



[CLICK HERE](#) to return to the home page

Internal Revenue Manual 4.10.2.2.2

26/27 Month Examination Cycle

1. Prior to opening a return, examiners must consider the 26/27 month examination cycle, defined in (2) below. A return should not be opened for audit if the audit and all processing cannot be completed within the 26/27 month examination cycle, unless:
 - The return is exempt from the 26/27 month examination cycle (see (4) below), or
 - Circumstances warrant exceeding the 26/27 month examination cycle, see (5) below.
2. The 26/27 examination cycle is the time period in which the audit and disposition of an income tax return should be completed; it begins on the due date of the return or the date the return is filed, whichever is later. To ensure adherence with Rev. Proc. 57-6, 1957-1 C.B. 729, SB/SE Field Examination follows a 26-month examination cycle for individual returns and a 27-month examination cycle for business returns (e.g., Forms 1120, 1041, 1065, etc.). Adhering to the 26/27 month examination cycle generally allows the audit and all processing (e.g., appeal, assessment, etc.), through and including the issuance of the closing letter, to be completed within the original statute of limitations.

Reminder:

To minimize taxpayer burden and adhere to Rev. Proc. 57-6, prior, subsequent and related year returns that warrant examination should be worked concurrently with the primary tax year.

Note:

Rev. Proc. 57-6 establishes the policy of the Service to secure a consent, extending the statutory period of limitations on assessment of income tax, only in a case involving unusual circumstances. The Service is to keep to an absolute minimum the number of consents obtained from taxpayers.

3. To fall within the 26-month examination cycle, an individual return with a 3-year (36 month) statute should have 10 months remaining after all processing is complete. A business return with a 27-month examination cycle, should have 9 months remaining on the statute after processing is complete.

Example:

On February 15, 2021, an examiner is evaluating the audit potential of a 2018 individual tax return that has an original statute date of April 15, 2022. At the time of the initial return screening there are 14 months remaining on the statute. When making the decision to initiate an audit, the examiner must take into account the time needed to identify issues, gather facts, determine the substantially correct tax liability, and complete the examination process. In order to be within the 26-month examination cycle, the return must be closed and all other processing completed by June 15, 2021(with 10 months remaining on the original statute of limitations).

4. Returns with the following source code, project code, push code and status code features are exempt from the requirement to complete the examination and other processing within the 26/27 month examination cycle as shown in the table below. These guidelines are not applicable to Forms 706 and 709.

Source Code		Description
17		Tax Shelter Program
39		Tax Shelter Program Related Pick-Up
64		NON-TEFRA Pick-Up Related to Forms 1065, 1041 and 1120S
Project Code		Description
0074		Related to Appeals not listed
0077		Joint Committee Case - Strategic Priority #10 CLAIMS
0310, 0311, 0154, 0156, 0165, 0437, 0458, 0669, 0016, 0034, 0149, 0150, 0265, 0266, 0449		Frivolous Filers/Nonfilers
0015		TEFRA/AMENDED
Push Code	Description	
020	Delinquent Return	
021	Non-Filer (Use if a TC 150 is not needed.)	
036	Substitute for Return	
037	Potential CI Referral/Nonfiler	

Push Code	Description
------------------	--------------------

Status Code	Description
--------------------	--------------------

17	Fraud Development Status
18	Acceptance by Criminal Investigation
29	Other TEFRA Suspense
30	Form 1254, Examination Suspense Report
32	General Fraud Suspense
36	Grand Jury Suspense
38	Suspense-ID Theft or Other
44	PSP Suspense

Returns with the following source codes and AIMS creation dates of 270 days old or less:	Description
---	--------------------

11	Studies, Tests, and Research
23	TEFRA Related
24, 25	Nonfiler
30	Claims for Refund/Abatement
32	Carryback
60	Information Report
77	State Information
85	IRP Information Document Match
88	Special Enforcement

**Returns with the following source codes and
AIMS creation dates of 270 days old or less: Description**

90

Fraud Regular

7. With group manager approval, the 26/27 month examination cycle may be exceeded if failure to conduct the examination would:
- a. Result in a serious criticism of the Service's administration of tax laws,
 - b. Establish a precedent that would seriously hamper subsequent attempts by the Service to take corrective action,
 - c. Result in inconsistent treatment of similarly situated taxpayers, or
 - d. Be contrary to an established Service position (the Service position must be clear at the time the approval to initiate the examination is granted, and not be in the developmental stages).

Example:

Two examiners are working cases from the same preparer project. Guidance was provided instructing examiners to audit prior and/or subsequent years concurrently when the same issues are present. The first examiner followed the guidance; however, the second examiner waited until the primary tax year was closing before considering the pick up of the prior tax year, which is now "out of cycle." In this situation, it may be appropriate to exceed the examination cycle in order to have consistent treatment between the similarly related taxpayers.

8. If the initial return screening indicates the examination cycle cannot be met and circumstances warrant exceeding the 26/27 month examination cycle, the matter should be discussed with the group manager. The discussion must be documented in the case file and address justification for exceeding the 26/27 month examination cycle, identified issues, and actions needed to complete the audit.
- a. If the group manager agrees that an examination should be initiated, approval for deviation from the 26/27 month examination cycle requirements should be documented by the examiner in the workpapers.

Example:

On July 15, 2021, a 2018 prior year individual tax return that has an original statute of April 15, 2022 (9 months remaining on the statute), is beyond the 26-month examination cycle and considered "out of cycle." When determining whether or not to expand the audit to this prior year return, the examiner must evaluate the audit potential and determine if the return meets one of the exceptions to exceed the 26-month examination cycle. If the return meets one of the exceptions, group manager approval is required prior to initiating the audit.

b. If the group manager does not approve the examination of an "out of cycle" assigned return, the examiner must document the reason for the survey on Form 1900 and follow the survey after assignment closing procedures in *IRM 4.10.2.5.2*. See *IRM 4.10.5.2.4*, Case File Documentation, for comments relating to required filing checks.