saved correctly. After reviewing the Form 13549, the BCFC/Austin EFC should make a determination to accept or decline the referral.

**Note:** In Austin, designated Tax Compliance Officers (TCOs) are assigned to assist the Austin EFC. The EFC will assist the Fraud TCOs with case development.

- (2) If the referral is **declined**, the BCFC/Austin EFC will return the Form 13549, notating the reason(s) for declination.
- (3) If the referral is **accepted**, the BCFC/Austin EFC is responsible for the actions listed below:
- a. Email the Form 13549 to the originating CFC/EFC to document the accepted referral.

- b. Establish AUR referrals on RGS and AIMS. The BCFC will use SC 85 and EGC 5217. The Austin EFC will use SC 85, EGC 5024, and PBC 192.
- c. Update the case to status 17, fraud development.
- d. Coordinate with the FEA and develop all applicable penalties and bans. See IRM 4.19.10.5, Supervisory Approval of Penalties and Bans and IRM 4.19.10.6, Ten-Year Ban for more information.
- e. Contact third parties as necessary. See IRM 4.19.10.3.7.5 , Third Party Notification Procedures for Campus Fraud Cases.
- f. Prepare and issue all required correspondence including the Form 886-A, Explanation of Items. See IRM 4.19.10.3.7, Program Letters and Actions to Close Case and Exhibit 4.19.10-4 for more details.
- g. Place the most current Form 13549 in the RGS case file. Rename the form to include the referral number (e.g., 0001-23PH-F13549) and save a copy to the shared storage drive. The shared storage drive location is :  
#  
Forms stored on the shared drive will be retained for 3 years.
- h. If affirmative acts of fraud are established and criminal criteria are met, send completed Form 2797 to Criminal Investigation.
- i. If fraud development is approved but the issue is out-of-scope for Campus Examination, transfer the case to the appropriate field office. See IRM 4.19.10.3.6.1, Transfer of Field Cases for Area (Field) Examination.

**Note:** In the Austin Fraud program, designated Fraud Tax Compliance Officers (TCOs) are responsible for the duties in paragraph (3) subparagraphs (d) thru (f).

- (4) The BCFC and Austin EFC are responsible for maintaining the Campus Fraud Monitoring Workbook. This will be accomplished by:
  - Numbering and entering Forms 13549 upon receipt.
  - Updating and ensuring the accuracy of the workbook on a regular basis. This includes recording all prior month activity by the 5th day of the subsequent month.
  - Comparing the OFE report to the workbook to ensure all cases are properly recorded and reflect the correct status.
  - Research and correct any discrepancies as soon as possible.
  - Reconciling the AIMS status 17 workload report with the workbook.
  - Creating and mapping a new Centralized Campus Fraud Monitoring Workbook at the beginning of each new fiscal year.
- (5) The BCFC and Austin EFC will send the HQ Analyst:
  - a. Required quarterly updates for user access to the workbook.
  - b. Updated fraud program staffing chart when changes are made.
- (6) The BCFC and Austin EFC are responsible for evaluating audit reconsideration requests involving a previously asserted CFP. In addition, they will coordinate and deliver fraud training for other CFCs and EFCs.
- (1) The CFC will review the Form 13549 and documentation to confirm; all sections of the form have been completed and digitally signed by the supervisor/lead and sufficient fraud indicators exist.

4.19.10.2.4  
(01-02-2024)  
**Responsibilities of the  
Campus Fraud  
Coordinator (CFC)**

- (2) Update the Centralized Campus Fraud Monitoring Workbook. Follow the instructions included under separate tab in the Workbook. The referral tracking number on the Form 13549 must match the entry on the Centralized Campus Fraud Monitoring Workbook.
- (3) Update the case to status 38 unless the case is in status 24. If the case is in status 24 follow the guidance in IRM 4.19.10.3.4 ,Status 24 (90-Day) Referrals.
- (4) Update the case to the appropriate employee group code (EGC):
  - EGC 5500 for Philadelphia and Memphis
  - EGC 5335 for Cincinnati
  - EGC 5195 for Ogden
  - EGC 5217 for Brookhaven
- (5) Conduct further research as needed and document the results on Form 13549 Section III, Fraud Indicators and Development Actions.

**Note:** If identity theft is present refer to IRM 4.19.13.28, Campus Exam Identity Theft.

- (6) Accept or decline the Form 13549 within 21 business day. This includes contacting the FEA within 10 business days to discuss the case and obtaining an acceptance or declination from the Brookhaven CFC (BCFC).
- (7) If the CFC determines the referral **does not** warrant fraud development and the case will not be referred to the BCFC:
  - a. Notate the reason for the declination on the Form 13549, Section VI.
  - b. Update the Centralized Campus Fraud Monitoring Workbook.
  - c. Save the completed form (signed and dated) to the shared storage subdirectory. Rename the form to include the referral number before saving
  - d. Return the completed Form 13549 to the CET's manager or to the FFC for AUR referrals. The CFC should suggest applying the Negligence Penalty and the Two-Year Ban if EITC, CTC/ACTC/ODC, or AOTC is involved by making the appropriate notations when returning Form 13549.
  - e. For cases originating in correspondence exam, update the status on AIMS and RGS to the status code prior to ST 38 and return the case to the EGC of the examiner who last worked or referred the case.
  - f. For referrals from AUR, update the status on AIMS and RGS to the ST code prior to ST 38 and return the case to the FFC who will continue the examination. The FFC will consider and apply the negligence penalty if appropriate
- (8) If the CFC and FEA determine the case should be referred to Criminal Investigation, the CFC will prepare Form 2797, Referral Report of Potential Criminal Fraud Cases, and refer the case to CI if affirmative acts of fraud are established and criminal criteria are met. The FEA will assist the CFC with completing the Form 2797, if needed.
- (9) If the CFC and FEA agree the case requires further development, but it is outside the scope of Campus Correspondence Examination, transfer the case

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to the SB/SE Area Office. See IRM 4.19.10.3.6.1, Transfer of Fraud Cases for Area (Field) Examination.

- (10) If the CFC and FEA determine that the referral **has potential** for fraud development in Brookhaven, the CFC will:
  - a. Ensure that all supporting case documents are scanned into RGS. Update the RGS case history and the case workpapers.
  - b. Notify the BCFC of the referral by emailing the completed Form 13549, via secure messaging, to *Centralized Fraud Mailbox*. The subject line of the email should contain the referral number and a response due date (e.g., 0001-22PH F13549 due MM-DD-YYYY).

**Note:** If the referral is from AUR, all case documentation and Form 13549 is emailed to the centralized mailbox. If accepted for fraud development, the BCFC establishes the case on AIMS, creates the RGS case, and scans supporting case documents into RGS.

  - c. Rename the Form 13549 to include the referral number (e.g. 0001-22PH F13549) and save it to the shared storage subdirectory. The shared drive
  - d. Prepare and mail Letter 3164-E (Exam 1) Third-Party Contact Letter. Save a copy of the letter in CEAS and update the case history.
- (11) If the fraud referral is declined by the BCFC, the BCFC will return the completed form 13549 (dated, signed, and noting the reason(s) for declination) to the CFC. Since the CFC accepted the fraud referral, the CFC is responsible for working the case through examination closure. This includes consideration of the negligence penalty and appropriate ban if warranted.
- (12) If the fraud referral is accepted by the BCFC, with the concurrence of the Brookhaven FEA, the referring CFC will:
  - a. Secure a signed and dated **Form 13549** from Brookhaven verifying acceptance by the BCFC group manager and FEA.
  - b. Transfer the case (on AIMS and RGS) to Brookhaven for fraud development. The case should be in ST 38 or, in very rare circumstances, ST 24 when transferring.

**Note:** All paper case files will remain at the originating campus location until the BCFC closes the case. Once the case is closed, the paper files are sent to files for association. When the case is closed the BCFC will highlight the case in yellow on the Fraud Development Status Report spreadsheet in the Centralized Campus Fraud Monitoring Workbook.

  - c. Send the taxpayer a Letter 86-C, Referring Taxpayer Inquiry/Forms to Another Office.
  - d. Notate all actions taken on Form 13549. The form should clearly reflect the acceptance of the fraud referral, the status, and the organization code the case was updated to. Return a copy of the completed form to the CET/TE through the team supervisor/lead or the FFC for AUR referrals.

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4.19.10.2.4.1  
(01-02-2024)

**Additional Duties of the CFC**

(1) The CFC also has the responsibility of:

- a. Maintaining copies of the file including Form 13549 and Form 2797 for a retention period of 3 years after the case is closed.
- b. Saving a copy of Form 13549 and Form 2797 (if applicable) to the shared drive storage subdirectory. Refer to IRM 1.15.6.8, Creation, Use, and Maintenance of Unstructured Electronic Data, All Employees Responsibilities, for Shared Drive storage guidance.

**Note:** The signed Form 13549 will be renamed to include the referral number (e.g., 0001-22PH F13549).

- c. Evaluating audit reconsideration requests of the civil fraud penalty, previously asserted by the campus.
- d. Coordinating, and delivering fraud training for new campus employees, as well as annual fraud awareness for Continuing Professional Educational (CPE).
- e. Serving as the point of contact with the headquarters (HQ) analysts.
- f. Monitoring, updating, and ensuring the accuracy of the applicable sections of the Centralized Campus Fraud Monitoring Workbook.
- g. Working the AIMS Status Workload Report, for cases in ST 38, in the assigned EGC.
- h. Timely responding to the headquarters analyst about the required quarterly update for user access to the Centralized Campus Fraud Monitoring Workbook.
- i. Providing an updated campus fraud program staffing chart to the headquarters analyst when any changes are made.

4.19.10.2.5  
(01-01-2014)

**Responsibilities of the Fraud Enforcement Advisor (FEA)**

(1) See IRM 25.1.14, Fraud Handbook, Campus Examination Fraud Procedures.

4.19.10.2.6  
(01-02-2024)

**Responsibilities of the Correspondence Examination Technicians (CET) and the Tax Examiners (TE)**

(1) The CET/TE must familiarize themselves with indicators of fraud. Potential fraud may be identified during the pre-examination research and analysis and/or during the review of the taxpayer's response to an IRS letter or notice. See IRM 4.19.10.3.1, Identifying Fraud in Correspondence Examination and IRM 25.1.2, Recognizing and Developing Fraud for more information.

**Caution:** The CET/TE or referring CFC/EFC should not issue a Notice of Deficiency on a case with suspected fraud. See **IRM 4.19.10.3.4**, Status 24 (90-Day) Referrals for more information.

- (2) Fraud may also be identified by discovering that the same issue(s) or scheme exists in another examiner's inventory.
- (3) Documentation is critical in the referral and development of fraud. The CET/TE and other employees involved in various steps of case development will keep, when possible, simultaneous, and detailed narratives of taxpayer contact.

**Note:** This may be the most important part of the case development.

(4) The CET/TE must maintain an accurate case record reflecting all:

- Case statuses
- Actions taken
- Documents received
- Conversations with the taxpayer, representative, return preparer, and third parties.

- (5) **Do not write** on any of the documents provided by the taxpayer or their representative(s). If you want or need to make notes or highlight areas of interest, make a copy of the document.
- (6) Follow the existing auditing standards and preparation of workpapers as defined in IRM 4.19.13, General Case Development and Resolution.
- (7) Discuss the indicators of fraud with the team supervisor/lead. If the team supervisor/lead concurs, prepare the Form 13549, Campus Fraud Lead Sheet detailing the indicators of fraud. For instructions see Exhibit 4.19.10-1, Campus Fraud Lead Sheet.
- (8) Secure the team supervisor/lead's initials with the date and forward the Form 13549 to the FFC, the CFC, or the EFC, as applicable.

**Note:** In SB/SE, after the supervisor/lead approves the fraud referral by signing the Form 13549, cases that are not in ST 24 will be updated to ST 38 on AIMS and RGS. Cases in ST 24 will be updated to ST 38 on RGS only. Also see IRM 4.19.10.3.6, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures.

- (9) If the case is in ST 22 and the taxpayer's response indicates fraud, expedite the referral process. Do not change the status code. The RGS suspense date may need to be updated to prevent automatic issuance of the notice of deficiency. You must document the actions taken.
- (10) If the case is in ST 24, only consider a referral if the taxpayer's response includes suspected altered documents and was received **after** the notice of deficiency was issued. Do not change the status code. The RGS suspense date may need to be updated to prevent an assessment of the tax and penalty as a result of the automatic default of the notice of deficiency. Only egregious cases may be considered for fraud development after a notice of deficiency has been issued.
- (11) Research identity theft indicators on AIMS and IDRS and take the appropriate action. Refer to IRM 25.23, Identity Protection and Victim Assistance, and IRM 4.19.13.28, Campus Exam Identity Theft.

4.19.10.3  
(01-01-2023)

#### Fraud Development and Referrals

- (1) Fraud is deception by misrepresentation of material facts, or silence when good faith requires expression, which results in material damage to one who relies on it and has the right to rely on it. Simply stated, it is obtaining something of value from someone else through deceit. See IRM 25.1.1.3 , Definition of Fraud.
- (2) To successfully establish potential fraud, the following must exist:
  - a. An understatement of tax,
  - b. That all or part of the tax liability is due to a false, material representation of facts by the taxpayer,
  - c. That the taxpayer had knowledge of the false representations made, and

- d. That the taxpayer intended those false representations to be acted upon or accepted as the truth.
- (3) IRM 25.1, Fraud Handbook provides detailed guidance in identifying indicators of fraud and establishes processes for developing those indicators into referrals.
- (4) The objectives of the Campus Fraud Program include:
  - a. Identifying cases with potential fraud,
  - b. Developing fraud cases with guidance from the FEA,
  - c. Pursuing assertion of the CFP and imposition of the Ten-Year Ban when applicable,
  - d. Referring potential criminal fraud cases to CI for consideration, and
  - e. Obtaining FEA approval when transferring potential fraud cases from the campus to the field. This should only occur when the scope of the audit is beyond the campus's ability.
- (5) The primary forms used by Campus Examination employees to develop and refer cases with potential fraud are:
  - Form 13549, Campus Fraud Lead Sheet and
  - Form 2797, Referral Report of Potential Criminal Fraud Cases.

4.19.10.3.1  
(01-01-2023)  
**Identifying Fraud in  
Correspondence  
Examination**

- (1) During an examination, information may be obtained which indicates the taxpayer has, or is attempting to, understate their tax liability through fraudulent means. Although only a small percentage of cases are fraudulent, it is necessary to detect and report any potentially fraudulent activities. The fraud may involve a promoter or return preparer.
- (2) Taxpayers who knowingly understate their tax liability often leave evidence in the form of identifying earmarks (or indicators). Indicators of fraud serve as a sign or symptom and may show that actions have been taken for the purpose of deceit, concealment, or to make things seem other than what they are. Indicators of fraud, by themselves, do not prove fraud. Fraud indicators are the starting point to complete further inquiry and analysis to determine if affirmative acts of fraud exist. See IRM 25.1.1.4, Indicators of Fraud vs. Affirmative Acts of Fraud. Some common indicators of fraud include but are not limited to the list below:
  - A history of exam disallowance for similar issues.
  - Taxpayer responding to unreported income inquiries with unsubstantiated deductions or expenses.
  - Large, unusual or questionable (LUQ) expenses/deductions.
  - Conflicting, false statements made by the taxpayer.
  - Claiming of different dependents from year to year in order to qualify for EITC and other tax credits and/or benefits.
  - Potentially false or altered forms and documents (e.g., Form W-2, Form 1099, Form 1098-T etc.).
  - Potentially false or altered documents from third parties (e.g., medical records, school letters, etc.).
  - Command Code (CC) DDBKD/MFTRAU mismatch for birth certificate cases.
  - Use of a decedent's Social Security Number (SSN) for dependent exemptions.

- Unsubstantiated refundable credits, (e.g., American Opportunity Tax Credit (AOTC)), not verifiable through IDRS.

**Caution:** Examiners and fraud coordinators should complete preliminary fraud development research when the case is received from the Questionable Refund Program (QRP) inventory or if the referral is from Return Integrity Verification Operations (RIVO). Refer to IRM 4.19.10.2.1, Responsibilities of the Functional Fraud Coordinator (FFC).

- (3) If fraud is suspected the case should be referred to the FFC, CFC or EFC based upon the structure of the fraud program within the business unit and campus.
- (4) The case will be evaluated for fraud development by the CFC/EFC, working with the FEA, to determine if affirmative acts (e.g., deceit, subterfuge, camouflage, concealment) of fraud exist. The Internal Revenue Service (IRS) must prove that the taxpayer acted deliberately and knowingly with the specific intent to violate the law. If the CFC/EFC and the FEA determine the case has the potential for fraud development, the case will be referred to Brookhaven for SB/SE or Austin for TS.
- (5) If preparer or promoter involvement is identified a referral should be made. See IRM 4.19.10.7, Potential Return Preparer Scheme Identification, for guidance.

**Note:** Any potential fraud referrals coming from CI, such as the Return Preparer Program (RPP), should be coordinated through the HQ Analysts who will contact CI HQ and the referring Scheme Development Center (SDC).

- (6) Refer to the related IRMs below for additional information on identifying fraud:
  - IRM 25.1.2, Recognizing and Developing Fraud
  - IRM 25.1.2.3, Indicators of Fraud and
  - IRM 25.1.14, Fraud Handbook, Campus Examination Fraud Procedures

4.19.10.3.2  
(01-02-2024)

**Centralized Fraud Development Procedures, Brookhaven and Austin Only**

- (1) The originating campus completes the Form 13549, Campus Fraud Lead Sheet. This includes documenting the reasons for the potential fraud and forwarding the form to the designated BCFC or Austin EFC. When approved for fraud development, the case is assigned to the CFC/EFC. The referring tax examiner is not responsible for subsequent action(s) on the case.
  - In SB/SE, the case will not be transferred until the case is approved and accepted for fraud development, or
  - In TS, at the time of the referral, the case will be transferred to Austin on AIMS/RGS. If requested, the Austin EFC will provide the referring EFC a quarterly case status update.
- (2) The Form 13549 is used to document the approval/denial of updating the case to status 17, Referral for Fraud. A case should not be placed in or removed from status 17 without consulting the FEA. If there is a disagreement about placing the case in status 17 or removing the case from status 17, the final decision rests with the CFC/EFC group manager.
- (3) The applicable fraud coordinator group manager will:

- Review the Form 13549,
- Document their decision to place or not place the case in status 17, Referral for Fraud,
- Indicate their approval by dating and signing the form, and
- Electronically forward the completed form to the FEA for consideration.

**Note:** Timely action is required on all cases that are in fraud development status. However, cycle time for cases in status 17 is excluded from the monthly aging reports.

**Caution:** The CFC/EFC or the group manager should never obtain advice from CI for a specific case under examination/collection activity.

- (4) If the FEA concurs with fraud development, they will sign and date the Form 13549 and return it to the CFC/EFC and the CFC/EFC's group manager. A copy of the form is retained by the FEA and uploaded into the RGS casefile.

**Note:** In SB/SE a copy of the Form 13549 will be sent to the originating campus CFC and CFC group manager. The form will be renamed using the referral number (e.g., 0001-22PH F13549) and saved to the shared storage drive.

- (5) For cases approved for fraud development, the FEA will update the Form 15349, Section VII, FEA Plan of Action. The plan will:
- Provide audit steps required to establish affirmative acts (proof) of fraud,
  - Be the joint effort of the CFC/EFC, the group manager, and the FEA,
  - Guide the case to its appropriate conclusion in a timely manner,
  - Specify any direct assistance the FEA will provide. The role of the FEA can be more advisory or consultative in nature, and
  - Be written and documented, with a copy of the initial plan and follow-up actions. All actions must be documented in the workpapers.
- (6) The CFC/EFC will:
- Update the case on AIMS/RGS to status 17.
  - Secure the original tax return(s) when requested by FEA or Counsel.
- Note:** The case can usually be developed using the existing tax return facsimile or document.
- Proceed with the plan until affirmative acts of fraud are established or a determination is made that fraud is no longer potentially applicable or cannot be proven.
- (7) If affirmative acts of fraud are established the CFC/EFC will suspend the examination and immediately notify their group manager and the FEA. The FEA will generally recommend assertion of the civil fraud penalty and/or the fraudulent failure to file penalty and imposition of the Ten-Year ban. See IRM 25.1.6, Civil Fraud for more information.
- (8) If criminal criteria are met, the FEA will generally recommend a referral to CI. See IRM 25.1.3, Criminal Referrals for more information.
- (9) If it is determined that fraud is **not** applicable, can't be proven or will be transferred to the field or other BOD for fraud development:

- The CFC/EFC, the group manager and the FEA must **all** agree to remove the case from status 17 and update the Form 13549. If there is a disagreement over updating the status code, the final decision rest with the CFC/EFC group manager.
- The BCFC and Austin EFC will consider an alternative position of applying the applicable penalties and bans such as the Negligence Penalty and the Two-Year Ban, if the case involves EITC, CTC/ACTC/ODC or AOTC.
- In SB/SE the BCFC will update the case to the status code prior to status 38, retain control of the case and complete the examination.
- In TS the Austin EFC will return the case to Austin Correspondence Examination and update the status to the prior status code to continue the examination.

**Reminder:** See IRM 4.19.10.3.6, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures for guidance on transferring the case to the field or other BOD for fraud development.

#### 4.19.10.3.3 (01-02-2025)

##### Statute Consideration

- (1) Cases accepted into the Campus Fraud Program should have at least 13 months remaining on the ASED. Any exceptions to this should be discussed with the CFC/EFC's group manager.
- (2) The CET/TE should review the account and determine the assessment statute expiration date (ASED) before submitting a fraud referral. Per IRC 6501(c) the general rule is the assessment must be made within three years after the return is filed. However, there are special assessment periods that may extend the ASED. See IRM 25.6.1.9.5, Special Assessment Periods - Related to Return or Item on Return, for a complete list of situations that may extend the ASED.
- (3) There is no period of limitations on assessment for a false or fraudulent return with intent to evade tax. Fraud is not limited to the taxpayer, the fraudulent return exception may apply. Refer to IRM 25.6.1.9.5.2, Fraudulent Return for more information.
- (4) The 25% omission rule extends the original ASED by 3 years for a total of 6 years from the received date of the original return. In general, this rule applies if the taxpayer omits more than 25% of the gross income on the original return. To determine if the return meets the 25% omission rule see IRM 25.6.1.9.5.3, 25% Omission.

#### 4.19.10.3.4 (01-02-2024)

##### Status 24 (90-Day) Referrals

- (1) The CET/TE or referring CFC/EFC should not issue a Notice of Deficiency on a case with suspected fraud. If the case is in status 24 and the Notice of Deficiency has been issued, the case should not be developed for fraud, unless the response includes suspected altered documents.
- (2) If the taxpayer submits apparently false or altered documentation after the issuance of the Notice of Deficiency, the CFC/EFC will **expedite** contact with the FEA and Counsel to discuss the subsequent course of action and determine whether fraud development should be pursued.
- (3) Counsel should be consulted on a case-by-case basis and IRM 4.8.9, Statutory Notices of Deficiency, guidelines must be followed to ensure that the notice accurately reflects the IRS position, should the case proceed to Tax



Court. If the taxpayer's actions are serious enough to warrant a referral to Criminal Investigation (CI), Counsel must be consulted immediately.

4.19.10.3.5  
(01-01-2024)  
**Coordination with  
Counsel**

- (1) Counsel review and approval is not required before the issuance of the Notice of Deficiency letter unless the case falls under the criteria for mandatory review listed in IRM 4.8.9.10.2.1, Mandatory Area Counsel Review.
- (2) Per Counsel guidance, Campus "Fraud Penalty" cases for individual taxpayers are excluded from the mandatory review criteria found in IRM 4.8.9.10.2.1, Mandatory Area Counsel Review.
- (3) The BCFC/Austin EFC may still request a review and/or approval from Counsel, based on their judgement of the facts and circumstances of the case.

4.19.10.3.6  
(01-01-2024)  
**AIMS Case Control and  
Planning and Special  
Programs (PSP) Transfer  
Procedures**

- (1) When the case is accepted into the campus fraud program, the BCFC/EFC will:
  - Establish or update the case in AIMS using the appropriate EGC, as indicated below,
  - Transfer the case following business unit guidelines, and
  - When applicable, open an audit on prior and/or subsequent years following current exam procedures.

**Reminder:** Cases accepted into the Campus Fraud Program should have at least 13 months remaining on the ASERD. Any exceptions to this should be discussed with the CFC/EFC group manager.

- (2) TS Campus Exam cases will be:
  - Established on AIMS using EGC 5024.
  - Transferred to the Austin Campus using the Transfer Checklist located on *SERP Job Aids, Examining Process - Part 4*.

**Note:** Additional instructions can be found on the SERP Job Aid *TS Transfers of Potential Fraud Cases to Austin*.

- (3) SB/SE Exam cases will be:
  - Established on AIMS using EGC 5217.
  - Transferred to Brookhaven and updated to status code 17.

**Reminder:** The BCFC is now responsible for the examination including: the development of the fraud issue, mailing the Form 4549 and Form 886-A, and any other necessary case actions.
- (4) Use the following Organization Function Program (OFP) codes when working a fraud case:
  - TS employees will use: Function code 710, 720, or 730 and Program code 93421 for non EITC referrals or 93621 for EITC referrals.
  - SB/SE employees, except for the FFC/CFC, will use: Function code 710, 730, 740, or 790 and Program code 91892.
  - The FFC will use: Function code 640 and Program code 91424.
  - The CFC will use: Function code 730 or 740 and Program code 91891.



- (5) If the case has been approved fraud development by the FEA, update the project codes as indicated below:
  - Non-EITC fraud case - use project code 0076.
  - EITC fraud case - use project code 0691.
- (6) A case selected for field examination on the joint recommendation of the FEA and the CFC/EFC will be transferred to the respective Area PSP Office, using Form 3185 ,Transfer of Return and a cover memo. See Exhibit 4.19.10-2, TS PSP Fraud Memo and Exhibit 4.19.10-3, SB/SE PSP Fraud Memo. The case will be transferred in status 07 with an AIMS Aging Reason Code (ARC) of:
  - ARC 006 - fraud workload originating in campus, or
  - ARC 007 - substantial exam issues, originating in campus.

**Note:** See IRM 4.19.10.3.6.1, Transfer of Fraud Case for Area (Field) Examination for more details.
- (7) For additional information on AIMS transfer procedures you may contact your *Campus AIMS Contact* and refer to IRM 4.4.33, AIMS Procedures and Processing Instructions - Transfers.

#### 4.19.10.3.6.1 (01-01-2023)

#### Transfer of Fraud Case for Area (Field) Examination

- (1) Fraud cases approved for Area (Field) examination are transferred to the respective Area PSP office.
- (2) The referral must be established on AIMS, be in the correct EGC, and reflect the correct aging reason code (ARC). There must be a minimum of 13 months left on the statute. See IRM 4.19.10.3.6, AIMS Case Control and Planning and Special Programs (PSP) Transfer Procedures.
- (3) Form 3185, Transfer of Return, documents the transfer of the case and receipt by Area Office. The form must:
  - a. Be filled out completely, including checking the box to indicate that the exam has started and providing campus contact name and phone number.
  - b. Include the following standard paragraph added to the Comments section of the form: "The attached case has considerable fraud potential. The FEA and the BCFC/CFC/Austin EFC/EFC concur that fraud development is better suited for Area exam assignment (see attached Form 13549)."
- (4) Use the appropriate PSP Fraud Memo to send with the transfer. See Exhibit 4.19.10-2, TS PSP Fraud Memo, and Exhibit 4.19.10-3, SB/SE PSP Fraud Memo.
- (5) Transfer the fraud case to the attention of the Fraud Coordinator, at the appropriate PSP office, under separate cover. PSP contact information can be viewed by selecting the link to the Employee Group Code (EGC) Contacts on the *AIMS Assignee Code (AAC) Contact Listings*.
- (6) The full PSP transfer package Includes:
  - Completed Form 3185,
  - The appropriate PSP Transfer Memo,
  - Form 13549 with BCFC/CFC/Austin EFC/EFC/FEA recommendation/ approval for transfer to the Area PSP office for fraud development,
  - Research used to develop the issues,

- Return facsimile, with potential fraud issues properly identified, and
- Completed Form 3210, Document Transmittal.

- (7) The PSP Fraud Memo requests a response from the Area PSP, regarding acceptance or rejection, within 10 business days. If a timely response is not received, the BCFC/CFC/Austin EFC/EFC must contact Area Office for their decision.

**Note:** It is recommended that the BCFC/CFC/Austin EFC/EFC/FEA monitor for the receipt of the Form 3210 acknowledgement copy. The originator's copy of the Form 3210 can be used to monitor case acceptance or rejection. Phone calls and emails to ensure a timely response should be notated.

- (8) If the Area PSP Office declines the case, the BCFC/CFC/Austin EFC/EFC must ensure the case is promptly transferred back and consult with the FEA on the next course of action.

4.19.10.3.7  
(01-01-2023)  
**Program Letters and  
Actions to Close Case**

- (1) If a case is accepted into the Fraud Program, the BCFC/EFC/Austin EFC or Fraud TCO is responsible for:
- Following the examination procedures found in IRM 4.19.13, General Case Development and Resolution.
  - Issuing the appropriate letters and observing the suspense period per IRM 4.19.13.2.4, Standard Suspense Periods for Correspondence Examination. When sending correspondence to the taxpayer do **not** use the word "fraud" or similar language.
  - Ensuring all interim letters and case actions are completed timely. see IRM 4.19.3.22.1.5, Policy Statement P-21-3 and IRM 4.19.13.3.6, Standard 6 - Timely Actions for more details.

**Note:** The Austin Fraud EFC is responsible for assisting the Fraud TCO with case development.

- (2) If the case is transferred to another campus or another exam location, the originating campus is responsible for sending the taxpayer a Letter 86-C, Referring Taxpayer Inquiry/Forms to Another Office. Guidance on issuing the Letter 86-C can be found on the SERP Job Aids, Compliance, Examining Process - Part 4, *TS Transfers of Potential Fraud Cases to Austin*.
- (3) If the refund is frozen on the account, the case cannot be transferred to Area Field Exam. See IRM 4.19.13.16, Transfer to Area Office for additional procedures.
- (4) Transfer notification procedures are required if there was any prior taxpayer contact or if any correspondence has been received. For TS cases, use the *Transfer Checksheet* located in the SERP Job Aids, Compliance, Examining Process - Part 4.

4.19.10.3.7.1  
(01-01-2023)  
**Initial Contact Letter  
(ICL) and Response  
Procedures**

- (1) After initial research has been completed, a Letter 566-S, Initial Contact, will be issued to the taxpayer requesting an explanation of the potential fraud issue. Both the Integrated Data Retrieval System (IDRS) and Report Generation Software (RGS) controls will be updated to reflect the ICL status. The table below lists the actions to be taken, based on the taxpayer's response.

If	Then
The taxpayer responds and the information is sufficient to support the taxpayer's position.	<ul style="list-style-type: none"> <li>Close the AIMS record (DC02) using RGS Form 5344, Examination Closing Record and close any IDRS controls.</li> <li>The BCFC/Austin EFC will update the Centralized Campus Fraud Monitoring Workbook to reflect the closing of the case.</li> </ul>
The taxpayer responds claiming identity theft.	Refer to IRM 4.19.13.28, Campus Exam Identity Theft.
	<ul style="list-style-type: none"> <li>The BCFC/Austin EFC should consider a conference with the FEA to discuss subsequent actions.</li> </ul> <p>4.19.10.3.7.5, Third Party Notification Procedures for Campus Fraud Cases.</p> <ul style="list-style-type: none"> <li>Update IDRS and RGS controls to reflect the purge status.</li> </ul>
The taxpayer does not respond	Confer with the FEA and manager and prepare the 30-Day package. See IRM 4.19.10.3.7.2 , 30-Day Letter Procedures.

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4.19.10.3.7.2  
(01-02-2024)  
**30-Day Letter  
Procedures**

- (1) The BCFC/Austin EFC or assigned Fraud TCO will determine if the 30-Day letter should be issued based upon the taxpayer's response, as well as the documented research and any third-party information. See actions to take in the table below.

If	Then
The BCFC/Austin EFC/Fraud TCO determines a 30-Day letter should be issued.	<ul style="list-style-type: none"> <li>Secure recommendation from FEA on assertion of the civil fraud penalty.</li> <li>The BCFC/Austin EFC/Fraud TCO will prepare a 30-Day package consisting of: <ul style="list-style-type: none"> <li>a. Overview of the case - similar to 90-Day Overview, see examples in Exhibit 4.19.10-4, Form 886-A 90-Day Overview;</li> <li>b. Letter 525; and</li> <li>c. Form 4549, Income Tax Examination Changes.</li> </ul> <p><b>Note:</b> The FEA will assist with the write-up, if needed.</p> </li> <li>Before issuance of the 30-Day letter, the BCFC/Austin EFC/Fraud TCO group manager will sign off on the case file/work papers to confirm agreement with the issuance of the 30-Day letter including the Civil Fraud Penalty and/or imposition of Ten-Year EITC, CTC/ACTC/ODC, or AOTC Ban by inputting a non-action note on CEAS. See IRM 4.19.10.4.5.3, Supervisory Approval of Penalties and Bans.</li> <li>The FEA may review the 30-Day package prior to issuance to the taxpayer.</li> <li>Update AIMS and RGS to proper status.</li> <li>Update the Centralized Campus Fraud Monitoring Workbook.</li> </ul>

If	Then
<p>The BCFC/Austin EFC/Fraud TCO and the FEA determine the 30-Day letter is not yet warranted or that intent has not been established and the case is in ST 17.</p>	<ul style="list-style-type: none"> <li>• The BCFC/Austin EFC/Fraud TCO will update the Centralized Campus Fraud Monitoring Workbook.</li> <li>• Form 13549 will be annotated and returned to the originating CFC/EFC/FFC /Manager/Lead for feedback purposes.</li> <li>• Update the status on AIMS and RGS. The EFC will update the status to the status prior to ST 17. The BCFC will update to the status prior to ST 38.</li> <li>• The BCFC/ Austin EFC will consider the assertion of the two-Year EITC, CTC/ACTC/ODC, and AOTC Ban, or other penalties.</li> <li>• In TS, if the case was transferred to Austin, the case will not be returned to originating campus. The case will be sent to Austin Correspondence Exam to continue the examination.</li> <li>• In SB/SE, the BCFC will complete the examination and issue the 30-Day letter when applicable.</li> </ul>

- (2) If the case involves a joint return, each spouse's knowledge regarding the examination issues must be addressed and documented in the workpapers. Refer to IRM 25.15, Relief from Joint and Several Liability, if a taxpayer requests innocent spouse relief.
- (3) Based upon the taxpayer's response, further research and development may be required. Refer to IRM 4.19.13.11, Taxpayer Replies, and IRM 4.19.13.30, Campus Exam Closing Actions. The table below lists actions to take, based on the taxpayer's reply:

If	Then
The information does not support the taxpayer's position or only partially supports the taxpayer's position.	<ul style="list-style-type: none"> <li>• Issue follow-up Letter 692-M with Form 4549 and a clear explanation of the issues on Form 886-A or Form 886-H-XXX - (For XXX, refer to list of forms 886-H for specific issues) required or still needed.</li> <li>• Allow the taxpayer time to reply.</li> </ul>
The information is sufficient to support the taxpayer's position.	<ul style="list-style-type: none"> <li>• See IRM 4.19.13.30, Campus Exam Closing Actions.</li> <li>• Close any IDRS controls.</li> <li>• Update the Centralized Campus Fraud Monitoring Workbook.</li> </ul>
Taxpayer signs the Form 4549.	<ul style="list-style-type: none"> <li>• See IRM 4.19.13.30, Campus Exam Closing Actions.</li> <li>• Close any IDRS controls.</li> <li>• Update the Centralized Campus Fraud Monitoring Workbook.</li> </ul>
The taxpayer does not respond and the suspense period expired.	See IRM 4.19.10.3.7.3, 90-Day Procedures.

4.19.10.3.7.3  
(01-01-2023)  
**90-Day Letter  
Procedures**

- (1) If a Notice of Deficiency letter is to be issued:
  - a. Prepare a written overview of the Civil Fraud Penalty on Form 886-A and save a copy to the RGS/CEAS case file. See Exhibit 4.19.10-4 for more details.
  - b. If the case involves a joint tax return, the overview must address the culpability of each spouse. For additional information on asserting civil fraud penalties on a joint tax return, see IRM 20.1.5.16.2 (9), Penalty Assertion.
  - c. The FEA must review the letter for accuracy.
  - d. Update the Form 4549, Other Information Section to include an explanation of the Civil Fraud Penalty, the amount of the penalty and the Ten-Year Ban (if applicable).
  - e. Determine if Counsel review is required prior to the issuance of the Notice of Deficiency letter. See IRM 4.19.10.3.5, Coordination with Counsel, for more details.
- (2) The BCFC/Austin EFC or assigned Fraud TCO will:

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- a. Obtain the group manager's concurrence to issue the Notice of Deficiency letter. See IRM 4.19.10.5, Supervisory Approval of Penalties and Bans for more information.
  - b. Coordinate with the FEA to prepare the Form 886-A outlining the Government's alternative position (e.g., the proposing the negligence penalty in lieu of the civil fraud penalty).
  - c. If the case is sent to Counsel for review, forward a copy of the case file to the Area Counsel for approval and update IDRS and RGS with designated controls to reflect the review status.
- (3) Save the documents listed below in the 90-Day package:
- Notice of Deficiency Letter,
  - Form 3198, Special Handling Notice for Examination Case Processing,
  - Form 4949, Report of Income Tax Examination Changes,
  - Form 5564-A, Notice of Deficiency - Waiver,
  - RGS schedules and worksheets,
  - Form 886-A with an explanation of the fraud issue,
  - Form 886-A with an explanation of the Civil Fraud penalty, the Fraudulent Failure to File penalty, and the Ten-Year Ban,
  - Form 886-A with an explanation of the proposed alternative penalty position such as the Accuracy Related penalty or the Delinquency penalty,
  - Form 886-A with an overview of the case,
  - Evidence of fraud (e.g., altered and/or false documents, original correct documents, notes of conversations with taxpayer and all correspondence received from taxpayer),
  - Original tax return(s) for the tax year(s) under examination, if requested by Counsel, and
  - Verification of managerial approval for the assertion of penalties and/or bans (CEAS non-action note or penalty lead sheet).

4.19.10.3.7.4  
(12-09-2020)

**Manual Interim Letters  
on Cases in Status 17**

- (1) When a case is in status 17, the automated process for acknowledging the receipt of mail and sending interim letters is **not** available.
- (2) Interim letters must be manually generated and cases must be monitored to ensure the letters are mailed timely.
  - a. When a quality response can't be issued timely, an interim response must be sent by the 30th calendar day from the IRS received date. See IRM 21.3.3.4.2, Policy Statement P-21-3 Procedures for more information.
  - b. Additional interim letters are sent when no response has been sent to the taxpayer within established time periods. See IRM 4.19.13.12, Monitoring Overaged Replies, for more details.
- (3) Send the appropriate interim letter based upon the case details and program guidelines:
  - *Letter 0288C*, Interim Reply; Adjustment Request Considered
  - *Letter 2645C*, Interim Letter
  - *Letter 4314C*, Automated Underreporter Interim Letter
  - *Letter 2644C*, Second Interim Response
  - *CP 2006*, Automated Underreporter (AUR) Interim Acknowledgement Notice



- CP 3500, Interim Notice to Correspondence from Taxpayer
- CP 3501, 2nd Interim Notice to Correspondence from Taxpayer

4.19.10.3.7.5  
(01-02-2023)

**Third Party Notification  
Procedures for Campus  
Fraud Cases**

- (1) Effective 8/15/19, Publication 1, Your Rights as a Taxpayer, will no longer satisfy the advance notice requirement of IRC 7602(c)(1).
- (2) Effective after 8/15/19, the Taxpayer First Act impacts third-party contact notice procedures. Section 1206 of the Taxpayer First Act amended IRC 7602(c)(1) (advance notice provision). The IRS is now required to:
  - Issue notice of the intent to make third-party contacts;
  - Intend, at the time such notice is issued, to contact third parties (the notice must state this intent);
  - Specify the time period in the notice (not to exceed one year) in which the IRS will be making the contact; and
  - Send the notice at least 45 days in advance of contact with a third party.
- (3) For pre-notification of third-party contact, campuses will send Letter 3164-E, (Exam 1) Third Party Contact. A copy of the Letter 3164-E must be saved to the RGS case file folder.
- (4) The Letter 3164-E notification takes effect in 45 days from the date of the letter and remains valid for one year, from the 46th day.
- (5) No contact with the third-party should be initiated before the 46th day after the date of the Letter 3164-E.
- (6) If additional third-party contact is needed after the expiration of the original contact period, a new Letter 3164-E must be issued.
- (7) Other provisions of IRC 7602(c)(1) are unchanged and require the IRS to:
  - Record all third-party contacts.
  - Provide a list of third-party contacts to the taxpayer, on request.
- (8) For procedures relating to third-party contact, refer to:
  - IRM 25.27.1, Third-Party Contact Program.
  - IRM 4.11.57, Third Party Contacts.

4.19.10.4  
(01-01-2024)

**Withholding Only Cases**

- (1) The following section applies to cases that are referred to the Fraud Program with suspected altered or false Forms W-2 or Forms 1099 with inflated or false withholding amounts.
- (2) Refer to the Penalty Handbook IRM 20.1.5.3.1, Definitions, for what constitutes an underpayment. See IRM 20.1.5, Return Related Penalties, IRM 20.1.5-1, Calculation of Underpayment Penalty, for an example of a calculation of an underpayment. Per IRC 6664(a) and Treas. Reg. 1.6664-2(a), an underpayment is defined as the amount by which any tax imposed, exceeds the excess of:
  - a. The sum of the amount of tax shown on the return, plus
  - b. Amounts not shown that were previously assessed (or collected without assessment), over the amount of rebates made.

**Note:** In calculating the amount of an underpayment, adjustments to refundable credits or prepayment credits for withholding or estimated

tax are included in the amount shown as the tax on the taxpayer's return. In *Program Manager Technical Advice 2012-16*, issued on May 30, 2012, the Office of Chief Counsel reconsidered its previous advice regarding the application of the accuracy-related penalty in the situation where the IRS does not approve or pay a refund for a refundable credit the taxpayer is not entitled to. "In many cases involving this fact pattern, there will be no 'underpayment', as that term is defined in IRC 6664. Without an underpayment there can be no liability for the accuracy related penalty."

- (3) Follow third-party procedures to substantiate or negate the potential fraud document that the information provided by the taxpayer is fraudulent. For additional information, see IRM 4.19.10.3.7.5, Third Party Notification Procedures for Campus Fraud Cases.
- (4) Refer to IRM 4.8.9.18.9, Notices with Prepayment Credit Adjustments, for assessment procedures. The assessment for the over claimed withholding must be made prior to issuance of the notice of deficiency, by inputting a TC 290 adjustment for the amount of the overstated withholding. Inform the taxpayer that disallowance of the withholding credit is not subject to deficiency procedures. A TC 290 results in a legal assessment that allows the IRS to correct the overstated credits using the provisions of IRC 6201(a)(3). The assessment amount should not include any amount of income tax withholding actually withheld from the taxpayer's wages. The IRS only makes this assessment for amounts of erroneous withholding claimed by the taxpayer on the return. The TC 290 requirement is further detailed in IRM 3.14.1.6.7.2, Category B ERRF Resolution, and IRM 21.4.5.5, Erroneous Refund Categories and Procedures.
- (5) Upon manager review and concurrence of the civil fraud penalty assertion, update the work papers with the following: BCFC/Austin EFC determined that since the only adjustment on this case is regarding withholding, IRM 4.8.9.18.9, Notices with Prepayment Credit Adjustments, will be followed.
- (6) To compute the penalty, follow the guidelines below. Refer to IRM 4.8.9.19, Special Cases, for additional information:
  - a. Run tax computation as though no special circumstances exist and notate Civil Fraud and Delinquency Penalty amounts.
  - b. Edit issues to remove the Civil Fraud Penalty.
  - c. On all issues other than withholding, both fraud and non-fraud, adjust the "per Exam" amount to eliminate the adjustment amount.
  - d. If return was subject to the Delinquency Penalty, access "return related penalties" and un-check the "delinquent return and delinquency" boxes (be sure to notate figures in Failure to Pay (FTP)/Failure to File (FTF) fields).
  - e. Run another tax computation and verify that the only balance due is the withholding issue and that no Civil Fraud or Delinquency Penalties (if applicable) are present.
  - f. Run Form 5344, Examination Closing Record, to generate a TC 300 for zero with a TC 807 to reduce the withholding, use DC 08 and leave the agreement date blank (until known). Per IRM 4.8.9, Statutory Notices of Deficiency, attach a Form 3198 and Form 4549.

**Note:** When preparing Form 4549 clear the other information section located in the tax computation window. If there is a delinquency

penalty involved remove the check in the 6406(g) box. This will ensure the automatic paragraph does not generate.

- g. Once the approval to issue the notice of deficiency is received from Counsel, re-input the proper Exam amount in each of the issues and in the withholding issue, make the Exam amount the "per return" amount so there is no adjustment amount.
- h. For delinquent returns, access "return related penalties" and re-check the "delinquent return and delinquency" boxes and re-input the figures, notated earlier, in the FTP/FTF fields.
- i. Create the Civil Fraud Penalty manually in "return related penalties" and create a Form 886-A to show the computation of the Civil Fraud Penalty.
- j. In Tax Computation/Other Information box, type the following: "Please note that the overstated federal withholding has been reduced by \$-----.00. Your account was adjusted on Month, Day, Year. It has been determined that this adjustment was due to fraud. Consequently, a penalty in an amount equal to 75% of such overstated Federal withholding has been asserted pursuant to IRC 6663. The amount of the penalty is \$-----.00 and is reflected in this notice. The penalty asserted in this notice is the only issue subject to appeal rights. The additional balance due for the federal withholding adjustment will be issued under separate cover."
- k. If withholding is the only issue, interest will not compute on the Civil Fraud Penalty and must be manually computed. This is done by using Total Interest/Estimated Interest option on the RGS tree. Click on the tax period. Input the amount of the Civil Fraud Penalty, beginning date and ending date. Click "+/-" to compute.
- l. Run the Form 4549 and save it to case file documents. If interest has been computed manually, changes have to be made to the adobe file (to add the manually computed interest) as follows: Tools/Advanced Editing/Text Field Tool/double click in the area to be edited/pop up window, select the General Tab, un-check the read only box, close, click on the "hand" tool on the tool bar/change the fields.
- m. If withholding is the only issue, the "How to pay your taxes" page must be edited from a previously generated **Form 4549** to correct the date (this page does not generate when there is no deficiency in tax being asserted on the new notice).
- n. Once the manager has approved the notice of deficiency, the adjustment for the over claimed withholding will be input and the notice of deficiency will be issued only for the Civil Fraud Penalty. Include an explanation that the withholding adjustment has already been made to the account and a notice is being provided to advise them of their appeal rights regarding the Civil Fraud Penalty.

**Note:** Per IRM 4.8.9.18.9, Notices with Prepayment Credit Adjustments, the assessment for the over claimed withholding must be made prior to the issuance of the notice of deficiency. Once the adjustment is made, the notice of deficiency will be issued only for the Civil Fraud Penalty. The IRM also provides instruction for reducing the over claimed withholding.
- o. When the case is returned as approved by the manager, recompute the interest to the expiration date of the notice and reprint the interest report. The Form 4949 will have to be manually updated to include the revised interest amounts.

4.19.10.5  
(01-02-2025)  
**Supervisory Approval of  
Penalties and Bans**

- (1) Where indicators of fraud do not meet criminal criteria, the CFC/EFC may receive a recommendation by the FEA to assert the civil fraud penalty, the Fraudulent Failure to File (FFTF) penalty and/or impose the 10-Year EITC, CTC, ACTC, and/or AOTC Ban(s).
- (2) IRC 6751(b) requires supervisory approval for the assessment of a penalty that includes any addition to tax or any additional amount, excluding section 6651, 6654 or 6655, and any other penalty calculated by electronic means. The FEA will sign Form 13549 indicating "Assert Civil Fraud Penalty, Assert Fraudulent Failure to File, and/or Impose 10-Year Ban(s) on applicable credit(s)." and will return, via secure e-mail, the form to the CFC/EFC and the CFC/EFC GM.
- (3) IRC 6751(b) does not apply to the 2/10-Year Ban. Supervisory approval, for the assertion of the 2/10-Year Ban, is required as a matter of Campus Examination policy.
- (4) Supervisory approval for penalties and bans must be obtained and documented prior to the issuance of any letter/report including a penalty or ban. This includes the opportunity to protest the penalty or ban with the IRS Independent Office of Appeals.
- (5) For more information on supervisory approval of penalties and bans, see:
  - IRM 4.19.13.7.1, Supervisory Approval of Penalties
  - IRM 4.19.13.7.1.1, Supervisory Approval of Bans
  - IRM 20.1.5.2.3, Supervisory Approval of Penalties - IRC 6751 Procedural Requirements
  - IRM 20.1.5.2.3.1, Documenting Supervisory Approval of Penalties
  - IRM 25.1.14.4, Campus Examination Procedures and Fraud Development

4.19.10.6  
(01-01-2023)  
**10-Year Ban**

- (1) The 10-Year Ban applies to certain credits that are disallowed/denied because of fraud. The credits may include EITC, CTC/ACTC/ODC, and AOTC.
- (2) The Internal Revenue Code (IRC) provides that the credit(s) shall not be allowed for a period of ten years after the most recent taxable year for which the credit(s) was denied due to fraud. Refer to the IRC sections below:
  - IRC 32(k)(1)(B)(i) for EITC.
  - IRC 24(g)(1)(B)(i) for CTC/ACTC/ODC.
  - IRC 25A(b)(4)(A)(ii)(I) for AOTC.
- (3) Both the Civil Fraud Penalty (CFP) and the 10-Year ban normally apply when fraud has been established. However, there are instances when the CFP does not apply. An agreement must be secured from the FEA prior to the assertion of the 10-Year ban with the CFP. See IRM 20.1.5.3.5, Two and Ten Year Bans on Claiming the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC) for more information.

**Reminder:** IRC 6751(b)(1) does not apply to the 2 or 10-Year Ban. However, managerial approval is required for all 2 or 10-Year Ban cases as a matter of policy. See IRM 4.19.14.7.1, 2/10 Year Ban-Correspondence Guidelines for Examination Technicians (CET).

- (4) The BCFC/Austin EFC will secure the FEA's recommendation to impose the 10-Year ban by completing Form 13549, Campus Fraud Lead Sheet and sending the form electronically to the FEA.
- (5) The case file must contain sufficient write-up and documentary evidence needed to prove the affirmative acts of fraud.
- (6) The FEA will complete Section VII, Fraud Indicators and Developmental Actions, to document their determination regarding the CFP and the 10-Year Ban. The FEA will return the completed form electronically to the CFC/Austin EFC.
- (7) If the FFC or BCFC/Austin EFC determine that the disallowance of the EITC, CTC/ACTC/ODC, or AOTC was not due to fraud, but instead a result of the taxpayer's reckless and intentional disregard of the rules and regulations, the two-year EITC, CTC/ACTC/ODC, or AOTC ban(s) and negligence penalty should be considered. See IRM 4.19.14.7.1, 2/10 Year Ban - Correspondence Guidelines for Examination Technicians (CET), for information related to the two-year ban.

4.19.10.6.1  
(12-18-2024)  
**10-Year Ban Closing  
Actions**

- (1) The 10-Year ban is set when the following post to Master File:
  - For EITC TC 300, 765, 320 (reference code 680) and either priority code 6 or 7.
  - For CTC/ACTC/refundable CTC/ODC, TC 300, reason code 183
  - For AOTC, TC 300, reason code 180

**Note:** If an "A" freeze is present on the account, the examiner must use a priority code 7.
- (2) When the CTC/ACTC/ODC and/or AOTC issue is disallowed in RGS, a reason code is systemically generated by RGS on the Form 5344. To set the ban for these credits the examiner must **overwrite** the systemic reason code generated by RGS with the appropriate reason code:
  - Reason Code 183 is used to set the 10-Year Ban for CTC/ACTC/ODC
  - Reason Code 180 is used to set the 10-Year Ban for AOTC

**Note:** Priority codes are not required to set the ban for CTC/ACTC/ODC or AOTC.
- (3) When the case closes and the ban is imposed, Master File will mail a *CP 79B*, We Denied the Credits you Claimed and Applied a Ten-Year Ban to the taxpayer. This notice tells the taxpayer the 10-year ban was applied and list what actions the taxpayer will need to take in the future.

4.19.10.7  
(01-25-2025)  
**Potential Return  
Preparer Scheme  
Identification**

- (1) Return preparer schemes may be identified within any Examination Operation workload and by any method (i.e., correspondence examination, classification, etc.).
- (2) A return preparer scheme may be identified by a suspected pattern of non-compliant issues which have similar characteristics and appear on three or more original tax returns or amended returns.

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#4.19.10.7.1  
(01-25-2025)**Return Preparer Scheme  
Referral Process for  
Examiners**

- (1) The examiner will prepare Form 13549, Campus Fraud Lead Sheet, Section III and include the details listed in the table below and then forward to the CFC/EFC, as applicable, for consideration.

Information to provide
<ul style="list-style-type: none"> <li>• Preparer name and/or business name,</li> <li>• Preparer TIN and/or EIN,</li> <li>• Scheme issues identified,</li> <li>• Affected Tax Years,</li> <li>• Any statute of limitations (SOL/ASED) concerns,</li> <li>• Number of open/in-process taxpayer cases,</li> <li>• Adjusted Gross Income (AGI) of each open/in-process case,</li> <li>• Number of closed taxpayer cases,</li> <li>• Examination results (Dollars/Hour and Dollars/Return),</li> <li>• Project Code and Source Code from which the affected returns generated, if known,</li> <li>• Provide remarks/comments/additional information which establishes the non-compliant or negligent behavior of the preparer.</li> </ul>

4.19.10.7.2  
(01-02-2025)**Return Preparer Scheme  
Process for CFC/EFC**

- (1) The CFC/EFC will perform additional research to determine if the information provided warrants a referral. They will conduct this research by checking:
- Command Code RPVUE, for preparer information
  - Accurint
  - The Electronic Fraud Detection System (EFDS) and Workload Management System (WMS) for related schemes.
- (2) If the TS EFC determines the preparer scheme has merit for further development, they will:
- Email the referral to *Lead Development Center Mailbox* using Form 14242, Reporting Abusive Tax Promotions and/or Preparers. The LDC will coordinate with other specialty offices to ensure there is no overlap.
  - Copy the fraud program TS Headquarter Analyst on the referral.
- (3) If the SB/SE CFC determines the preparer scheme has merit for further development they will:
- a. Forward the Form 13549, Campus Fraud Lead Sheet, to the SB/SE HQ Analyst responsible for the Fraud Program.
  - b. Contact the FEA, if the non-compliant behavior is egregious or preparer misrepresentation is obvious.



- (4) If the FEA recommends contacting the Return Preparer Coordinator (RPC), the CFC will complete Form 14719, SBSE Return Preparer Referral, and email the referral to the appropriate Area RPC. See the Return Preparer Coordinator (RPC) listing located on the

**Note:** The CFC in any SB/SE Campus can send the Form 14719 to the RPC. It does not need to be sent to Brookhaven.

**Reminder:** The RPC does not conduct the audit. The examination will continue in the campus.

- (5) If a criminal referral appears to be warranted, the CFC/EFC should consult the FEA. If the FEA agrees, the CFC/EFC will submit Form 2797, Referral Report of Potential Criminal Fraud Cases, to CI.

4.19.10.7.3  
(01-02-2025)

**Return Preparer Scheme  
Process for HQ Analyst**

- (1) The SB/SE Headquarter Analyst will review the Form 13549. If warranted, they will present the potential return preparer scheme to the Examination Case Selection group (ESC) and the Case Workload Identification (CWI) analyst.
- (2) If the preparer activities show a significant dollar loss to the government or abusive tax transactions are suspected, the analyst will complete a Form 14242, Reporting Abusive Tax Promotions and/or Preparers.
- (3) The analyst will email the completed Form 14242 to the *Lead Development Center Mailbox*.

4.19.10.7.4  
(01-01-2024)

**Return Preparer  
Penalties**

- (1) Generally, Campus Examination Operation personnel do not develop or assert penalties against tax return preparers. However, there may be instances where campus employees may be directed to do so. In that event, the following information and procedures will apply.
- (2) Any person who prepares a tax return or claim for refund for compensation or who employs one or more persons to prepare for compensation, any return of tax, or claim for refund is a tax return preparer.
- (3) IRM 20.1, Penalty Handbook, is the primary source of authority for civil penalty administration by the Internal Revenue Service. IRM 20.1.6, Preparer and Promoter Penalties, provides servicewide policy for the administration of tax return preparer penalties and promoter penalties.
- (4) A penalty is asserted for understating a taxpayer's tax liability when the understatement was due to willfulness or any reckless or intentional disregard of rules and regulations. See IRM 20.1.6.4, IRC 6694 Understatement of Taxpayer's Liability by Tax Return Preparer.
- (5) For other tax return preparer penalties, see IRM 20.1.6.5, IRC 6695 Penalties That May Apply to a Tax Return Preparer.
- (6) All documentation to support assertion of the penalty must be uploaded to the RGS case file.
- (7) SB/SE can refer penalty cases to the Return Preparer Penalty Working Group (RPPWG) for developing and proposing return preparer penalties under IRC 6694 and IRC 6695. See IRM 20.1.6.2.1, Optional Penalty Case Referral to Return Preparer Penalty Working Group (RPPWG).



4.19.10.7.5  
(01-02-2024)

**Office of Professional  
Responsibility**

- (1) The Office of Professional Responsibility (OPR) establishes, communicates, and enforces the rules of professional conduct applicable to tax professionals as defined by Treasury Department Circular 230. The OPR may propose disciplinary action against a practitioner for noncompliance issues associated with their personal or business tax returns.
- (2) IRS employees have an obligation to report apparent tax practitioner (e.g., attorney, enrolled agent, certified public accountant) misconduct to the OPR.
- (3) For more information on tax practitioner misconduct and how to make a referral to the OPR, visit the *Office of Professional Responsibility SharePoint*.

**Exhibit 4.19.10-1 (03-23-2021)**  
**Campus Fraud Lead Sheet**

The Form 13549, Campus Fraud Lead Sheet, is used for Campus fraud referrals.

Secure email must be used to transfer the Form 13549 between functions.

Instructions for filling out the form, by function, can found on the *Campus Fraud Development Process Page* in the Other Related Resources Section.

Exhibit 4.19.10-2 (03-23-2021)  
TS PSP Fraud Memo



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

MEMORANDUM FOR : Territory Manager, Planning and Special Programs  
\_\_\_\_\_ Area Office

FROM: Operations Manager, Examination  
\_\_\_\_\_ Campus

SUBJECT: Fraud Lead

The attached case has considerable fraud potential and is being referred to the Area Office on the joint recommendation of the Fraud Enforcement Advisor (FEA) and the Exam Fraud Coordinator (EFC).

Please ensure that any subsequent, prior, or related returns that are selected for examination/fraud development reflect the appropriate project code for campus referred fraud leads:

- PC 0076 non-EITC cases (Discretionary), or
- PC 0691 EITC cases.

We have mandatory taxpayer notification requirements. To meet these, we are requesting your response indicating acceptance or rejection of this case(s) within 10 workdays (2 weeks). If it is determined that the case will **not** be selected for examination, please return it to the \_\_\_\_\_ Campus EFC. If there are any questions regarding the case, please contact, \_\_\_\_\_, EFC (\_\_\_\_)-\_\_\_\_-\_\_\_\_\_.

/s/

Attachments:  
Case file (includes Form 13549)  
Form 3185  
Form 3210

Exhibit 4.19.10-3 (03-23-2021)  
SB/SE PSP Fraud Memo



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION

MEMORANDUM FOR : Territory Manager, Planning and Special Programs  
Area Office

FROM: Operations Manager, Examination  
Campus

SUBJECT: Fraud Lead

The attached case has considerable fraud potential and is being referred to the Area Office on the joint recommendation of the Fraud Enforcement Advisor (FEA) and the Campus Fraud Coordinator (CFC).

Please ensure that any subsequent, prior, or related returns that are selected for examination/fraud development reflect the appropriate project code for campus referred fraud leads:

- PC 0076 non-EITC cases (Discretionary), or
- PC 0691 EITC cases.

We have mandatory taxpayer notification requirements. To meet these, we are requesting your response indicating acceptance or rejection of this case(s) within 10 workdays (2 weeks). If it is determined that the case will **not** be selected for examination, please return it to the Campus CFC. If there are any questions regarding the case, please contact, CFC (\_\_\_\_)-\_\_\_\_-\_\_\_\_.

/s/

Attachments:  
Case file (includes Form 13549)  
Form 3185  
Form 3210



**Exhibit 4.19.10-4 (Cont. 1) (01-02-2025)**  
**Form 886-A 90-Day Overview**#  
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The existence of fraud is a question of fact to be resolved upon consideration of the entire record. Since direct proof of taxpayer intent is rarely available, fraud may be proven by circumstantial evidence that will support a finding of fraudulent intent. Also, proof of fraud for one year will not sustain the Government's burden of proving fraud in another year.

In this case, both oral and written testimony from third parties confirm the taxpayer is not eligible to claim EITC, CTC, the dependency exemption, and HOH filing status. The act of altering and falsifying documentation to achieve these tax benefits and/or refundable credits has established the taxpayer's intent to avoid the correct reporting of tax liability.

**ARGUMENT:**

The Government has proven that clear and convincing evidence of fraud exists based upon the fact that:

1. Mary Dove did not establish being the natural parent of Baby Mary Dove.
2. Mary Dove did not provide a residence for more than 6 months of the tax year for Baby Mary Dove.
3. Mary Dove did not provide financial support for Baby Mary Dove.
4. Mary Dove submitted falsified documentation to qualify for tax benefits and refundable credits that was not entitled to claimed. Mary Dove committed affirmative acts of fraud by presenting altered/ falsified documentation which demonstrated an intent to deceive the government.

**TAXPAYER'S POSITION:**

Unknown. The taxpayer failed to respond to a request for information regarding the documentation received on March 30, 2019.

**GOVERNMENT'S POSITION:**

The taxpayer has not provided a defense to the application of this penalty. Thus, assertion of the civil fraud penalty and imposition of the Ten-Year EITC Ban is in order.

**CULPABILITY OF EACH SPOUSE:**

Address on jointly filed returns, address the culpability of each spouse. "As questioned in the 30-Day Letter, the culpability of each spouse could not be determined as neither responded." On all other returns, annotate "Not applicable, taxpayer did not file a joint return."

**CONCLUSION:**

As stated in the above analysis, clear and convincing evidence of fraud is due to the fact that:

1. There was an underpayment of tax due for the taxable year at issue;
2. At least a portion of the underpayment is attributable to fraud; and
3. The EITC adjustment was due to fraud.

**Exhibit 4.19.10-4 (Cont. 2) (01-02-2025)**  
**Form 886-A 90-Day Overview**

Thus, assertion of the Civil Fraud Penalty under IRC 6663 and imposition of the ten-year EITC ban under IRC 32(k) are applicable.

**ALTERNATIVE POSITION:**

(Include following paragraph on all cases) In the alternative, it has been determined that the underpayment of tax (\$\_\_\_\_\_) for the 2017 tax year is due to negligence or disregard of rules and regulations. Thus, the 20% accuracy related penalty is being asserted under the provisions of IRC 6662(b)(1).

(Include following paragraph if EITC and CTC is involved) In the alternative, the underpayment constitutes a substantial understatement of income tax under the provision of IRC 6662(b)(2). Thus, the two-year EITC and CTC ban is being imposed under the provision of IRC 32(k). The two-year ban will prohibit you from claiming EITC and CTC for the next two years.

**OVERVIEW EXAMPLE 2**

Mr. Hickory (taxpayer) attached an altered Form W-2 to his filed 2019 Form 1040. He fraudulently changed the federal withholding tax amount to understate the tax due and reduce the tax liability.

**ISSUE:**

Is the imposition of the civil fraud penalty, as an addition to the tax, pursuant to Internal Revenue Code (IRC) 6663 applicable?

**FACTS:**

- Mr. Hickory prepared and filed his 2019 Form 1040 and attached an altered Form W-2 from Balsam Hill, Inc. to his return. The amount of the withholding on the form was changed to \$20,000. Mr. Hickory included this amount on line 17 of his filed 2019 Form 1040.
- Payer data reported by Balsam Hill, Inc. to the IRS, per the enclosed IRPTR, shows Mr. Hickory's federal withholding for tax year (TY) 2019 to be \$2,000.
- Letter 3164-E, (Exam-1) Third Party Contact, was sent to Mr. Hickory, advising of third-party contact.
- Form 12175, Third-Party Contact Report Form, was filled out and forwarded to the Campus Third-Party Contact Coordinator for recordation of third-party contact to the payer involved.
- On June 30, 2020, the Internal Revenue Service (IRS) contacted Balsam Hill, Inc. and requested a copy of the Form W-2 issued to Mr. Hickory for TY 2019.
- The IRS received the Form W-2 copy from Balsam Hill, Inc. on July 16, 2020. The copy showed a federal income tax withholding amount of \$2,000, in agreement with IRPTR.
- On July 26, 2020, the IRS issued a 30-day letter to Mr. Hickory notifying that Balsam Hill, Inc. had verified an amount of \$2,000 in federal income tax withholding for TY 2019.
- Mr. Hickory did not respond to the letter.

**LAW:**

In order for the civil fraud penalty to be imposed pursuant to IRC 6663, the government must prove by clear and convincing evidence that: (1) there was an underpayment of tax due for the year at issue, and (2) at least a portion of that underpayment was attributed to fraud.

**1. Underpayment of Tax:**

There is an underpayment of income tax due from Mr. Hickory in TY 2019 due to the altered amount of federal withholding. The federal withholding tax on line 17 of the Form 1040 should have shown \$2,000 instead of \$20,000.

**2. Fraud:**

To prove fraud the government must show the taxpayer intended to evade taxes he knew to be due and owing, by conduct intended to conceal or mislead. The government must produce some affirmative indication of the required specific intent. If the understatement of tax is caused by a good faith misunderstanding of the tax laws, the understatement is not due to fraud. However, a good faith mis-



**Exhibit 4.19.10-4 (Cont. 3) (01-02-2025)**  
**Form 886-A 90-Day Overview**

understanding of the law is different than disagreement with the law or a belief that the law is, or may be, unconstitutional.

The existence of fraud is a question of fact to be resolved upon consideration of the entire record. Since direct proof of taxpayer intent is rarely available, fraud may be proved by circumstantial evidence that will support a finding of fraudulent intent. Proof of fraud for one year will not sustain the government's burden of proving fraud in another year.

**ARGUMENT:**

The government has determined that clear and convincing evidence exists. Mr. Hickory altered the amount of the federal income tax withholding on the Form W-2 that he submitted with his TY 2019 Form 1040 to understate the tax due.

**TAXPAYER'S POSITION:**

Unknown. The taxpayer failed to respond.

**GOVERNMENT'S POSITION:**

The taxpayer has not provided a defense to the application of this penalty. The assertion of the civil fraud penalty is in order.

**CULPABILITY OF EACH SPOUSE:**

Not applicable. Taxpayer did not file a joint return.

**ALTERNATIVE POSITION:**

In the alternative, if it is determined that the underpayment of tax in the amount of \$\_\_\_\_\_ for the TY ending 2019 is not due to fraud, then it is determined that the underpayment of tax in the amount of \$\_\_\_\_\_ is due to negligence or disregard of rules and regulations under IRC Section 6662(b)(1) of the Internal Revenue code, or the underpayment constitutes a substantial understatement of income tax under the provision of IRC Section 6662(b)(2).

