

IRS Transcripts – Essential Tool for Tax Practitioners

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If you are encountering ACS and pains because the PIC in your BMF was caused by an FTD, maybe it's time to yell STAUP!

Plain English translation: if the Automated Collection System is hounding you because your Business Master File account shows a Penalty Indicator Code for a Failure to Deposit, maybe it is time to request a STAUP code to suspend all collection activity while you investigate the penalty. But how does a company discover what is causing the Collection activity in the first place? The answer is to review the transcript and decode the mystery.

Virtually all information collected by the IRS from tax returns, information returns, taxpayer filings, IRS activities and correspondence are entered into a system of IRS records called the Integrated Data Retrieval System (IDRS). IDRS allows instantaneous visual access of taxpayer accounts by authorized employees.¹ Data from IDRS is extracted through the processing of various command codes (CCs) that cull defined data from the database into a report that is focused on a specified taxpayer, tax filing and tax year.² Commonly used command codes that produce reports or “prints” are often referred to as “transcripts.” These transcripts are a useful source of information that can assist taxpayers in addressing penalties and interest, correcting account errors, tracking payments, refunds and transfers between years and accounts, (confirming tax account adjustments including assessments, payments and refunds) and identifying “entity” data that the IRS has recorded. This article introduces IRS transcripts that taxpayers can request to assist them in managing their tax status and tax filings.

Transcripts can be obtained by practitioners who are authorized representatives of a taxpayer and who are listed on a Power of Attorney Form 2848, or Tax Information Authorization Form 8821, by calling the IRS Practitioner Priority Service (PPS)³ and confirming their authorization. The PPS is generally staffed by IRS employees from the Tax Account Management or Customer Service units in the various service centers throughout the country. When not assigned to answer practitioner calls, PPS employees may also process returns and input tax return and account data into the IDRS system. The knowledge and experience of PPS employees (and their supervisors) can vary significantly.

Experienced PPS employees can provide insights into account data to assist taxpayers in managing their tax accounts and tax information. Inexperienced PPS employees (and their inexperienced supervisors) may be hesitant to assist taxpayers in solving account problems. There is no direct line to an experienced PPS employee; thus, success in identifying account errors or solving account problems involves knowing the type of transcript you want to request, articulating why you need that particular data, and a fair amount of patience and persistence to get the data you need. If an inexpe-

rienced PPS employee is unable or unwilling to assist in providing information that should be available to the taxpayer or its authorized representative, a cordial “thank you and goodbye” followed by another call to the PPS increases the likelihood of assistance by an experienced PPS employee. Patience, cordiality and persistence are the key elements to success when calling the PPS. Transcripts are provided to practitioners via mail (taking 2 or more weeks) or fax (taking no more than a few hours.)

A Reference Guide to Transcript Data

For most account issues, the following IDRS transcripts and command codes may be helpful to identify account attributes, correct errors, prepare carryback claims, locate lost refunds or determine the nature of assessed penalties.

ENMOD⁴

The ENMOD is an IDRS command code that culls “entity” information related to a particular taxpayer. The ENMOD can confirm entity status and return filing requirements. A purchasing company performing due diligence on a prospective target may want to confirm that the target is a disregarded entity or whether it is a REIT, a TEFRA partnership, an S corporation, or is engaged in a bankruptcy proceeding. This information is available on the ENMOD. The ENMOD can also indicate the “fiscal year month” that the IRS reflects in the target’s tax module, whether the target has changed its year end and when such change was effective. Many entries on the ENMOD are codes denoting various attributes of the entity. The ENMOD, and other coded transcripts, can be “decoded” by referring to IRS Document 6209, ADP and IDRS Information, available on the IRS website.⁵ The decoding effort can be tedious; however, an experienced PPS employee can answer many questions about the target and then provide the ENMOD to document and confirm the information.

Account Transcript⁶

The Account Transcript is a “plain English” presentation of a particular tax return account for a particular year. It will reflect information about when the return was received, tax reported on the return, estimated tax payments and the dates those payments were made, credits of overpayments from the prior tax year, credits of current overpayments to the next tax year, IRS examination indicators, IRS examination assessments, amended return adjustments, processed refunds paid or scheduled to be paid, returned refund checks, and penalty and interest assessments.

The Account Transcript should be obtained if a corporation plans to file a carryback claim using Form 1139 or Form 1120X. The entries on the Form 1139 or Form 1120X must match the IRS records for certain items on the carryback claim, including taxable income before the NOL, tax liability per the original return and any IRS or taxpayer adjustments to these items. A mismatch between the entries on the carryback claim and the IRS transcript may result in the carryback claim being rejected and sent back to the filer with instructions to correct the information on the claim. Rejections result in refund delays and reduced interest on the refund because filing restarts the 45 day interest free period on the refund. Importantly, the delay could result in the expiration of the due date for filing the Form 1139, thus requiring the taxpayer to claim the carryback refund by filing Form 1120X and potentially delaying the refund until the examination of the Form 1120X is completed.

If the transcript includes a Transaction Code 420, this indicates that a return (Forms 1120, 1120X or 1139 for corporations) has been referred to the Examination unit in the Service Center where the return or claim was processed. Transaction Code 424 also indicates that the return has been referred to Examination but generally in the field. The Taxpayer should expect to receive correspondence opening the field examination if the Account Transcript includes Transaction Code 424. If Transaction Code 420R, 421, 424R or 425 is reflected in the account, the particular examination (service center or field) has been closed. Companies with audited financial statements should consider obtaining the Account Transcript at year end to identify overpayments, underpayments, assessed penalties and assessed interest that may be relevant to their tax provision or balance sheet. The Account Transcript is delivered through the automated Transcript Delivery System (TDS) after the PPS makes an electronic order for the transcript.

Tax Return Transcript⁷

A tax return transcript shows most of the line items from the tax return as it was originally filed. This information can be useful to acquiring companies to obtain information from prior year returns of an acquired company such as tax credits, carryovers, and the components of the tax liability. This transcript does not show adjustments to the return made by the IRS or by an amended return filing. The tax return transcript can be obtained by filing Form 4506-T or by authorized representatives calling the PPS and confirming their authorization. The electronic return transcript is generally only available for the prior 3 years. If earlier tax returns are needed, then a copy of the return can be ordered using the Form 4506. A copy of the returns requested will generally be provided within 6 weeks of the request. Note that the Form 4506-T can be used to obtain transcripts of other filings including information returns (Form W-2, Form 1099 series, Form 1098 series or Form 5498 series returns.)

TXMOD Series Transcripts⁸

The TXMOD series transcripts reflect the IDRS command code TXMOD along with a definer code, including "A", "C", "L", "N", "P", "S" or "X".¹⁰ TXMODs contain more detailed information than any other single command code. The TXMOD "A" typically provides

all the information necessary to identify account errors, account attributes and other relevant items that will impact interest and penalty calculations and transfers to and from the tax module. This transcript also provides sensitive data (generally criminal referrals, etc.) that must be sanitized and removed before providing it to a taxpayer or its authorized representative. The data included in the TXMODA is numerically coded and there are very few English descriptions of any entry in the account. The codes can be identified in the IRS Document 6209, ADP and IDRS Information, on the IRS website. The TXMODA is obtained by calling the PPS. It must be printed and faxed to the requester and thus, it is not delivered through the electronic Transcript Delivery System. The TXMODA contains five distinct sections.⁹

The top portion (heading section) contains the identifying information, the tax year, the module balance, the IRS input for the various statutes of limitation (for assessment, refund and collection), whether there are active case controls by a service center or field examination office, and whether the year is under the jurisdiction of Collection. This section also identifies whether there are any refund freezes on the account and a Status Code indicating the status of any Collection activities.

The body portion (transactions section) includes all transaction codes relating to the module entries for the tax year including tax assessments, tax payments, tax credits from prior years, assessed penalties and interest, refunds, Collection activities (including third party contacts for purposes of liens and levies), and transfers out of the tax module and into other years or modules. The difference between the entries in the TXMODA and the Account Transcript relates to the level of detail provided in the TXMODA. Each entry on the TXMODA contains a document locator number (DLN) providing additional coded information about the entry, including which service center input the information, the physical location of documents associated with the entry (if any), the day the entry was placed on the account and certain other information.

For transfers in and out of the module, the TXMODA shows the source or destination module. Unpaid refunds can be identified through this data. A Transaction Code 820 denotes that a tax overpayment has been transferred out of the account. The destination of the overpayment will be noted. If the destination notes the term XSF, this means that the refund has been transferred to an Excess Collections Account. Finding a reference to the XSF signals that the taxpayer must immediately request a transfer of the overpayment out of XSF so that the refund or can be paid or credited. Challenging an XSF transfer is difficult and time consuming, but with proper documentation of the overpayment, the taxpayer can retrieve the money.

There is also a section (notice section) that identifies notices sent to the taxpayer by numerical description (e.g., Notice CP 20) and by date and a section that provides. The case control and history section identifies assignment locations for Examination or Collection. This section will identify whether there are any outstanding powers of attorney and may also document conversations with the representative.

The status history section identifies status code changes in the account and records the dates in which those changes were made.

The TXMODA transcript should be requested any time there is a missing refund, payment discrepancy or the need to confirm the effective date of payment or credit transfers in and out of the account. If an interest computation is being prepared, the detailed information in the TXMODA is the transcript that will contain almost all the information needed to prepare or review the computation.

Civil Penalty Module

Certain miscellaneous penalties are recorded in an account module that is separate from the income tax return module. Penalty transaction codes denote the type of penalty being imposed and the date the penalty was assessed. To obtain a transcript of this module, an authorized representative must call the PPS and the Form 2848 or Form 8821 must specifically authorize the IRS to provide information from the Civil Penalty module. To obtain information on how the IRS computed the penalty (and interest), request a PINEX (Penalty and Interest Explanation) report. A transcript of the Civil Penalty module can be obtained on the same day as the request. However, a PINEX report may take several weeks to receive through the mail.

Saved by the Transcript

The transcripts discussed in this article can be helpful to many companies to obtain important account information, but interpreting the transcript codes can be daunting. Even though the “decoder” is found on the IRS website (Document 6209), a certain level of understanding of IRS accounts and transcripts is required to understand the context of the codes. The IDRS system and the transcripts and reports that come from it are business records of the IRS. As such, they can provide factual support for the IRS’s position in litigation. While it is not common for transcripts to play a significant role in the outcome of a case, they have taken center

“[T]ranscripts are troves of information, but they are also almost completely incomprehensible...”¹⁰

Rosenbloom v. Commissioner, T.C. Memo 2011-140.

stage in a few cases where the information they contained was a determining factor for the prevailing litigant.

A recent case in the Tax Court underscores the importance to the IRS in knowing what is in its own transcript records. In *Rosenbloom v. Comm’r*, T.C. Memo 2011-140, the taxpayer sought to prove that an installment agreement was in place when he signed extensions of the collection statute. If the installment agreement was in place when the statute extensions were signed, the IRS would be barred from collection activities under a policy established to

correct past collection function misconduct whereby taxpayers were coerced to extend the collection statute under threat of the IRS revoking their installment agreements. The taxpayer sought review of the coerced extension at a Collection Due Process (CDP) hearing. The hearing officer concluded that the statute extensions were valid because IRS collection activities were consistent with a revoked installment agreement.¹² The court reviewed the taxpayer’s transcripts and allowed expert testimony from the IRS. It determined that the installment agreement had never been terminated because a “Code 64,” which indicates a terminated or defaulted installment agreement, never appeared on the transcript. This finding supported the conclusion that the collection statute had expired and the tax liability was discharged.

The *Rosenbloom* case not only illustrates that transcript data can play a significant role in a court’s findings, but also the complexity of the information contained in them. Most IRS employees are not skilled in the nuances of transcript data. In *Clark v. U.S.*, 108 AFTR 2d 2011-5481 (D. HI 2011) the taxpayer brought suit against the IRS alleging that certain information had been unlawfully disclosed by the IRS to third parties. Since much of underlying documents to the dispute were not in evidence, the court stated the “interpretation of [the] transcripts is at the heart of Plaintiff’s case.” The taxpayer’s interpretation of the transcripts were held unreliable by the court because they were contrary to an expert offered by the IRS with 35 years of experience in reading transcript entries and studying IRS records.

Transcripts are generally presumed to be correct unless proven otherwise and courts will rely on them to make factual determinations. In *Roberts v. Comm’r*, T.C. Memo 2004-100, the taxpayer tried to bar the IRS from submitting into evidence his tax transcripts and the Transaction Codes Pocket Guide, which explains some of the coding in the transcripts, on the basis that neither were relevant. The court disagreed with the taxpayer and stated, “[W]e have repeatedly approved respondent’s reliance on TXMODA transcripts as verification of the information and actions reflected therein.” In *Schroeder v. Commissioner*, T.C. Memo. 2002-190, the taxpayer claimed he had never received a notice and demand statement from the IRS but the court held that he did because the transcript of account demonstrated that a notice had been sent to the taxpayer.

While transcripts and generally presumed to be correct, they can be rebutted by evidence to the contrary. In *U.S. v. Forma*, 71A AFTR 2d 93-3694 (S.D. NY 1989), the court denied the governments motion for summary judgment because it found there was a genuine issue of fact in question. The taxpayer claimed that he had not signed Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, but the IRS claimed that he had based on the numeric codes on the transcripts. Neither the IRS nor the taxpayer’s accountant could find copies of these waivers and the court held that the presumption of correctness in this situation was not conclusive.

Though rarely used in litigation, transcript data can make or break a party’s case. It can shine a light on account mistakes, that once corrected, can reduce or eliminate interest and penalties. It can also provide a path of documentation surrounding a

taxpayer's actions. Even though the data is coded and the codes are often difficult to parse, the *Rosenbloom* court said it best, transcripts are truly troves of information that can be relied upon and used advantageously. ⁶

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1. IRS Document 6209, ADP and IDRS Guide (2012), Section 14, pages 14-1 through 14-2.
2. *Id.*
3. See Internal Revenue Manual 21.2.10.1 (10-01-2010).
4. See Internal Revenue Manual 2.3.15 for information provided on the ENMOD.
5. The abbreviation "ADP" in the title of Document 6209 refers to automatic data processing.
6. Account transcripts are external transcripts that can be requested through the PPS or by filing Form 4605-T. Internal Revenue Manual 21.3.10.3.4 (6-21-2012).
7. Return Transcripts are external transcripts that can be requested from the PPS or by filing Form 4506-T. Internal Revenue Manual 21.3.10.3.4 (6-21-2012)
8. TXMOD transcripts can be provided at the request of the taxpayer or its representative. Internal Revenue Manual 21.3.10.3.4 (6-21-2012). However, the TXMODA transcript must be sanitized before it is provided.
9. Internal Revenue Manual 2.3.11.3 (01-01-2000)
10. *Rosenbloom v. Comm'r*, T.C. Memo 2011-140
11. *Id.*
12. An over-zealous revenue officer levied on the bank account, attempted to repossess used office furniture and even attempted to seal off Mr. Rosenbloom's office elevator on two separate occasions.