



Tax Reduction Letter

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Internal Revenue Manual 4.10.10

Standard Paragraphs and Explanation of Adjustments

MANUAL TRANSMITTAL

May 21, 2010

PURPOSE

(1) This transmits revised text for IRM 4.10.10, *Examination of Returns, Standard Paragraphs and Explanation of Adjustments*.

NATURE OF CHANGES

(1) This IRM updates existing material which is for use by Examination and provides information on Standard Explanations that are used in writing examination reports and statutory notices of deficiencies.

(2) The following new standard paragraphs were added:

- . 1123 Schedule C Net Profit and SE Tax Removed
- . 3324 AGI Changed for Post 2008 Filings
- . 4146 Student-must meet support test to claim as dependent before 1/1/2005
- . 4147 Student over 23 after 1988 and before 1/1/2005
- . 5731 Limitation on contribution to IRA (\$ 5,000 limit in effect for 2010)
- . 5732 Deduction limited based on AGI/filing status (for 2010)
- . 5733 Deduction limited based on AGI/spouse covered by qualified plan (for 2010)
- . 5734 Deduction limited based on AGI/ filing status (for 2010)
- . 6312 Making Work Pay Tax Credit
- . 6313 First-Time Homebuyer Credit
- . 7532 Education Credit
- . 7533 American Opportunity Credit
- . 7534 American Opportunity Credit (Education)
- . 7535 American Opportunity Credit (Dependent)
- . 7643 PC 1032, Earned Income Credit
- . 7644 Dependent not under age 19/student/disabled for tax year 2009
- . 7645 Earned Income Credit Investment Income for tax year 2009
- . 7646 Qualifying Child of Another for 2009 and later years
- . 7714 Fuel not Verified Used for Nontaxable Use
- . 8140 Failure to Pay/Failure to File
- . 8320 Schedule A no longer applicable - Real Estate Taxes allowed per Schedule L for tax year 2009
- . 8321 Disallowed tax on purchase of new automobile on Schedule L for tax year 2009

- . 8322 Disallowed additional standard deduction for Real Estate Taxes on Schedule L for 2009
- . 8323 Adjusted additional standard deduction for Casualty Loss reported on schedule L for tax year 2009
- . 8324 Disallowed additional standard deduction for Casualty Loss reported on form 4797 for tax year 2009
- . 9505 No-Response - Claims

(3) The following Standard Paragraphs were Revised:

- . 1119 Wages moved - expenses allowed on Sch A
- . 1203 Source & Applications - computation
- . 1427 Unemployment
- . 1435 Tuition
- . 1510 Non-accountable plan-subject to 2% limitation
- . 2402 Foreign income not excludable/not a resident of a foreign country
- . 2404 Resident aliens/exclude income outside U.S./physical presence test
- . 2406 Physical Presence Test not met
- . 2413 Limitation/computation
- . 2420 Physical presence test/Bona fide residence
- . 2426 Not eligible for Sec 911/Flight personnel
- . 3105 Specific charge-off method-only debts becoming worthless in tax year
- . 3106 Not established a bad debt and your loss-not allowed
- . 3115 Partially worthless-Not a bad debt
- . 3120 Guarantor
- . 3208 Holding period 12 months or more
- . 3213 Excess over \$ 3,000 carry forward
- . 3401 Adjusted to correct percentage
- . 3802 Maximum section 179 expense
- . 3809 Election to amortize capital expenditures not timely
- . 3810 Capital expenditures amortized/other than required months or deducted other than required amount
- . 3901 Maintain/improve skills
- . 3904 Re-entering trade/ business
- . 3915 Work to school travel
- . 4004 Records and receipts not adequate
- . 1429 Recovery of an amount previously deducted in prior year
- . 4102 Form 8332 not attached to return/disallow exemption
- . 4118 FRV of claimed dependent's lodging added to support
- . 4120 Capital expenses-support/nosupport
- . 4127 Total cost of support not established-cannot determine 1/2
- . 4128 Tax-free income is support-disallowed as support test not met
- . 4130 U.S./Japan treaty rule/see computation
- . 4135 Custody of dependent-prior to 1/1/2005
- . 4142 Exemptions/Credits DDB Rule 112 - Prior to 1/1/2005
- . 4145 Tie-Breaker Rule for Two or More Taxpayers Claiming a Child as a Qualifying Child
- Taxable Years Beginning After 12/31/04
 - . 4152 Small bus. corp. loss disallowed *IRC 1362(d)*

- . 4402 Avg. unpaid balance method/computation
- . 4501 Hobby loss/Not for profit-no loss and order of exp. stated
- . 4541 Section 1231
- . 4722 Payment exceeds moving expenses/not member of uniformed services
- . 4813 Limits on deductions
- . 4814 Test for home office
- . 4819 Limitation on Home office deductions
- . 4901 Excess loss denied
- . 5011 Non passive income limit - \$ 25,000
- . 5209 Local sales tax not deductible after 1986 and prior to 2004
- . 5703 Premature distribution/IRA
- . 5711 Premature distribution/Keogh
- . 5712 Added tax of 10% due to premature distribution-IRA
- . 5714 Limitation on contribution to IRA
- . 5716 Deduction limited based on AGI/ filing status
- . 5717 Deduction limited based on AGI/ spouse covered by qualified plan
- . 5725 10% Tax-Qualified Retirement Plan
- . 5726 10% Tax-IRA
- . 5727 10% Tax-Annuity Contract
- . 5806 Accrual basis-must maintain an inventory
- . 5812 Hobby
- . 6003 Depletion -% depletion-oil and gas limitations
- . 6103 Period for Carryback/Carryover
- . 6201 Credit disallowed/expenses paid before 1997
- . 6502 Payments to dependent relatives
- . 6513 Income increase-excess value of care assistance
- . 6517 Child Care Credit - DDB Rule 110
- . 6518 Child Care Credit - DDB Rule 111
- . 6520 Child and Dependent Care Credit - fillable gross income-DDB Rule 111
- . 6706 Elderly, Permanently & Totally Disabled - not met
- . 6707 Reduce by benefits received
- . 6708 Married taxpayers must file a joint return unless they live apart
- . 6709 Adjusted due to change in filing status
- . 6902 Credit for excess FICA disallowed
- . 7220 Lease terms don't qualify under section 46E (3)(4) or (5)
- . 7302 AGI changed/Child Tax Credit adjusted
- . 7303 Child Tax Credit computed
- . 7308 Additional Child Tax Credit for Residents of Puerto Rico
- . 7412 Capital Gain sale
- . 7501 Dependency exemption disallowed/Education credit adjusted
- . 7532 Education Credit
- . 7643 PC 1032 Earned Income Credit
- . 7714 Fuel not verified used for nontaxable use
- . 8015 Nonrefundable personal credits taxable years 1998 and 1999
- . 8107 FICA tax tips/Failure to report tips
- . 8209 Other income/liable - See Pub. 334
- . 8212 Income less than \$ 400
- . 8214 Self-employment earnings of \$ 400 or more
- . 8237 SE tax - minister

- . 8314 Required to item ded/disallowed std ded or ZBA
- . 8401 Spouse itemized/you must itemize unused ZBA-add back
- . 8912 Married NR alien not entitled H of H must have another qualified individual
- . 8922 Resident alien not entitled to treaty benefits
- . 9415 Tax Defier indications
- . 9504 Disallowed no response
- . 9601 Loss limitation/"At Risk" definition
- . 9602 Loss limitation to "At Risk" amount/except for real estate
- . 9603 Losses/not connected to trade or business of partnership
- . 9605 Basis limits loss
- . 9621 Corporate characteristics
- . 9627 Allocation/Not provided for in P-ship Agreement
- . 9630 Accelerated Deprec./Tax Preference Items
- . 9644 Syndication expenses
- . 9645 Investigative of start-up costs
- . 9647 FPAA Default Closing
- . 9648 Court Stipulation Closing
- . 9649 Partnership adjustment
- . 9652 Form 906 closing
- . 9653 District Court of Claims
- . 9657 TEFRA trust
- . 9901 Schedule C loss reduced/Office in home

(4) The following Standard Paragraphs were deleted:

- . 7210 Auto business/personal ratio: ITC for automobiles was repealed in 1986
- . 9427 See enclosed explanation; This standard paragraph was a duplicate of standard paragraph 9426
- . 9441 TP husband granted innocent spouse relief/ *IRC 6013(e) - IRC 6103(e)* Repealed
- . 9442 TP husband does not qualify for innocent spouse relief/ *IRC 6013(e) - IRC 6103(e)* Repealed
- . 9443 TP wife granted innocent spouse relief/ *IRC 6013(e) - IRC 6103(e)* Repealed
- . 9444 TP wife does not qualify for innocent spouse relief/ *IRC 6013(e) - IRC 6103(e)* Repealed

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 4.10.10, Examination of Returns, Standard Paragraphs and Explanation of Adjustments, dated April 4, 2008.

AUDIENCE

Examination Personnel in SB/SE, LMSB and W&I Field Assistance Employees

EFFECTIVE DATE

(05-21-2010)

Alain Dubois
Director, Examination Policy

4.10.10.1 Standard Explanations for Report Writing (05-21-2010)

(1) The standard explanations provide specific reasons for the examiner's adjustment in a particular situation. Standard explanations are given an explanation number and listed under a common category.

(2) The standard explanations will be used in the preparation of most examination reports for office examination and can be used on field examinations. Report Generation Software (RGS) provides standard explanations automatically for statutory adjustments. See IRM 4.10.8, *Report Writing*, for more detailed information regarding RGS standard explanations.

(3) Campus Compliance functions should also use the explanations for report writing as appropriate.

(4) The standard explanations have been approved by Chief Counsel and are approved for use in preparing statutory notices.

4.10.10.2 Index of Standard Explanations (08-28-2006)

(1) Exhibit 4.10.10???1 consists of a list of common categories of standard explanations by category number and subject. This index is consistent with the index on RGS.

(2) Exhibit 4.10.10???2 contains the Master List of Standard Explanations currently used in Examination Report Writing. The system currently in use is RGS. All reports should be prepared using this system.

4.10.10.3 Additions, Deletions or Revisions of Standard Explanations (04-04-2008)

(1) The Master List of Standard Explanations' numbering is for Headquarters control and for subsequent identification in case of additions, deletions or revisions to the list. In any correspondence with Headquarters concerning the explanations, reference should be made to the category number in this chapter. See Exhibit 4.10.10???1.

(2) Requests to include additional explanations in the IRM, that are peculiar to and frequently used in an area, territory or campus, should be submitted to the Headquarters Analyst for approval.

B4.10.10.3 Index to Standard Explanations (08-28-2006) [SEE TABLE IN ORIGINAL]