

IRS Exam\Collection Terms

23C Date. The date the IRS posts an assessment to its computers' master file.

Abatement. A reduction or elimination of tax, penalties or interest. Taxes may be abated when the IRS determines that there was an over assessment.

Accelerated Cost Recovery System (ACRS). An accelerated depreciation method provided by statute for most types of property used in business and income-producing activities during the years 1981 through 1986.

Accelerated Depreciation. A method of depreciation that produces larger deductions in the early years of an asset's life.

Account. A tax record on magnetic tape. Tax data is identified by Social Security Number or Employer Identification Number.

Acquisition Debt. Debt used to buy, build or substantially improve a principal residence or second home and which generally qualifies for a full interest expense deduction.

Active Income. Income from wages, tips, salaries, commissions, and a trade or business in which you materially participate.

Active Participation. A type of investor position that determines how rental income is taxed. Requirements are less stringent for Active Participation than for Material Participation.

Activity Code. A number added by an IRS Service Center to tax returns to identify the type of return and the type of schedule.

Adjusted Basis. The original cost or other basis of property, reduced by depreciation deductions and increased by capital expenditures.

Adjusted Gross Estate (AGE). Gross Income less deductions allowable under Sections 2053 and 2054 of the Internal Revenue Code.

Adjusted Gross Income (AGI). An intermediate step in calculating taxable income determined by subtracting from gross income certain items such as alimony and job-related moving expenses but not itemized deductions.

Adoption Taxpayer Identification Number (ATIN). A number used for a taxpayer's child when the child's adoption is pending.

Aider and Abettor Statute. A law that subjects a person to prosecution and punishment for helping or encouraging another in attempting to evade the other's tax liability. 18 U.S.C. § 2.

Alimony. Payments made to a separated or divorced spouse as required by divorce decree or agreement. Qualifying payments to an ex-spouse are deductible as an adjustment *for* adjusted gross income and taxable to the recipient.

All-Events Test. A test used to determine whether income is considered to be earned or expenses are deductible by an accrual-basis taxpayer income is determined to have been earned in the year in which all of the events occur that determine the right to receive such income, and the amount can be determined with reasonable accuracy. A deduction is available in the year the amount becomes fixed and the amount is determinable with reasonable certainty.

Alter Ego Doctrine. A doctrine whereby the law disregards corporate existence and fixes liability on an individual.

Alternative Minimum Tax (AMT). A special tax designed to limit tax breaks for high income individuals.

Amended Return. A return filed to correct a previously filed return.

Appeals Officer. An IRS employee who has the authority to resolve disputes with the taxpayer based upon the hazards of litigation.

Assessment. The formal recording by the IRS on its records of a tax liability. Following the assessment, collection measures are undertaken on any unpaid liabilities.

Assessment Statute Expiration Date (ASED). The date after which the IRS is barred by statute from assessing additional tax liabilities with respect to a particular tax year. Generally, this is three years from the due date of the return or three years from the date of filing whichever is later; however, there are a number of exceptions including fraud (no limit) and substantial omission from gross income (6 years). The ASEDs for Forms 940, 941 and 945 are three years from April 15th of the year following their due date.

Assignment of Income. A taxpayer's direction that income earned by him be paid to another person so that it will be considered that other person's income for federal tax purposes.

At-Risk Rules. Tax rules which generally limit loss deductions to the actual amount the taxpayer is at risk for, including promissory notes on which the taxpayer is personally liable.

Audit Information Management System (AIMS). A computer system designed to give the IRS's Examination function information about the returns open to Examination and Appeals. IRM § 4.4.32.3 (02-08-99).

Audit Reconsideration. The process that the IRS uses to reevaluate the results of a prior audit when the taxpayer disagrees with the original determination by providing information that was not previously considered during the previous examination. Or it is the process the IRS uses when the taxpayer contests an ASFR/SFR determination by filing an original delinquent return. IRM 4.13.1.2 (02-01-2003).

Automated Collection System (ACS). A centralized, computerized inventory system that maintains certain balance due accounts return delinquency investigations. The ACS generally receives the accounts and investigations after taxpayers have failed to comply with several IRS notices for past due taxes or unfiled returns. Customer Service Representatives (CSRs) assigned to the ACS respond to telephone and correspondence contacts with these taxpayers in an attempt to collect the unpaid taxes and secure the unfiled returns. These ACS contacts occur prior to cases being referred to the IRS's Collection Field Function (CFF), which relies on face-to-face contacts with taxpayers. The ACS and CFF perform many of the same processes, such as analyzing financial statement information, researching assets, entering into installment agreements, making currently not collectible determinations, and taking lien and/or levy enforcement actions.

Automated Substitute for Return Program (ASFR). The ASFR establishes the tax liability by securing a valid income tax return from the taxpayer or computing tax, penalty and interest based upon Information Reporting Program (IRP). If the ASFR computes the tax, the IRS sends a proposed 30-Day Letter Package and, if no acceptable response, issues a Statutory Notice of Deficiency.

Automated Underreporter Program (AUR). A procedure whereby the IRS performs a reconciliation between information reported on taxpayers' returns and payer information (e.g., Forms 1099). The product of this procedure is often an IRS Notice CP2000 proposing tax increases.

Avoidance of Tax. Legally structuring tax affairs to reduce tax liability.

Backup Withholding. Income tax that is withheld from investment income. Banks and other financial institutions are required to withhold 31 percent of your investment income if they do not have adequate reporting information for you. The IRS may also require backup withholding if it determines you have underreported your investment income in a prior year.

Badges of Fraud. Facts which suggest but which, standing alone, do not establish the existence of fraud. For example, failure to keep adequate records may be a badge of fraud.

Bag Deposit Method. An indirect method of proof of income used by the IRS when records are suspect or unavailable.

Board of Tax Appeals (BTA). The trial court that considered federal tax matters prior to the establishment of the United States Tax Court.

Business Bad Debt. A debt resulting from the conduct of the taxpayer's trade or business or a debt that became worthless in connection with the taxpayer's trade or business.

Business Purpose. A test applied to various transactions to determine whether the transactions qualify as a valid transaction for tax purposes.

C Corporation. A corporation taxed under Subchapter C of the Internal Revenue Code.

Cancellation of Debt. Forgiveness of a debt without payment or consideration. Cancellation of a debt can often result in taxable income to the debtor.

Cash Expenditures Method. An indirect method of proof of income used by the IRS to establish the existence of underreported or unreported income.

Certified Public Accountant. An accountant who has met the statutory and licensing requirements of the state.

Civil Fraud Penalty. A penalty equal to 75% of an underpayment that is attributable to fraud.

Civil Penalty. A fine or sanction against a taxpayer or tax preparer for failure to comply with tax rules.

Claim-of-Right Doctrine. A judicial doctrine that includes an amount in the gross income of the taxpayer, regardless of receipt, when the taxpayer has an unrestricted claim to the amount.

Closing Agreement. A written agreement between the taxpayer and the IRS that conclusively settles a tax liability or a particular tax year or settles one or more issues affecting such liability.

Collateral Agreement. A written commitment by a taxpayer to induce some action by the IRS. For example, a taxpayer may offer the IRS a collateral agreement whereby the taxpayer agrees to pay the IRS additional amounts based upon future income in excess of a some certain to induce the IRS to accept an Offer in Compromise (OIC).

Collection Statute Expiration Date (CSED). The CSED is a time period established by law to collect taxes. The CSED is generally ten years from the date of assessment; however, under various circumstances the running of the statutory period is suspended and/or extended. Each assessment carries its own CSED and there may be multiple assessments for any tax year. If no return is filed for a tax period, the CSED can not be computed and will not expire.

Constructive Dividend. The IRS reclassification of a corporate expense into a nondeductible disguised dividend.

Constructive Receipt. A doctrine whereby income that is not received but is available to a taxpayer is taxed to the taxpayer.

Corporate Veil. The protection afforded an individual by the use of the corporate entity. Courts may pierce the Corporate Veil to reach the underlying person.

Criminal Investigation Division (CID). The part of the IRS that conducts criminal investigations and recommends prosecution of taxpayers for alleged criminal defenses.

Currently Not Collectible. Also referred to as “CNC” and “53ing an account” (refers to an IRS computer code indicating that the case is in “currently not collectible” status). When the taxpayer establishes that, even under a very Spartan budget imposed by the IRS, even small

monthly payments would cause a severe economic hardship, then the IRS will place the account in CNC status for a period of time and not actively seek collection.

Debt Forgiveness Income. See Discharge of Indebtedness Income.

Deficiency. The difference between the amount of tax assessed by the IRS and the amount reported on your return.

Delay Adjustment. IRS Examination parlance a term used to describe the IRS proposed change of an item of income or expense.

Delinquent Return. A tax return not filed within the time proscribed by the Internal Revenue Code.

Discriminant Function System (DIF Score). A scoring system used by the IRS to evaluate the likelihood that the return will generate more revenue if audited.

Divorce Transfer. A transfer of assets occurring within one year after a marriage ceases resulting in no gain or loss on the transfer.

Document Locator Number. The number assigned to each return or other document introduced into processing, for control and file reference purposes.

Enrolled Agent. An individual who has passed a difficult IRS test or has worked in a technical area within the IRS for at least 5 years, an enrolled agent can represent clients at IRS audits and administrative appeals.

Entry Order. Also called an Order for Entry to Effect Levy. In the absence of permission from the taxpayer, the IRS must obtain a warrant before entering constitutionally protected premises to seize property for the payment of taxes. The IRS routinely obtains these warrants.

Erroneous Refund. A refund made in error by the IRS which may be recovered by a civil action brought by the government within two years after the refund.

Estimated Tax Payments. Quarterly tax payments made to the IRS when the amount of any withholding from employment income is not sufficient to pay the accruing income tax liability.

Examination. An IRS audit of your income tax liability. An office audit is an audit conducted in the IRS's offices. A field audit is conducted by the IRS on the taxpayer's business premises or in the offices of the taxpayer's representative.

Failure-to-File Penalty. The penalty assessed upon a tax return not filed by the due date (including extensions).

Failure-to-Pay Penalty. A penalty assessed on unpaid taxes.

Fair Market Value. The price a willing buyer would pay a willing seller where neither is under a compulsion to buy or sell.

Federal Tax Deposit. Employers are generally required to make periodic deposits against the accruing employment tax liability. This liability includes your employee's withheld Federal income tax, Social Security and Medicare taxes, plus the employer's share of Social Security and Medicare taxes. Deposits may be required on a monthly or semi-weekly basis, depending on the amount owed during a four-quarter look-back period. The monetary penalties for failure to make timely, accurate deposits are severe.

Federal Tax Lien. A lien of the United States on all property and rights to property of a taxpayer who has unpaid federal taxes.

Foreclosure of Federal Tax Lien. Lawsuit filed by the U.S. Department of Justice, Tax Division, or the local U.S. Attorney to obtain judicial foreclosure of a Notice of Federal Tax Lien. IRM § 34.7.5.1 (11-13-96).

Forms 433-A (Collection Information Statement for Wage Earners and Self-Employed Individuals) and 433-B (Collection Information Statement for Businesses). Detailed IRS financial statements that require full disclosure of assets and income.

Garnishment. Taxpayers often refer to IRS levies on wages and accounts as "garnishment."

Illegal Income. Income from illegal sources. Failure to report Illegal Income is itself a crime for tax purposes.

Incentive Stock Option ("ISO"). A component of a compensation plan whereby qualifying stock options are not taxed until they are sold.

Information Data Retrieval System ("IDRS"). A computer system which enables IRS Service Centers and area offices to have instantaneous visual access to certain taxpayer accounts. IRM § 4.4.32.7 (02-08-99).

Installment Agreement. A written agreement with the IRS for monthly payments on past-due taxes.

Internal Revenue Manual (IRM). An official compilation of policies, procedures, instructions, and guidelines for the Internal Revenue Service.

Jeopardy Assessment. An IRS assessment made immediately upon a determination by the IRS that collection of the tax could be jeopardized by a delay.

Joint Committee Review. The Joint Committee on taxation receives a report regarding proposed refunds pursuant to amended tax returns or claims for refunds when the amount refunded is greater than \$1,000,000.00.

Last Known Address. The address that appears on a taxpayer's most recently filed return, unless the IRS has been otherwise notified of another address.

Lien. A charge against property, making it security for payment of the tax debt. The IRS accomplishes this by filing a Notice of Federal Tax Lien in the county real and/or personal property records.

Levy. Seizure of an asset, such as an automobile or bank account. A wage levy is a continuous levy which seizes a substantial portion of each paycheck.

Master File. Before automated data processing, the IRS maintained all tax accounts on ledger cards. In 1962, this system was replaced with the Master File, which consists of separate computer files for different types of taxpayers, such as individuals, businesses, employee plans and exempt organizations. There are millions of Master File accounts.

Material Participation. A test used to determine whether a taxpayer is involved enough in a business to avoid being subject to the passive-loss rules.

Modified Accelerated Cost Recovery System (MACRS). A method of depreciation that depreciates assets over a longer period than that provided by the Accelerated Cost Recovery System

Negligence. Lack of due care or failure to do what a reasonable and ordinarily prudent person would do under the given circumstances.

Negligence Penalty. A 20% accuracy-related penalty.

Ninety-Day Letter. A Statutory Notice of Deficiency. The IRS's institutional position that there is a deficiency in tax. The deficiency will be assessed unless the taxpayer timely files a petition with the U. S. Tax Court.

Non-Master File ("NMF"). Established in 1991, the IRS uses the NMF for accounts that either the master file is not configured to process or that must be processed more quickly than can be done through the master file.

Nonqualified Stock Option ("NSO"). A stock option that does not meet the incentive stock option requirements.

Notice of Deficiency. Also known as a Statutory Notice of Deficiency and as a 90-Day Letter. The IRS's position as an institution that there is a deficiency in tax due from the taxpayer.

Notice of Levy. A notice that transfers constructive possession of the taxpayer's property to the Internal Revenue Service.

Notice of Seizure. Notice that the IRS has seized and intends to sell the taxpayer's property to satisfy delinquent taxes.

Offer in Compromise (“OIC”). A formal process, provided by Internal Revenue Code § 7122, requiring comprehensive financial statements and detailed substantiation, whereby tax liabilities can be settled for less than the outstanding balances. The most common basis for settlement, “doubt of collectibility” requires that the taxpayer establish that the IRS could not reasonably expect to collect more than the amount offered. The majority of OICs are rejected by the IRS because the submitting taxpayers simply did not qualify or failed to satisfy the IRS that it could not collect an amount in excess of the amount offered.

Office Auditor. An IRS employee who conducts, in IRS offices, audits of less complex individual and business tax returns.

Passive Activity. Any activity in which the investor does not materially participate. Generally, losses generated by passive activities may not be used to offset active income.

Passive Loss. A loss from a Passive Activity.

Payroll Taxes. Also known as Employment Taxes. Social Security and Medicare taxes withheld from employee’s wages and employer’s matching portion of such taxes.

Penalty. A monetary fine assessed by the IRS. In some situations, especially in the area of employment taxes, penalties can account for more than half of the total liability.

Pennies on the Dollar. A phrase often used by persons to tout their putative expertise in obtaining compromises of tax liabilities. The IRS takes its job seriously and does not settle for less than what is owed until it is satisfied that the amount offered is at least equal to the amount it could, with all of its impressive collection tools, reasonably expect to collect over time. The prudent taxpayer will not employ a representative who promises any specific result without first fully understanding the taxpayer’s financial position.

Personal Liability. An obligation that exposes an individual’s personal income and assets to IRS collection efforts with respect to a corporate debt.

Power of Attorney. An IRS power of attorney, Form 2848, is a legal document authorizing your attorney, CPA or enrolled agent to represent you on tax matters before the IRS.

Property Exempt from Levy. Section 6334 of the Internal Revenue Code provides that, within specific statutory limits, certain possessions and types of income are exempt from levy.

Quick Sale Value. For IRS purposes, generally 80 percent of fair market value. Quick sale value for cash and cash equivalents is the same as fair market value, usually 100 percent of face value.

Reasonable Cause. A reason that the IRS would accept to excuse the imposition of a penalty or other sanction on a taxpayer or tax preparer.

Reconstruction of Income. Indirect methods whereby the IRS determines the taxpayer’s

income in the absence of adequate books and records or in the presence of suspect books and records. Such methods include the *Bank Deposit Method*, *Cash Expenditures Method* and *Net Worth Method*.

Refund Statute Expiration Date (“RSED”). The date after which the refund of overpaid taxes is barred by statute. For prepayment credits (e.g., withholding credits) the RSED is three years from the due date of the return, including timely filed extensions. For non-prepaid credits, the RSED is three years from the date the original return was filed, or two years from the date of payment, whichever is later.

Release from Levy. A procedure whereby the IRS notifies the levied party that it need not comply with the levy. The IRS is loath to release levies, especially where there is a history of noncompliance with tax laws. In personal tax cases, a full or partial release of levy may be negotiated if it can be shown that compliance with the levy will result in a “substantial hardship” to the taxpayer. In business cases, a partial release of levy may be possible where, e.g., enforcement of the levy would cause the taxpayer to miss a payroll or Federal Tax Deposit.

Responsible Person. A “responsible person” is a person or a group of people who has the duty to perform and the power to direct the collecting, accounting and paying of Trust Fund taxes. The person may be an officer or employee of a corporation, a member or employee of a partnership, a corporate director or shareholder, a member of a board of trustees of a nonprofit organization, or another person with authority and control over funds to direct their disbursement.

Retention Register. IRS records which contain all entity and tax modules removed from the Master File. The basic criteria for removal of a tax module are: (a) the assessed module balance is zero and the last transaction (including the return) has been posted 51 or more months; (2) the assessed module balance is a credit and the last transaction (including the return) has been posted 60 or more months.

Revenue Agent. An IRS employee who works in the field examining tax returns.

Revenue Officer. An IRS employee who works in the field making personal contact with taxpayers and third parties to collect unpaid, delinquent taxes.

Self-employment Tax. Social security and Medicare tax paid by self-employed individuals on the net income from their trade or business.

Sham Transaction. A transaction without substance.

Special Agent. An IRS employee who conducts criminal investigations.

Special Estate Tax Lien. An IRS lien which attaches to the gross estate.

Statutory Limitation Period. The period provided by law within which an action, such as the assessment or collection of taxes, must be taken.

Statutory Notice of Deficiency (SND). Also known as a 90-Day Letter or a “Stat Notice.” The SND sets forth the IRS’s determination that additional taxes are due. The 90-day limit for filing a petition with the United States Tax Court can not be waived by the IRS or the Tax Court.

Step Transaction Doctrine. A doctrine used by the IRS to collapse multiple transactions into a single transaction for tax purposes.

Substitute for Return (“SFR”). A return prepared by the IRS for a taxpayer who failed to file his or her return.

Suit to Reduce Tax Claim to Judgment. A lawsuit brought in federal district court by the IRS, through the Department of Justice, Tax Division, or the local U.S. Attorney’s office, to extend the collection period where there does not appear to be a present source of collection available. The IRS’s right to levy or foreclose the tax lien is not curtailed as a result of reducing the assessment to judgment. IRM § 34.7.5.1 (11-13-96).

Tax Delinquency Investigation (TDI). When taxpayers fail to file a return reporting income reported by payers, the account falls into delinquent status. An IRS Service Center sends the taxpayer a series of notices requesting the return (e.g., CP515, CP517 & CP518). If the account remains unresolved, it will be forwarded to ACS where a determination is made to forward it for processing under either ASFR or I.R.C. § 6020(b).

Tax Delinquency Account (TDA). Accounts that are not fully paid after returns are processed, or when additional tax has been assessed, will trigger a series of Computer Paragraph (CP) balance due notices. The first notice requests payment in full. The final notice, CP504, advised the taxpayer a Notice of Federal Tax Lien may be filed, levies may be issued, and other enforced collection measures may be taken.

Tax Period. The period of time for which a tax return is filed.

Transcript of Account. An IRS computer print-out of activity in the taxpayer’s account, including assessments, payments and extensions of statutory periods limiting assessment.

Transferee. A taxpayer to whom property is transferred. If the seller owes unpaid taxes, and less than fair market value is paid by the transferee, the transferee may, under certain circumstances, be liable for payment to the IRS of an amount up to the value of the property transferred.

Trust Fund Recovery Penalty. A penalty assessed, pursuant to Internal Revenue Code § 6672, against a responsible person in an amount equal to unpaid income and FICA taxes withheld from employees’ wages. Also referred to as the 100% penalty.

Underpayment Penalty. A penalty for not having sufficient prepayment credits (withholding and/or estimated tax payments).

Underreporter Program (URP). URP cases are generated by a computerized matching process between amounts reported on tax returns and amounts reported by payers (e.g., Forms 1099). When potential discrepancies are found, the URP selects the return for further analysis.