



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, D.C. 20224

Small Business/Self-Employed Division

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MEMORANDUM FOR EXAMINATION AREA DIRECTORS

FROM: Monica L. Baker /s/ Donna C. Hansberry
Director, SBSE Examination

SUBJECT: Interim Guidance for State Reverse File Match Initiative (SRFMI)
Program

This memorandum provides interim guidance on the State Reverse File Match Initiative (SRFMI) program cases. The IRS has committed to TIGTA, Treasury, and the Senate Finance Committee to explore the matching of state filings against IRS return data.

For decades, state revenue departments have used federal return filing information to address non-filing and underreporting. There are opportunities for IRS to improve compliance by reversing this process. States will send the IRS four data extracts: individual, corporate, sales, and withholding. For each data extract, the results from matching state information to IRS return data will be placed into three categories: compliant, underreported, and non-filer. Returns demonstrating material amounts of underreported income or no record of filing during the matching process will be case built and sent to the field.

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Examiners can use the income reported on the state tax return to produce a federal tax examination report. It has been held that positions taken in a tax return signed by a taxpayer may be treated as admissions. See Waring v. Commissioner, 412 F.2d 800, 801 (3rd Cir. 1969); Lare v. Commissioner, 62 T.C. 739, 750 (1974); Kaltreider v. Commissioner, 28 T.C. 120, 125 -126 (1957). As stated in Crigler v. Commissioner, T.C. Memo. 2003-93, a taxpayer "cannot ...disavow ... returns without cogent proof that they are incorrect." Evidence obtained through the taxpayer's own admission on a state

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income tax return signed under penalties of perjury is as reliable as evidence from third parties, and perhaps more so if the taxpayer is unable to successfully refute the information contained in the state return. If the taxpayer establishes during the course of the examination that the state information is incorrect, the examiner will adjust their report accordingly.

All examiners will treat these cases like any other case; applying normal audit procedures, considering potential fraud when warranted, and using his or her judgment to determine the scope of the examination. There are 37 states that start with federal adjusted gross income (AGI) or federal taxable income (TXI). State supplied federal AGI or federal TXI reported by a taxpayer on his or her state return provides sufficient basis for determining a federal deficiency for that taxpayer. A deficiency determination can be made that satisfies IRC § 6212(a). Where Information Returns Processing (IRP) data is available, examiners should use this as an additional source for comparison.

For federal tax non-filers, the normal substitute for return procedures will be applied, including separate reports for married filing joint state return data. The examiner will need to apportion the appropriate amount of income to each spouse. See IRM 25.18.2, *Income Reporting Considerations of Community Property*, for allocation of income in community property states. For non-community property states, the examiner should not simply place all of the income on both spouse's returns. The examiner should first check the state tax return for information that would provide a basis for allocating the income reported. Second, the examiner should cross-reference the information on the state return with any other information that may be available, such as information returns (W-2, 1099, etc.). If the examiner has sufficient information to determine the amount of income per spouse, he or she can prepare a report.

If the examiner does not have sufficient information to allocate income, based on the steps taken above, the examiner should try to contact each spouse and attempt to obtain information on how much income should be reported for them prior to issuing a report. If the taxpayer(s) are non-responsive or uncooperative the examiner can then treat this as a whipsaw issue and place the full income on each taxpayer's return. The latter will be done only when the steps, outline above, provide insufficient information on how to allocate income.

Cases delivered to the Areas will have Project and Tracking Codes applied by the Planning and Special Programs manager. It is extremely important to keep the codes as originally assigned, since this project requires further analysis. See the attachment for a list of the applicable project and tracking codes. Surveys can be completed on a case by case basis. However, managerial concurrence and contact with the Examination Return Selection analyst will be necessary prior to survey.

IRM Sections 4.10.4.3, Minimum requirements for examination of income exceptions, 4.1.1 Fed-State section, will be updated to reflect the interim guidance as outlined in this memo on or before September 17, 2009.

If you have any additional questions, members of your staff may contact Joan Thill, Senior Program Analyst, Examination Return Selection.

Attachment:
SRFMI Project Codes & Tracking Codes
cc: www.irs.gov

Tracking Codes for SRFMI Compliance Programs Each year's subsequent SRFMI inventory tracking code would be increased by 10		Project Codes for SRFMI Compliance Programs Each year's subsequent SRFMI inventory project code will have the same PC	
0703	Phase 1 Individual NF	0911	Phase 1 Individual NF
0713	Phase 2 Individual NF	0911	Phase 2 Individual NF
0723	Phase 3 Individual NF	0911	Phase 3 Individual NF
0733	SRFMI Nationwide Individual NF	0911	SRFMI Nationwide Individual NF
0702	Phase 1 Individual UR	0911	Phase 1 Individual UR
0712	Phase 2 Individual UR	0911	Phase 2 Individual UR
0722	Phase 3 Individual UR	0911	Phase 3 Individual UR
0705	Phase 1 Corporate NF	0911	Phase 1 Corporate NF
0715	Phase 2 Corporate NF	0911	Phase 2 Corporate NF
0725	Phase 3 Corporate NF	0911	Phase 3 Corporate NF
0706	Phase 1 Corporate UR	0911	Phase 1 Corporate UR
0716	Phase 2 Corporate UR	0911	Phase 2 Corporate UR
0726	Phase 3 Corporate UR	0911	Phase 3 Corporate UR
0707	Phase 1 Sales NF	0931	Phase 1 Sales NF
0717	Phase 2 Sales NF	0931	Phase 2 Sales NF
0727	Phase 3 Sales NF	0931	Phase 3 Sales NF
0708	Phase 1 Sales UR	0931	Phase 1 Sales UR
0718	Phase 2 Sales UR	0931	Phase 2 Sales UR
0728	Phase 3 Sales UR	0931	Phase 3 Sales UR
0701	Phase 1 Withholding NF	0911	Phase 1 Withholding NF
0711	Phase 2 Withholding NF	0911	Phase 2 Withholding NF
0721	Phase 3 Withholding NF	0911	Phase 3 Withholding NF
0704	Phase 1 Withholding UR	0911	Phase 1 Withholding UR
0714	Phase 2 Withholding UR	0911	Phase 2 Withholding UR
0724	Phase 3 Withholding UR	0911	Phase 3 Withholding UR
Any case that uses Amnesty State data extract records will use Project Code 0910, except Sales			
Any case that uses Amnesty State data Sales extract records will use Project Code 0932			