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Internal Revenue Manual Section 4.10.4.3.3 (08-09-2011)

Minimum Income Probes: Individual "Business" Returns

1. **Financial Status Analysis** - Prepare a financial status analysis to estimate whether reported income is sufficient to support the taxpayer's financial activities. See *IRM 4.10.4.3.3.1*.
2. **Interview** - Conduct an interview with the taxpayer (or representative) to gain an understanding of the taxpayer's financial history, identify sources of nontaxable funds, and establish the amount of currency the taxpayer has on hand. Consider possible bartering income as part of the minimum income probes. See *IRM 4.10.4.3.3.2*.
3. **Tour of Business** - Tour the business site and review of the Internet website to gain familiarity with the taxpayer's operations and internal controls, and identify potential sources of unreported income. However, a tour of the physical business site is not required for office audit cases but may be conducted if appropriate and with manager approval. See *IRM 4.10.4.3.3.3*.
4. **Internal Control** - Evaluate internal controls to determine the reliability of the books and records (including electronic books and records), identify high risk issues, and determine the depth of the examination of income. See *IRM 4.10.4.3.3.4*.
5. **Reconciliation of Income** - Reconcile the income reported on the tax return to the taxpayer's books and records. An analysis of the IRP information in the file should also be completed to ensure all business and/or investment activities reflected on the IRP document are properly accounted for on the tax return. See *IRM 4.10.4.3.3.5*.
6. **Testing Gross Receipts** - Test the gross receipts by tying the original source documents to the books. See *IRM 4.10.4.3.3.6*.
7. **Bank Analysis** - Prepare an analysis of the taxpayer's personal and business bank and financial accounts (including investment accounts) to evaluate the accuracy of gross receipts reported on the tax return. See *IRM 4.10.4.3.3.7*.
8. **Business Ratios** - Prepare an analysis of business ratios to evaluate the reasonableness of the taxpayer's business operations and identify issues needing a more thorough examination. See *IRM 4.10.4.3.3.8*.
9. **E-Commerce and/or Internet Use** - Determine if there is Internet use and e-commerce income activity. See *IRM 4.10.4.3.7.1*.