

# *The Religious Triggers*

*of*

**“[Temple Taxes]”**

**[Penalties & Interests of THE IRS]**

26 USC 6665: Applicable rules

Title 26 - INTERNAL REVENUE CODE

Subtitle F-Procedure and Administration

CHAPTER 68-ADDITIONS TO THE TAX, ADDITIONAL AMOUNTS, AND ASSESSABLE PENALTIES

Subchapter A-Additions to the Tax and Additional Amounts

PART III - APPLICABLE RULES



## **Part 20. Penalty and Interest**

### **20.1.1 Introduction and Penalty Relief**

- 20.1.1.1 Overview
- 20.1.1.2 Purpose of Penalties
- 20.1.1.3 Criteria for Relief From Penalties-

#### **Manual Transmittal**

August 05, 2014

#### **Purpose**

(1) This transmits revised IRM 20.1.1, *Penalty Handbook, Introduction and Penalty Relief*.

#### **Material Changes**

(1) Minor editorial changes have been made throughout this IRM. Web site addresses, legal references, and IRM references were reviewed and updated as necessary. Significant changes to this IRM are reflected in the table below.

<b>IRM</b>	<b>Change Details</b>
<i>IRM 20.1.1.1.2</i> (2)	Removed IRC 6716 in the code section column for IRM 20.1.11.
<i>IRM 20.1.1.1.2.1</i>	Inserted new paragraph (1) and renumbered remaining. Removed redundant statement from paragraph (2).
<i>IRM 20.1.1.1.6</i>	Added statement "after you have informed the taxpayer regarding the existence and role of the Taxpayer Advocate Service (TAS)."
<i>IRM 20.1.1.2.3</i>	Added new paragraph (9) and renumbered remaining content.
<i>IRM 20.1.1.3.1</i>	Added new paragraph (1) and renumbered existing paragraphs. Included changes made with Interim Procedural Update (IPU) 13U1157 issued 06-27-2013 to add a note to paragraph (6).
<i>IRM 20.1.1.3.2.1</i>	Included changes made with IPU 14U0623 issued 04-03-14-13 (previously issued as IPU 13U0690 on 04-05-2013) to update policy statement references.
<i>IRM 20.1.1.3.2.2.2</i>	Added "Reasonable Cause" to the title for clarification.
<i>IRM 20.1.1.3.3.1</i>	Changed the IRC 7508A reference from presidentially to federally.
<i>IRM 20.1.1.3.3.2</i>	Moved (3)(a) and (b) to <i>IRM 20.1.1.3.3.1</i> (3).
<i>IRM 20.1.1.3.3.4</i> (3)(c)	Changed first sentence from a question to a statement.
<i>IRM 20.1.1.3.3.5</i>	Added <i>Major Disasters</i> to title for clarification.
<i>IRM 20.1.1.3.4</i> (2)(a)	Included changes made with IPU 13U1157 issued 06-27-2013 to change Modernization and Information Technology Services (MITS) to Information Technology (IT).
<i>IRM 20.1.1.3.5.1</i>	Included changes made with IPU 13U1282 issued 07-26-2013 to update the information for sending penalty appeals cases.
<i>IRM 20.1.1.3.5.3</i>	Added new paragraph (1) to clarify subsection does not pertain to all IRM 20.1.1 penalties and renumbered remaining paragraphs.
<i>IRM 20.1.1.3.6.1</i>	Updated to include the following IPU content: <ul style="list-style-type: none"> <li>• IPU 13U1705 issued 12-06-13 (previously issued as 12U0248 on 01-25-12) to change reference (3)(f) to (5)(f).</li> <li>• IPU 14U0623 issued 04-03-14-13 (previously issued as IPU 13U0690 on 04-05-2013) modified the first time abate (FTA) policy.</li> </ul>
<i>IRM 20.1.1.3.6.7</i>	Updated to include changes made with IPU 14U0623 issued 04-03-14-13 (previously issued as IPU 13U0690 on 04-05-2013) to removed the statement that the Reasonable Cause Assistant (RCA) can be used on Business Master File (BMF) accounts with no posted Transaction Code (TC) 150.
<i>IRM Exhibit 20.1.1-3</i>	Updated to include changes made with IPU 13U1705 issued 12-06-13 (previously issued as 12U0248 on 01-25-12) to correct the TC 28X explanation.
<i>IRM Exhibit 20.1.1-4</i>	A. Updated to include changes made per the following IPUs: <ul style="list-style-type: none"> <li>• IPU 13U1705 issued 12-06-13 (previously issued as 12U0248 on 01-25-12) was incorporated to correct IRM references.</li> </ul>

IRM	Change Details
	<ul style="list-style-type: none"> <li>• IPU 13U1282 issued 07-26-2013 was incorporated to add an exception to Penalty Reference Number (PRN) 565 for married filing joint (MFJ) filings.</li> </ul> <p>B. Clarified penalty computation rates with respect to PRNs 537 and 581.</p> <p>C. Added PRN 594.</p>
IRM Exhibit 20.1.1-5	<p>A. Updated to include changes made per the following IPUs:</p> <ul style="list-style-type: none"> <li>• IPU 13U1706 issued 12-06-13 (previously issued as 12U0379 on 02-14-12) to update PRN 627 penalty rate applicable to tax returns and claims for refund for tax years ending on or after 12/31/2011</li> <li>• IPU 13U1282 issued 07-26-2013 to update PRNs 603, 613, 625, 659, and 660 to reflect new 7XX PRN used for assessing a continuation penalty instead of PRN 619. Also updated PRN 619 to show it's now used to assess a continuation penalty only for a PRN 623 initial penalty assessment.</li> </ul> <p>B. Updated PRN 606 to clarify penalty computation rates.</p> <p>C. Updated PRN 619 to indicate it is now used to assess a continuation penalty only for an initial penalty assessed with PRN 623 (IRC 6038). PRN 619 is no longer used with initial penalties assessed with PRNs 603, 613, 625, 659, and 660.</p> <p>D. Updated PRN 624. PRNs 714–718 replace PRN 624 effective Jan. 2014.</p> <p>E. Updated PRN 635. It is not used for IRC 6651(f) penalty assessments as of July 2, 2013.</p> <p>F. Updated PRN 686. It is the sole PRN now used for IRC 6651(f) penalty assessments.</p> <p>G. Added PRNs 642 (IRC 6722(e)) and 683 (IRC 6662(j)).</p>
IRM Exhibit 20.1.1-6	<p>A. Updated to include changes made per the following IPUs:</p> <ul style="list-style-type: none"> <li>• IPU 13U1157 issued 06-27-2013 to add PRN 711 information.</li> <li>• IPU 13U1282 issued 07-26-2013 to add PRNs 701 through 705.</li> </ul> <p>B. Added PRNs 714-718 that are now used for IRC 6695(a)-(e) penalty assessments (previously assessed with PRN 624).</p> <p>C. Added PRNs 780 (IRC 6662(b)(6)) and 781 (IRC 6662(i)).</p>
IRM Exhibit 20.1.1-8	Updated to include changes made with IPU 13U1705 issued 12-06-13 (previously issued as 12U0248 on 01-25-12) to reflect the correct Document 6209, "IRS Processing Codes and Information" sections.

**Effect on Other Documents**

IRM 20.1.1, *Introduction and Penalty Relief*, dated November 25, 2011, is superseded. The following Servicewide Electronic Research Program (SERP) IRM Procedural Updates (IPUs), issued between January 25, 2012 through December 6, 2013, have been incorporated into this IRM: 12U0248, 12U0379, 13U0690, 13U1157, 13U1282, 13U1705, 13U1706, and 14U0623.

**Audience**

All IRS employees who work with penalties.

**Effective Date**

(08-05-2014)

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**20.1.1.1 (11-25-2011)**

**Overview**

1. This IRM section discusses the purpose of penalties and provides the legal authorities, criteria for relief, and other general information about penalties. This information is for employees who work with penalties when examining returns, collecting taxes, and other compliance activities, including employees in Small Business Self-Employed (SB/SE) Division, Large Business and International (LB&I) Division, Tax Exempt and Government Entities (TE/GE) Division, Appeals, Criminal Investigation, and other IRS offices.
2. IRM 20.1, *Penalty Handbook*, is the primary source of authority for the administration of penalties by the IRS. IRS functions may develop additional guidance or reference materials for their specific functional administrative needs. However, such reference material must receive approval from the Office of Servicewide Penalties (OSP) prior to distribution and must remain consistent with the policies and general procedural requirements set forth in IRM 1.2.20.1.1, *Policy Statement 20-1 (Formerly P-1-18)*, at <http://irm.web.irs.gov/link.asp?link=1.2.20.1.1>, and any other guidance relating to IRS penalties. See also *IRM 20.1.1.2*.
3. OSP has overall responsibility for coordinating and approving any update to IRM 20.1, *Penalty Handbook*. OSP's role is to ensure fairness and consistency in penalty administration.
4. This IRM contains exhibits to assist the user in researching penalty issues:
  - *Exhibit 20.1.1-1, Penalty Relief Application Chart*
  - *Exhibit 20.1.1-2, Penalty Reason Code Chart*
  - *Exhibit 20.1.1-3, Penalty Transaction Codes*
  - *Exhibit 20.1.1-4, Penalty Reference Numbers-500 Series*
  - *Exhibit 20.1.1-5, Penalty Reference Numbers-600 Series*
  - *Exhibit 20.1.1-6, Penalty Reference Numbers-700 Series*
  - *Exhibit 20.1.1-7, Table of Abbreviations and Acronyms*
  - *Exhibit 20.1.1-8, Dictionary of Key Terms*

#### **20.1.1.1.1 (11-25-2011)**

##### **Background**

1. In 1955, there were approximately 14 penalty provisions in the Internal Revenue Code. There are now more than ten times that number. With the increasing number of penalty provisions, the IRS recognized the need to develop a fair, consistent, and comprehensive approach to penalty administration.
2. In November 1987, the Commissioner of IRS established a task force to study civil penalties and develop a fair, consistent, and comprehensive approach to penalty administration. In February 1989, the Commissioner's Executive Task Force issued a Report on Civil Tax Penalties. The report established a philosophy concerning penalties, provided a statutory analysis of the three broad categories of penalties (filing of returns, payment of tax, and accuracy of information), and made recommendations where warranted to resolve the inconsistencies. Those recommendations were, in part, that the IRS should take the following actions:
  - A. Develop and adopt a single penalty policy statement emphasizing that civil tax penalties exist for the purpose of encouraging voluntary compliance.
  - B. Develop a single consolidated handbook on penalties for all employees (the handbook should be sufficiently detailed to serve as a practical everyday guide for most issues of penalty administration and provide clear guidance on computing penalties).
  - C. Revise existing training programs to ensure consistent administration of penalties in all functions for the purpose of encouraging voluntary compliance.
  - D. Examine its communications with taxpayers (including penalty notices and publications) to determine whether these communications do the best possible job of explaining why the penalty was imposed and how to avoid the penalty in the future.
  - E. Finalize its review and analysis of the quality and clarity of machine-generated letters and notices used in various areas within the IRS.
  - F. Consider ways to develop better information concerning the administration and effects of penalties.
  - G. Develop a Master File database to provide statistical information regarding the administration of penalties. The information in this database should be continuously reviewed for the purpose of suggesting changes in compliance programs, educational programs, penalty design, and penalty administration.

3. In keeping with the Commissioner's Executive Task Force Report and Congressional recommendations, the consolidated penalty IRM was developed.

#### 20.1.1.1.2 (08-05-2014)

##### Organization of IRM 20.1, Penalty Handbook

1. IRM 20.1, *Penalty Handbook*, serves as the foundation for addressing administration of penalties by various IRS functions. By providing one source of authority for the administration of penalties, the IRS greatly reduces inconsistencies regarding penalty application.

##### Exception:

Refer to IRM 9.1.3, *Criminal Statutory Provisions and Common Law*, for criminal penalty provisions.

2. The penalty handbook provides guidance to all areas of the IRS for all civil penalties imposed by the Internal Revenue Code (IRC). It sets forth general policy and procedural requirements for assessing and abating penalties, and it contains discussions on topics such as criteria for relief from certain penalties. The sections in IRM 20.1 are as follows:

IRM	Title	Code Reference(s)
IRM 20.1.1	<i>Introduction and Penalty Relief</i>	
IRM 20.1.2	<i>Failure to File/Failure to Pay Penalties</i>	IRC 6651, IRC 6698, and IRC 6699
IRM 20.1.3	<i>Estimated Tax Penalties (ES)</i>	Individual-IRC 6654 and Corporate-IRC 6655
IRM 20.1.4	<i>Failure to Deposit Penalty (FTD)</i>	IRC 6656
IRM 20.1.5	<i>Return Related Penalties</i>	IRC 6662, IRC 6662A, IRC 6663, and IRC 6676
IRM 20.1.6	<i>Preparer, Promoter, Material Advisor Penalties</i>	IRC 6694, IRC 6695, IRC 6700, IRC 6701, IRC 6707, IRC 6707A, IRC 6708, IRC 6713, IRC 7407, and IRC 7408
IRM 20.1.7	<i>Information Return Penalties</i>	IRC 6011, IRC 6721, IRC 6722, IRC 6723, and IRC 6724
IRM 20.1.8	<i>Employee Plans and Exempt Organizations Miscellaneous Civil Penalties</i>	IRC 6652, IRC 6684, IRC 6685, IRC 6690, IRC 6692, IRC 6693, IRC 6704, IRC 6710, IRC 6711, and IRC 6714
IRM 20.1.9	<i>International Penalties</i>	IRC 6038, IRC 6038A, IRC 6038D, IRC 6039E, IRC 6039G, IRC 6039F, IRC 6652(f), IRC 6677, IRC 6679, IRC 6683, IRC 6686, IRC 6688, IRC 6689, and IRC 6712
IRM 20.1.10	<i>Miscellaneous Penalties</i>	IRC 856(g)(5), IRC 6652(a)/(b)/(j)-(l), IRC 6657, IRC 6672, IRC 6673, IRC 6674, IRC 6682, IRC 6697, IRC 6702, IRC 6705, IRC 6706, IRC 6709, IRC 6720B, IRC 6720C, IRC 7268, IRC 7519, and IRC 9707
IRM 20.1.11	<i>Excise Tax and Estate and Gift Tax Penalties</i>	IRC 4103, IRC 6166, IRC 6653, IRC 6675, IRC 6715, IRC 6715A, IRC 6717, IRC 6718, IRC 6719, IRC 6720A, IRC 6725, IRC 7270, IRC 7271, IRC 7272, IRC 7273, IRC 7275, IRC 7304, and IRC 7342
IRM 20.1.12	<i>Penalties Applicable to Incorrect Appraisals</i>	IRC 6695A

#### 20.1.1.1.2.1 (08-05-2014)

##### Requesting Changes and Updating IRM 20.1

1. Refer to IRM 1.11.2.1.1, *Requesting Changes to the IRM*.
2. OSP has overall responsibility for coordinating and approving any update to IRM 20.1, *Penalty Handbook*.

#### **20.1.1.1.3 (12-11-2009)**

##### **Responsibility**

1. Overall responsibility for penalty programs is assigned to OSP. OSP is a matrix organization residing in Examination Policy (Small Business/Self Employed) Division. OSP is charged with coordinating policy and procedures concerning the administration of penalty programs, ensuring consistency with the penalty policy statement, reviewing and analyzing penalty information, researching penalty effectiveness on compliance trends, and determining appropriate action necessary to promote voluntary compliance.
2. Every function in the IRS has a role in proper penalty administration. It is essential that each function conduct its operations with an emphasis on promoting voluntary compliance. Appropriate business reviews should be conducted to ensure consistency with the penalty policy statement and philosophy. Attention should be directed to the coordination of penalty programs between offices and functions to make sure that approaches are consistent and penalty information is used for identifying and responding to compliance problems.
3. Managers should continuously review information for trends that may suggest changes in compliance programs, training courses, educational programs, penalty design, and penalty administration. Managers should institute, on an ongoing basis, a quality review system that evaluates the timely and correct disposition of penalty cases and encourages consistent administration of penalties.
4. All employees should keep the following objectives in mind when handling each penalty case:
  - A. Similar cases and similarly-situated taxpayers should be treated alike.
  - B. Each taxpayer should have the opportunity to have his or her interests heard and considered.
  - C. Strive to make a good decision in the first instance. A wrong decision, even though eventually corrected, has a negative impact on voluntary compliance.
  - D. Provide adequate opportunity for incorrect decisions to be corrected.
  - E. Treat each case in an impartial and honest way (i.e., approach the job, not from the government's or the taxpayer's perspective, but in the interest of fair and impartial enforcement of the tax laws).
  - F. Use each penalty case as an opportunity to educate the taxpayer, help the taxpayer understand his or her legal obligations and rights, assist the taxpayer in understanding his or her appeal rights, and in all cases, observe the taxpayer's procedural rights.
  - G. Endeavor to promptly process and resolve each taxpayer's case.
  - H. Resolve each penalty case in a manner which promotes voluntary compliance.

#### **20.1.1.1.4 (11-25-2011)**

##### **Security Standards**

1. IRS officials and managers must communicate security standards contained in IRM 1.4.6, *Managers Security Handbook*, to subordinate employees and establish methods to enforce them.
2. Employees are responsible for taking required precautions to provide security for the documents, information, and property that they handle in performing official duties.
3. Employees using Integrated Data Retrieval System (IDRS) should only access those accounts required to accomplish their official duties. Any unauthorized access or browsing of tax accounts by employees is prohibited by the IRS. IRM 10.8.1, *Policy and Guidance*, provides the authority and standards for information technology security.

#### **20.1.1.1.5 (08-05-2014)**

##### **Taxpayer Advocate Service (TAS) Guidelines**

1. While the IRS is always striving to improve its systems and provide better service, some taxpayers still have difficulty obtaining a solution to a problem or a timely and appropriate response to an inquiry. The purpose of TAS is to give taxpayers someone to speak for them within the IRS-an advocate. An advocate conducts an independent and impartial analysis of all information relevant to the taxpayer's problem. TAS guarantees that taxpayers will have someone to make sure their rights are protected and someone to turn to when the system is not responsive to their needs. TAS steps in and takes action on behalf of taxpayers when their complaints or inquiries meet TAS criteria. See IRM 13.1.1, *Taxpayer Advocate Case Procedures, Legislative History and Organizational Structure*.
2. The purpose of the criteria is to ensure that problems and complaints that have not been handled properly through normal channels are reviewed in TAS. See IRM 13.1.7, *Taxpayer Advocate Service (TAS) Case Criteria*.

#### **20.1.1.1.6 (08-05-2014)**

##### **Form 911-Request for Taxpayer Advocate Service Assistance**

1. Refer taxpayers to TAS (see IRM Part 13, *Taxpayer Advocate Service*) when the contact meets TAS criteria (see IRM 13.1.7, *TAS Case Criteria*) and you cannot resolve the taxpayer's issue the same day. The definition of "same day" is within 24 hours. "Same day" cases include cases you can completely resolve in 24 hours, as well as cases in which you have taken steps within 24 hours to begin resolving the taxpayer's issue. Do not refer these cases to TAS unless they meet TAS criteria and after you have informed the taxpayer regarding the existence and role of TAS, the taxpayer asks to be transferred to TAS. See IRM 13.1.7.4, *Same Day Resolution by Operations*.
2. When referring cases to TAS, use Form 911, *Request for Taxpayer Advocate Service Assistance (and Application for Taxpayer Assistance Order)*, and forward to TAS in accordance with your local procedures.

#### **20.1.1.2 (02-22-2008)**

##### **Purpose of Penalties**

1. Penalties exist to encourage voluntary compliance by supporting the standards of behavior required by the Internal Revenue Code.
2. For most taxpayers, voluntary compliance consists of preparing an accurate return, filing it timely, and paying any tax due. Efforts made to fulfill these obligations constitute compliant behavior. Most penalties apply to behavior that fails to meet any or all of these obligations.
3. The following factors support the public conviction that the tax system is fair and the penalty is in proportion to the severity of the noncompliance. Penalties encourage voluntary compliance by the following:
  - Defining standards of compliant behavior,
  - Defining consequences for noncompliance, and
  - Providing monetary sanctions against taxpayers who do not meet the standard.

#### **20.1.1.2.1 (11-25-2011)**

##### **Encouraging Voluntary Compliance**

1. Taxpayers in the United States assess their tax liabilities against themselves and pay them voluntarily. This system of self-assessment and payment is based on the principle of voluntary compliance. Voluntary compliance exists when taxpayers conform to the law without compulsion or threat.
2. Compliant self-assessment requires a taxpayer to know the rules for filing returns and paying taxes. The IRS is responsible for providing information to taxpayers, which includes the following:
  - Written materials that clearly explain the rules, and
  - Forms that permit the self-computation of tax liability.
3. In addition to (2) above, the IRS must also provide a means to preserve and enhance our voluntary compliance by fairly, consistently, and accurately administering a system of penalties.
4. Although penalties support and encourage voluntary compliance, they also serve to bring additional revenues into the Treasury and indirectly fund enforcement costs. However, these results are not reasons for creating or imposing penalties.
5. Penalties advance the mission of the IRS when they encourage voluntary compliance. The IRS has formalized this obligation to the public in its mission statement.
6. Voluntary compliance is achieved when a taxpayer makes a good faith effort to meet the tax obligations defined by the Internal Revenue Code.
7. Penalties support voluntary compliance by assuring compliant taxpayers that tax offenders are identified and penalized.
8. The IRS has the obligation to advance the fairness and effectiveness of the tax system. Penalties should do the following:
  - Be severe enough to deter noncompliance,
  - Encourage noncompliant taxpayers to comply,
  - Be objectively proportioned to the offense, and
  - Be used as an opportunity to educate taxpayers and encourage their future compliance.
9. IRS personnel may educate taxpayers and encourage their future compliance by doing the following:

- A. Discussing causes for the delinquency and listening to taxpayers' reasons and concerns for noncompliance,
- B. Ensuring that taxpayers understand their filing and paying responsibilities, and
- C. Being alert to information received in discussions with taxpayers that indicate possible reasons for abatement of a penalty.

10. Penalties should relate to the standards of behavior they encourage. Penalties best aid voluntary compliance if they support belief in the fairness and effectiveness of the tax system. This belief encourages compliance in areas that cannot be reached through audits or other programs. The IRS's approach to penalties is embodied in Penalty Policy Statement 20-1. See IRM 1.2.20.1.1, *Policy Statement 20-1 (Formerly P-1-18)*, at <http://irm.web.irs.gov/link.asp?link=1.2.20.1.1>.

#### 20.1.1.2.2 (11-25-2011)

##### Fair and Consistent Approach to Penalty Administration

1. The IRS's approach to penalty administration must ensure the following:
  - A. **Consistency:** The IRS should apply penalties equally in similar situations. Taxpayers base their perceptions about the fairness of the system on their own experience and the information they receive from the media and others. If the IRS does not administer penalties uniformly (guided by the applicable statutes, regulations, and procedures), overall confidence in the tax system is jeopardized.
  - B. **Accuracy:** The IRS must arrive at the correct penalty decision. Accuracy is essential. Erroneous penalty assessments and incorrect calculations confuse taxpayers and misrepresent the overall competency of the IRS.
  - C. **Impartiality:** IRS employees are responsible for administering the penalty statutes and regulations in an even-handed manner that is fair and impartial to both the government and the taxpayer.
  - D. **Representation:** Taxpayers must be given the opportunity to have their interests heard and considered. Employees need to take an active and objective role in case resolution so that all factors are considered.

#### 20.1.1.2.3 (08-05-2014)

##### Managerial Approval for Penalty Assessments

1. IRC 6751(b)(1) states, in general, that no penalty under the IRC shall be assessed unless the **initial** determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate. At this time, the Secretary has not designated any higher level official to approve initial determinations.
2. Notwithstanding the exception noted in paragraph 3 below, this approval requirement will also apply to the imposition of any fraud penalty including fraudulent failure to file penalty under IRC 6651(f).
3. IRC 6751(b)(2) provides an exception to the managerial approval requirement for penalties calculated through electronic means. This exception applies to the following penalties:
  - IRC 6651, *Failure to File Tax Return or to Pay Tax*,
  - IRC 6654, *Failure by Individual to Pay Estimated Income Tax*,
  - IRC 6655, *Failure by Corporation to Pay Estimated Income Tax*, and
  - Any other penalties automatically calculated through electronic means (see paragraph 5 below).
4. For purposes of this section, the term "penalty" includes any addition to tax or any additional amount (IRC 6751(c)).
5. **Penalty automatically calculated through electronic means** encompasses something more than merely an electronic device to perform arithmetic functions to determine the amount of a penalty. Instead, the assessment of a penalty qualifies as one calculated through electronic means if the penalty is assessed **free** of any independent determination by an IRS employee as to whether the penalty should be imposed against a taxpayer.
6. The managerial review and approval must be documented in writing and retained in the case file. The manager must indicate the decision reached, sign, and date the case history document.
7. IRC 6751(b) does not require the IRS to provide the taxpayer with a copy of the manager's written approval of penalties assessed against the taxpayer. However, the IRS may wish to provide the taxpayer with a courtesy copy of the document showing that a manager approved the penalties. Taxpayers are entitled to request these documents under the Freedom of Information Act (FOIA).
8. IRC 6751(b) provides that the assessment of a penalty shall be approved (in writing) by the immediate supervisor of the individual making the initial determination of such assessment. Generally, an immediate supervisor is the person who writes an employee's



evaluation or approves the employee's leave. On-the-job instructors do not qualify as the **immediate supervisor** for the purpose of IRC 6751(b).

9. LB&I Directive, *Codification of Economic Substance Doctrine and Related Penalties*, requires Director of Field Operations (DFO) approval for assertion of economic substance doctrine penalties by LB&I. See LMSB Control No.: LMSB-20-0910-024 at <http://www.irs.gov/Businesses/Codification-of-Economic-Substance-Doctrine-and-Related-Penalties>.
10. In addition to the information provided in *IRM 20.1.1.2.3.1*, *IRM 20.1.1.2.3.2*, and *IRM 20.1.1.2.3.3* additional information pertaining to the requirements for specific penalties includes, but is not limited to the following:
  - *IRM 20.1.2.2.7.5, Fraudulent Failure to File—IRC 6651(f)*.
  - *IRM 20.1.5.1.4, Managerial Approval of Penalties*, return related penalties.
  - *IRM 20.1.6.1.1.2, Managerial Approval for Assessment of Penalties*, prepare, promoter and material advisor penalties.
  - *IRM 20.1.12.6, Field Examination Procedures*, appraisal penalties.
  - *IRM 4.10.12.5.2, Penalty Case Creation, IRC 6702*, frivolous return penalties.

#### **20.1.1.2.3.1 (11-25-2011)**

##### **Examination Change Reports Assessing Penalties**

1. A tax examination change report (e.g., Form 4549, *Income Tax Examination Changes*) that includes penalties may be approved by a manager in writing after the report is presented to a taxpayer for signature. The report does not have to be reviewed by a manager prior to discussions with the taxpayer regarding the penalties. Nor does the report have to be reviewed before the taxpayer agrees to the penalties. However, the manager must perform a meaningful review of the employee's penalty determination prior to assessment.
2. The manager should verify the following:
  - A. The penalties were fairly imposed and accurately computed.
  - B. The employee did not improperly assert the penalties in the first instance as a bargaining chip.
  - C. The employee's conclusions regarding "reasonable cause" (or the lack thereof) were proper.

#### **20.1.1.2.3.2 (08-05-2014)**

##### **Automated Underreporter Program**

1. When the IRC 6662 accuracy-related penalties for negligence and substantial understatement are assessed under the Automated Underreporter Program (AUR) without an employee independently determining the appropriateness of the penalty, the penalty is automatically calculated through electronic means and may be assessed without written managerial approval of the penalty.
2. However, if a taxpayer responds either to the initial letter proposing a penalty or to the notice of deficiency that the program automatically issues, an IRS employee must consider the response.
3. When considering the response, the employee must make an independent determination as to whether the response provides a basis upon which the taxpayer may avoid the penalty. Whether the employee decides to apply the penalty or not, the employee's independent determination of whether the penalty is appropriate means that the penalty is not automatically calculated through electronic means. Accordingly, IRC 6751(b)(1) requires written managerial approval of an employee's determination to assert the penalty.
4. Also see *IRM 20.1.5.1.4, Managerial Approval of Penalties*.

#### **20.1.1.2.3.3 (12-11-2009)**

##### **IDRS Command Code FTDPN**

1. IRC 6751(b) applies, and managerial approval is required, when an IRS employee **does not use** IDRS Command Code (CC) FTDPN to determine whether the failure to deposit (FTD) penalty applies (IRC 6656). This determination is not free of any independent determination by an IRS employee as to whether the penalty should be imposed against a taxpayer.
2. Managerial approval is **not** required when **CC FTDPN** is used to determine an FTD penalty. For example, managerial approval is not required if CC FTDPN was used to determine the penalty on the following types of cases:
  - A. CP 194, *Data for Computation of Possible FTD Penalty on Forms 941, CT-1, 720, 940, 943, 944, 945*
  - B. CP 207, *Proposed averaged FTD Penalty (amounts less than \$75,000), Request for Correct ROFTL Information*

- C. CP 207L, *Proposed Averaged FTD Penalty (>= \$75,000), Request for Correct ROFTL Information*
- D. CP 193, *Duplicate Filing Condition*

**Note:**

The FTDPN print-out becomes part of the case source document.

**20.1.1.3 (11-25-2011)**

**Criteria for Relief From Penalties**

1. Generally, relief from penalties falls into four separate categories:
  - Reasonable cause
  - Statutory exceptions
  - Administrative waivers
  - Correction of IRS error
2. Appeals may recommend the abatement or non-assertion of a penalty based on these four criteria as well as "hazards of litigation."
3. In the interest of fairness, the IRS will consider requests for penalty relief received from third parties, including requests from representatives without an authorized power of attorney. While information may be accepted, **no** taxpayer information may be discussed with a third party unless a valid power of attorney or other acceptable authorization is secured in writing from the taxpayer. See *IRM 20.1.1.3.1*.
- A. If additional information is needed, contact the taxpayer or the taxpayer's authorized representative.
- B. If the validity of the request is questionable, contact the taxpayer.
- C. In all cases involving third party requests for penalty relief, advise the taxpayer of the request and the action taken.

**Caution:**

All information contained within *IRM 20.1.1.3* only applies after the account to be considered for penalty relief has been thoroughly analyzed and corrected, if necessary, in accordance with procedural requirements contained in the *IRM* to ensure the account properly reflects all acts of compliance. In addition, refer to *IRM 20.1.2.1.3.1, Extension of Time to File*, for information and procedures to follow in cases where the taxpayer believes an extension was requested but one is not reflected on his or her account.

**Reminder:**

When penalty relief is warranted (including a determination not to assert a penalty that is otherwise warranted), a penalty reason code (PRC) is required to indicate the reason a penalty is being removed or suppressed. See *IRM 20.1.1.5.1, Master File Penalty Reason Codes*. Also, see *Exhibit 20.1.1-2, Penalty Reason Code Chart*.

**20.1.1.3.1 (08-05-2014)**

**Unsigned or Oral Requests for Penalty Relief**

1. Consider requests for relief from the failure to file (FTF), failure to pay (FTP), and/or failure to deposit (FTD) penalties using the reasonable cause assistant (RCA), when applicable, to determine if the taxpayer is eligible for the first time abate (FTA) administrative waiver. See *IRM 20.1.1.3.6, Reasonable Cause Assistant (RCA)*, for RCA use and *IRM 20.1.1.3.6.1, First Time Abate (FTA)*, for all FTA policy and criteria.
2. If the taxpayer does not meet FTA criteria, unsigned or oral requests for relief from the failure to file (FTF), failure to pay (FTP) and/or failure to deposit (FTD) penalties may be considered if the following is true:
  - A. The request is received either orally or in writing, but is unsigned, AND
  - B. The request is received from the taxpayer, the taxpayer's authorized representative or a third party, AND
  - C. The penalties do not exceed ≡ (e.g., tax period), AND
  - D. **Reasonable cause criterion is met.**

**Exception:**

If RCA is used, the oral statement authority (OSA) threshold in paragraph (2)(c) is increased to \$10,000 and/or \$20,000. RCA will be used, where available. If an employee cannot use RCA, he or she should seek managerial approval to consider oral and unsigned requests at the \$10,000 levels.

3. When an unsigned or oral request for relief is received, the IRS employee must document the case file or adjustment document **clearly restating** the information provided by the taxpayer.
  - A. If **the relief criteria are clearly established**, abate or request the abatement of the penalty(ies) following functional guidelines. See *IRM 20.1.1.3.5.2*.
  - B. If **the relief criteria are not clearly established**, do not abate the penalty(ies). Follow functional guidelines for disallowing the request. See *IRM 20.1.1.3.5.3*.
4. When an unsigned or oral request for penalty relief is received for two or more penalties, ask the taxpayer to submit a signed written request for relief from all penalties if either of the following is true:
  - A. Any penalty exceeds the amount that can be considered, or
  - B. The penalty is a penalty other than the FTF, FTP, or FTD penalties.

**Example:** Suppose on the same module the taxpayer was assessed the following penalties:

- FTF and FTP penalties that totaled less than \$10,000, but more than \$20,000, and
- A FTD penalty greater than \$10,000, and
- RCA was not used and managerial approval for higher level OSA threshold was not obtained.

In such a case, **do not take action** to abate any of the penalties. Ask the taxpayer to submit a signed written statement requesting relief from all penalties.

5. The OSA thresholds in this subsection allow for **consideration** of the facts provided to establish penalty relief without a signed written statement for the FTF, FTP, and/or FTD penalties only.
6. The taxpayer **must** provide a written statement, signed under the penalty of perjury, requesting penalty relief for all other penalties. For example, requests for relief received either orally or without an authorized signature may **NOT** be considered for the following:
  - TIN penalties,
  - Information return penalties, or
  - Penalties assessed by a compliance program.

**Note:**

Refer to *IRM 21.5.2.4.9.2* if considering relief for the daily delinquency penalty (DDP) assessed on an employee plan (EP) return or Form 8955-SSA, *Annual Registration Statement Identifying Separated Participants With Deferred Vested Benefits*.

**20.1.1.3.2 (11-25-2011)**

**Reasonable Cause**

1. Reasonable cause is based on all the facts and circumstances in each situation and allows the IRS to provide relief from a penalty that would otherwise be assessed. Reasonable cause relief is generally granted when the taxpayer exercised ordinary business care and prudence in determining his or her tax obligations but nevertheless failed to comply with those obligations.
2. In the interest of equitable treatment of the taxpayer and effective tax administration, the non-assertion or abatement of civil penalties based on reasonable cause or other relief provisions provided in this IRM must be made in a **consistent** manner and should conform with the considerations specified in the IRC, Treasury Regulations (Treas. Regs.), policy statements, and *IRM Part 20.1, Penalty Handbook*.
3. Reasonable cause relief is not available for all penalties; however, other exceptions may apply.
  - A. For those penalties where reasonable cause can be considered, any reason which establishes that the taxpayer exercised ordinary business care and prudence, but nevertheless was unable to comply with a prescribed duty within the prescribed time, will be considered.
  - B. If a reasonable cause provision applies only to a specific IRC section, that reasonable cause provision will be discussed in the *IRM 20.1* section relating to that specific IRC section. See *Exhibit 20.1.1-1, Penalty Relief Application Chart*.

- C. When considering the information provided in the following subsections, remember that an acceptable explanation is **not** limited to those given in IRM 20.1. Penalty relief may be warranted based on an "other acceptable explanation," provided the taxpayer exercised ordinary business care and prudence but was nevertheless unable to comply within the prescribed time. See *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*.
4. The wording used to describe reasonable cause provisions varies. Some IRC penalty sections also require evidence that the taxpayer acted in good faith or that the taxpayer's failure to comply with the law was not due to willful neglect. See specific IRM 20.1 sections for the rules that apply to a specific IRC penalty section. See *IRM 20.1.1.1.2, Organization of IRM 20.1*.
  5. Taxpayers have reasonable cause when their conduct justifies the non-assertion or abatement of a penalty. Each case must be judged individually based on the facts and circumstances at hand. Consider the following in conjunction with specific criteria identified in the remainder of this subsection:
    - A. What happened and when did it happen?
    - B. During the period of time the taxpayer was non-compliant, what facts and circumstances prevented the taxpayer from filing a return, paying a tax, and/or otherwise complying with the law?
    - C. How did the facts and circumstances result in the taxpayer not complying?
    - D. How did the taxpayer handle the remainder of his or her affairs during this time?
    - E. Once the facts and circumstances changed, what attempt did the taxpayer make to comply?
  6. Reasonable cause **does not exist** if, after the facts and circumstances that explain the taxpayer's noncompliant behavior cease to exist, the taxpayer fails to comply with the tax obligation within a reasonable period of time.

**20.1.1.3.2.1 (08-05-2014)**  
**Standards and Authorities**

1. Any reason that establishes a taxpayer exercised ordinary business care and prudence but nevertheless failed to comply with the tax law may be considered for penalty relief.
2. The following Treas. Regs. contain examples of circumstances that may be helpful in determining if a taxpayer has established reasonable cause:

Regulation	Description
Treas. Reg. 1.6664-4	Accuracy-Related Penalties
Treas. Reg. 301.6651-1(c)	Failure to File a Tax Return and/or Failure to Pay tax Penalties
Treas. Reg. 301.6723-1A(d) and Treas. Reg. 301.6724-1	Information Returns Penalties
Treas. Reg. 1.6694-2(e)(1)-(6) and Treas. Reg. 301.6707-1T Q&A (4)	Preparer/Promoter Penalties

3. The following Internal Revenue Service policy statements contain specific criteria that may affect the imposition of penalties:
  - Policy Statement 20-2, *Penalties and Interest Not Asserted Against Federal Agencies*. See IRM 1.2.20.1.2.
  - Policy Statement 3-2, *Reasonable Cause for Late Filing of Return or Failure to Deposit or Pay Tax When Due*. See IRM 1.2.12.1.2.
  - Policy Statement 3-3, *Timely Mailed Returns Bearing Foreign Postmarks to Be Accepted*. See IRM 1.2.12.1.3.
  - Policy Statement 3-5, *Unsigned Income Tax Returns Will Not Be Accepted for Processing; Delinquency Penalty Generally Will Not Be Imposed on Timely Filed Unsigned Income Tax Returns*. See IRM 1.2.12.1.5.

See IRM 1.2.1, *Service-wide Policies and Authorities-Policies of the Internal Revenue Service*.

**20.1.1.3.2.2 (02-22-2008)**  
**Ordinary Business Care and Prudence**

1. Ordinary business care and prudence includes making provisions for business obligations to be met when reasonably foreseeable events occur. A taxpayer may establish reasonable cause by providing facts and circumstances showing that he or she exercised ordinary business care and prudence (taking that degree of care that a reasonably prudent person would exercise), but nevertheless were unable to comply with the law.

2. In determining if the taxpayer exercised ordinary business care and prudence, review available information including the following:
  - A. **Taxpayer's Reason:** The taxpayer's reason should address the penalty imposed. To show reasonable cause, the dates and explanations should clearly correspond with events on which the penalties are based. If the dates and explanations do not correspond to the events on which the penalties are based, request additional information from the taxpayer that may clarify the explanation. See *IRM 20.1.1.3.2, Reasonable Cause*.
  - B. **Compliance History:** Check the preceding tax years (at least three) for payment patterns and the taxpayer's overall compliance history. The same penalty, previously assessed or abated, may indicate that the taxpayer is not exercising ordinary business care. If this is the taxpayer's first incident of noncompliant behavior, weigh this factor with other reasons the taxpayer gives for reasonable cause, since a first-time failure to comply does not by itself establish reasonable cause.
  - C. **Length of Time:** Consider the length of time between the event cited as a reason for the noncompliance and subsequent compliance. See *IRM 20.1.1.3.2, Reasonable Cause*. Consider: (1) when the act was required by law, (2) the period of time during which the taxpayer was unable to comply with the law due to circumstances beyond the taxpayer's control, and (3) when the taxpayer complied with the law.
  - D. **Circumstances Beyond the Taxpayer's Control:** Consider whether or not the taxpayer could have anticipated the event that caused the noncompliance. Reasonable cause is **generally** established when the taxpayer exercises ordinary business care and prudence, but, due to circumstances beyond the taxpayer's control, the taxpayer was unable to timely meet the tax obligation. The taxpayer's obligation to meet the tax law requirements is ongoing. Ordinary business care and prudence requires that the taxpayer continue to attempt to meet the requirements, even though late.

#### 20.1.1.3.2.2.1 (11-25-2011)

##### Death, Serious Illness, or Unavoidable Absence

1. Death, serious illness, or unavoidable absence of the taxpayer, or a death or serious illness in the taxpayer's immediate family, may establish reasonable cause for filing, paying, or depositing late for the following:
  - A. **Individual:** If there was a death, serious illness, or unavoidable absence of the taxpayer or a death or serious illness in the taxpayer's immediate family (i.e., spouse, sibling, parents, grandparents, children).
  - B. **Corporation, estate, trust, etc.:** If there was a death, serious illness, or other unavoidable absence of the taxpayer (person responsible), or a member of such taxpayer's immediate family, and that taxpayer **had sole authority to execute the return, make the deposit, or pay the tax**.
2. If someone other than the taxpayer, or the person responsible, is authorized to meet the obligation, consider the reasons why that person did not meet the obligation when evaluating the request for relief. In the case of a business, if only one person was authorized, determine whether this was in keeping with ordinary business care and prudence.
3. Information to consider when evaluating a request for penalty relief based on reasonable cause due to death, serious illness, or unavoidable absence includes, but is not limited to, the following:
  - A. The relationship of the taxpayer to the other parties involved.
  - B. The date of death.
  - C. The dates, duration, and severity of illness.
  - D. The dates and reasons for absence.
  - E. How the event prevented compliance.
  - F. If other business obligations were impaired.
  - G. If tax duties were attended to promptly when the illness passed, or within a reasonable period of time after a death or return from an unavoidable absence.

#### 20.1.1.3.2.2.2 (08-05-2014)

##### Fire, Casualty, Natural Disaster, or Other Disturbance-Reasonable Cause

1. Determine if the taxpayer could not comply timely because the taxpayer was an "affected person" eligible for disaster relief as provided for in *IRM 25.16.1.1, Disaster Assistance and Emergency Relief-Overview*. Also see *IRM 20.1.1.3.3.6, Official Disaster Area*.
2. For taxpayers not considered an "affected person," reasonable cause relief from a penalty may be requested if there was a failure to timely comply with a requirement to file a return or pay a tax as the result of a fire, casualty, natural disaster, or other disturbance. However, one of these circumstances by itself does not necessarily provide penalty relief.

3. Penalty relief may be appropriate if the taxpayer exercised ordinary business care and prudence, but due to circumstances beyond the taxpayer's control, he or she was unable to comply with the law.
4. Factors to consider include the following:
  - Timing
  - Effect on the taxpayer's business
  - Steps taken to attempt to comply
  - If the taxpayer complied when it became possible
5. The determination to grant relief from each penalty must be based on the facts and circumstances surrounding each individual case. Determine if the event resulted in a circumstance for which other penalty relief criteria may apply. For example, if the taxpayer was unable to access his or her records as the result of a fire. See *IRM 20.1.1.3.2.2.3, Unable to Obtain Records*. If the taxpayer, or responsible party, was unable to comply because he or she was hospitalized as the result of an accident. See *IRM 20.1.1.3.2.2.1, Death, Serious Illness, or Unavoidable Absence*.

**20.1.1.3.2.2.3 (12-11-2009)**  
**Unable to Obtain Records**

1. Explanations relating to the inability to obtain the necessary records may constitute reasonable cause in some instances, but may not in others.
2. Consider the facts and circumstances relevant to each case and evaluate the request for penalty relief.
3. If the taxpayer was unable to obtain records necessary to comply with a tax obligation, the taxpayer may or may not be able to establish reasonable cause. Reasonable cause may be established if the **taxpayer exercised ordinary business care and prudence, but due to circumstances beyond the taxpayer's control, he or she was unable to comply.**
4. Information to consider when evaluating such a request includes, but is not limited to, an explanation as to the following:
  - Why the records were needed to comply.
  - Why the records were unavailable and what steps were taken to secure the records.
  - When and how the taxpayer became aware that he or she did not have the necessary records.
  - If other means were explored to secure needed information.
  - Why the taxpayer did not estimate the information.
  - If the taxpayer contacted the IRS for instructions on what to do about missing information.
  - If the taxpayer promptly complied once the missing information was received.
  - Supporting documentation such as copies of letters written and responses received in an effort to get the needed information.

**20.1.1.3.2.2.4 (12-11-2009)**  
**Mistake Was Made**

1. The taxpayer may try to establish reasonable cause by claiming that a mistake was made. Generally, this is **not** in keeping with the **ordinary business care and prudence standard** and does not provide a basis for reasonable cause.
2. However, the reason for the mistake may be a supporting factor if additional facts and circumstances support the determination that the taxpayer exercised ordinary business care and prudence but nevertheless was unable to comply within the prescribed time.
3. Information to consider when evaluating a request for an abatement or non-assertion of a penalty based on a mistake or a claim of ignorance of the law includes, but is not limited to the following:
  - A. When and how the taxpayer became aware of the mistake.
  - B. The extent to which the taxpayer corrected the mistake.
  - C. The relationship between the taxpayer and the subordinate (if the taxpayer delegated the duty).

- D. If the taxpayer took timely steps to correct the failure after it was discovered.
- E. The supporting documentation.

#### 20.1.1.3.2.2.5 (11-25-2011)

##### Erroneous Advice or Reliance

1. Each request for penalty relief should be reviewed thoroughly to determine the exact basis of the taxpayer's request.
  - A. Is the taxpayer claiming he or she did not comply due to specific advice he or she received from someone, whether orally or in writing, or
  - B. Is the taxpayer claiming he or she relied on someone else to comply on his or her behalf?
2. Certain sections of the IRC and treasury regulations provide relief from certain penalties based on erroneous advice. See *IRM 20.1.1.3.3.4, Advice*, to first determine if a statutory exception or administrative waiver applies.
3. If the taxpayer states he or she relied on written or oral advice from the IRS but does not qualify for relief in accordance with the criteria in *IRM 20.1.1.3.3.4.1, Written Advice From the IRS*, or *IRM 20.1.1.3.3.4.2, Oral Advice From the IRS*, refer to *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*, to determine if the taxpayer exercised ordinary business care and prudence in relying on the IRS's advice.
4. The taxpayer may try to establish reasonable cause by claiming he or she relied on another party to comply on his or her behalf or that another party provided erroneous advice. Generally, this is **not** a basis for reasonable cause, particularly for filing or paying obligations, since **the taxpayer is responsible for meeting his or her tax obligations and that responsibility cannot be delegated**. However, other factors to consider include:
  - A. Was the taxpayer unable to comply because he or she did not have access to his or her own records? See *IRM 20.1.1.3.2.2.3, Unable to Obtain Records*.
  - B. Was the failure to comply due to a change in the tax law the taxpayer could not reasonably be expected to know? See *IRM 20.1.1.3.2.2.6, Ignorance of the Law*.
5. Consider all facts and circumstances presented by the taxpayer to determine if, despite the exercise of ordinary business care and prudence, the taxpayer nevertheless was unable to comply.

#### 20.1.1.3.2.2.6 (11-25-2011)

##### Ignorance of the Law

1. In some instances taxpayers may not be aware of specific obligations to file and/or pay taxes. The **ordinary business care and prudence standard** requires that taxpayers make reasonable efforts to determine their tax obligations. See *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*.
2. Reasonable cause may be established if the taxpayer shows ignorance of the law in conjunction with other facts and circumstances. For example, consider the following:
  - A. The taxpayer's education.
  - B. If the taxpayer has previously been subject to the tax.
  - C. If the taxpayer has been penalized before.
  - D. If there were recent changes in the tax forms or law which a taxpayer could not reasonably be expected to know.
  - E. The level of complexity of a tax or compliance issue.
3. Reasonable cause should never be presumed, even in cases where ignorance of the law is claimed.
4. The taxpayer may have reasonable cause for noncompliance due to ignorance of the law if the following are true:
  - A. A reasonable and good faith effort was made to comply with the law, or
  - B. The taxpayer was unaware of a requirement and could not reasonably be expected to know of the requirement.

#### 20.1.1.3.2.2.7 (08-05-2014)

##### Forgetfulness

1. The taxpayer may try to establish reasonable cause by claiming forgetfulness or an oversight by the taxpayer, or another party, caused the noncompliance. Generally, this is **not** in keeping with the **ordinary business care and prudence standard** and does not provide a basis for reasonable cause. See *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*.

2. If the taxpayer claims forgetfulness or an oversight by another party, consider the following:
  - A. Relying on another person to perform a required act is generally not sufficient for establishing reasonable cause.
  - B. **It is the taxpayer's responsibility to file a timely return and to make timely deposits or payments. This responsibility cannot be delegated.**

### 20.1.1.3.3 (11-25-2011)

#### Statutory Exceptions and Administrative Waivers

1. This subsection addresses statutory exceptions and administrative waivers. These two very separate categories are placed together because in many instances an administrative waiver is an extension of rules that were provided for by statute.

### 20.1.1.3.3.1 (08-05-2014)

#### Statutory and Regulatory Exceptions

1. Tax legislation may provide an exception to a penalty. Specific statutory exceptions can be found in either the penalty-related IRC section(s) or the accompanying regulation(s). For example:

Legal Reference	Title	IRM Reference
IRC 6654(e)(1), (2), or (3)	Estimated Tax Penalties (ES)	IRM 20.1.3
IRC 7502(a) and IRC 7502(e) (IRC 7502(e) does not apply to deposits due after Dec. 31, 2010)	Timely Mailing Treated as Timely Filing and Paying	IRM 20.1.2 and IRM 20.1.4
IRC 6724(a) or IRC 6724(c)	Waiver; Definitions and Special Rules, Information Return Penalties	IRM 20.1.7
IRC 6404(f)	Abatement of Any Penalty or Addition to Tax Attributable to Erroneous Written Advice by the Internal Revenue Service	<i>IRM 20.1.1.3.3.4.1</i>
IRC 7508	Time for Performing Certain Acts Postponed by Reason of Service in Combat Zone. This provision applies only in a <b>presidentially</b> declared Combat Zone	IRM 20.1.2.1.2.1, <i>Combat Zone-IRC 7508</i>
IRC 7508A and Treas. Reg. 301-7508A-1	Authority to Postpone Certain Deadlines by Reason of Federally Declared Disaster or Terroristic or Military Actions	IRM 25.16, <i>Disaster Assistance and Emergency Relief</i> and IRM 20.1.2.1.2.2, <i>Federal Disaster Area-IRC 7508A</i>

2. Legislation with retroactive provisions may provide guidance on associated penalties. As a result of that retroactive provision, the IRS may issue a news release or other guidance with instructions for the disposition of the related penalties.
3. IRC 6205 provides for an interest-free adjustment when an employer underreported and underpaid certain employment taxes if specific conditions are met by the employer to report the error and pay the tax due. Prior to Jan. 1, 2009, IRC 6205 and related treasury regulations were silent in regard to penalties. Consequently, IRS extended an administrative waiver to certain penalties. See *IRM 20.1.1.3.3.2, Administrative Waivers*.
  - A. The regulations under IRC 6205 provide that an interest-free adjustment cannot be made if the failure to report relates to an issue that was raised in an examination of a prior return period or if the employer knowingly underreported its employment tax liability.
  - B. Also, under the regulations, an interest-free adjustment cannot be made after receipt of notice and demand for payment or after receipt of Letter 3523, *Notice of Determination of Worker Classification (NDWC)*.
4. Effective Jan. 1, 2009, Treas. Reg. 31.6205-1 and Treas. Reg. 31.6302-1 have been amended for interest-free adjustments. When all conditions have been met for an employer to qualify for an interest-free adjustment, the amount timely paid will be deemed to have been timely deposited by the employer. In other words, **tax deemed to have been timely deposited** is not subject to the failure to deposit (FTD), failure to pay (FTP), and failure to file (FTF) penalties. See IRM 21.7.2.4.6, *Adjusted Employer's Federal Tax Return or Claim for Refund*, IRM 20.1.2, *Failure to File/Failure to Pay Penalties*, and IRM 20.1.4, *Failure to Deposit Penalty*, for required procedures and additional information.
  - A. When all regulatory requirements have been met for the amount paid to be considered timely deposited by the employer, penalties should not be assessed.



- B. If penalties were assessed, the account must be carefully reviewed to determine if penalty relief is appropriate, and if so, the correct reason for relief. Did the taxpayer state he or she met all requirements for an interest-free adjustment?

<b>If</b>	<b>And</b>	<b>Then</b>
The adjustment was input with Transaction Code (TC) 290, see IRM 21.7.2.4.6, <i>Adjusted Employer's Federal Tax Return or Claim for Refund</i> , to determine if reversal of the TC 290 and reassessment with TC 298 is appropriate,	Manual penalty reversal is required (Master File will automatically reverse systemic penalty assessments),	Use Penalty Reason Code (PRC) 044.
The adjustment was input with TC 298,	IRS asserted the penalty(ies) <b>incorrectly</b> ,	Refer to <i>IRM 20.1.1.3.4, Correction of Service Error</i> .
	IRS asserted the penalty(ies) <b>correctly</b> ,	Explain the reason for the penalty(ies) to the taxpayer.
The taxpayer did not meet all requirements for an interest-free adjustment,	Established he or she was unable to comply timely due to reasonable cause, (see <i>IRM 20.1.1.3.2, Reasonable Cause</i> ),	Use the appropriate PRC for penalty abatement listed in <i>Exhibit 20.1.1-2</i> .

#### 20.1.1.3.3.2 (08-05-2014)

##### Administrative Waivers

- The IRS may formally interpret or clarify a provision to provide administrative relief from a penalty that would otherwise be assessed. An administrative waiver may be addressed in either a policy statement, news release, or other formal communication stating that the policy of the IRS is to provide relief from a penalty under specific conditions.

##### Example:

An example of an administrative waiver is Notice 98-30, IRB 1998-22. This allowed a temporary waiver of the failure to deposit penalty for certain taxpayers first required to make federal tax deposits by EFTPS beginning on or after July 1, 1997.

- An administrative waiver may be necessary when there is a delay by the IRS in the following:
  - Printing or mailing of forms,
  - Publishing guidance (e.g. writing of Regulations), or
  - Other conditions.
- IRC 6205 permits adjustments to be made, without interest, to correct underpayments of employment taxes. The amount of the underpayment must be paid by the time an adjusted return (e.g., Form 941-X, *Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund*) is filed or interest will begin to accrue from that date.
- For errors discovered on or after January 1, 2009, see *IRM 20.1.1.3.3.1* for penalty information related to interest-free adjustments for employment taxes.
- For errors discovered prior to Jan. 1, 2009, take the following action to meet the IRS's responsibility to provide fair and consistent treatment to taxpayers:
  - For an increase of tax that qualifies for an interest-free adjustment, the IRS will not assess failure to file (TC 16X), failure to pay (TC 27X), or failure to deposit (TC 18X) penalties; provided the tax increase was paid by the due date of the tax period in which additional tax was ascertained.

##### Note:

If there's a previously assessed TC 16X, on the tax period, it may be necessary to restrict the failure to file penalty by entering a TC 160 .00 on the adjustment.

- The tax adjustment will be represented by a TC 298/308, with an interest computation date.
- If one of the previously identified penalties has been assessed and a request for abatement is received, the abatement will be done as an administrative waiver if the penalty is based on the TC 298/308 tax increase (provided the tax increase was paid by the due date of the tax period in which it was ascertained).

#### 20.1.1.3.3.3 (08-05-2014)

##### Undue Hardship

1. An undue hardship may support the granting of an extension of time for paying a tax or deficiency (i.e., Form 1127, *Application for Extension of Time for Payment of Tax Due to Undue Hardship*). Treas. Reg. 1.6161-1(b), provides that an undue hardship must be more than an inconvenience to the taxpayer. The taxpayer must show that he or she would sustain a substantial financial loss if **required to pay** a tax or deficiency on the due date.
  - A. Undue hardship generally **does not** affect a person's ability to file and therefore would not provide a basis for penalty relief in a failure to file situation. However, each request must be considered on a case-by-case basis.
  - B. Undue hardship may establish reasonable cause for failure to file on magnetic media under Treas. Reg. 301.6724-1. See IRM 20.1.7, *Information Return Penalties*.
2. The extension of time to pay does not provide the taxpayer with an extension of time to file. Nor does the extension of time to pay relieve the taxpayer of any appropriate penalties. See IRM 20.1.2.1.3.2, *Extensions of Time to Pay-IRC 6161*.
3. Undue hardship **may** also support relief from the addition to tax for failure to pay tax if the explanation for the noncompliance supports such a determination. However, the mere inability to pay **does not** ordinarily provide the basis for granting penalty relief. Under Treas. Reg. 301.6651-1(c), the taxpayer must also show that he or she exercised ordinary business care and prudence in providing for the payment of the tax liability.
  - A. The taxpayer may claim that enough funds were on hand, but as a result of unanticipated events, the taxpayer was unable to pay the taxes.
  - B. Consider an individual taxpayer's inability to pay a factor when considering penalty relief if the taxpayer shows that, had the payment been made on the payment due date, undue hardship (as defined in Treas. Reg. 1.6161-1(b)) would have resulted.
  - C. In the case where a taxpayer files bankruptcy, consider inability to pay a factor if the insolvency occurred before the tax payment due date.
4. If payroll was met, taxes were withheld and should be available for deposit. Employers must reserve money withheld from employees' wages in trust until deposited. The employer should not use the money for any other purpose. Undue hardship does not support relief from the penalty under IRC 6672, *Failure to Collect and Pay Over Tax, or Attempt to Evade or Defeat Tax (Trust Fund Recovery Program)*.
5. Information to consider when evaluating a request for penalty relief includes, but is not limited to, the following:
  - A. When did the taxpayer know he or she could not pay?
  - B. Why was the taxpayer unable to pay?
  - C. Did the taxpayer explore other means to secure the necessary funds?
  - D. What did the taxpayer supply in the way of supporting documentation, such as copies of bank statements?
  - E. Did the taxpayer pay when the funds became available?
6. Use the appropriate PRC if penalty relief is warranted. See *Exhibit 20.1.1-2*.

#### 20.1.1.3.3.4 (08-05-2014)

##### Advice

1. This section discusses the following three basic types of advice that may qualify for statutory, regulatory, or administrative penalty relief:
  - A. Written advice provided by IRS
  - B. Oral advice provided by IRS
  - C. Advice provided by a tax professional
2. Information to consider when evaluating a request for abatement or non-assertion of a penalty due to reliance on advice includes, but is not limited to, the following:
  - A. Was the advice in response to a specific request and was the advice received related to the facts contained in that request?
  - B. Did the taxpayer reasonably rely on the advice?

3. The following instances address some situations where penalty relief may not be appropriate even though the taxpayer relied on written advice from the IRS regarding an item on a filed return:
  - A. The taxpayer did not reasonably rely on the advice regarding an item **included on a return** if the advice was received after the date the return was filed.

**Note:**

A taxpayer may be considered to have reasonably relied on advice received after the return was filed if he or she then filed an amended return that conformed with such written advice.

- B. A taxpayer may not be considered to have reasonably relied on written advice **unrelated** to an item included on a return, such as advice on the payment of estimated taxes, if the advice is received after the estimated tax payment was due.
  - C. If the taxpayer, or his or her authorized representative, provided the IRS or the tax professional with adequate and accurate information, the taxpayer is entitled to penalty relief for the period during which he or she relied on the advice. The period continues until the taxpayer is **placed on notice** that the advice is no longer correct or no longer represents the IRS's position.
4. The taxpayer is **placed on notice** as the result of any of the following events that present a contrary position and occur after the issuance of the written advice:
  - A. Written correspondence from the IRS that its advice is no longer correct or no longer represents the IRS's position.
  - B. Enactment of legislation or ratification of a tax treaty.
  - C. A U.S. Supreme Court decision.
  - D. The issuance of temporary or final regulations.
  - E. The publication of a revenue ruling, revenue procedure, or other statement in the Internal Revenue Bulletin (IRB).
5. Generally, Form 843, *Claim for Refund and Request for Abatement*, is required to be filed to request penalty abatement based on erroneous written advice by the IRS. However, if Form 843 is not filed and the information provided demonstrates that abatement of the penalty is warranted, the penalty should be abated, whether or not a Form 843 is provided. Information required to be provided includes the following:
  - A. The taxpayer's written request for advice,
  - B. The erroneous written advice furnished by the IRS to the taxpayer and relied on by the taxpayer, and
  - C. The report (if any) of tax adjustments that identifies the penalty or addition to tax and the item relating to the erroneous written advice.

[http://www.irs.gov/irm/part20/irm\\_20-001-001r.html](http://www.irs.gov/irm/part20/irm_20-001-001r.html)

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## **Part 20. Penalty and Interest**

### **Chapter 1. Penalty Handbook**

#### **Section 1. Introduction and Penalty Relief (Cont. 1)**

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##### **20.1.1 Introduction and Penalty Relief (Cont. 1)**

- 20.1.1.3 [Criteria for Relief From Penalties](#)
- 20.1.1.4 [Methods of Appealing Penalties](#)
- 20.1.1.5 [Master File Indicators](#)

- Exhibit 20.1.1-1 [Penalty Relief—Application Chart](#)
- Exhibit 20.1.1-2 [Penalty Reason Code Chart](#)
- Exhibit 20.1.1-3 [Penalty Transaction Codes](#)
- Exhibit 20.1.1-4 [Penalty Reference Numbers \(500 Series\)](#)
- Exhibit 20.1.1-5 [Penalty Reference Numbers \(600 Series\)](#)
- Exhibit 20.1.1-6 [Penalty Reference Numbers \(700 Series\)](#)
- Exhibit 20.1.1-7 [Table of Abbreviations and Acronyms](#)
- Exhibit 20.1.1-8 [Dictionary of Key Terms](#)

### 20.1.1.3

#### Criteria for Relief From Penalties

### 20.1.1.3.3

#### Statutory Exceptions and Administrative Waivers

### 20.1.1.3.3.4

#### Advice

### 20.1.1.3.3.4.1 (11-25-2011)

#### Written Advice From the IRS

1. The IRS is required by IRC 6404(f) and Treas. Reg. 301.6404-3 to abate any portion of any penalty attributable to erroneous written advice furnished by an officer or employee of the IRS acting in his or her official capacity.
2. If the taxpayer does not meet the criteria for penalty relief under IRC 6404(f), the taxpayer may qualify for other penalty relief. For instance, taxpayers who fail to meet all of the IRC 6404(f) criteria may still qualify for relief under reasonable cause if the IRS determines that the taxpayer exercised ordinary business care and prudence in relying on the IRS's written advice. See *IRM 20.1.1.3.2.2.5*.
3. Requests that qualify for penalty relief based on erroneous written advice from the IRS under IRC 6404(f) must be filed according to the following:
  - A. Within the period allowed for collection of the penalty or addition to tax, or
  - B. If the penalty or addition to tax has been paid, within the period allowed for claiming a credit or refund of such penalty or addition to tax.

### 20.1.1.3.3.4.2 (12-11-2009)

#### Oral Advice From IRS

1. The IRS may provide penalty relief based on a taxpayer's reliance on erroneous oral advice from the IRS. The IRS is required by IRC 6404(f) and Treas. Reg. 301.6404-3 to abate any portion of any penalty attributable to erroneous **written** advice furnished by an employee acting in his or her official capacity. Administratively, the IRS has extended this relief to include erroneous oral advice when appropriate.
2. In addition to considering the criteria provided in Treas. Reg. 301.6404-3, *IRM 20.1.1.3.3.4, Advice*, and *IRM 20.1.1.3.3.4.1, Written Advice From the IRS*, consider the following:
  - A. Did the taxpayer exercise ordinary business care and prudence in relying on that advice?
  - B. Was there a clear relationship between the taxpayer's situation, the advice provided, and the penalty assessed?
  - C. What is the taxpayer's prior tax history and prior experience with the tax requirements?
  - D. Did the IRS provide correct information by other means (such as tax forms and publications)?
  - E. What type of supporting documentation is available?
3. The following is supporting documentation:
  - A. A notation of the taxpayer's question to the IRS,

- B. Documentation regarding the advice provided by the IRS,
- C. Information regarding the office and method by which the advice was obtained,
- D. The date the advice was provided, and
- E. The name of the employee who provided the information.

#### **20.1.1.3.3.4.3 (12-11-2009)**

##### **Advice From a Tax Advisor**

1. Reliance on the advice of a tax advisor generally relates to the reasonable cause exception in IRC 6664(c) for the accuracy-related penalty under IRC 6662. See IRM 20.1.5, *Return Related Penalties*, and Treas. Reg. 1.6664-4(c).
2. However, in very limited instances, reliance on the advice of a tax advisor may provide relief from other penalties when the tax advisor provides advice on a substantive tax issue.

##### **Example:**

The employer researched all available IRS publications on the subject of contract labor, provided clear and convincing documentation as to the duties of the workers to the tax advisor, and requested an opinion from the tax advisor as to whether the workers were "contract labor" or "employees." As a result, the tax advisor advised the employer that the workers were "contract labor." However, the IRS later determined that the workers were "employees" and not "contract labor."

3. Penalty relief based on reliance on the advice of a tax advisor is limited to issues generally considered technical or complicated. The taxpayer's responsibility to file, pay, or deposit taxes cannot be excused by reliance on the advice of a tax advisor.
4. Because the IRC and treasury regulations sections that provide penalty relief criteria for erroneous advice from a tax advisor are generally limited to the accuracy-related penalty, relief from other penalties must meet the reasonable cause standards. See *IRM 20.1.1.3.2, Reasonable Cause*.

#### **20.1.1.3.3.5 (08-05-2014)**

##### **Fire, Casualty, Natural Disaster, or Other Disturbance-Major Disasters**

1. This section discusses penalty relief provisions for circumstances that generally fall under the definition of "major disaster" (such as a hurricane, tornado, earthquake, etc.) or "emergency" (see IRM 25.16.1.2) and that affect a significant number of taxpayers located within a designated geographical area.
2. Generally, relief is provided in the form of extensions of time to file or pay and is usually provided systemically with the setting of an "-O" Freeze or "-S" Freeze posted to the account. See IRM 25.16.1.6.2, *Disaster Assistance and Emergency Relief, -O Freeze*, and IRM 25.16.1.6.1, *Disaster Assistance and Emergency Relief, -S Freeze*.
3. The determination to grant relief from each penalty must be based on the facts and circumstances surrounding each individual case.
4. For additional guidelines, including guidelines for reasonable cause consideration where systemic penalty relief is not applicable, see *IRM 20.1.1.3.2.2.2*.

#### **20.1.1.3.3.6 (11-25-2011)**

##### **Official Disaster Area**

1. When a significant disaster occurs affecting a wide area of taxpayers, the IRS often issues special instructions to facilitate evaluating the request for penalty relief.
2. Because these are one-time instructions, they will not be incorporated in this IRM. Territories, campuses, and customer service sites will be kept informed of any special instructions affecting their areas.

#### **20.1.1.3.4 (08-05-2014)**

##### **Correction of Service Error**

1. An IRS error can be any error made by the IRS in computing or assessing tax, crediting accounts, etc. See *Exhibit 20.1.1-2, Penalty Reason Code Chart*, for the appropriate **PRC** to be used when abating either a systemically-generated or manually-input penalty.
2. When an analyst from any area of the IRS identifies a **computer programming application** that caused a penalty to be assessed in error, that analyst should coordinate the following with OSP:
  - A. Contact Information Technology (IT) to resolve the inadequate **computer application**, and
  - B. Include on the unified work request (UWR) a statement indicating that **PRC 015** must be used to identify any abatement of a penalty resulting from reversal of the **computer application**.

3. Other IRS error examples include the following:
  - A. A math error when manually computing a penalty.
  - B. An extension of time to file that did not post to the Master File (and manual input of a TC 460 did not, or will not, result in an automatic penalty reversal, if input of a TC 460 is appropriate in accordance with IRM 20.1.2.1.3.1.1, *Extension of Time to File Not Found*).
  - C. Any other error, when it can be shown that: (1) the taxpayer did in fact comply with the law, and (2) the IRS did not initially recognize that fact.

**20.1.1.3.5 (11-25-2011)**  
**Requesting Penalty Relief**

1. The **initial** request for relief may occur either during or after an examination (but before a penalty is actually assessed), with a return that is either filed or paid late, or after assessment of the penalty(ies) and notification issued to the taxpayer.
2. When the request is received, carefully analyze the taxpayer's reasons to determine if penalty relief is warranted. The burden of proving entitlement to relief is generally upon the taxpayer.

**Caution:**

Prior to analyzing the taxpayer's reason(s), analyze the account to determine if penalty relief cannot be considered, or if relief can only be considered by another IRS function. An example includes, but is not limited to, Freeze Codes "F-," "-N," "-V," "-W," "-Y," "-Z," or "Z-."

3. Each request must be evaluated on its own merit, including the following:
  - A. The events or parties involved, and
  - B. If the taxpayer exercised ordinary business care and prudence, but due to circumstances or events beyond the taxpayer's control the taxpayer was unable to meet the tax requirement, or
  - C. If other penalty relief criteria apply (such as a statutory or regulatory exception or an administrative waiver).
4. The taxpayer's obligation to meet the requirement is ongoing. Ordinary business care and prudence requires that the taxpayer continue to attempt to meet the requirements, even though late.
5. Determine if the taxpayer's explanation addresses the penalty(ies) imposed.
  - A. The dates and explanations should clearly correspond with events on which the penalties are based to show that the taxpayer is entitled to relief from the penalty.
  - B. Request additional information from the taxpayer to clarify any explanations if the dates and explanations do not correspond with the events on which the penalty is based.
6. Review available IRS information in determining whether or not the taxpayer exercised ordinary business care and prudence. Check the **preceding tax years (go back at least three years or twelve quarters)** for payment patterns and the taxpayer's overall compliance history.
  - A. Assertion of the same penalty(ies) in the taxpayer's history may indicate that the taxpayer is not exercising ordinary business care.
  - B. If this is the taxpayer's first incident of noncompliant behavior, weigh this factor with other reasons the taxpayer gives for relief since a first time failure to comply does not by itself establish reasonable cause. However, see the *IRM 20.1.1.3.6.1, First-Time Abate (FTA)*, administrative waiver.
7. Consider the length of time between the event cited as a reason for the noncompliance and subsequent compliance. The length of time between events may serve to cancel or reduce the event's effect. Penalty relief may not be appropriate if, after considering all facts and circumstances, the taxpayer failed to correct his or her noncompliant behavior within a reasonable period of time.
8. The following are examples where penalty relief may not be appropriate:
  - A. The taxpayers claim that they were unable to comply with the filing requirement due to a death in the family. The death occurred several months prior to the due date of the return. The return was not filed until a year after the due date of the return.
  - B. Taxpayers claim that they were unable to comply with the filing requirement because the records necessary for filing were in the control of a third party, e.g., a bankruptcy trustee or an accountant. The records were returned to the taxpayer well in

advance of the time the return was required to be filed. The return was not filed until several months after the records were returned.

- C. In both of the examples, the timing of the event may prevent the taxpayer from receiving penalty relief unless other factors justify the delay in filing.
9. Consider if the taxpayer could have anticipated the event that caused the non-compliance. See *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*.

**20.1.1.3.5.1 (08-05-2014)**

**Subsequent Requests for Penalty Relief**

1. A second or subsequent request for penalty relief may be received after the initial request for relief has been denied. The request is generally considered an appeal of the previous penalty relief denial. Also see *IRM 20.1.1.4.1*.
2. If the penalty was previously sustained in Appeals, forward the request to the appropriate Appeals office. (This may be identified by the presence of **PRC 041/042** followed by a TC 290 for \$0.00 with a Blocking Series 96X, -N Freeze Code on the account.)
3. If the review of the account indicates that the taxpayers request for penalty relief was previously disallowed (and not sustained in Appeals), review the circumstances of the previous denial.

If	And	Then
The taxpayer is submitting new information,	The facts presented in the new information meet penalty relief criteria (see <i>IRM 20.1.1.3</i> ),	Abate the penalty(ies). See <i>IRM 20.1.1.3.5.2</i> .
	The facts presented in the new information <b>do not</b> meet penalty relief criteria,	Notify the taxpayer that you are unable to grant relief based on the new information provided and the information contained in the original disallowance.
	The facts presented do not meet penalty relief criteria and the taxpayer indicates a desire for appealing the decision,	Forward the case to Appeals with all required information (and notify the taxpayer the additional information does not meet penalty relief criteria and his or her request is being forwarded to Appeals).
The taxpayer is not submitting new information,	The taxpayer has not requested an appeal of the previous determination,	Inform the taxpayer we are unable to reconsider the penalty relief request.
	The taxpayer is requesting an appeal of the previous determination,	Forward the case to Appeals with all required information.
	It is unclear what the taxpayer wants,	Contact the taxpayer to request clarifying information.

4. Generally, a campus penalty appeals coordinator will forward the cases to the Ogden Appeals Campus Office. Cases transferred to the Ogden Appeals Campus Office must include the following documents:
  - A. The letter requesting an appeal, signed by the taxpayer or an authorized power of attorney (POA) (with a valid Form 2848, *Power of Attorney and Declaration of Representative*, on file).

**Note:**

Form 8821, *Tax Information Authorization*, or Form 2848, Level H, is not considered an authorized POA.

- B. A copy of the previously denied penalty relief request (the TC 290 .00 in Blocking Series 98/99 source document). If the source document is not available, provide a copy of the Files charge-out information to Appeals.
  - C. A copy of the disallowance letter or a print of the RCA conclusion screen (852C, 853C, IDRS Print, 854C, 2413(P), 2414(P) or other disallowance letter).
  - D. A cover sheet (Form 12835, *Transmittal of a Case to Appeals*) identifying the tax period and the type and amount of each penalty.
  - E. Form 3210, *Document Transmittal*, may not be required when transferring via the Correspondence Imaging System (CIS). Check with the receiving function.
5. When transferring a case to the Ogden Appeals Campus Office, complete the following:

- A. Input a TC 971 with Action Code 251 on each tax period being transferred,
  - B. Reassign the control base to Appeals (category APPZ), and
  - C. Input TC 470 with Closing Code 90, if applicable.
6. Mail the case to the address shown on the Appeals Campus Case Routing Guide at [https://organization.ds.irsnet.gov/sites/APPEALS-PQCS/TPPCOL/\\_layouts/xlviewer.aspx?id=/sites/APPEALS-PQCS/TPPCOL/WI%20LBI%20SBSE/Campus%20Case%20Routing.xlsx&Source=https%3A%2F%2Forganization%2Eds%2Eirsnet%2Egov%2Fsites%2FAPPEALS%2DPQCS%2FTPPCOL%2FWI%2520LBI%2520SBSE%2FForms%2FAllItems%2Easpx&DefaultItemOpen=1](https://organization.ds.irsnet.gov/sites/APPEALS-PQCS/TPPCOL/_layouts/xlviewer.aspx?id=/sites/APPEALS-PQCS/TPPCOL/WI%20LBI%20SBSE/Campus%20Case%20Routing.xlsx&Source=https%3A%2F%2Forganization%2Eds%2Eirsnet%2Egov%2Fsites%2FAPPEALS%2DPQCS%2FTPPCOL%2FWI%2520LBI%2520SBSE%2FForms%2FAllItems%2Easpx&DefaultItemOpen=1)

#### 20.1.1.3.5.2 (11-25-2011)

##### Taxpayer Entitled to Relief

1. If the taxpayer provides an explanation that supports his or her request for penalty relief, waive or abate the applicable penalty(ies). If the explanation applies to one (or more) penalty(ies) but not all penalties, only the penalty(ies) to which the explanation applies should be waived or abated.
2. Document the decision and the basis for providing relief according to functional guidelines. Attach a copy of the information to the original return (if available) or other transaction (input) document.
3. Decisions with respect to penalties made by compliance personnel should not ordinarily be changed by personnel within another functional area. Before considering relief for any penalty(ies) asserted by compliance personnel, contact that office to determine if the case should be returned to the originating office.
4. If relief is granted prior to assertion of the penalty(ies), use computer condition codes to suppress the automatic assertion of the penalty(ies). Functional areas that forward returns to be processed must request that the campus prevent the assessment of the penalty(ies). This may be done by doing the following:
  - A. Writing "reasonable cause" or "penalty relief" (as appropriate) in the preprinted penalty block on the return or on Form 4364, *Delinquency Computations*,
  - B. Requesting the penalty assessment transaction code be input for zero amount,
  - C. Editing a computer condition code (CCC) on the return, or
  - D. Preparing other forms appropriate for forwarding returns or penalty computations for processing.

##### Note:

In addition, annotate the appropriate penalty reason code (PRC) on the respective form or return.

5. If relief is granted after the assessment of a penalty, follow procedures for abating the penalty or the appropriate portion of the penalty. Adjustments to penalties that are due to reasonable cause must include **Reason Code 062** and the appropriate PRC. See *Exhibit 20.1.1-2, Penalty Reason Code Chart*.

#### 20.1.1.3.5.3 (08-05-2014)

##### Taxpayer Not Entitled to Relief

1. The information contained in paragraphs (2)-(8) does not apply to all IRM 20.1 penalties. Refer to the appropriate IRM 20.1 section depending on the penalty(ies) considered. See *IRM 20.1.1.2*.

##### Example:

If considering an accuracy-related penalty (IRC 6662), refer to IRM 20.1.5.4, *Post Assessment Abatement Consideration of Accuracy Related Penalties*. If considering an international penalty, refer to IRM 20.1.9.1.1, *Common Terms*.

2. If the criteria for penalty relief has not been established, determine if additional information would be helpful to evaluate the taxpayers request. See *IRM 20.1.1.3.2, Reasonable Cause*.
3. If a final determination is that the criteria for granting penalty relief was not established, complete the following:
  - A. Document the decision and its basis according to functional guidelines, and
  - B. Attach a copy of the information to the original return (if available) or other transaction (input) document.
4. Employees denying a request for pre-assessment relief (prior to assessment) or abatement (after assessment), must provide written notification to the taxpayer of the denial and of the taxpayers appeal rights, regardless of whether the request was received in the following manner:



- In person
  - Over the phone
  - In writing
5. The notice should include the following:
- A complete explanation of the IRS's decision and the basis for denial,
  - A. Information on the appeal procedures, including instructions on how to submit a written protest, and
  - B. Power of attorney information.
6. The IRS has developed standardized letters that are used by various offices. They include the following:
- IDRS Correspondex Letter 0854C, *Penalty Waiver or Abatement Disallowed/Appeals Procedure Explained*, which is generally used by campuses.

**Note:**

If the reasonable cause assistant (RCA) is used (see *IRM 20.1.1.3.6*), Correspondex Letter 0852C (BMF) and Letter 0853C (IMF) are generated through RCA and IDRS.

- Pattern Letter 2413(P) and Letter 2414(P), which are used by Collection area offices, available as an ICS macro.
7. Functions that process returns through the campus will need to alert the campus of their decision to deny penalty relief. This can be done by writing "penalty relief denied" in the appropriate preprinted penalty block on the return or on Form 4364, *Delinquency Computations*.
8. If a request for penalty relief is denied after assessment, request or input TC 290 for zero amount, using Blocking Series 98/99 (Appeals uses Blocking Series 96) with **Reason Code 062** and Hold Code 3.

**20.1.1.3.6 (11-25-2011)**

**Reasonable Cause Assistant (RCA)**

1. The Reasonable Cause Assistant (RCA) will be used when considering penalty relief due to reasonable cause. RCA is to be used after normal case research has been performed, (i.e., applying missing deposits/payments, adjusting tax, researching for missing extensions of time to file, etc.) for the following penalties:
  - A. IMF-failure to file (FTF) and failure to pay (FTP)
  - B. BMF-failure to deposit (FTD) (currently limited to MFTs 01, 10, 11, 14, and 16)
2. RCA is a decision support interactive software program developed to reach a reasonable cause determination. RCA is accessed through the Account Management Services (AMS) *Tools* menu.
3. Use of RCA will ensure consistent and equitable administration of penalty relief consideration.
4. When an employee has determined that a taxpayer has requested penalty relief based on reasonable cause, whether the request was made by telephone or in writing, RCA will be accessed to determine if penalty relief will be granted.

**Caution:**

See *IRM 20.1.1.3.5* to determine if penalty relief can be considered, or if penalty relief can only be considered by another function.

**20.1.1.3.6.1 (08-05-2014)**

**First Time Abate (FTA)**

1. RCA provides an option for penalty relief for the FTF (IRC 6651(a)(1), IRC 6698(a)(1), and IRC 6699(a)(1)); FTP (IRC 6651(a)(2) and IRC 6651(a)(3)); and/or FTD (IRC 6656) penalties if the following are true for the taxpayer:
  - A. Has not previously been required to file a return or has no prior penalties (except the estimated tax penalty, TC 17X) for the preceding 3 years on the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), and
  - B. Has filed, or filed a valid extension for, all currently required returns and paid, or arranged to pay, any tax due.

**Example:**

Consider the taxpayer current if he or she has an open installment agreement and are current with his or her installment payments.

**2. Note:**

3. If the taxpayer is not currently in compliance per (1)(b) but all other FTA criteria are met, provide the taxpayer an opportunity to fully comply before considering reasonable cause.
4. First-time abate (FTA) is an administrative waiver and does not carry any oral statement authority (OSA) dollar threshold. See *IRM 20.1.1.3.6.3* for additional OSA information. Also, FTA carries its own **PRCs, 018** for non-RCA/manual look-back, or **020** for RCA being used to make the determination. See *IRM 20.1.1.3.6.2*.
5. A penalty assessed and subsequently reversed in full will generally be considered to show compliance for that tax period unless the exception in (5)(c) applies. RCA considers fully reversed penalties in its FTA analysis.
6. The FTA administrative waiver can only apply to a single tax period for a given MFT. For example, if a request for penalty relief is being considered for 2 or more tax periods on the same MFT and the earliest tax period meets FTA criteria, penalty relief based on FTA only applies to the earliest tax period, not all tax periods being considered. Penalty relief for all subsequent tax periods will be based on the showing of reasonable cause (and, as applicable, an absence of willful neglect).
7. The reasonable cause explanation provided by the taxpayer will be considered after RCA performs the FTA analysis. If FTA criteria does not apply based on reasons shown in (5) below, then the taxpayers explanation will be used to determine if reasonable cause penalty relief criteria is met (see Note in paragraph (1)). If the RCA determination is to abate the penalty(ies), penalty relief can be granted as appropriate per the RCA conclusion (i.e., reasonable cause, official disaster relief area, IRS error, Statutory and administrative waivers). Using the FTA analysis up front was based on a request from HQ Customer Accounts Services.
8. A FTA conclusion **WILL NOT** apply if any of the following criteria applies:
  - A. Any tax period in the prior 3 years, for the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), is in TDI Status 02 or 03, or IMF Status 04.
  - B. An unreversed penalty for a significant amount (see *Caution* for an explanation of significant amount) is present (except the ES penalty) on any tax period in the prior 3 years, for the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), and a notice was issued showing the assessed penalty(ies).

**Caution:**

=====

**Note:**

A module balance cleared with a TC 606 indicates a notice showing the assessed penalty(ies) **was not** issued.

- C. Any penalty reversal or penalty suppression input with Penalty Reason Code (PRC) 018 (*FTA, RCA Not Used*), 020 (*FTA, RCA Used*), or 021 (*Tolerance*) on any tax period in the prior 3 years for the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)). See *Exhibit 20.1.1-2, Penalty Reason Code Chart*.

**Additional criteria specific to BMF accounts is listed in 5(d), 5(e), and 5(f) below.**

- D. Any portion of a FTD penalty charged for EFTPS avoidance. Taxpayers required by law to deposit using EFTPS have received multiple notifications from the treasury financial agent (TFA) and the Electronic Tax Administration (ETA) prior to their required EFTPS start date. Use RCA for normal penalty relief consideration.

**Note:**

Beginning Jan. 1, 2011, all required deposits must be made by EFTPS, and the TFA/ETA notifications were discontinued. However, this criterion will continue to apply.

- E. A total of four or more FTD penalty waiver codes are present in the taxpayer's three-year penalty history for the same MFT (see the exception for MFTs 01 and 14 in paragraph (5)(f)). Waiver Code 24 is set when the FTD penalty is waived due to a change in deposit frequency. Waiver Code 25 is set when the FTD penalty is waived per *IRM 20.1.4.3, Restrictions on Assessments*, criteria. When a waiver code applies, the applicable waiver code will be shown with the literal "FTD PEN WAIVER CD" on CC BMFOL definer "R." RCA will check the taxpayer's three-year history for the presence of four or more waiver codes.
- F. The three-year penalty history for either MFT 01 (Form 941, *Employer's Quarterly Federal Tax Return*) or MFT 14 (Form 944, *Employer's Annual Federal Tax Return*) must include a review of both MFT 01 **AND** MFT 14 accounts.

**Example:**

Taxpayer A files Form 944 for tax year 2010 and is assessed a FTD penalty (TC 186) on the MFT 14 account. For all years prior to tax year 2010, the taxpayer filed Form 941. The MFT 01 account for the 2nd quarter of 2009 (200906) has unreversed FTD, FTF, and FTP penalties; therefore, the taxpayer does not qualify for FTA relief on the MFT 14 account for 2010 (201012).

9. When checking the three-year penalty history, RCA does not recognize any module(s) that has moved to the retention register. This should not be a problem when using RCA on current tax periods; however, when using RCA for an older tax period, the employee **must** manually review any tax period(s) in the three-year penalty history that has gone to the retention register.
10. If RCA determines a **first-time abate** is applicable, correspondex Letter 3502C (for BMF FTD penalty relief) or Letter 3503C (for IMF FTF and/or FTP penalty relief) can be generated through RCA and IDRS. Both letters contain a paragraph automatically selected by RCA informing the taxpayer that the penalty(ies) was removed based on his or her history of compliance. The following is an example of this paragraph:

*We are pleased to inform you that your request to remove the (use applicable penalty, i.e. failure to file, failure to pay, or failure to deposit) penalty(ies) has been granted. However, this action has been taken based solely on your compliance history rather than on the information you provided. This type of penalty removal is a one-time consideration available only for a first-time penalty charge. IRS will base decisions on removing any future (failure to file, failure to pay, failure to deposit) penalties on any information you provide that meets reasonable cause criteria. You should receive a notice of penalty adjustment within the next few weeks.*

**Note:**

Include an explanation that educates the taxpayer how to be compliant in the future.

11. First-time abatement may be considered for FTF (assessed under IRC 6651(a)(1), IRC 6698(a)(1), or IRC 6699(a)(1)) and/or FTP (IRC 6651(a)(2) and IRC 6651(a)(3)) on all returns (except those listed in (9) below). The employee must check the three prior years, and all subsequent periods already due, and document the clean compliance history. If RCA is not used to consider first-time relief and relief is granted, use **PRC 018** when making the adjustment. Notify the taxpayer that the penalty removal was based on his or her history of compliance rather than on the information he or she provided (see example paragraph above). Also include an explanation that educates the taxpayer about how to be compliant in the future.

**Note:**

If RCA does not offer FTA relief because the FTD penalty was charged for EFTPS avoidance, FTA relief can still be granted for the FTF and/or FTP penalties, if applicable.

12. Penalty relief under FTA **does not** apply to the following:
  - Returns with an event-based filing requirement, generally returns filed once or infrequently such as Form 706, *U.S. Estate Tax Return*, and Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*.
  - The daily delinquency penalty (DDP), see e.g., IRC 6652(c)(2)(A).
  - Form 1120, *U.S. Corporation Income Tax Return*/Form 1120-S, *U.S. Income Tax Return for an S Corporation* if, in the prior 3 years, at least 1 Form 1120-S, was filed late but not penalized.
  - Information reporting that is dependent on another filing, such as various forms that are attached.

**Note:**

This list is not all inclusive.

13. If the tax is not paid in full on the tax period when the request for abatement is received and the taxpayer is current with installment agreement payments, allow first-time abate/clean compliance history on the failure to pay (FTP) penalty amount assessed. Use **RC 062** with the TC 271 and **PRC 018** or **020**. This will allow the FTP penalty to start up when the TC 271 posts to Master File on the remaining tax due. While the first-time abatement is due to an administrative waiver, not reasonable cause, the **RC 062** will not restrict the tax period and is to be used in this instance only. The proper use of the PRC will allow for the tracking of first-time/compliance history abatements.

**Note:**

**The employee will need to use the open paragraph in Letter 3502C or Letter 3503C to inform the taxpayer that the FTP penalty will start accruing again on the unpaid taxes and will continue until the tax is paid in full. After the tax is paid in full, the taxpayer may request abatement of the additional FTP penalty. Use PRC 018 or 020.**

14. If the tax is fully paid, the FTA adjustment to the FTP (TC 271) may be done using **RC 065** (IMF accounts) with **PRC 018** or **020** as the restrictive action will not have a negative effect. Adjustment notices will be sent in both abatement instances.

15. RCA will also display a FTA window on a BMF account when the taxpayer has a change in deposit frequency. Employees need to be aware this is different than a FTA for a good compliance history and use the appropriate PRC when removing the penalty for a first-time change in deposit frequency.

#### **20.1.1.3.6.2 (02-22-2008)**

##### **Penalty Reason Codes**

1. When removing a penalty(ies) based on FTA criteria, use one of the following PRC's in the 4th reason code (RC) position on CC ADJ54:
  - A. **PRC 020** will be used when using RCA and RCA determines FTA relief applies. RC 065 is also required on IMF accounts.
  - B. **PRC 018** will be used when considering FTA penalty relief where RCA is not available, and for BMF FTF and/or FTP penalties if FTA for the FTD penalty does not apply (since RCA is currently not programmed for BMF FTF and/or FTP penalty consideration).
  - C. A first-time abatement is not due to reasonable cause, so **RC 062** is not used. See the FTP exception in *IRM 20.1.1.3.6.1*.
2. When removing the penalty(ies) for a reason other than FTA, use the appropriate PRC in the 4th position in accordance with the PRC chart, *Exhibit 20.1.1-2*. If reasonable cause has been established, use **RC 062** in the 1st, 2nd, or 3rd RC position and the appropriate PRC in the 4th position.

#### **20.1.1.3.6.3 (11-25-2011)**

##### **Increase in Oral Statement Ceiling**

1. Beginning January 1, 2002, the oral statement ceiling for failure to file, failure to pay, and failure to deposit penalties was increased. See *IRM 20.1.1.3.1*.
2. RCA will be used where available. Where RCA is not available, employees should receive managerial approval to allow for the oral abatement of penalties when reasonable cause criteria are met. The ceiling also applies to BMF FTF and FTP penalties (even though RCA is not programmed to consider these penalties at this time).

#### **20.1.1.3.6.4 (02-22-2008)**

##### **Oral Statement Ceiling Exceeded**

1. A signed, written statement is not required to **deny** a penalty relief request, regardless of the penalty amount(s). Therefore, users will not be required to obtain a signed, written statement before accessing RCA in "oral" mode. If the RCA determination is to abate the penalty(ies) and the oral ceiling threshold is exceeded, RCA will display a message stating a signed, written statement is required to allow the abatement, in addition to any other documentation required. See *IRM 20.1.1.3.6.5*.
  - A. If RCA determines the penalty should be sustained, follow established RCA "sustain" procedures.
  - B. If RCA determines the penalty should be abated, request a signed, written statement.

#### **20.1.1.3.6.5 (02-22-2008)**

##### **Documentation**

1. Specific circumstances within RCA require the taxpayer to provide documentation to support his or her claim before a penalty relief determination can be reached. Other circumstances will allow the employee to accept "credible information," either orally or in writing.
  - A. "Credible information" must explain facts and circumstances showing the taxpayer exercised ordinary business care and prudence, and cite specific dates for the non-compliance. All information, including dates, must substantiate why the taxpayer was unable to comply.
  - B. RCA has been programmed to include reasonable and specific time frames to allow for filing and/or paying taxes after the event that prevented compliance ended. See *IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence*.

#### **20.1.1.3.6.6 (08-05-2014)**

##### **Attaching RCA Determination**

1. When RCA reaches a conclusion to either abate (remove) or sustain the penalty, the program automatically displays a print dialog to allow printing the determination that includes all information input by the RCA user. This print must be attached as a source document, or attached to the CIS case, if applicable. See *IRM 21.5.2, Adjustment Guidelines*, for additional information.
2. See *IRM 20.1.1.3.1* for additional information concerning unsigned and oral requests.

#### **20.1.1.3.6.7 (08-05-2014)**

##### **Reasonable Cause Penalty Relief Request Prior to Penalty Assessment**

1. RCA is unable to consider penalty relief on modules with no TC 150 posted. However, RCA can consider FTF and/or FTP penalty relief on IMF accounts if a TC 150 has posted, but no penalties have been assessed, or if the penalties have been fully reversed. It can also consider FTD penalty relief on BMF accounts with a posted TC 150 but no posted, or fully reversed, TC 18X.
2. While the reasons for accessing RCA under these conditions vary, this functionality is most beneficial for the following:
  - A. BMF CP 207 (or CP 207L) replies where the taxpayer knows he or she made one or more deposits late and request reasonable cause penalty relief prior to assessment of the FTD penalty, or
  - B. IMF accounts where the taxpayer is liable for accrued, but unassessed, FTP penalty (generally per IRC 6651(a)(3)) and the taxpayer requests FTP penalty relief based on reasonable cause.
3. For CP 207 and CP 207L replies (see IRM 20.1.4.18, *CP 207/207L Notices*), use CC FTDPN to compute the appropriate penalty prior to accessing RCA.
  - A. If a penalty applies, access RCA for a penalty relief determination.
  - B. If RCA determines reasonable cause criteria has been met, input a TC 180 for zero, BLK 14, **RC 062**, and the appropriate PRC in the 4th RC position. (This action is required to avoid sending the taxpayer unnecessary notices).
  - C. If RCA determines reasonable cause criteria has not been met, follow normal CP 207 assessment procedures and normal penalty relief request denial procedures.
4. On IMF accounts, certain account conditions can result in the taxpayer receiving a balance due notice that includes an accrued FTP penalty charge but no TC 27X is present on the account. RCA can be accessed for a penalty relief determination in this situation, but RCA only recognizes **assessed** penalty amounts and may display a message that penalties applicable to RCA are not present.
  - A. Although not necessary, a TC 290 for .00 with Priority Code (PC) 5 can be input to allow Master File to post the accrued FTP.
  - B. If the RCA determination is to **abate**, the FTP penalty and a TC 290 .00 with PC 5 has not been input, input a TC 270 for .00 with applicable PRC (and **RC 062** for reasonable cause, if applicable).

**Note:**

For either IMF or BMF condition referenced here, RCA WILL NOT perform the systemic FTA check. See *IRM 20.1.1.3.6.1* for FTA criteria for a manual FTA determination.

**20.1.1.3.6.8 (02-22-2008)**

**RCA Letter Generation**

1. If RCA determines reasonable cause has not been established, Correspondex Letter 0852C (BMF) or Letter 0853C (IMF) can be issued through RCA providing reason(s) for denial and explaining the appeal procedures.
  - A. *"Special Insert"* and *"Return Address"* codes are required on the Letter 0852C and Letter 0853C to generate the appropriate appeals coordinator's name and return address. Enter the codes established by your local Campus User Support function (normally used on Letter 0854C). These codes are also available on the SERP Penalty Appeal Coordinators List page.
  - B. If the codes entered do not generate the correct information, report the problem to your local User Support function.
2. RCA will transmit the required paragraphs and fill-ins to CC LPAGE. To generate the letter, RCA provides two options:
  - A. **Review/Manual Transmit** (Recommended)-Allows a review of the letter to ensure an appropriate explanation and all letter information is correct. Requires manual transmission of the letter. After reviewing the letter, return to the first CC LPAGE screen and transmit.
  - B. **No Review/Systemic Transmit**-After transmitting the appropriate paragraphs and fill-ins to CC LPAGE, RCA will automatically transmit the letter. The letter cannot be reviewed or changed with this option.

**Caution:**

Regardless of the option selected, the originator must ensure "request completed" is displayed on IDRS to ensure the letter transmitted. RCA cannot make this determination.

**20.1.1.3.6.9 (02-22-2008)**

**RCA for BMF**

1. RCA cannot consider BMF FTP and FTF penalty relief at this time. However, because most BMF accounts that have been penalized for FTF and FTP penalties also include a FTD penalty, RCA should be used to consider penalty relief for the FTD penalty.
  - A. If the same reasons are used for requesting FTF and FTP penalty relief (as they usually are), the RCA conclusion should apply to all three penalties.
  - B. If the RCA conclusion is to sustain the penalty and Correspondex Letter 0852C is issued, RCA provides an option to automatically insert a paragraph stating the FTD denial reason also applies to FTF and/or FTP (or an open paragraph can be inserted to notify the taxpayer the denial applies to the FTF and/or FTP penalties in addition to the FTD penalty).
  - C. If more than one penalty is involved, only one IDRS adjustment should be made. Use the PRC that would be applicable for the FTD penalty abatement.

**20.1.1.3.6.10 (11-25-2011)**

**RCA Conclusions/Determinations**

1. RCA programming applies the reasonable cause standards outlined throughout *IRM 20.1.1.3.2* against the reasonable cause category(ies) chosen by the RCA user and the answers selected and/or dates entered (if applicable) to the questions posed by RCA. Therefore, to ensure the correct determination is reached, users must make every effort to choose the applicable category(ies) and answers (correct date(s) entered, etc.) based on the information provided by the taxpayer. RCA will reach 1 of 5 possible conclusions for the MFT and tax period (module) reviewed (listed in order of priority):

<b>RCA Conclusion</b>	<b>Explanation</b>	<b>Action</b>	<b>Additional Information</b>
1. Abate	Reasonable cause established.	Remove penalty(ies).	<b>Caution:</b> At this time, RCA is unable to determine if the account contains "unassessed FTP penalty" when the FTP penalty is being abated for reasonable cause. Refer to IRM 20.1.2.1.4.1 (4) for additional information and, if necessary, edit the TC 271 amount defaulted by RCA to match the "total FTP."
2. Other	Not a reasonable cause issue.	RCA will display additional information/instructions.	
3. Suspend	Sufficient information was not provided for RCA to reach a conclusion.	RCA displays all information required to support a showing of reasonable cause.	<b>Note:</b> Not applicable to revenue officers.
4. Sustain	Reasonable cause not established.	Deny the request.	
5. Mixed	In general, reasonable cause partially established.	<ul style="list-style-type: none"> <li>• IMF—Abate one penalty/sustain the other penalty</li> <li>• BMF—Abate a portion of the FTD penalty applicable to one or more late deposit(s)/sustain a portion of the FTD penalty applicable to one or more late deposit(s). Also see IRM 20.1.4.3, <i>Restrictions on Assessments</i></li> </ul>	<b>Caution:</b> In some instances on BMF accounts (FTD penalty), RCA reviews each late-deposited liability. When this is the case, the RCA "module conclusion" only applies to the late-deposited liability(ies) selected for review. Consequently, it may be necessary to access RCA more than once if all late-deposited liabilities were not late for the same reason(s).

2. An "abate" or "sustain" conclusion, dependent on the reasonable cause category(ies) chosen and the answers selected, is reached after RCA has done the following:
  - A. Made an unbiased analysis of the facts of the case,
  - B. Properly applied the law and IRS policy to the facts of the case, and
  - C. Performed the actions in the first 2 bullets fairly and consistently compared to similar cases.

3. Therefore, fair and consistent application of penalties requires employees to make a final penalty relief determination consistent with the RCA conclusion. However, understanding that the individual facts and circumstances vary for each case and that there may be unique facts and circumstances in certain cases that RCA cannot consider, an "override (abort)" function is available in RCA. See *IRM 20.1.1.3.6.10.1*.

#### **20.1.1.3.6.10.1 (11-25-2011)**

##### **Overriding (Aborting) RCA's Conclusion**

1. Overriding the "module conclusion" reached by RCA may be appropriate in limited situations. Prior to overriding the RCA conclusion, employees must do the following:
  - A. Verify that all pertinent reasonable cause categories applicable to the facts and circumstances addressed in the request were selected for review. If not, select *Add Category* and select one or more additional categories for RCA review.
  - B. Verify the most appropriate answers to all questions posed by RCA were selected (correct dates entered, etc.). If not, select *Previous* to return to previous questions and select a more appropriate answer.
2. If there are unique individual facts and circumstances RCA is unable to consider, those individual facts and circumstances must be carefully analyzed and must clearly show, in accordance with the reasonable cause guidelines outlined throughout *IRM 20.1.1.3.2*, that despite the exercise of ordinary business care and prudence the taxpayer was nevertheless unable to comply within the prescribed time.

##### **Caution:**

Per *IRM 20.1.1.3.6.10*, RCA has properly applied the law and IRS policy to the facts it has considered. A determination to override RCA's conclusion cannot conflict with law or IRS policy. For example, delegating a non-delegable duty may appear to show the exercise of ordinary business care and prudence, but such an act is not legally supported.

3. A determination to override RCA's conclusion must be justified. The reason(s) the RCA conclusion is being overridden is required and must clearly state why the RCA conclusion is incorrect and why, or why not, the facts and circumstances of the case support the action being taken. In addition, the specific *IRM 20.1.1.3.2* section(s) used to support an override determination is required.
4. Managerial approval to override RCA's determination is not required but is recommended.

#### **20.1.1.4 (02-22-2008)**

##### **Methods of Appealing Penalties**

1. Various administrative and legislative remedies are provided for taxpayers who disagree with the IRS's determination that they are liable for a particular penalty. Generally, when a taxpayer disagrees with our determination regarding a penalty, he or she has the right to an administrative appeal.
2. Taxpayers have the right to challenge the assertion or assessment of a penalty, and generally may do so at any stage in the penalty process. Taxpayers may request the following:
  - A. A review of the penalty prior to assessment (e.g., deficiency procedures),
  - B. A penalty abatement after it is assessed, and either before or after it is paid (post-assessment review), or
  - C. An abatement and refund after payment (claim for refund).
3. Taxpayers may indicate their disagreement with the IRS either verbally or in writing, or if the penalty has already been paid, by filing a claim for refund or credit.
4. If agreement cannot be reached at the area field office or the campus, the taxpayer may request a conference with the employee's immediate manager, or (in most cases) the taxpayer may request that the case be forwarded to Appeals. Taxpayers should provide a written request for consideration by Appeals.
5. The taxpayer may also file suit in court. Depending on the procedural circumstances of the taxpayer's case, the taxpayer may petition the United States Tax Court or file a complaint with either the United States District Court or a United States Court of Federal Claims (as appropriate). See *IRM 8.20, Appeals Case Processing Manual*.

#### **20.1.1.4.1 (02-22-2008)**

##### **The Appeals Function**

1. The Appeals Office is an independent administrative body within the IRS that is the only formal internal level of appeal.
2. The review of a penalty determination by Appeals is not automatic. Appeals will only review a penalty if the request for relief has been previously denied by an IRS employee and the taxpayer requests an appeal.

3. In addition, Appeals may make a determination that the taxpayer did not commit the prohibited action or failure to act for which the penalty is asserted (charged). Issues of basic liability for a penalty may be considered in the appeals process, and should be considered before determining if reasonable cause or other relief criteria exist.
4. Appeals has the authority to settle penalties for less than the full amount based on hazards of litigation.

#### **20.1.1.4.1.1 (11-25-2011)**

##### **Pre-assessment Appeals**

1. Generally, Appeals will consider the appropriateness of the following type of penalties prior to assessment:
  - A. Penalties that are asserted by the IRS in the course of an examination of a taxpayers income tax return,
  - B. Penalties that are granted a specific pre-assessment appeal right such as the trust fund recovery penalty under IRC 6672 (see IRM 8.25.1, Trust Fund Recovery Penalty (TFRP), Overview and Authority) or the preparer penalties under IRC 6694 (see IRM 8.11.3, Return Preparer Penalty Cases), and/or
  - C. The intentional disregard penalty of IRC 6721(e) when it is asserted for failures to comply with the cash reporting requirements of IRC 6050I (Form 8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*).
2. Generally, if Appeals considers a penalty before it is assessed, Appeals will not reconsider the same penalty after it is assessed.
  - A. However, at its discretion, Appeals may reconsider its prior decision if evidence becomes available that indicates further consideration is warranted.
  - B. Taxpayers may also pay the penalty previously upheld by Appeals and file a claim for refund. The claim for refund may be transferred to Appeals, if denied at the campus level.
3. More detailed Appeals procedures are described in the Appeals Returns Processing and Control Handbook. Also see IRM 8.11.1, *Return Related Penalties in Appeals*.

#### **20.1.1.4.1.2 (11-25-2011)**

##### **Post-assessment Appeals**

1. To request abatement of a penalty after assessment, the taxpayer must submit a written request to the IRS.
2. The employee must consider all the facts and circumstances to determine if the taxpayer's explanation meets the penalty relief criteria. See IRM 20.1.1.3, *Criteria for Relief From Penalties*.
  - A. If a taxpayer orally requests the abatement of a penalty, instruct the taxpayer to submit the request in writing. *IRM 20.1.1.3.1*.
  - B. If a taxpayer orally requests an appeal of a decision, instruct the taxpayer to submit the request in writing.

#### **20.1.1.4.2 (11-25-2011)**

##### **Deficiency Procedures**

1. IRC 6211 generally defines a deficiency as the excess of the correct amount of income tax, estate tax, or gift tax owed, minus the tax amount shown on the return and amounts previously assessed (or collected without assessment) as a deficiency, plus the amounts of rebates made. In general, deficiency procedures are used when additional income, estate, or gift taxes, and/or related penalties are proposed. The IRS generally can or cannot do the following:
  - A. **Cannot** assess an additional amount of income tax, estate tax, or gift tax, including related penalties, unless it complies with deficiency procedures;
  - B. **Can** assess additional amounts of employment tax and certain excise tax, and related penalties, without providing a notice of deficiency;
  - C. **Can** assess penalties not related to a tax (e.g., IRC 6694, IRC 6695, IRC 6695A, IRC 6700, IRC 6701, IRC 6702, and IRC 6713) without providing a notice of deficiency;
  - D. **Can** assess estimated tax penalties (IRC 6654 and IRC 6655) if a return was filed for the tax year, without providing a notice of deficiency; and
  - E. **Can** assess the failure to file and failure to pay penalties (IRC 6651) applicable to the portion of the tax liability that is not a tax deficiency, without providing a notice of deficiency.

##### **Example:**



Taxpayer files the return one month late and reports and pays a tax of \$4,000. During an audit, the IRS determines a tax deficiency of \$1,000. The failure to file penalty (FTF) is 5 percent per month (for up to 5 months) of the amount of tax. The **total** FTF penalty is \$250 (5 percent of \$5,000 for one month). If the taxpayer contests the deficiency, the taxpayer will be entitled to a notice of deficiency for \$1,050 (\$1,000 tax deficiency and \$50 FTF penalty (5 percent of \$1,000)). The remaining \$200 failure to file penalty which was attributable to the original tax assessment is not part of the deficiency and is collectible by immediate assessment.

2. A penalty is subject to deficiency procedures if the related tax underpayment being assessed is subject to deficiency procedures. For example, if the negligence penalty was assessed on an underpayment of income tax, the deficiency procedures would apply to the negligence penalty as well as the income tax deficiency. However, if the penalty was the result of an underpayment of employment tax, deficiency procedures would not apply to the penalty.
  - A. The taxes and related penalties subject to deficiency procedures include income tax, estate tax, gift tax, and certain excise taxes.
  - B. The taxes and related penalties not subject to deficiency procedures include employment taxes imposed by Subtitle C of the IRC, and certain excise taxes.
3. The procedure called "notice of deficiency" provides the taxpayer a method of appealing tax and/or penalties to the United States Tax Court prior to assessment. See IRC 6212.

#### 20.1.1.4.2.1 (11-25-2011)

##### Non-Deficiency Procedures

1. Most employment taxes and excise taxes are not subject to deficiency procedures. No statutory notice of deficiency is issued and the taxpayer cannot petition the Tax Court.
2. Generally, non-deficiency procedures are as follows:

<b>If</b>	<b>And</b>	<b>Then</b>
Penalties are proposed	The taxpayer agrees,	The penalties are assessed.
Penalties are proposed	The taxpayer disagrees,	A 30-day letter is issued <b>and</b> the taxpayer may file a protest with Appeals.
Appeals sustains the penalty proposal,		The penalties are assessed.

3. **Note:**
4. See *IRM 20.1.1.2.3, Managerial Approval for Penalty Assessments*.
5. If penalties are assessed and the taxpayer cannot or does not file a protest with Appeals, the taxpayer must pay the penalty, then file a claim for credit or refund.
6. If a 30-day letter was not issued, or if a claim for refund was denied, give the taxpayer the opportunity for an appeal.

#### 20.1.1.5 (02-22-2008)

##### Master File Indicators

1. Master File indicators are listed in the following subsections:
  - A. Master File Penalty Reason Codes
  - B. Penalty Transaction Codes
  - C. Penalty Reference Numbers

#### 20.1.1.5.1 (11-25-2011)

##### Master File Penalty Reason Codes

1. Penalty reason codes (PRC's) were adopted to enable the IRS to track penalties. Accurate reporting of these reason codes is vital. PRCs provide the basis for determining a taxpayer's compliance history and the foundation for analyzing trends in penalty abatements. PRCs are used with both BMF and IMF Document Code 54 and 47 transactions.
2. PRCs are divided into the following two categories:
  - Systemically generated

- Manually input
3. *Exhibit 20.1.1-2* shows all current PRCs and identifies which PRCs are available for manual input and which are systemically generated.
  4. If an abatement, partial abatement, or suppression of a penalty is appropriate, either input the abatement transaction or complete the appropriate form to request that the support area abate the penalty using the specified PRC.
    - A. **Taxpayer Service:** IDRS (ADJ54): The PRC **MUST** be input **only in the fourth reason code position**.
    - B. **Compliance:** The PRC must be used to identify the reason for the abatement or non-assertion of a penalty when completing any of the following forms: Form 5344, *Examination Closing Record* (ADJ47); Form 5599, *TE/GE Examined Closing Record* (ADJ47); and Form 8278, *Assessment and Abatement of Miscellaneous Civil Penalties* (ADJ54).
    - C. **Appeals:** The PRC must be used to identify the reason for the abatement or non-assertion of a penalty when completing any of the following forms: Form 5403, *Appeals Closing Record* (ADJ47), Form 5402, *Appeals Transmittal and Case Memo* (ADJ54), and Form 8278, *Assessment and Abatement of Miscellaneous Civil Penalties* (ADJ54).
  5. The main categories of PRCs available for manual input are the following:
    - A. **Reasonable Cause**-used when the taxpayer has established that he or she was unable to comply due to circumstances beyond his or her control despite the exercise of ordinary business care and prudence. Reason Code (RC) 062 is required in addition to the appropriate PRC. See *IRM 20.1.1.3.2, Reasonable Cause*.
    - B. **General Penalty Relief**-including disaster relief, penalty removal or reduction due to an amended return, or other specific penalty provisions provided throughout IRM 20.1 (including certain statutory exceptions and administrative waivers). See *IRM 20.1.1.3*.
    - C. **Statutory Exception or Administrative Waivers**-to be used when written procedures have been established. Generally, **PRC 044** identifies penalty relief based on a statutory or regulatory exception, and **PRC 043** identifies administrative waivers. Some exceptions and waivers are assigned a specific PRC. Use PRCs 043 and 044 when a specific PRC is not assigned.
    - D. **Correction of Service Error**-to be used when it is determined that the IRS made an error that resulted in an incorrect penalty or computed the penalty incorrectly or inappropriately. Generally, **PRC 045** is to be used to identify penalty relief based on the correction of an IRS error.
    - E. **Appeals**-the following four **PRCs** are to be used only by Appeals: **PRC 039**-third party full or partial abatement of penalties (Appeals settlement usually involving a bulk or batch filer with one penalty issue, but multiple taxpayers); **PRC 040**-hazards of litigation, or other Appeals settlement, when the entire penalty is abated; **PRC 041**-penalties are sustained by Appeals; **PRC 042**-partial abatement (Appeals settlement where only part of the penalty is abated).
  6. If more than one penalty is abated for more than one reason, each abatement action must reference its own **PRC**. This will require a separate adjustment for each **PRC**. For example:
    - 16X Reasonable Cause-**PRC 025**
    - 27X Partially Abated-**PRC 042**
    - 18X Hazards-**PRC 040**
  7. If all penalties are abated for the same reason, only one **PRC** must be referenced. For example:
    - 16X Reasonable Cause-**PRC 025**
    - 27X Reasonable Cause
    - 18X Reasonable Cause

#### 20.1.1.5.2 (11-25-2011) Penalty Transaction Codes

1. Penalty transaction codes (TCs) indicate penalty assessment or abatement actions. Generally, return-related penalties are based on an underpayment of tax. See *Exhibit 20.1.1-3* for a description of the penalty TCs and their related IRC section(s). Related penalty TCs in a series are shown with the first two digits, followed by an "X" as the third digit.

#### Example:

In the failure to file (FTF) penalty series, the TC will be shown as 16X.

2. Generally, when the penalty is assessed on the tax module, each penalty is assigned a TC that identifies the type of penalty. However, some penalties assessed on a tax module will use a TC 240 with a penalty reference number (PRN) that identifies the type of penalty. See *IRM 20.1.1.5.3*. These reference numbers are generally between 500 and 799. See *Exhibit 20.1.1-4*, *Exhibit 20.1.1-5*, and *Exhibit 20.1.1-6*.
3. There are usually four potential transaction codes for each penalty, one each for manual and computer assessments with the related abatement codes. For example, FTF penalty TCs are the following:
  - A. TC 160-**Manually Assessed**
  - B. TC 161-**Manually Abated**
  - C. TC 166-**Systemically-Generated Assessment**
  - D. TC 167-**Systemically-Generated Abatement**

#### 20.1.1.5.3 (11-25-2011)

##### Penalty Reference Numbers (PRNs)

1. Generally, penalty reference numbers are used to identify penalties that are **not** based on information from a tax return. These penalties are based on a failure to perform an act required by the IRC. The penalty is usually assessed on MFT 13 (BMF) or 55 (IMF), and is identified by TC 240 and the appropriate PRN. However, assessment of a penalty with an assigned PRN(s) is not limited to MFTs 13 and 55.

##### Caution:

Because a PRN for a positive amount will result in a systemic TC 240 assessment, and a PRN for a negative amount will result in a systemic TC 241 abatement, manual input of a TC 240 or 241 is appropriate only in rare circumstances.

2. At times, several PRNs will be assigned to identify one IRC section, though the failure may be the same or similar. This is done to identify the area or program responsible for assessing or abating the penalty. For example, both PRNs 500 and 600 are used to identify a penalty assessed as the result of IRC 6721.
  - A. PRN 500 is used if the failure was identified on the Payer Master File (PMF) and is assessed by a campus function.
  - B. PRN 600 is used if the failure was identified during an examination, audit, or other compliance determination based on the taxpayer's books and records and is assessed by a compliance field function.
3. Some PRNs between 600 and 799 are used to identify return-related penalties. For example:
  - PRNs 680 and 681 are used to identify accuracy-related penalty assessments and abatements (per IRC 6662 and IRC 6662A, respectively). See *IRM 20.1.5, Return Related Penalties*.
  - PRN 666 is used to identify a frivolous tax return penalty (per IRC 6702(a)). See *IRM 20.1.10.10, IRC Section 6702 Frivolous Tax Submissions*.
4. *Exhibit 20.1.1-4* and *Exhibit 20.1.1-5* for PRNs, their related IRC section, and a brief description of the penalty computation, or the computer paragraph language inserted in the balance due notice.
5. The following are examples of PRNs assigned for various failures relating to IRC 6721, *Failure to File Correct Information Returns*.

Reference Number	Description	Source
500-514	Used by Campuses to assess/abate penalties based on PMF information	<i>IRM 20.1.7, Information Return Penalties</i>
549/550	Use to assess/abate penalties based on the Combined Annual Wage Reporting (CAWR) Program	<i>IRM 4.19.4, CAWR Reconciliation Balancing</i>
600 series	Use to assess/abate a penalty as the result of an examination or a determination made by a Compliance Field Function employee, i.e., PRN 600-failure to timely file, or accurately file, or file in the correct format an information return PRN 651-failure to file Form 8300 reporting cash transactions greater than \$10,000 PRN 652-Intentional disregard of the requirement to file Form 8300, reporting cash transactions greater than \$10,000.	<i>Exhibit 20.1.1-5</i>

**20.1.1.5.4 (02-22-2008)**

**Corporate Files on Line (CFOL)**

1. CFOL provides on-line research of Master File account and return data. The use of command codes such as IMFOL, BMFOL, RTVUE, BRTVU, and TRDBV is an alternative to MFTRA or ESTAB requests.
2. However, since Master File does not carry all information available on the IDRS screen displays (IDRS notice status, case control information, pending transaction, etc.), it is imperative that IDRS research be initiated before accessing Master File information via CFOL command codes.

**Note:**

IDRS input command codes that will cause a change to Master File data cannot be preceded by BRTVU or RTVUE.

3. CFOL command codes should be used to research entity and/or tax data that may not be available on IDRS.
  - A. It is recommended that CFOL command codes be used in lieu of MFTRA or ESTAB when the case can be resolved from information provided by the CFOL command codes.
  - B. This will eliminate the need to order MFTRA transcripts in most cases.
4. IMFOL accesses the Individual Master File (IMF) and allows several screen displays based on an input definer code. These include the following definers:
  - A. I-An index screen which shows whether a specific tax period is available on-line or not. The index screen also includes a balance due field showing if the account is in debit, credit, or zero balance.
  - B. E-A screen which shows entity type information (similar to INOLE).
  - C. T-A screen which has specific data from the tax account (similar to TXMOD and MFTRA).
  - D. A-A screen titled IMF Adjustment Transaction Screen which includes detailed information about input adjustment transactions.
  - E. V-A screen which includes retention register account information.
  - F. R-A posted TC 150 return screen, which displays return data that is transcribed along with systemically-generated fields.
  - G. S-A status history screen, which includes extension to file data.
  - H. H-A help screen which displays information to assist in using IMFOL (or BMFOL).
5. RTVUE accesses the Return Transaction File (RTF). It contains all edited, transcribed, and error corrected data from data entry lines of returns and related forms and schedules filed in the current processing year (including returns for prior tax years). This file contains information for the current year and two prior year returns. This command code requires a definer to access a particular screen and has an index type screen.
6. For further explanation of the screen displays and applicable definer codes, refer to IRM 4.4.32, *AIMS, ERCS, and IDRS Data Processing*, or IRM 2.3, *IDRS Terminal Responses*.

**Exhibit 20.1.1-1  
Penalty Relief—Application Chart**

Statute	Type of Penalty	Reasonable Cause Relief	Other Relief
IRC 6039E	Failure to Provide Information Concerning Resident Status	Yes	Yes
IRC 6651(a)(1)	Failure to File Tax Return	Yes	Yes
IRC 6651(a)(2)	Failure to Pay Tax When Due	Yes	Yes
IRC 6651(a)(3)	Failure to Pay Within 10 Days of Notice of Additional Tax Due (notices issued prior to 1/1/1997)	Yes	Yes

Statute	Type of Penalty	Reasonable Cause Relief	Other Relief
IRC 6651(a)(3)	Failure to Pay Within 21 Days of Notice of Additional Tax Due (10 business days if amount is \$100,000 or more) (notices issued after 12/31/1996)	Yes	Yes
IRC 6651(f)	Fraudulent Failure to File	No	No
IRC 6652(a)(1)	Failure to File Certain Information Returns	Yes	Yes
IRC 6652(c)(1)	Failure to File Annual Return by Exempt Organization	Yes	Yes
IRC 6652(c)(2)	Failure to File Returns Under IRC 6034 or IRC 6043(b)	Yes	Yes
IRC 6652(d)(2)	Notification of Change in Status of a Plan	Yes	Yes
IRC 6652(e)	Information Required in Connection With Certain Plans of Deferred Compensation—Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i>	Yes	Yes
IRC 6652(h)	Failure to Give Notice to Recipients of Certain Pension, Etc., Distributions	Yes	Yes
IRC 6652(i)	Failure to Give Written Explanation to Recipients of Certain Qualifying Rollover Distributions	Yes	Yes
IRC 6652(j)	Failure to File Certification With Respect to Certain Residential Rental Projects	Yes	Yes
IRC 6654	Estimated Tax Penalty on Individuals	No	Yes
IRC 6655	Estimated Tax Penalty on Corporations	No	No
IRC 6656(a)	Failure to Deposit	Yes	Yes
IRC 6657	Bad Checks	Yes	Yes
IRC 6662	Accuracy-Related Penalty on Underpayments	Yes*	Yes
IRC 6662A	Accuracy-Related Penalty on Understatements With Respect to Reportable Transactions	Yes*	Yes
IRC 6663	Fraud	No	No
IRC 6676	Erroneous Claim for Refund or Credit	No	Yes
IRC 6692	Failure to File Actuarial Report	Yes	Yes
IRC 6698	Failure to File Partnership Return	Yes	Yes
IRC 6699	Failure to File S Corporation Return	Yes	Yes
IRC 6721	Failure to File Correct Information Reporting Returns	Yes	Yes
IRC 6722	Failure to Furnish Correct Payee Statements	Yes	Yes
IRC 6723	Failure to Comply With other Information Reporting Requirements	Yes	Yes

\*Reasonable cause does not apply to any portion of the underpayment (IRC 6662) or understatement (IRC 6662A) attributable to an IRC 6662(b)(6) transaction (transactions lacking economic substance within the meaning of IRC 7701(o), or failing to meet the requirements of any similar rule of law).

**Note:**

This list is not all inclusive. Refer to the appropriate IRM 20.1 section (see *IRM 20.1.1.1.2*) for relief provisions for penalties not listed in this exhibit.

**Exhibit 20.1.1-2  
Penalty Reason Code Chart**

The PRCs contained in this exhibit are to be used when abating/suppressing a penalty. The exhibit has been divided by PRC group type. Where applicable, the 1st, 2nd, or 3rd position reason code (RC) shown with each PRC is required. PRCs are input in the 4th RC position.

The PRCs contained in the table below are to be used when manually abating/suppressing a penalty when reasonable cause has been established.

<b>IMF RC</b>	<b>BMF RC</b>	<b>PRC</b>	<b>Definition/ Relief Criteria</b>
062	062	022	Normal business care and prudence followed, but taxpayer was still unable to comply due to circumstances beyond his or her control. Generally used when the taxpayer establishes a single circumstance prevented compliance. See <i>IRM 20.1.1.3.2.2</i> .
062	N/A	024	<b>IMF</b> -Death, serious illness, or unavoidable absence of the taxpayer or a member of his or her immediate family. See <i>IRM 20.1.1.3.2.2.1</i> .
062	062	025	Records inaccessible / Unable to obtain records / Records destroyed by fire or other casualty. See <i>IRM 20.1.1.3.2.2.3</i> .
N/A	062	026	<b>BMF</b> -Death, serious illness, or unavoidable absence of the person responsible for filing and/or paying taxes (i.e., owner, corporate officer, partner, etc.) or a member of his or her immediate family. See <i>IRM 20.1.1.3.2.2.1</i> .
062	062	030	<b>Other-Combination of mistakes.</b> Normal business care and prudence followed, but documentation shows non-compliance was due to circumstances beyond the taxpayer's control. See <i>IRM 20.1.1.3.2.1</i> .
062	062	046	Y2K Relief.
N/A	062	071	Limited to Form 990-PF, <i>Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation</i> , (MFT 44)-Allows a private foundation reasonable cause for FTF and FTP 90 days after it received a determination letter from the IRS stating the organization is a private foundation or it cannot be expected to be a public charity.
N/A	062	072	Membership organization (MFT 67) has no full-time employees responsible for administering finances and was unable to timely file due to little continuity or understanding of duties due to frequent officer changes. Normal business care and prudence.
N/A	062	073	Membership organization (MFT 67) has no full-time employees responsible for administering finances and has no prior history of late filing and claims ignorance of the requirement.

The PRCs in the table below are limited to use by Appeals.

<b>IMF RC</b>	<b>BMF RC</b>	<b>PRC</b>	<b>Definition/Relief Criteria</b>
065	None	039	Appeals-Partial/full abatement of penalties based on third party (bulk and batch filers or payroll tax service bureaus) settlement.
065	None	040	Appeals settlement based on hazards of litigation. Complete removal of penalty/penalties.
065	None	041	Appeals sustains penalty/penalties.
065	None	042	Appeals partial abatement.

The PRCs in this table are used when manual penalty relief/suppression is warranted/required per the IRM for criteria other than reasonable cause.

<b>IMF RC</b>	<b>BMF RC</b>	<b>PRC</b>	<b>Definition/Relief Criteria</b>
065	None	010	Amended/corrected return or schedule. TP prepared original (for example, FTD-Schedule B/CP 207 replies).
065	None	013	Amended/corrected return. Original prepared by IRS (substitute for return (SFR)/ IRC 6020(b).
065	None	014	Misdated FTD. After 1-1-2000 used only for manual abatement if the penalty is restricted from systemic abatement after TC 971 AC 301 to 308 is input to adjust a TC 186. Also use for misdated payments affecting FTF, FTP, and estimated tax penalties.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	016	Estimated tax penalties-taxpayer computational error (Form 2210, <i>Underpayment of Estimated Tax by Individuals, Estates and Trusts</i> , or Form 2220, <i>Underpayment of Estimated Tax by Corporations</i> ).
065	None	021	Tolerance criteria met-FTD, FTF, FTP and estimated tax penalties.
065	None	023	Taxpayer relied on practitioner or third party advice. See <i>IRM 20.1.1.3.2.2.5</i> .
065	None	027	Timely mailed/timely filed.
065	None	028	Official disaster area. See <i>IRM 20.1.1.3.3.6</i> .
065	None	029	Undue economic hardship/inability to pay (FTP). See <i>IRM 20.1.1.3.3.3</i> . <b>Note:</b> Rarely allowed on employment tax deposits.
N/A	None	066	Cascading FTD penalty relief (1998 only).
N/A	None	067	Educational FTD penalty relief (i.e., ABCs of FTD).
065	None	017	Bank error caused dishonored check penalty (TC 286). Banking documentation provided showing credit availability.
065	None	018	First-time penalty relief. RCA not used-manual 3-year look back for compliant behavior. See <i>IRM 20.1.1.3.6.1</i> .
065	None	019	Bulk/batch filer-payroll tax service bureau related penalty. Use restricted to the penalty prevention and resolution group (PPRG).
065	None	020	RCA used-good history of compliance. See <i>IRM 20.1.1.3.6.1</i> .

The PRC in this table is used when manual penalty relief/suppression is warranted/required per the IRM for an administrative waiver.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	043	IRS provided relief for a valid penalty. (i.e., RRA '98 section 3304(b) change in FTD deposit frequency for 1st quarter only starting in 1999). See <i>IRM 20.1.1.3.3.2</i> .

The PRCs in this table are used when manual penalty relief/suppression is warranted/required per the IRM for a statutory waiver or regulatory exception.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
N/A	None	012	Decrease to FTD penalty per IRC 6656(e) and Rev. Proc. 2001-58. Taxpayer designated FTD applications; based on a valid ROFTL. See <i>IRM 20.1.4.26.3, Statutory Penalty Relief</i> .
None	None	044	Erroneous or late written advice by IRS. Relief based on revenue procedures. See <i>IRM 20.1.1.3.3.1</i> .

The PRCs in this table are used when systemic penalty relief/suppression is warranted.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	001	Suppressed/abated due to tolerance criteria.
065	None	002	Penalty adjusted due to computational error.
065	None	003 066	Master File recovery.
N/A	None	068	Systemic FTD penalty abatement per the EFTPS/FTD Penalty Refund Program.

The PRCs in this table are used to identify manual penalty relief/suppression as a result of some error caused by IRS or some other Treasury agency.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	015	General IRS error. Specific instructions for use of this code would be released in IRM updates or SERP alerts.
065	None	031	Erroneous oral advice by IRS. See <i>IRM 20.1.1.3.3.4.2</i> .
065	None	032	Other Treasury agency errors (FMS or EFTPS treasury financial agent (TFA) errors).
065	None	045	IRS error. Math error in computing penalty(ies). Extension to file not posted to Master File. Taxpayer complied with law but IRS did not recognize compliance. See <i>IRM 20.1.1.3.4</i> .

This table identifies user fee reversal codes (input with TC 361). These are not used for penalty relief/suppression, but they are used in the same manner as PRCs. Refer to IRM 5.19.1.5.4.6.3, *User Fee Payment Transfer/User Fee Abatements*, for additional information.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
None	None	047 048 049 050 051	User fee reversals.

#### Exhibit 20.1.1-3

#### Penalty Transaction Codes

The descriptions provided in this exhibit are intended to provide a general overview of the penalty calculation. Refer to the specific IRM 20.1 section for current penalty rates and policy.

TC	Statute	Description	Reference
16X	IRC 6651(a)(1)	<p>Failure to file a tax return (FTF). The FTF penalty is equal to the appropriate percentage of the net tax due multiplied by each month or part of a month (not to exceed 5 months) the return is not filed:</p> <ul style="list-style-type: none"> <li>• 4<sup>1</sup>/<sub>1</sub>%-if the FTP penalty also applies (for the period the FTP applies), or</li> <li>• 5%-if only the FTF penalty applies.</li> </ul>	IRM 20.1.2.2.7 IRM 20.1.2.2.7.3
16X	IRC 6698(a)(1)	<p>Failure to file partnership return-Late filed Form 1065, <i>U.S. Return of Partnership Income</i>, or Form 1066, <i>U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return</i>. The penalty is computed by multiplying the applicable base penalty rate times number of partners times the number of months late, up to a maximum of 5 months for returns due before Dec. 21, 2007, or up to a maximum of 12 months for returns due after Dec. 20, 2007. The applicable base penalty rates are as follows:</p> <ul style="list-style-type: none"> <li>• For returns due before Dec. 21, 2007, \$50.</li> <li>• For returns due after Dec. 20, 2007 but before Jan. 1, 2009, \$85.</li> <li>• For returns due after Dec. 31, 2008, \$89 or \$90, depending on the beginning of the taxable year.</li> <li>• For returns for taxable years beginning after Dec. 31, 2009, \$195.</li> </ul> <p><b>Note:</b> For taxable years beginning in 2008, add \$1 to the effective rate.</p>	IRM 20.1.2.3.2
16X	IRC 6699(a)(1)	<p>Failure to file an S Corporation return-Late filed Form 1120-S, <i>U.S. Income Tax Return for an S Corporation</i>. The penalty is computed by multiplying the applicable base penalty rate times number of shareholders times the number of months late, up to a maximum of 12 months. The applicable base penalty rates are as follow:</p> <ul style="list-style-type: none"> <li>• For returns due after Dec. 20, 2007 but before Jan. 1, 2009, \$85.</li> </ul>	IRM 20.1.2.5.2



TC	Statute	Description	Reference
		<p><b>Note:</b></p> <p>See IRM 20.1.2.5.2.</p> <ul style="list-style-type: none"> <li>For returns due after Dec. 31, 2008, \$89 if the taxable year does not begin after Dec. 31, 2009.</li> <li>For returns for taxable years beginning after Dec. 31, 2009, \$195.</li> </ul>	
17X	IRC 6654	<p>Failure by an individual to pay estimated income tax (aka ES penalty):</p> <ul style="list-style-type: none"> <li>The excess of the required installment minus the amount paid or credited on or before the due date of the installment is the underpayment.</li> <li>To determine the penalty for each installment, multiply: <ul style="list-style-type: none"> <li>-The penalty rate (the underpayment interest rate for the applicable quarter)</li> <li>-By the amount of the underpayment,</li> <li>-For the period of the underpayment (the earlier of the date the payment is received or the return due date).</li> </ul> </li> </ul>	IRM 20.1.3.2 IRM 20.1.3.2.1.1
17X	IRC 6655	<p>Failure by a corporation to pay estimated income tax.</p> <ul style="list-style-type: none"> <li>The excess of the required installment minus the amount paid or credited on or before the due date of the installment is the underpayment.</li> <li>To determine the penalty for each installment, multiply: <ul style="list-style-type: none"> <li>-The penalty rate (the underpayment interest rate for the applicable quarter)</li> <li>-By the amount of the underpayment,</li> <li>-For the period of the underpayment (the earlier of the date the payment is received or the return due date).</li> </ul> </li> </ul>	IRM 20.1.3.3 IRM 20.1.3.3.1.1
18X	IRC 6656	<p>Failure to deposit (FTD). The penalty is based on the following:</p> <ul style="list-style-type: none"> <li>Required amount(s) not properly or timely deposited, and</li> <li>The number of days between the deposit due date and the date the deposit is received</li> <li>2%: 1 to 5 days late</li> <li>5%: 6 to 15 days late</li> <li>10%: more than 15 days late but before 10 days after notice and demand, or</li> <li>15%: payments received more than 10 days after notice and demand</li> <li>10%: FTD avoidance-payments made directly to the IRS, or deposits made to a bank when the employer is required to deposit electronically.</li> </ul> <p><b>Note:</b></p> <p>All deposits due after Dec. 31, 2010, must be made electronically.</p>	IRM 20.1.4 IRM 20.1.4.2 IRM 20.1.4.7.1
20X	IRC 6723	<p>Failure to provide a taxpayer identification number (TIN). The penalty is \$50 per failure, not to exceed \$100,000 per calendar year.</p>	
23X	IRC 6652(c)	<p>Daily delinquency penalty (DDP): Generally, \$20 times the number of days the failure to file or the failure to include required information continues after the due date, not to exceed the lesser of \$10,000 or 5% of the gross receipts per return.</p>	IRM 20.1.8.2.1
240**		<p>Assesses a miscellaneous penalty generally associated with a penalty reference number (PRN).</p> <p><b>Caution:</b></p>	

TC	Statute	Description	Reference
		Manual input of a TC 240 is limited to rare circumstances. Input of a PRN for a positive amount will result in a systemic TC 240.	
241**		<ul style="list-style-type: none"> <li>Abates a miscellaneous penalty generally associated with a PRN, or</li> <li>Abates a TC 246 FTF penalty</li> </ul> <p><b>Caution:</b></p> <p>Manual input of a TC 241 is limited to rare circumstances (except TC 246 reversals). Input of a PRN for a negative amount will result in a systemic TC 241.</p>	
246	IRC 6698(a)(2)	Assesses the partnership FTF penalty for missing information. Refer to the TC 16X, IRC 6698(a)(1) description in this table for penalty computation.	IRM 20.1.2.3
246	IRC 6699(a)(2)	Assesses the S Corporation FTF penalty for missing information. Refer to the TC 16X, IRC 6699(a)(1), description in this table for penalty computation.	IRM 20.1.2.5
246	IRC 6721(a)(2)(A)	TC 246 with PRN 688 identifies failure by a large partnership (over 100 partners) to file electronically. The penalty is: \$50 (\$100 for returns required to be filed after Dec. 31, 2010) times the number of partners in excess of 100.	IRM 20.1.2.4 and IRM 21.7.4.4.2.8.1.1
246	IRC 7519(f)(4)	MFT 15-Failures related to Form 8752, <i>Required Payment or Refund Under Section 7519</i> . The TC 246 is assessed with PRN 684.	IRM 20.1.10.17
247		Systemically abates a penalty assessed with a TC 246.	
27X	IRC 6651(a)(2)	Failure to pay tax shown on a return (FTP). The penalty rate is $\frac{1}{12}$ of 1% (.005) per month, for each month or part of a month, from the due date of the return to the date the tax is paid or the maximum of 25% of the unpaid tax is reached.	IRM 20.1.2.2.8.4
27X	IRC 6651(a)(3)	<p>Failure to pay tax required to be shown on a return (FTP). The penalty rate is <math>\frac{1}{12}</math> of 1% (.005) for each month or part of a month, from 21 calendar days (10 business days for amounts of \$100,000 or more) <b>of the date of notice and demand</b> until the tax is paid or the maximum of 25% of the unpaid tax is reached.</p> <p><b>Note:</b></p> <p>For notices issued prior to 1/1/1997, the penalty is from 10 days of the date of the notice and demand for any amount.</p>	IRM 20.1.2.2.8.5
27X	IRC 6651(d)	Increases the FTP penalty from $\frac{1}{12}$ of 1% (.005) to 1% (.01) per month, the earlier of the day on which notice and demand for immediate payment is given or 10 days after the IRS has issued the notice of intent to levy.	IRM 20.1.2.2.8.1.1
27X	IRC 6651(h)	When specific conditions are met, the FTP penalty rate decreases from $\frac{1}{12}$ of 1% (.005) to $\frac{1}{12}$ of 1% (.0025) for any month that begins on or after the taxpayer has entered into an installment agreement.	IRM 20.1.2.2.8.1.2
28X	IRC 6657	<p>Bad check penalty imposed against dishonored checks or other forms of payment.</p> <p><b>Note:</b></p> <p>Prior to July 2, 2010, only payments made in the form of a paper check or money order were subject to this penalty.</p> <p>If the instrument is \$1,250 or more (\$750 or more for payments received before 5/26/2007):</p> <ul style="list-style-type: none"> <li>The penalty is 2 percent of the amount of the instrument.</li> </ul> <p>If the instrument is less than \$1,250 (less than \$750 for payments received before 5/26/2007), the penalty is the lesser of the following:</p>	IRM 20.1.10.4

TC	Statute	Description	Reference
		<ul style="list-style-type: none"> <li>\$25, or</li> <li>The amount of the instrument.</li> </ul>	
31X*	IRC 6652(b)	Penalty for failure to report tips imposed on an employee (who received the tips) equal to 50 percent of the employee's portion of the FICA tax or railroad retirement tax applicable to the tip amount that was not reported at the time and in the manner required.	IRM 20.1.10.3.2
32X*	IRC 6663	<p>Fraud penalty. Imposes a penalty of 75% of the portion of any underpayment of tax if the underpayment is attributable to fraud.</p> <p><b>Note:</b></p> <p>IRC 6663 applies to returns due after Dec. 31, 1989. For returns due prior to Jan. 1, 1990, the fraud penalty was applicable under repealed IRC 6653(b)</p>	IRM 20.1.5.14
35X*	Repealed IRC 6653(a)	<p>Negligence penalty assessed for return periods prior to January 1, 1990, at a rate of 5% of the underpayment of tax due to negligence.</p> <p>For return periods after Dec. 31, 1989, <b>negligence</b> is assessed under IRC 6662(b)(1) using PRN 680. See <i>Exhibit 20.1.1-5</i>.</p>	IRM 20.1.5.7

\*The penalty was assessed as the result of an examination or other compliance employee determination. These penalties should be abated **only** by the area responsible for assessing the penalty or by Appeals.

\*\*See penalty reference numbers in *Exhibit 20.1.1-4*, *Exhibit 20.1.1-5*, and *Exhibit 20.1.1-6*.

#### Exhibit 20.1.1-4 Penalty Reference Numbers (500 Series)

Penalties assessed using penalty reference numbers (PRNs) 500 through 514 are assessed using the computational formulas in the table below.

#### Reminder:

Only one penalty per information return can be assessed regardless of the number of failures associated with that return. Therefore, the computer paragraph associated with the respective reference number relates to the type of failure, not the way the penalty was computed. See IRM 20.1.7 for additional information.

PRN	Code Section	Penalty Description
	IRC 6721	<b>Imposition of Penalty for Failure to Comply with Certain Information Reporting Requirements</b> PRNs 500–514 should only be used for returns and statements due after December 31, 1989.
		<p>For returns required to be filed <b>before Jan. 1, 2011</b>, the applicable rates are as follows:</p> <p><b>Note:</b></p> <p>The maximum penalty amount shown are for persons with gross annual receipts of more than \$5 million. For those with gross annual receipts of \$5 million or less, the maximum penalty amount is shown in (parenthesis)</p> <ul style="list-style-type: none"> <li>\$50 per failure/maximum \$250,000 (max. \$100,000 if gross receipts ≤ \$5 million).</li> <li>\$15 per failure/maximum \$75,000 (max. \$25,000 if gross receipts ≤ \$5 million) if a failure is corrected <b>within 30 days, after the due date of the information return</b> (i.e., the penalty will be decreased to \$15 per failure).</li> <li>\$30 per failure/maximum \$150,000 (max. \$50,000 if gross receipts ≤ \$5 million) if the failure is corrected <b>more than 30 days after the due date of the return, but on or before August 1 of the filing year</b> (i.e., the penalty will be decreased to \$30 per failure).</li> </ul>
		<p>For returns required to be filed <b>after Dec. 31, 2010</b>, the applicable rates are as follows:</p> <p><b>Note:</b></p>

PRN	Code Section	Penalty Description
		<p>The maximum penalty amount shown are for persons with gross annual receipts of more than \$5 million. For those with gross annual receipts of \$5 million or less, the maximum penalty amount is shown in (parenthesis).</p> <ul style="list-style-type: none"> <li>• \$100 per failure/maximum \$1.5 million (max. \$500,000 if gross receipts ≤ \$5 million).</li> <li>• \$30 per failure/maximum \$250,000 (max. \$75,000 if gross receipts ≤ \$5 million) if a failure is corrected <b>within 30 days, after the due date of the information return</b> (i.e., the penalty will be decreased to \$30 per failure).</li> <li>• \$60 per failure/maximum \$500,000 (max. \$200,000 if gross receipts ≤ \$5 million) if the failure is corrected <b>more than 30 days after the due date of the return, but on or before August 1 of the filing year</b> (i.e., the penalty will be decreased to \$60 per failure).</li> </ul>
		<b>Late Filing Penalty</b>
500	IRC 6721	A penalty is charged for each Form 1098, <i>Mortgage Interest Statement</i> , Form 1099 (with any applicable suffix), Form W-2 G, <i>Certain Gambling Winnings</i> , or Form W-2, <i>Wage and Tax Statement</i> , that was not correctly and timely filed.
		<b>Magnetic Media Penalty</b>
501	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 (after the first 250 forms of each type) required by IRC 6011(e)(2)(A) not filed electronically (or by magnetic media before 12/2/2008).
		<b>Missing or Incorrect TIN Penalty</b>
502	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 submitted with missing or incorrect TINs.
		<b>Improper Format Penalty</b>
503	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 submitted in an improper format as provided for in the IRC, Treas. Regs, or Social Security Administration (SSA) procedures.
		<b>Late and Magnetic Media Penalty</b>
504	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was not filed: <ul style="list-style-type: none"> <li>• Correctly and timely, and</li> <li>• Electronically (or using magnetic media before 12/2/2008) (over 250 forms).</li> </ul>
		<b>Late and Missing or Incorrect TIN Penalty</b>
505	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was: <ul style="list-style-type: none"> <li>• Not correctly and timely filed, and</li> <li>• Submitted with a missing or incorrect TIN.</li> </ul>
		<b>Late and Improper Format Penalty</b>
506	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was not: <ul style="list-style-type: none"> <li>• Correctly and timely filed, and</li> <li>• Submitted in an improper format as provided for in the IRC, Treas. Regs, or SSA procedures.</li> </ul>
		<b>Magnetic Media and Missing or Incorrect TIN Penalty</b>
507	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was as follows: <ul style="list-style-type: none"> <li>• Not filed electronically (or using magnetic media before 12/2/2008) (over 250 forms), and</li> <li>• Filed with missing or incorrect TINs.</li> </ul>
		<b>Magnetic Media and Improper Format Penalty</b>
508	IRC 6721	A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was not as follows: <ul style="list-style-type: none"> <li>• Filed electronically (or using magnetic media before 12/2/2008) (over 250 returns), and</li> </ul>

PRN	Code Section	Penalty Description
		<ul style="list-style-type: none"> <li>Submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures.</li> </ul>
509	IRC 6721	<p><b>Missing or Incorrect TIN and Improper Format Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was filed as follows:</p> <ul style="list-style-type: none"> <li>With a missing or incorrect TIN, and</li> <li>In an improper format as provided for in either the IRC, Treas. Regs. or SSA procedures.</li> </ul>
510	IRC 6721	<p><b>Late, Magnetic Media, and Missing or Incorrect TIN Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was as follows:</p> <ul style="list-style-type: none"> <li>Not correctly and timely filed,</li> <li>Not filed electronically (or by magnetic media before 12/2/2008) (after the first 250 forms of each type) required by IRC 6011(e)(2)(A), and</li> <li>filed with missing or incorrect TINs.</li> </ul>
511	IRC 6721	<p><b>Late, Magnetic Media, and Improper Format Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was not as follows:</p> <ul style="list-style-type: none"> <li>Correctly and timely filed,</li> <li>Filed electronically (or by magnetic media before 12/2/2008) (after the first 250 forms of each type) required by IRC 6011(e)(2)(A), and</li> <li>Submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures.</li> </ul>
512	IRC 6721	<p><b>Late, Missing or Incorrect TIN, and Improper Format Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was as follows:</p> <ul style="list-style-type: none"> <li>Not correctly and timely filed,</li> <li>Filed with missing or incorrect TINs, and</li> <li>Not submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures.</li> </ul>
513	IRC 6721	<p><b>Magnetic Media, Missing or Incorrect TIN, and Improper Format Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was as follows:</p> <ul style="list-style-type: none"> <li>Not filed electronically (or using magnetic media before 12/2/2008) (over 250 returns),</li> <li>Filed with missing or incorrect TINs, and</li> <li>Not submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures.</li> </ul>
514	IRC 6721	<p><b>Late, Magnetic Media, Missing or Incorrect TIN, and Improper Format Penalty</b> A penalty is charged for each Form 1098, Form 1099, Form W-2 G, or Form W-2 that was as follows:</p> <ul style="list-style-type: none"> <li>Not correctly and timely filed,</li> <li>Not filed electronically (or using magnetic media before 12/2/2008) (over 250 returns),</li> <li>Filed with missing or incorrect TINs, and</li> <li>Not submitted in the proper format as provided for in either the IRC, Treas. Regs., or SSA procedures.</li> </ul>

PRNs 549 and 550 are used by the CAWR Penalty Program

PRN	Code Section	Penalty Description
549	IRC 6721(e)	<p><b>Penalty in the Case of Intentional Disregard</b> A penalty is charged for each Form W-2 that was not filed as required by IRC 6051. The penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$100 (\$250 for returns required to be filed after Dec. 31, 2010) per missing Form W-2, or</li> <li>• 10% of the total wages that were required to be reported.</li> </ul> <p>See IRM 4.19.4.3.1.1.</p>
550	IRC 6721(a)	<p><b>Late Filing Penalty</b> The penalty is assessed at \$50 (\$100 for returns required to be filed after Dec. 31, 2010) for each Form W-2 secured by CAWR. See IRM 4.19.4.3.1.2.</p>

The 500 series PRNs in this table are assessed with Form 8278.  
**Refer to and use the most current revision of Form 8278.**

PRN	Code Section	Penalty Description
527 IMF	IRC 6652(e)(1)(D)	<p><b>Failure to Provide Public Inspection of Application as Required by IRC 6104(d).</b> See IRM 20.1.8.2.1.</p> <ul style="list-style-type: none"> <li>• \$20 per day for each day the failure continues.</li> <li>• No maximum penalty amount.</li> </ul>
528 IMF	IRC 6652(e)(1)(C)	<p><b>Failure to Provide Public Inspection of Annual Returns and Reports as Required by IRC 6104(d) and IRC 527(j).</b> See IRM 20.1.8.2.1.</p> <ul style="list-style-type: none"> <li>• \$20 per day for each day the failure continues.</li> <li>• Maximum penalty is \$10,000 per return or report.</li> </ul>
537	IRC 6721(e)	<p><b>Failure to File Correct Information Returns Due to Intentional Disregard.</b> See IRM 20.1.7.3.2. \$250 for each failure (\$100 for returns required to be filed before Jan. 1, 2011) or, if greater, one of the following:</p> <ul style="list-style-type: none"> <li>• 10% of the total amount required to be reported on the information returns for dividends, patronage dividends, interest, fishing boat operators, royalties, and wage and tax statement, or</li> <li>• 5% of the total amount required to be reported on the information returns for brokers, exchange of partnership interest, or disposition of donated property payments, or</li> <li>• If Form 8300, the greater of \$25,000, or the amount of cash required to be reported in the transaction up to \$100,000.</li> <li>• No maximum penalty amount.</li> </ul>
543	IRC 6702(b)	<p><b>Penalty for Specified Frivolous Submissions referenced in IRC 6702(b)(2).</b> See IRM 20.1.10.10.2.</p> <ul style="list-style-type: none"> <li>• \$5,000 per submission.</li> </ul>
551	IRC 6720B	<p><b>Fraudulent Identification of Exempt Use Property.</b> See IRM 20.1.10.14.</p> <ul style="list-style-type: none"> <li>• \$10,000.</li> </ul>

PRN	Code Section	Penalty Description
		<ul style="list-style-type: none"> <li>No maximum penalty.</li> </ul>
553	IRC 6693(a)(2)(B)	<p><b>Failure to File a Report Relating to Archer MSAs Required Under IRC 220(h).</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$50 for each failure.</li> <li>No maximum penalty.</li> </ul>
554	IRC 6693(a)(2)(C)	<p><b>Failure to file a Report Relating to Health Savings Accounts Required Under IRC 223(h).</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$50 for each failure.</li> <li>No maximum penalty.</li> </ul>
555	IRC 6693(a)(2)(D)	<p><b>Failure to File a Report Relating to Qualified Tuition Programs Required Under IRC 529(d).</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$50 for each failure.</li> <li>No maximum penalty.</li> </ul>
556	IRC 6693(a)(2)(E)	<p><b>Failure to File a Report Relating to Coverdell Education Savings Accounts Required Under IRC 530(h).</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$50 for each failure.</li> <li>No maximum penalty.</li> </ul>
557	IRC 6693(b)(1)	<p><b>Overstatement of Designated Nondeductible Contributions.</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$100 for each failure.</li> <li>No maximum penalty.</li> </ul>
558	IRC 6693(b)(2)	<p><b>Failure to File a Form Relating to Nondeductible Contributions Required by IRC 408(o)(4).</b> See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>\$50 for each failure.</li> <li>No maximum penalty.</li> </ul>
563	IRC 6720C	<p><b>Penalty for Failure to Notify Health Plan of Cessation of Eligibility for COBRA Premium Assistance</b> (for employees involuntarily terminated between September 1, 2008 and December 31, 2009). See IRM 20.1.10.15.</p> <ul style="list-style-type: none"> <li>110% of the premium reduction after termination of eligibility.</li> <li>No maximum penalty.</li> </ul>
564	IRC 6685	<p><b>Willful Failure to Comply With the Public Disclosure Requirements of IRC 6104(d).</b> The penalty is in addition to any criminal penalty imposed by IRC 7207. See IRM 20.1.8.2.3.</p> <ul style="list-style-type: none"> <li>\$5,000 per return or application.</li> <li>No maximum penalty.</li> </ul>

PRN	Code Section	Penalty Description
565	IRC 6676	<p><b>Penalty for Erroneous Claim for Refund or Credit.</b> Effective for claims filed or submitted after 5/25/2007. See IRM 20.1.5.16.</p> <p><b>Exception:</b></p> <p>For married filing joint assessments, the penalty is assessed on MFT 30 using Form 3870 with PRN 687.</p> <p>20% of the excessive amount of the claim.</p>
566	IRC 6684	<p><b>Liability of Tax Relating to Private Foundations and Certain Other Tax-Exempt Organizations by Reason of a Willful and Flagrant Act or Failure to Act.</b></p> <p>See IRM 20.1.8.2.2.</p> <p>100% of the tax liability.</p>
567	IRC 6711	<p><b>Failure by Tax-Exempt Organization to Disclose Availability of Information or Service From Federal Government.</b></p> <p>See IRM 20.1.8.2.5.</p> <p>For any day on which a failure under IRC 6711(a) occurs, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$1,000, or</li> <li>• 50% of the aggregate cost of the offers or solicitations referred to in IRC 6711(a)(1).</li> <li>• No maximum penalty.</li> </ul>
570	IRC 6689	<p><b>Failure to File Notice of Redetermination of Foreign Tax Required by IRC 905(c).</b></p> <p>See IRM 20.1.9.19.</p> <ul style="list-style-type: none"> <li>• 5% of the deficiency per month, or fraction thereof.</li> <li>• Maximum penalty is 25% of the deficiency.</li> </ul>
573	IRC 6693(c)	<p><b>Failure to Furnish Certain Information to Participants in SIMPLE IRA Plans Required by IRC 408(1)(2)(C).</b></p> <p>See IRM 20.1.8.3.9.</p> <ul style="list-style-type: none"> <li>• \$50 for each day on which such failures continue.</li> <li>• No maximum penalty.</li> </ul>
574	IRC 6653	<p><b>Failure to Pay Stamp Tax.</b></p> <p>See IRM 20.1.11.2.</p> <p>50% of the total amount of the underpayment amount.</p>
575	IRC 6674	<p><b>Fraudulent Statement or Willful Failure to Furnish Statement to Employee as Required by IRC 6051 or IRC 6053(b).</b></p> <p>See IRM 20.1.10.7.</p> <ul style="list-style-type: none"> <li>• \$50 for each failure.</li> <li>• No maximum penalty.</li> </ul>
578	IRC 6709(a)	<p><b>Negligence Penalty With Respect to Mortgage Credit Certificates.</b></p> <p>See IRM 20.1.10.13.1.</p> <ul style="list-style-type: none"> <li>• \$1,000 per misstated certificate.</li> </ul>



PRN	Code Section	Penalty Description
579	IRC 6709(b)	<p><b>Fraud Penalty with Respect to Mortgage Credit Certificates.</b> See IRM 20.1.10.13.2.</p> <ul style="list-style-type: none"> <li>• \$10,000 per misstated certificate attributable to fraud.</li> </ul>
580	IRC 6709(c)	<p><b>Failure to Timely File Report Relating to a Mortgage Credit Certificate Required Under IRC 25(g).</b> See IRM 20.1.10.13.3.</p> <ul style="list-style-type: none"> <li>• \$200 per failure.</li> <li>• Maximum penalty is \$2,000.</li> </ul>
581	IRC 6695A	<p><b>Substantial and Gross Valuation Misstatements Attributable to Incorrect Appraisals.</b> See IRM 20.1.12.1. The penalty is the lesser of:</p> <p>A. The greater of:</p> <p style="padding-left: 40px;">A. 10% of the understatement attributable to the misstatement, or</p> <p style="padding-left: 40px;">B. \$1,000; or</p> <p>B. 125% of the gross income received by the appraiser from the preparation of the appraisal.</p>
582	IRC 6697	<p><b>Penalty to Be Imposed on a Regulated Investment Company or a Real Estate Investment Trust Which Uses the Deficiency Dividend Procedure of IRC 860, Deduction for Deficiency Dividends, to Retain Its Qualified Status.</b> See IRM 20.1.10.9.</p> <p><b>Note:</b></p> <p>IRC 6697 has been repealed for tax years <b>beginning after Dec. 22, 2010.</b></p> <ul style="list-style-type: none"> <li>• Equal to the interest charge paid by the trust on the deficiency dividend.</li> <li>• May not exceed 50% of the deficiency dividend deduction allowed by IRC 860(a).</li> </ul>
587	IRC 6652(j)	<p><b>Failure to File Certification With Respect to Certain Residential Rental Projects as Required by IRC 142(d)(7).</b> See IRM 20.1.10.3.3.</p> <ul style="list-style-type: none"> <li>• \$100 for each failure.</li> <li>• No maximum penalty.</li> </ul>
588	IRC 6652(k)	<p><b>Failure to Make Reports Required Under IRC 1202(d)(1)(C).</b> See IRM 20.1.10.3.4. For reports covering periods in 2 or more years, the penalty is multiplied by the number of years.</p> <ul style="list-style-type: none"> <li>• \$50 for each failure.</li> <li>• If the failure is due to negligence or intentional disregard, \$100 for each failure.</li> <li>• No maximum penalty.</li> </ul>
589	IRC 6652(c)(2)(C)(ii)	<p><b>Failure to File Return for Split-Interest Trusts (as required under IRC 6034(a)) With Gross Income in Excess of \$250,000.</b> See IRM 20.1.8.2.1.1.</p> <ul style="list-style-type: none"> <li>• \$100 for each day the failure continues.</li> <li>• Maximum penalty is \$50,000 per return.</li> </ul>

PRN	Code Section	Penalty Description
590	IRC 6652(a)	<p><b>Failure to File Information Returns With Respect to Certain Payments Aggregating Less than \$10 as Required Under IRC 6042(a)(2) and IRC 6044(a)(2).</b> See IRM 20.1.10.3.1.</p> <ul style="list-style-type: none"> <li>• \$1 for each statement not filed.</li> <li>• Maximum penalty is \$1,000 per calendar year.</li> </ul>
591	IRC 6652(c)(1)(B)(ii)	<p><b>Failure to Comply With Notice of Demand by Manager of Organization.</b> See IRM 20.1.8.2.1.</p> <ul style="list-style-type: none"> <li>• \$10 for each day the failure continues after expiration of the time specified in the demand.</li> <li>• Maximum penalty is \$5,000 per return.</li> </ul>
592	IRC 6652(c)(2)(B)	<p><b>Failure to Comply With Notice of Demand by Manager of Exempt Organization or Trust.</b> See IRM 20.1.8.2.1.1.</p> <ul style="list-style-type: none"> <li>• \$10 for each day the failure continues after expiration of the time specified in the demand.</li> <li>• Maximum penalty is \$5,000 per return.</li> </ul>
593	IRC 9707	<p><b>Failure to Pay Premium as Required by IRC 9704.</b> See IRM 20.1.10.18.</p> <ul style="list-style-type: none"> <li>• \$100 per day.</li> <li>• No maximum penalty amount.</li> </ul>
594	Voluntary Disclosure Initiative Penalty-27.5%	<p><b>Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code.</b> See IRM 20.1.9.1.4.</p> <ul style="list-style-type: none"> <li>• 27.5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure.</li> <li>• Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.</li> </ul>
595	Voluntary Disclosure Initiative Penalty-5%	<p><b>Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code.</b> See IRM 20.1.9.1.4.</p> <ul style="list-style-type: none"> <li>• 5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure.</li> <li>• Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.</li> </ul>
596	Voluntary Disclosure Initiative Penalty-20%	<p><b>Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code.</b> See IRM 20.1.9.1.4.</p> <ul style="list-style-type: none"> <li>• 20% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure.</li> <li>• Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.</li> </ul>
597	Voluntary Disclosure Initiative Penalty-12.5%	<p><b>Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code.</b> See IRM 20.1.9.1.4.</p>

PRN	Code Section	Penalty Description
		<ul style="list-style-type: none"> <li>12.5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure.</li> <li>Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.</li> </ul>
598	Voluntary Disclosure Initiative Penalty-25%	<p><b>Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code.</b> See IRM 20.1.9.1.4.</p> <ul style="list-style-type: none"> <li>25% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure.</li> <li>Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.</li> </ul>

PRN 599 identifies a systemically-assessed penalty under IRC 6038 for a late filed Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations*. Manual assessment of a penalty under IRC 6038 is made with PRN 623. See IRM 21.8.2.19.2 for additional information.

**Exhibit 20.1.1-5**

**Penalty Reference Numbers (600 Series)**

Penalty Reference Numbers marked with an asterisk "\*" identify penalties assessed with Form 8278.

**Caution:**

**Refer to and use the most current revision of Form 8278.**

PRN	Statute	Penalty Description
600*	IRC 6721	<p><b>Failure to File Correct Information Returns</b> This reference number should only be used for returns and statements due after December 31, 1989.</p> <p>For returns required to be filed <b>before Jan. 1, 2011</b>, the applicable rates are:</p> <p><b>Note:</b></p> <p>The maximum penalty amount shown are for persons with gross annual receipts of more than \$5 million. For those with gross annual receipts of \$5 million or less, the maximum penalty amount is shown in (parenthesis)</p> <ul style="list-style-type: none"> <li>\$50 per failure/maximum \$250,000 (max. \$100,000 if gross receipts ≤ \$5 million).</li> <li>\$15 per failure/maximum \$75,000 (max. \$25,000 if gross receipts ≤ \$5 million). If a failure is corrected <b>within 30 days, after the due date of the information return</b>, the penalty will be decreased to \$15 per failure.</li> <li>\$30 per failure/maximum \$150,000 (max. \$50,000 if gross receipts ≤ \$5 million). If the failure is corrected more than 30 days after the due date of the return, but on or before August 1st of the filing year, the penalty will be decreased to \$30 per failure.</li> </ul> <p>For returns required to be filed <b>after Dec. 31, 2010</b>, the applicable rates are:</p> <p><b>Note:</b></p> <p>The maximum penalty amount shown are for persons with gross annual receipts of more than \$5 million. For those with gross annual receipts of \$5 million or less, the maximum penalty amount is shown in (parenthesis)</p> <ul style="list-style-type: none"> <li>\$100 per failure/maximum \$1.5 million (max. \$500,000 if gross receipts ≤ \$5 million).</li> <li>\$30 per failure/maximum \$250,000 (max. \$75,000 if gross receipts ≤ \$5 million). If a failure is corrected <b>within 30 days, after the due date of the information return</b>, the penalty will be decreased to \$30 per failure.</li> </ul>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>\$60 per failure/maximum \$500,000 (max. \$200,000 if gross receipts ≤ \$5 million). If the failure is corrected more than 30 days after the due date of the return, but on or before August 2nd of the filing year, the penalty will be decreased to \$60 per failure.</li> </ul> <p><b>For other circumstances that may apply, see IRM 20.1.7.</b></p>
603*	IRC 6038C	<p><b>Failure of Foreign Corporation Engaged in a U.S. Business to Furnish Information or Maintain Records</b> See IRM 20.1.9.8.</p> <ul style="list-style-type: none"> <li>Initial penalty is \$10,000 for each taxable year.</li> <li>If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues. No maximum penalty amount (<b>assess with PRN 705</b>).</li> </ul>
604*	IRC 6652(f)	<p><b>Failure of Foreign Person to File Return Regarding Direct Investment in U.S. Real Property Interests</b> See IRM 20.1.9.12.</p> <ul style="list-style-type: none"> <li>The penalty applies to returns required under IRC 6039C.</li> <li>\$25 per day. Maximum is the lesser of \$25,000, or 5% of the aggregate fair market value of the real property investments.</li> </ul>
605*	IRC 6686	<p><b>Failure to File Returns or Supply Information by DISC or Former FSC</b> See IRM 20.1.9.17.</p> <ul style="list-style-type: none"> <li>\$100 for each failure to supply information to shareholders on Schedule K. Maximum \$25,000 per calendar year.</li> <li>\$1,000 for each failure to file Form 1120-DISC, <i>Domestic International Sales Corporation Return</i>, Form 1120-IC DISC, <i>Interest Charge Domestic International Sales—Corporation Return</i> or Form 1120-FSC, <i>U.S. Income Tax Return of a Foreign Sales Corporation</i>.</li> </ul>
606	IRC 6695A	<p><b>Substantial and Gross Valuation Misstatements Attributable to Incorrect Appraisals</b></p> <p><b>Note:</b> Effective Jan. 2010, PRN 581 is used for IRC 6695A penalty assessments.</p> <p>The penalty is the lesser of:</p> <p>A. The greater of:</p> <p style="padding-left: 40px;">A. 10% of the understatement attributable to the misstatement, or</p> <p style="padding-left: 40px;">B. \$1,000; or</p> <p>B. 125% of the gross income received by the appraiser from the preparation of the appraisal.</p>
607*	IRC 6721(a)	<p><b>Failure to File Information Returns or Registration Statements by Due Date</b></p> <p><b>Caution:</b> Use of PRN 607 is limited to employees of the Bank Secrecy Act (BSA) Program.</p> <p>See PRN 600 above for an explanation of the applicable penalty rates.</p>
609*	IRC 6721(a)	<p><b>Failure to Comply With Certain Information Reporting Requirements-Form 8300, <i>Report of Cash Payments Over \$10,000 Received in a Trade or Business</i></b></p> <p><b>Caution:</b></p>

PRN	Statute	Penalty Description
		<p>Use of PRN 609 is limited to employees of the Bank Secrecy Act (BSA) Program. All others use PRN 651</p> <p>See PRN 651 for an explanation and the applicable penalty rates.</p>
611*	IRC 6652(c)(3)(A)	<p><b>Failure to File a Disclosure Required of Tax-Exempt Entity</b></p> <ul style="list-style-type: none"> <li>• \$100 per failure per day.</li> <li>• \$50,000 maximum for any 1 disclosure.</li> </ul>
612*	IRC 6722	<p><b>Failure to Furnish Correct Payee Statement</b></p> <p>For returns required to be filed <b>after December 31, 1989</b>, a penalty will be imposed for each failure to:</p> <ol style="list-style-type: none"> <li>A. Furnish a payee statement on or before the due date to the person to whom the statement must be furnished,</li> <li>B. Furnish all information required, and</li> <li>C. Furnish correct information.</li> </ol> <p><b>Note:</b></p> <p><b>Only one penalty per statement, regardless of the number of failures per statement.</b></p> <p>For returns <b>due on or after Jan. 1, 2011</b>, the maximum penalty rate depends on whether the entity is a Large Business (LB) (gross receipts &gt;\$5 million) or Small Business (SB) (gross receipts ≤\$5 million). The penalty rates, depending on the number of days late/incorrect, are:</p> <ul style="list-style-type: none"> <li>• \$30 per return if not more than 30 days late. Maximum \$75,000 (SB) or \$250,000 (LB).</li> <li>• \$60 per return if more than 30 days late, but before Aug 1st. Maximum \$200,000 (SB) or \$500,000 (LB).</li> <li>• \$100 per return if filed after Aug. 1st. Maximum \$500,000 (SB) or \$1.5 million (LB).</li> </ul> <p>For returns <b>due on or before Dec. 31, 2010</b>, the penalty rate for all businesses is:</p> <ul style="list-style-type: none"> <li>• \$50 per return, regardless of the number of days late.</li> <li>• \$100,000 maximum penalty.</li> </ul> <p>For failures that are <b>due to intentional disregard</b>:</p> <ul style="list-style-type: none"> <li>• \$250 per return (\$100 for returns due on or before Dec. 31, 2010).</li> <li>• No maximum penalty. No reduction in penalty rate.</li> </ul>
613*	IRC 6679	<p><b>Failure to File Returns, Etc., With Respect to Foreign Corporations or Foreign Partnerships</b></p> <p>See IRM 20.1.9.15.</p> <ul style="list-style-type: none"> <li>• Form 5471, Schedule O, <i>Organization or Reorganization of Foreign Corporation and Acquisitions and Dispositions of Its Stock</i></li> <li>• Form 8865, Schedule P, <i>Acquisitions, Dispositions, and Changes of Interests in a Foreign Partnership.</i></li> </ul> <p>See IRC 6046 and IRC 6046A.</p> <ul style="list-style-type: none"> <li>• The initial penalty is assessed at \$10,000 per failure.</li> </ul>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum additional penalty up to \$50,000 (<b>assess with PRN 704</b>).</li> </ul>
614*	IRC 6714	<p><b>Failure to Meet Disclosure Requirements Applicable to Quid Pro Quo Contributions as Required by IRC 6115</b></p> <ul style="list-style-type: none"> <li>\$10 per contribution.</li> <li>Maximum penalty is \$5,000 for a particular fundraising event or mailing.</li> </ul>
616*	IRC 6682	<p><b>False Information With Respect to Withholding</b> See IRM 20.1.10.8.</p> <ul style="list-style-type: none"> <li>False information on Form W-4, <i>Employee's Withholding Allowance Certificate</i>, and/or Form W-9, <i>Request for Taxpayer Identification Number and Certification</i>.</li> <li>\$500 for each false statement (Form W-4/Form W-9).</li> </ul>
618	IRC 6672	<p><b>Failure to Collect and Pay Over Tax, or an Attempt to Evade or Defeat Tax</b> See IRM 20.1.10.5.</p> <ul style="list-style-type: none"> <li>Trust Fund Recovery Program. The penalty is assessed against responsible corporate officers.</li> <li>100% of the tax required to be collected, accounted for, and paid over.</li> </ul>
619*	IRC 6038(b)(2)	<p><b>Failure to File Returns With Respect to Foreign Corporations or Foreign Partnerships-Continuation Penalty for Failure to Provide Information After 90-Day Period</b> See IRM 20.1.9.3.4.</p> <ul style="list-style-type: none"> <li>The penalty is assessed at \$10,000 per 30-day period (or fraction thereof).</li> <li>\$50,000 maximum continuation penalty.</li> <li>The initial penalty is assessed with PRN 623</li> </ul>
621*	IRC 6723	<p><b>Failure to Comply With Other Information Reporting Requirements</b> For returns and statements required to be filed <b>after December 31, 1989</b></p> <p>A. A penalty of \$50 per failure: To comply timely with specified information reporting requirements, or To include correct information.</p> <p>B. The maximum penalty is \$100,000 per year.</p>
623*	IRC 6038	<p><b>Failure to Furnish Information With Respect to Certain Foreign Corporations</b> See IRM 20.1.9.3. Failure to file Form 5471, and/or Form 8865, <i>Return of U.S. Persons With Respect to Certain Foreign Partnerships</i></p> <ul style="list-style-type: none"> <li>Initial penalty is \$10,000 per annual accounting period plus FTC reduction.</li> <li>If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum additional penalty up to \$50,000 (<b>assess with PRN 619</b>).</li> </ul>
624	IRC 6695	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons</b></p> <p><b>Caution:</b></p> <p>Effective Jan. 2014, PRNs 714-718 are used for IRC 6695(a)-(e) assessments. The descriptions below pertain to PRN 624 assessments prior to Jan. 2014.</p>

PRN	Statute	Penalty Description
		<p>Any failure by the preparer to:</p> <ul style="list-style-type: none"> <li>A. Furnish a copy of the return to the taxpayer-IRC 6695(a)</li> <li>B. Sign the return-IRC 6695(b)</li> <li>C. Furnish the preparer's identifying number-IRC 6695(c)</li> <li>D. Retain a copy, return or list, as required by IRC 6107(b)-IRC 6695(d)</li> <li>E. File a correct information return or other requirement of IRC 6060-IRC 6695(e)</li> </ul> <p>These penalties are assessed at \$50 per failure, not to exceed:</p> <ul style="list-style-type: none"> <li>• \$25,000 per <b>calendar year</b> for IRC 6695(a), IRC 6695(b), and IRC 6695(c)</li> <li>• \$25,000 per <b>return period</b> for IRC 6695(d) and IRC 6695(e)</li> </ul>
625*	IRC 6038A	<p><b>Information With Respect to Certain Foreign Owned Corporations</b>            Failure to furnish information or maintain records as required by IRC 6038A(a) and IRC 6038A(b). Form 5472, <i>Information Return of a Foreign Owned Corporation</i>.            See IRM 20.1.9.5.</p> <ul style="list-style-type: none"> <li>• Initial penalty is \$10,000 for each taxable year with respect to which the failure occurs.</li> <li>• If the failure continues for more than 90 days after notice of failure mailed, an additional \$10,000 is imposed for each 30-day period during which the failure continues after the expiration of the original 90 day period (<b>assess with PRN 701</b>).</li> </ul>
626*	IRC 6695(f)	<p><b>Negotiation of Check by Tax Return Preparer</b>            See IRM 20.1.6.5.6.</p> <ul style="list-style-type: none"> <li>• Endorses or otherwise negotiates a refund check (with respect to income tax) issued to a taxpayer.</li> <li>• \$500 per failure.</li> </ul>
627*	IRC 6695(g)	<p><b>Failure by Preparer to Be Diligent in Determining Eligibility for EIC</b>            See IRM 20.1.6.5.7.            For any tax returns or claims for refund that fails to satisfy the IRC 6695(g) requirements, the penalty is:</p> <ul style="list-style-type: none"> <li>• \$100 for tax returns and claims for refund for tax years ending before Dec. 31, 2011, or</li> <li>• \$500 for tax returns and claims for refund for tax years ending on or after Dec. 31, 2011</li> </ul> <p>There is no maximum amount.</p>
628*	IRC 6700	<p><b>Promoting Abusive Tax Shelters</b>            See IRM 20.1.6.13.</p> <ul style="list-style-type: none"> <li>• The penalty is the lesser of \$1,000 or 100% of gross income derived (or to be derived) from such activity between 1/1/1990 and 10/22/2004.</li> <li>• For such activities after 10/22/2004, the penalty is the lesser of \$1,000 or 100% of gross income derived (or to be derived). In the case of a statement described in IRC 6700(a)(2)(A), the penalty is 50% of gross income derived (or to be derived).</li> </ul>
629*	IRC 6652(c)(3)(B)(ii)	<p><b>Failure by Entity or Manager to Comply With Written Demand to File a Disclosure Required Under IRC 6033(a)(2).</b></p>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>• \$100 for each day the failure continues after the date specified in the demand.</li> <li>• Maximum penalty is \$10,000 with respect to any 1 disclosure.</li> </ul>
630*	IRC 6720	<p><b>Donee's Failure to Issue Acknowledgement on Used Vehicle Donation as Required by IRC 170(f)(12).</b></p> <p>Multiple calculations. See IRC 6720(1) and IRC 6720(2) for calculations.</p>
631*	IRC 6701	<p><b>Penalties for Aiding and Abetting Understatement of Tax Liability.</b>  <b>Aiding and abetting-Preparer</b>  See IRM 20.1.6.14  The penalty is assessed for each document that relates to the tax liability of:</p> <ul style="list-style-type: none"> <li>• Individual-at \$1,000, or</li> <li>• Corporate-at \$10,000</li> </ul>
632*	IRC 6705	<p><b>Failure by a Broker to Provide Notice to Payors</b>  See IRM 20.1.10.11.</p> <p>\$500 for each failure.</p>
633*	IRC 6713	<p><b>Disclosure or Use of Information by Preparers of Returns</b></p> <ul style="list-style-type: none"> <li>• \$250 per disclosure or use</li> <li>• Maximum of \$10,000 per calendar year</li> </ul>
634*	IRC 6707	<p><b>Failure to Furnish Information Regarding Reportable Transactions Required by IRC 6111(a)</b>  See IRM 20.1.6.16.  See IRC 6707A(c) for definitions of reportable and listed transactions.</p> <p>A. For <b>reportable transactions</b>, the penalty for returns due after 10/22/2004 is \$50,000 per failure.</p> <p>B. For <b>listed transactions</b>, the penalty for returns due after 10/22/2004 is the greater of:</p> <ul style="list-style-type: none"> <li>• \$200,000, or</li> <li>• 50% of the gross income derived relating to the listed transaction. In the case of an intentional failure or act, 75% of the gross income derived</li> </ul>
635	IRC 6651(f)	<p><b>Fraudulent Failure to File</b></p> <p><b>Caution:</b></p> <p>Effective July 2, 2013, PRN 635 is no longer used for IRC 6651(f) assessments. Use PRN 686.</p> <p>See IRM 20.1.2.2.7.5 for additional information.</p>
636*	IRC 6708	<p><b>Failure to Maintain Lists of Investors/Advisees in Potentially Abusive Tax Shelters Required by IRC 6112(a)</b>  See IRM 20.1.6.18.</p> <ul style="list-style-type: none"> <li>• \$10,000 per day, from the 21st day after the list is requested, until a complete list is provided to IRS.</li> <li>• No maximum penalty amount.</li> </ul>
637*	IRC 6721(a) or IRC 6722(a)	<p><b>Failures for Returns Relating to Higher Education Tuition and Related Expenses as Required by IRC 6050S (Form 1098-E, Student Loan Interest Statement).</b></p>



PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per failure to file return-<b>IRC 6721(a)(1)</b>. Maximum \$250,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million).</li> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per failure to furnish correct payee statement-<b>IRC 6722(a)</b>. Maximum \$100,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million).</li> </ul>
638*	IRC 6721	<p><b>Failures Related to Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, as Required by IRC 6053.</b></p> <ul style="list-style-type: none"> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per failure. Maximum \$250,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million).</li> <li>• In the case of intentional disregard (IRC 6721(e)), the penalty is the greater of \$100 (\$250 for returns required to be filed after Dec. 31, 2010) per failure, or 10% of the aggregate amount of items required to be reported.</li> </ul>
639*	IRC 6704(b)	<p><b>Failure to Keep Records Necessary to Meet Reporting Requirements Under IRC 6047(d).</b></p> <ul style="list-style-type: none"> <li>• \$50 per calendar year, multiplied by the number of failures.</li> <li>• Maximum penalty for any person for any calendar year is \$50,000.</li> </ul>
642	IRC 6722(e)	<p><b>Failure to Furnish Payee Statements-Intentional Disregard</b> See IRM 20.1.7.4.1. For returns required to be filed after Dec. 31, 2010, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$250, or</li> <li>• 10% of the amount of income required to be reported on payee statements for dividends, patronage dividends, interest, fishing boat operators, royalties, and wage and tax statements, or</li> <li>• 5% of the amount required to be reported on the payee statements for brokers, exchange of partnership interest, or disposition of donated property payments</li> </ul> <p>There is no maximum penalty amount.</p>
643*	IRC 6673(a)	<p><b>Sanctions and Costs Awarded by Courts</b> See IRM 20.1.10.6.1.</p> <ul style="list-style-type: none"> <li>• Tax Court determined that the proceedings before it have been instituted by the taxpayer primarily for delay, etc.</li> <li>• Court awarded sanctions, penalties, or costs not to exceed \$25,000</li> </ul>
644*	IRC 6673(b)	<p><b>Sanctions and Costs Awarded by Courts (IRC 7433)</b> See IRM 20.1.10.6.2.</p> <ul style="list-style-type: none"> <li>• A Court (other than the Tax Court) determination that the taxpayer filed frivolous suit against the United States.</li> <li>• Court awarded sanctions, penalties, or costs not to exceed \$10,000</li> </ul>
645*	IRC 6694(a)	<p><b>Understatement of Taxpayer's Liability by Tax Return Preparer</b> See IRM 20.1.6.4. The penalty is assessed against a tax return preparer. The penalty is based on an understatement of liability due to an</p>

PRN	Statute	Penalty Description
		<p><b>unreasonable position</b> that the tax return preparer knew (or should have known) was unreasonable. No maximum penalty amount.</p> <p>A. For income tax returns or claims prepared on or prior to May 25, 2007, the penalty is \$250 per return or claim.</p> <p>B. For tax returns or claims prepared after May 25, 2007, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$1,000, or</li> <li>• 50% of the income derived, or to be derived, per return or claim</li> </ul>
647*	IRC 6710	<p><b>Failure to Disclose That Contributions Are Nondeductible as Required by IRC 6113</b></p> <ul style="list-style-type: none"> <li>• \$1,000 for each day the failure occurs. Maximum penalty is \$10,000 per calendar year.</li> <li>• If the failure is due to intentional disregard, the penalty for each day the failure occurs is the greater of \$1,000 or 50% of the aggregate cost of the solicitations. The \$10,000 limitation does not apply if the failure is due to intentional disregard.</li> </ul>
648*	IRC 6707A	<p><b>Failure to Include Reportable Transaction Information With Return (Form 8886, <i>Reportable Transaction Disclosure Statement</i>)</b> See IRM 20.1.6.17.</p> <p>For each failure to include information with respect to a reportable transaction, the penalty is 75 percent of the decrease in tax shown on the return as a result of the reportable transaction with the following maximum and minimum penalty amounts:</p> <p>A. For <b>listed transactions</b> (see IRC 6707A(c)(2)), the maximum penalty is:</p> <ul style="list-style-type: none"> <li>• \$100,000 in the case of a natural person, or</li> <li>• \$200,000 for all other taxpayers.</li> </ul> <p>B. For <b>any other reportable transaction</b> (see IRC 6707A(c)(1)), the maximum penalty is:</p> <ul style="list-style-type: none"> <li>• \$10,000 in the case of a natural person, or</li> <li>• \$50,000 for all other taxpayers</li> </ul> <p>C. The minimum penalty for both listed and any other reportable transaction is:</p> <ul style="list-style-type: none"> <li>• \$5,000 in the case of a natural person, or</li> <li>• \$10,000 for all other taxpayers</li> </ul>
649*	IRC 6652(l)	<p><b>Failure by Corporation to File Returns Required by IRC 6043(c) (Form 8806, <i>Information Return for Acquisition of Control or Substantial Change in Capital Structure</i>)</b> See IRM 20.1.10.3.5.</p> <ul style="list-style-type: none"> <li>• \$500 per day per failure</li> <li>• Maximum \$100,000</li> </ul>
650*	IRC 6694(b)	<p><b>Willful or Reckless Understatement of Taxpayer's Liability by Tax Return Preparer.</b> See IRM 20.1.6.4.</p> <p>The penalty is assessed if any part of the understatement is due to willful or reckless conduct or intentional disregard of the rules or regulations in preparing the return or claim for refund. The penalty is reduced by any amount of penalty paid under IRC 6694(a). No maximum penalty amount.</p> <p>A. For income tax returns or claims prepared on or before May 25, 2007, the penalty is \$1,000 per return or claim.</p>

PRN	Statute	Penalty Description
		<p>B. For tax returns or claims prepared after May 25, 2007, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$5,000, or</li> <li>• 50% of the income derived, or to be derived, per return or claim</li> </ul>
651*	IRC 6721(a)	<p><b>Failure to Comply With Certain Information Reporting Requirements-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.</b> The penalty is assessed for each Form 8300 not timely and/or correctly filed as required by IRC 6050I.</p> <ul style="list-style-type: none"> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per failure</li> <li>• Maximum \$250,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million) per year</li> </ul>
652*	IRC 6721(e)(2)(C)	<p><b>Intentional Disregard of the Failure to Comply With Certain Information Reporting Requirements-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.</b></p> <p><b>Note:</b> This reference number is used to assess the intentional disregard penalty when Form 8300 is not timely and/or correctly filed.</p> <p>The penalty is assessed at the greater of:</p> <ul style="list-style-type: none"> <li>• \$25,000, or</li> <li>• The amount of cash received in such transaction, to the extent the cash does not exceed \$100,000.</li> </ul> <p><b>The \$250,000 (\$1.5 million/\$500,000 for returns due after Dec. 31, 2010) yearly limitation under IRC 6721 shall not apply.</b></p>
653*	IRC 6722(a)	<p><b>Failure to Furnish Correct Statements Required by IRC 6050I(e)-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.</b></p> <ul style="list-style-type: none"> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per statement not timely furnished or containing incorrect or incomplete information.</li> <li>• The maximum penalty shall not exceed \$100,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million) per year.</li> </ul>
654*	IRC 6722(e)	<p><b>Intentional Disregard of the Requirement to Furnish a Correct Payee Statement Required by IRC 6050I(e)-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.</b></p> <p>A. The intentional disregard penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$100 (\$250 for returns required to be filed after Dec. 31, 2010), or</li> <li>• 10 percent of the amount required to be reported correctly on the statement</li> </ul> <p>B. The \$100,000 (\$1.5 million/\$500,000 for returns required to be filed after Dec. 31, 2010) yearly limitation does not apply.</p>
655*	IRC 6717(a)	<p><b>Penalty for Refusal to Permit Entry or Examination Allowed by IRC 4083(d)(1)</b> See IRM 20.1.11.7.2.</p> <ul style="list-style-type: none"> <li>• A penalty of \$1,000 for each refusal to admit entry or to permit examination.</li> </ul>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>• A penalty of \$1,000 for each refusal to admit entry or to permit examination if the refusal is related to any place where taxable fuel is stored or produced.</li> </ul>
656*	IRC 6715	<p><b>Dyed Fuel Sold for Use or Used in Taxable Use, Etc.</b> See IRM 20.1.11.5. Generally, the penalty is assessed on any dyed fuel (nontaxable use) that is sold, used, or held for sale or use, for a taxable use.</p> <p>A. 1st offense, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$1,000, or</li> <li>• \$10 for each gallon of dyed fuel involved</li> </ul> <p>B. Subsequent violations, the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$1,000 multiplied by the number of prior violations, or</li> <li>• \$10 for each gallon of dyed fuel involved</li> </ul>
657*	IRC 6718	<p><b>Failure to Display Tax Registration on Vessels</b> See IRM 20.1.11.7.4. The penalty is assessed on any vessel required to display proof of registration as required by IRC 4101(a)(3) and fails to do so. The penalty is:</p> <ul style="list-style-type: none"> <li>• \$500 per vessel for the initial one month failure to display.</li> <li>• For multiple monthly violations: \$500, plus the amount derived by multiplying \$500 times the number of monthly penalties previously imposed.</li> </ul>
658*	IRC 6652(c)(2)(A)	<p><b>Failure to File Information Return Required by IRC 6034 (relating to returns by certain trusts) or IRC 6043(b) (relating to terminations, etc., of exempt organizations)</b></p> <ul style="list-style-type: none"> <li>• \$10 per day per return</li> <li>• Maximum penalty is \$5,000 per return</li> </ul>
659*	IRC 6677	<p><b>Failure to File Information With Respect to Certain Foreign Trusts as Required by IRC 6048-Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts</b> See IRM 20.1.9.13.</p> <p>A. Initial penalty is 35% of gross reportable amount.</p> <p><b>Note:</b> For notices and returns due after 12/31/2009, the initial penalty is the greater of 35% of the gross reportable amount, or \$10,000.</p> <p>B. If failure continues for more than 90 days after notice, \$10,000 for each 30-day period (or fraction thereof) the failure continues after the expiration of the 90-day period ( <b>assess with PRN 702.</b></p> <p>C. Total penalty cannot exceed gross reportable amount.</p>
660*	IRC 6677(b)	<p><b>Form 3520-A Annual Return of Foreign Trust With a U.S. Owner-IRC 6048(b)</b> See IRM 20.1.9.14.</p> <p>A. Initial penalty is 5% of gross reportable amount.</p> <p><b>Note:</b> For notices and returns due after 12/31/2009, the initial penalty is the greater of 5% of the gross reportable amount, or \$10,000.</p>

PRN	Statute	Penalty Description
		<p>B. If failure continues for more than 90 days after notice, \$10,000 for each 30-day period (or fraction thereof) the failure continues after the expiration of the 90-day period ( <b>assess with PRN 703</b>).</p> <p>C. Total penalty cannot exceed gross reportable amount.</p>
661*	IRC 6675	<p><b>Excessive Claims With Respect to the Use of Certain Fuels-Per IRC 6416(a)(4), IRC 6420, IRC 6421, or IRC 6427</b> See IRM 20.1.11.4. The penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• Two times the excessive amount, or</li> <li>• \$10</li> </ul>
662* (BMF)	IRC 527(j)(1)	<p><b>Failure to Make Required Disclosure of Expenditures and Contributions (Form 8872, Political Organization Report of Contributions and Expenditures).</b></p> <ul style="list-style-type: none"> <li>• 35% of amount relating to failure.</li> <li>• Also see IRC 6652(c).</li> </ul>
663* (BMF)	IRC 6652(c)(1)(A)	<p><b>Failures Related to Annual Returns Required by IRC 6033(a)(1) (Exempt Organizations) and IRC 6012(a)(6) (Political Organizations)</b></p> <p>A. For organizations with gross receipts of \$1,000,000 or less, the penalty is:</p> <ul style="list-style-type: none"> <li>• \$20 per day during which such failure continues</li> <li>• Maximum penalty is the lesser of \$10,000 or 5% of the gross receipts</li> </ul> <p>B. For organizations with gross receipts of more than \$1,000,000, the penalty is:</p> <ul style="list-style-type: none"> <li>• \$100 per day during which such failure continues</li> <li>• Maximum penalty is \$50,000</li> </ul>
664*	IRC 6712	<p><b>Failure to Disclose Treaty-Based Return Position as Required by IRC 6114</b> See IRM 20.1.9.20.</p> <ul style="list-style-type: none"> <li>• \$10,000 per failure for C corporations</li> <li>• \$1,000 per failure for all other taxpayers</li> </ul>
665*	IRC 6715A	<p><b>Tampering With, or Failing to Maintain Security Requirements, for Mechanical Dye Injection Systems</b> See IRM 20.1.11.6.</p> <p>A. For IRC 6715A(a)(1) (Tampering), the penalty is the greater of:</p> <ul style="list-style-type: none"> <li>• \$25,000, or</li> <li>• \$10 for each gallon of fuel involved</li> </ul> <p>B. For IRC 6715A(a)(2) (Failure to Maintain Security Requirements), the penalty is:</p> <ul style="list-style-type: none"> <li>• \$1,000 per failure, and</li> <li>• \$1,000 per day for failing to correct the violation for each day after which such violation was discovered or such person should have reasonably known of such violation</li> </ul>
666*	IRC 6702(a)	<p><b>Frivolous Return</b> <b>Caution:</b></p>

PRN	Statute	Penalty Description
		<p>Only PRN 666 assesses IRC 6702(a) after 1/24/2005</p> <p>See IRM 20.1.10.10.1. The penalty is assessed per frivolous document. On a Married Filing Joint frivolous return, the penalty is assessed on each spouse. The penalty is:</p> <ul style="list-style-type: none"> <li>• \$500 per document for filings and submissions prior to Mar. 17, 2007.</li> <li>• \$5,000 per document for filings and submissions after Mar. 16, 2007.</li> </ul>
667*	IRC 6725	<p><b>Failure to Report Information Under IRC 4101 (failure to report a vessel/facility)</b> See IRM 20.1.11.7.7. \$10,000 per failure.</p>
668*	IRC 6039F(c)	<p><b>Failure to File Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, to Report Receipt of Foreign Gifts</b> See IRM 20.1.9.10.</p> <ul style="list-style-type: none"> <li>• 5% of the amount of the foreign gift for each month the failure continues</li> <li>• Maximum penalty cannot exceed 25% of the amount of the gift</li> </ul>
669* (IMF)	IRC 6688	<p><b>Failure to File Form 8898, Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession, Regarding Residence in a US Possession as Required by IRC 937(c)</b> See IRM 20.1.9.18. \$1,000 per failure.</p>
670*	IRC 6719	<p><b>Failure to Register or Reregister as Required by IRC 4101</b> See IRM 20.1.11.7.5.</p> <ul style="list-style-type: none"> <li>• \$10,000 for each initial failure, and</li> <li>• \$1,000 for each day thereafter the failure continues</li> </ul>
671* (IMF)	IRC 6039G	<p><b>Failure to File Form 8854, Initial and Annual Expatriation Information Statement, Regarding Expatriate/Residency Report</b> See IRM 20.1.9.11. \$10,000 per failure.</p>
672*	IRC 6721	<p><b>Failures in Regard to Information Returns Relating to Taxable Mergers and Acquisitions as Required by IRC 6043A</b></p> <ul style="list-style-type: none"> <li>• \$50 (\$100 for returns required to be filed after Dec. 31, 2010) per failure. Maximum \$250,000 (for returns required to be filed after Dec. 31, 2010, \$1.5 million for persons with gross annual receipts &gt; \$5 million, or \$500,000 for persons with gross annual receipts ≤ \$5 million).</li> <li>• In the case of intentional disregard, \$100 (\$250 for returns required to be filed after Dec. 31, 2010) per failure.</li> </ul>
673*	IRC 6720A	<p><b>Resale of Certain Adulterated Diesel Fuels</b> See IRM 20.1.11.7.6. \$10,000 for each transfer, sale, or holding out for resale.</p>
674*	IRC 6723	<p><b>Failure to Provide Notice of Partnership Exchange as Required by IRC 6050K</b></p> <ul style="list-style-type: none"> <li>• A penalty of \$50 is imposed for each failure to comply timely with specified information reporting requirements.</li> </ul>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>The maximum penalty for failure to comply with all specified information reporting requirements is \$100,000 per year.</li> </ul>
676*	IRC 6038B	<p><b>Notice of Certain Transfers to Foreign Persons (Failure to File Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation)</b> (Failure to File Form 8865, Schedule O, <i>Transfer of Property to a Foreign Partnership</i>) See IRM 20.1.9.7.</p> <ul style="list-style-type: none"> <li>10% of the fair market value of the property transferred at the time of exchange.</li> <li>Maximum \$100,000.</li> <li><b>No maximum if failure is due to intentional disregard.</b></li> </ul>
678*	IRC 6706(a)	<p><b>Failure to Show Information on Debt Instrument Required by IRC 1275(c)(1) (reported on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments)</b> See IRM 20.1.10.12.1.</p> <p>\$50 for each instrument to which a failure exists.</p>
678*	IRC 6706(b)	<p><b>Failure to Furnish Information to Secretary Required by IRC 1275(c)(2) (reported on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments)</b> See IRM 20.1.10.12.3.</p> <ul style="list-style-type: none"> <li>1% of the aggregate issue price of debt instrument amount.</li> <li>Maximum \$50,000.</li> </ul>
679* (IMF)	IRC 6039E	<p><b>Failure by Passport and Immigration Applicants to Provide Information Concerning Residence Status</b> See IRM 20.1.9.21.</p> <p>\$500 for each failure to provide the required information.</p>
680	IRC 6662	<p><b>Accuracy-Related Penalties</b></p> <ul style="list-style-type: none"> <li>For IRC 6662(c) through IRC 6662(g), the penalty is 20% of the underpayment</li> <li>For IRC 6662(h) (Gross Valuation Misstatements), the penalty is 40% of the underpayment</li> </ul>
681	IRC 6662A	<p><b>Accuracy-Related Penalty on Understatements With Respect to Reportable Transactions</b></p> <ul style="list-style-type: none"> <li>20% of reportable transaction understatement.</li> <li>30% for nondisclosed listed or other avoidance transactions.</li> </ul>
683	IRC 6662(j)	<p><b>Undisclosed Foreign Financial Asset Understatement</b> See IRM 20.1.5.13.</p> <ul style="list-style-type: none"> <li>40% if any portion of an underpayment is attributable to any undisclosed foreign financial asset</li> </ul>
684	IRC 7519(f)(4)	<p><b>Required Payments for Entities Electing Not to Have Required Taxable Year (IRC 444 Elections)</b> See IRM 20.1.10.17.</p> <ul style="list-style-type: none"> <li>The penalty is assessed for failing to make a timely election payment</li> <li>The penalty is assessed at 10 percent of the underpaid amount and is assessed on MFT 15 with TC 246</li> </ul>
686	IRC 6651(f)	<p><b>Fraudulent Failure to File</b> See IRM 20.1.2.2.7.5 and IRM 25.1.7.</p> <ul style="list-style-type: none"> <li>15 percent of unpaid tax for each month the return is late, not to exceed 75 percent (5 months).</li> </ul>

PRN	Statute	Penalty Description
		<ul style="list-style-type: none"> <li>For any month where the FTP penalty also applies, the FFTF penalty is reduced by the amount of the FTP penalty for that month.</li> </ul>
687	IRC 6676	<p><b>Penalty for Erroneous Claim for Refund or Credit</b></p> <p><b>Caution:</b></p> <p>PRN 687 is used for Married Filing Joint assessments only. All others use PRN 565</p> <p>See IRM 20.1.5.16.3.</p> <ul style="list-style-type: none"> <li>20% of the excessive amount of the claim.</li> <li>Assessed with Form 3870, <i>Request for Adjustment</i>. Refer to Servicewide Penalties' Home Page for additional information.</li> </ul>

**Note:**

688 identifies failure by a large partnership (more than 100 partners) to file electronically. The penalty is assessed systemically with Transaction Code (TC) 246. See IRM 21.7.4.4.2.8.1, *Large Partnership Penalty for Failing to File Electronically*, for additional information.

**Note:**

689 is **NOT** a Penalty Reference Number. It is used by TEGE for sanction assessments pertaining to closing agreements. See IRM 4.5.2.3.1.29 (19), *Credit and Tax Computation Adjustment (Item 15)*, for additional information.

**Exhibit 20.1.1-6**

**Penalty Reference Numbers (700 Series)**

Penalty reference numbers marked with an asterisk "\*" identify penalties assessed with Form 8278.

**Caution:**

**Refer to and use the most current revision of Form 8278.**

PRN	Statute	Description
700*	IRC 6038D(d)(1)	<p><b>Information With Respect to Foreign Financial Assets</b></p> <p>See IRM 20.1.9.22.</p> <ul style="list-style-type: none"> <li>Initial penalty is \$10,000 for each taxable year.</li> <li>If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues ( <b>assess with PRN 710</b>).</li> </ul>
701*	IRC 6038A(d)(2)	<p><b>Information With Respect to Certain Foreign-Owned Corporations-Increase in Penalty Where the Failure Continues After Notification</b></p> <p>See IRM 20.1.9.5.4.</p> <ul style="list-style-type: none"> <li>If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> <li>No Maximum Penalty</li> <li>Initial penalty assessed with PRN 625</li> </ul>
702*	IRC 6677	<p><b>Failure to File Information With Respect to Certain Foreign-Trusts-Form 3520-Increase in Penalty Where the Failure Continues After Notification</b></p> <p>See IRM 20.1.9.13.4.</p> <ul style="list-style-type: none"> <li>If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> </ul>



PRN	Statute	Description
		<ul style="list-style-type: none"> <li>• Maximum penalty cannot exceed gross reportable amount</li> <li>• Initial penalty assessed with PRN 659</li> </ul>
703*	IRC 6677	<p><b>Failure to File Information With Respect to Certain Foreign-Trusts Form 3520-A-Increase in Penalty Where the Failure Continues After Notification</b> See IRM 20.1.9.14.4.</p> <ul style="list-style-type: none"> <li>• If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> <li>• Maximum penalty cannot exceed gross reportable amount</li> <li>• Initial penalty assessed with PRN 660</li> </ul>
704*	IRC 6679(a)(2)	<p><b>Failure to File Returns, Etc., With Respect to Foreign Corporations or Foreign Partnerships- Increase in Penalty Where the Failure Continues After Notification</b> See IRM 20.1.9.15.4.</p> <ul style="list-style-type: none"> <li>• If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> <li>• Maximum penalty is \$50,000</li> <li>• Initial penalty assessed with PRN 613</li> </ul>
705*	IRC 6038C	<p><b>Information with Respect to Foreign Corporations Engaged in U.S. Business-Increase in Penalty Where the Failure Continues After Notification</b> See IRM 20.1.9.8.4.</p> <ul style="list-style-type: none"> <li>• If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> <li>• No Maximum Penalty</li> <li>• Initial penalty assessed with PRN 603</li> </ul>
710*	IRC 6038D(d)(2)	<p><b>Information With Respect to Foreign Financial Assets-Increase in Penalty Where the Failure Continues After Notification</b> See IRM 20.1.9.22.4.</p> <ul style="list-style-type: none"> <li>• If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues.</li> <li>• Maximum penalty is \$50,000.</li> <li>• Initial penalty assessed with PRN 700</li> </ul>
714*	IRC 6695(a)	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Furnish Copy to Taxpayer</b> See IRM 20.1.6.5.1.</p> <ul style="list-style-type: none"> <li>• \$50 per failure</li> <li>• Maximum \$25,000 per preparer per calendar year</li> </ul> <p><b>Note:</b> Assessed with PRN 624 prior to Jan. 2014</p>

PRN	Statute	Description
715*	IRC 6695(b)	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Sign Return</b> See IRM 20.1.6.5.2.</p> <ul style="list-style-type: none"> <li>• \$50 per failure</li> <li>• Maximum \$25,000 per preparer per calendar year</li> </ul> <p><b>Note:</b> Assessed with PRN 624 prior to Jan. 2014</p>
716*	IRC 6695(c)	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Furnish Identifying Number of Tax Return Preparer</b> See IRM 20.1.6.5.3.</p> <ul style="list-style-type: none"> <li>• \$50 per failure</li> <li>• Maximum \$25,000 per preparer per calendar year</li> </ul> <p><b>Note:</b> Assessed with PRN 624 prior to Jan. 2014</p>
717*	IRC 6695(d)	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Retain Copy of List</b> See IRM 20.1.6.5.4.</p> <ul style="list-style-type: none"> <li>• \$50 per failure</li> <li>• Maximum \$25,000 per return period</li> </ul> <p><b>Note:</b> Assessed with PRN 624 prior to Jan. 2014</p>
718*	IRC 6695(e)	<p><b>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Satisfy Reporting Requirements for Tax Return Preparers</b> See IRM 20.1.6.5.5.</p> <ul style="list-style-type: none"> <li>• \$50 for each failure to file a return as required by IRC 6060, and</li> <li>• \$50 for each failure to include a required item in the return</li> <li>• Maximum \$25,000 per return period</li> </ul> <p><b>Note:</b> Assessed with PRN 624 prior to Jan. 2014</p>
780	IRC 6662(b)(6)	<p><b>Accuracy Related Penalty-Noneconomic Substance Transaction</b> See IRM 20.1.5.12.</p> <ul style="list-style-type: none"> <li>• 20% of underpayment attributable to transaction lacking economic substance</li> </ul>

PRN	Statute	Description
781	IRC 6662(i)	<p><b>Increase in Penalty in Case of Nondisclosed Noneconomic Substance Transaction</b>            See IRM 20.1.5.12.1.</p> <ul style="list-style-type: none"> <li>40% of underpayment attributable to nondisclosed transaction lacking economic substance</li> </ul>

PRN 711 identifies a systemically-assessed penalty under IRC 6038A for a late filed Form 5472, *Information Return of a Foreign Owned Corporation*. Manual assessment of a penalty under IRC 6038A is made with PRN 625. See IRM 21.8.2.20.2 for additional information.

**Exhibit 20.1.1-7**

**Table of Abbreviations and Acronyms**

**ABBREVIATIONS DEFINITION**

<b>23C</b>	Assessment Date
<b>ACDS</b>	Appeals Centralized Database System
<b>ACH</b>	Automated Clearing House
<b>ACR</b>	Audit Change Report
<b>ADEPT</b>	Automated Deposit of Electronic Payments for Taxes
<b>ADP</b>	Automatic Data Processing
<b>AGI</b>	Adjusted Gross Income
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>AIMS</b>	Audit Information Management System
<b>AMS</b>	Account Management Services (formerly DI—Desktop Integration)
<b>AO</b>	Appeals Officer
<b>AOC</b>	Advice of Credit
<b>ASED</b>	Assessment Statute Expiration Date
<b>ASFR</b>	Automated Substitute for Return
<b>ATF</b>	Bureau of Alcohol, Tobacco, Firearms and Explosives (Dept. of Justice) (also see TTB)
<b>BFS</b>	Bureau of the Fiscal Service (formerly Financial Management Services (FMS))
<b>BMF</b>	Business Master File
<b>BWH</b>	Backup Withholding
<b>CPS</b>	Case Processing Support
<b>CAF</b>	Centralized Authorization File
<b>CADE</b>	Customer Account Data Engine
<b>CARE</b>	Customer Assistance, Relationships and Education
<b>CAWR</b>	Combined Annual Wage Reporting
<b>CBAF</b>	Commercial Bank Address File
<b>CC</b>	Command Code

## **ABBREVIATIONS DEFINITION**

<b>CCD</b>	Chief Compliance Division
<b>CFR</b>	Code of Federal Regulations
<b>CI</b>	Criminal Investigation
<b>CIS</b>	Correspondence Imaging System
<b>CP</b>	Computer Paragraph
<b>CPA</b>	Certified Public Accountant
<b>CPM</b>	Civil Penalty Module
<b>CRS</b>	Communication Replacement System
<b>CSED</b>	Collection Statute Expiration Date
<b>CY</b>	Calendar Year
<b>CVPN</b>	Civil Penalty Name Line
<b>ECC-DET</b>	Enterprise Computing Center—Detroit
<b>ECC-MEM</b>	Enterprise Computing Center—Memphis
<b>ECC-MTB</b>	Enterprise Computing Center—Martinsburg
<b>EFT</b>	Electronic Funds Transfer
<b>EFTPS</b>	Electronic Federal Tax Payment System
<b>DLN</b>	Document Locator Number
<b>DP</b>	Data Processing
<b>EFC</b>	Electronic Filing Coordinators
<b>EFP</b>	Electronic Filing Program
<b>EIN</b>	Employer Identification Number
<b>EMIS</b>	Enforcement Management Information System
<b>EPMF</b>	Employee Plans Master File
<b>EQTRAS</b>	Examination Quality Trends Analysis System
<b>ERTA</b>	Economic Recovery Tax Act of 1981
<b>ES</b>	Estimated Tax
<b>ETA</b>	Electronic Tax Administration
<b>ETE</b>	Employment Tax Examiner
<b>FFA</b>	Fiduciary FTD Avoidance
<b>FICA</b>	Federal Insurance Contributions Act
<b>FIFO</b>	First-In-First-Out Inventory Method
<b>FIT</b>	Federal Income Tax

## **ABBREVIATIONS DEFINITION**

<b>FFTF</b>	Fraudulent Failure to File
<b>FRB</b>	Federal Reserve Bank
<b>FRCS</b>	Federal Reserve Communication System
<b>FTD</b>	Failure to Deposit (also, Federal Tax Deposit)
<b>FTD POC</b>	Federal Tax Deposit Point of Contact (previously referred to as FTD Interagency Coordinator)
<b>FTF</b>	Failure to File
<b>FTP</b>	Failure to Pay
<b>FUTA</b>	Federal Unemployment Tax Act
<b>FY</b>	Fiscal Year
<b>GBP</b>	Good Block Proof
<b>IAC</b>	Interest Abatement Coordinator
<b>IDRS</b>	Integrated Data Retrieval System
<b>IDTCA</b>	Interest and Dividend Tax Compliance Act of 1983
<b>IEP</b>	International Enforcement Program
<b>IMF</b>	Individual Master File
<b>IMPACT</b>	Improved Penalty Administration and Compliance Tax Act of 1989
<b>IRA</b>	Individual Retirement Account
<b>IRAF</b>	Individual Retirement Account File
<b>IRC</b>	Internal Revenue Code
<b>IRM</b>	Internal Revenue Manual
<b>IR Regs</b>	Internal Revenue Regulations
<b>IRS</b>	Internal Revenue Service
<b>IRS NO.</b>	Abstract Number
<b>LIFO</b>	Last-In-First-Out Inventory Method
<b>LMQAS</b>	Line Management Quality Assurance System
<b>MARS</b>	Manual Accounting Replacement System
<b>MCR</b>	Master Control Records
<b>MF</b>	Master File
<b>MFT</b>	Master File Tax
<b>MICRORAR</b>	Revenue Agent Report-Computer Generated
<b>MSN</b>	Microfilm Serial Number
<b>NASACT</b>	National Association of State Auditors, Comptrollers, and Treasurers

**ABBREVIATIONS DEFINITION**

<b>NMF</b>	Non-Master File
<b>OBRA</b>	Omnibus Budget Reconciliation Act
<b>OCR</b>	Optical Character Recognition
<b>ODC</b>	Ozone Depleting Chemicals
<b>OPI</b>	Office of Penalties and Interest In Nov. 2006, OPI was split into the Office of Servicewide Penalties and the Office of Servicewide Interest
<b>OSP</b>	Office of Servicewide Penalties
<b>PAS</b>	Program Analysis System
<b>PCC</b>	Penalty Computation Code
<b>PFN</b>	Partnership Prefiling Notification
<b>PIC</b>	Penalty Indicator Code
<b>PIL</b>	Preparer's Inventory Listing
<b>PINEX</b>	Penalty and Interest Notice Explanations
<b>PMF</b>	Payer Master File
<b>PNL</b>	Prefiling Notification Letter
<b>PNP</b>	Presumptive Negligence Penalty
<b>POA</b>	Power of Attorney
<b>PRC</b>	Penalty Reason Code
<b>PRN</b>	Penalty Reference Number
<b>PSC</b>	Penalty Screening Committee
<b>PVL</b>	Preparer's Volume Listing
<b>QAS</b>	Quality Assurance Staff
<b>QR</b>	Quality Review
<b>RAR</b>	Revenue Agent Report
<b>RC</b>	Reason Code
<b>RCA</b>	Reasonable Cause Assistant
<b>RDD</b>	Return Due Date
<b>RFC</b>	Regulated Futures Contract
<b>REMIC</b>	Real Estate Mortgage Investment Conduit
<b>ROFT/ROFTL</b>	Record of Federal Tax/Record of Federal Tax Liability (deposit liability schedule)
<b>RONT</b>	Record of Net Tax Liability—Form 720, <i>Quarterly Federal Excise Tax Return</i>
<b>RRTA</b>	Railroad Retirement Tax Act

**ABBREVIATIONS DEFINITION**

<b>RSED</b>	Refund Statute Expiration Date
<b>RURT</b>	Railroad Unemployment Repayment Tax
<b>SCCF</b>	Service Center Control File
<b>SIC</b>	Schedule Indicator Code
<b>SFR</b>	Substitute for Return
<b>SRTP</b>	Statement on Responsibilities in Tax Practice
<b>SSA</b>	Social Security Administration
<b>SSN</b>	Social Security Number
<b>STAUP</b>	Command code which stops collection activity
<b>TAMRA</b>	Technical and Miscellaneous Revenue Act of 1988
<b>TAO</b>	Taxpayer Assistance Order
<b>TC</b>	Transaction Code
<b>TDA</b>	Taxpayer Delinquent Account
<b>TDD</b>	Telecommunications Device for the Deaf
<b>TECS</b>	Treasury Enforcement Communication System
<b>TEFRA</b>	Tax Equity and Fiscal Responsibility Act (1982)
<b>TE/GE</b>	Tax Exempt/Government Entities
<b>TIF</b>	Taxpayer Information File
<b>TIN</b>	Taxpayer Identification Number
<b>TLN</b>	Transmittal Locator Number
<b>TP</b>	Taxpayer
<b>TRA'86</b>	Tax Reform Act of 1986
<b>TTB</b>	Alcohol and Tobacco Tax and Trade Bureau
<b>TT&amp;L</b>	Treasury Tax and Loan Account
<b>TY</b>	Tax Year
<b>UPC</b>	Unpostable Code
<b>URB</b>	Underreporter Branch (Service Centers)

**Exhibit 20.1.1-8  
Dictionary of Key Terms**

<b>TERMS</b>	<b>DEFINITION</b>
<b>23C DATE</b>	The date an assessment is made. Assessment is accomplished when the assessment officer schedules the liability and signs the assessment register (Form 23C, <i>Assessment Certificate, Summary Record of Assessments</i> ).

<b>TERMS</b>	<b>DEFINITION</b>
<b>ABATEMENT</b>	A reduction in the assessment of tax, penalty, or interest when it is determined the assessment is incorrect, or when the taxpayer should be relieved of a liability, e.g., penalty abatement for reasonable cause.
<b>ABSTRACT NUMBER</b>	A three-digit number that references a specific type of excise tax. The abstract number will correspond exactly with the IRS number shown on the excise tax form, Form 720. See IRM 20.1.4.10.1.
<b>ABSTRACTS</b>	Reports that identify the specific type of tax collected, corresponding to the proper appropriation account set by Congressional Act or Public Law.
<b>ACCOUNT</b>	A record of a taxpayer's assessments, abatements and credits.
<b>ACCRUALS</b>	The increase of interest and penalty amounts amassed from the date a penalty or interest assessment is posted to an account (23C Date) to the date the amounts are paid.
<b>ADVANCE PAYMENT</b>	The payment made for an anticipated deficiency prior to the actual assessment.
<b>ADVICE OF CREDIT (AOC)</b>	The transmittal, on Treasury Form 2284, <i>Federal Tax Deposit Advice of Credit Treasury Tax and Loan Account</i> , of federal taxes paid to a depository bank. See IRM 20.1.4.
<b>ANNUAL ACCOUNTING PERIOD</b>	A 12-consecutive month period (calendar or fiscal year) adopted by the taxpayer for maintaining books and records.
<b>ASSERT</b>	Determine that tax, penalty, or interest applies to a taxpayer account.
<b>ASSESS</b>	Formal entry of tax debt including penalty, and/or interest that has been determined to be due and collectable by IRS.
<b>ASSESSMENT</b>	A bookkeeping entry, recording the amount of tax, penalties, and/or interest charged to a taxpayer's account.
<b>ASSESSMENT DATE</b>	The date Form 23C is executed by the assessment officer.
<b>AUDIT TRAIL</b>	Data used to track case activity to follow the development of an issue from the time it is raised to the time it is resolved.
<b>AUTOMATIC ADJUSTMENT</b>	A subsequent adjustment to an account which follows automatically from the previous adjustment.
<b>BALANCE DUE</b>	The amount of tax, penalty, interest or other receivables that remain unpaid on a taxpayer's account.
<b>BLOCK</b>	Returns or documents that have been grouped together for processing and filing purposes. Blocks consist of one hundred or fewer documents.
<b>BUREAU OF THE FISCAL SERVICE (BFS)</b>	The federal agency responsible for the government's cash management program. (formerly Financial Management Service (FMS))
<b>BUSINESS MASTER FILE (BMF)</b>	The files maintained by the IRS which include business transactions and accounts. These include employment taxes, income taxes on businesses, use taxes, wagering taxes, and excise taxes.
<b>BURDEN OF PROOF</b>	The necessity of affirmatively proving a fact or facts in dispute on an issue.
<b>CALENDAR YEAR</b>	A 12-consecutive month period beginning with January 1.
<b>CHARITABLE DEDUCTION PROPERTY</b>	A taxpayer's contribution of real or personal property to a charity for which a deduction can be claimed under IRC 170.
<b>CLAIM—FORMAL</b>	A request from the taxpayer on the proper form, such as Form 843, <i>Claim For Refund and Request for Abatement</i> , Form 1040X, <i>Amended U.S. Individual Income Tax Return</i> , or Form 1120X, <i>Amended U.S. Corporation Income Tax Return</i> , asking that a liability previously assessed be reduced.
<b>CLAIM—INFORMAL</b>	A written request, other than on the proper form, signed by the taxpayer, requesting changes to obtain a correct and accurate reflection of his or her tax liability.
<b>COMMAND CODE (CC)</b>	A five or six character code used to access IDRS.



<b>TERMS</b>	<b>DEFINITION</b>
<b>COMMERCIAL BANK ADDRESS FILE (CBAF)</b>	A computer listing of all authorized depositories within each service center's processing area.
<b>COMPUTER PARAGRAPH NOTICE (CP)</b>	A computer generated message relating to a taxpayer's account.
<b>CONTACT PERSONNEL</b>	Any IRS employee who has direct contact with the taxpayer either on the telephone, in person, or by mail.
<b>CYCLE</b>	One week's processing at the service center and Martinsburg Computing Center (ECC-MTB).
<b>DEBIT BALANCE</b>	The amount by which the balance due exceeds the total amount of credits.
<b>DELINQUENT RETURN</b>	A return which is filed after the prescribed due date (determined with regard to any valid extension of time).
<b>DISCLOSURE</b>	See IRC 6103 and IRC 6664(c).
<b>DISHONORED CHECK</b>	A taxpayer's check or money order that a financial institution does not accept for payment. See IRM 20.1.10.
<b>DOCUMENT CODE (Doc Code)</b>	The Code which identifies the specific type of return or document that was filed or processed. See Document 6209, <i>IRS Processing Codes and Information</i> , Section 2.2.
<b>DOCUMENT LOCATOR NUMBER (DLN)</b>	A 14-digit identification number assigned to every return/document and entered into the ADP system that affects a taxpayer account.
<b>DOCUMENT REGISTER</b>	A numerical listing of each item in a block of returns or documents. The document register serves as a transmittal for each block of remittance returns.
<b>DUE DATE</b>	Date by which a return must be filed or a payment or deposit made.
<b>DUMMY MODULE</b>	A tax module created on IDRS in order to record information when the true tax module is not present.
<b>ECONOMIC SUBSTANCE DOCTRINE</b>	As defined in IRC 7701(o)(5)(A), means the common law doctrine under which tax benefits under subtitle A ( <i>Income Taxes</i> ) with respect to a transaction are not allowable if the transaction does not have economic substance or lacks a business purpose.
<b>EMPLOYEE PLANS MASTER FILE (EPMF)</b>	The files maintained by the IRS which include transactions on employee plan accounts.
<b>EMPLOYER IDENTIFICATION NUMBER (EIN)</b>	A unique nine-digit number used to identify a taxpayer's business account in a NN-NNNNNNN format.
<b>ENTITY AREA</b>	The portion of an input document or tax return that contains the name, address, account number, tax period and other entity data.
<b>FEDERAL RESERVE BANK (FRB)</b>	One of 12 banks of the Federal Reserve system which verifies and classifies federal tax deposits (FTD) monies collected within its geographic jurisdiction.
<b>FEDERAL TAX DEPOSIT POINT OF CONTACT (FTD POC)</b>	The designated employee in the FTD unit of the SC Accounting Operation who is a liaison between IRS, FRB, commercial banks and reporting agents (previously referred to as the FTD interagency coordinator).
<b>FIDUCIARY FTD AVOIDANCE (FFA)</b>	The penalty chargeable to third party fiduciaries who do not submit their trusts' estimated tax payments on magnetic tape through the FTD system.
<b>FILE LOCATION CODE (FLC)</b>	The first two digits of the DLN used to identify the campus or district office that initiated a transaction. See Document 6209, Section 4.3 for a complete list of FLCs.
<b>FISCAL YEAR</b>	An accounting period of 12 consecutive months other than a calendar year.
<b>FOREIGN-CONTROLLED CORPORATION</b>	A domestic corporation engaged in U.S. business and controlled by a foreign person.

<b>TERMS</b>	<b>DEFINITION</b>
<b>FRAUD</b>	The intentional commission of an act or acts for the specific purpose of evading a tax believed to be owing.
<b>FREEZE CODE</b>	A condition on an account which prohibits any further action being taken.
<b>FRIVOLOUS</b>	Clearly lacking in substance, or clearly insufficient as a matter of law.
<b>GENERATED DATA</b>	Information produced as a result of input to, or update of, IDRS or Master File.
<b>HARDSHIP</b>	See undue hardship.
<b>INDIVIDUAL MASTER FILE (IMF)</b>	The files maintained by the IRS which include transactions on individual tax accounts.
<b>INDIVIDUAL RETIREMENT ACCOUNT FILE (IRAF)</b>	The files maintained by the IRS which include transactions on individual retirement accounts.
<b>INTEGRATED DATA RETRIEVAL SYSTEM (IDRS)</b>	A computer system capable of retrieving or updating stored information which works in conjunction with the Master File records of a taxpayer's account.
<b>INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)</b>	A taxpayer identifying number issued by the IRS to an alien individual who is ineligible to receive an SSN for the purpose of reporting tax related information.
<b>JULIAN DATE</b>	The numeric day of the year starting with 001 on January 1 and continuing sequentially to 365 (or 366).
<b>LEVY</b>	An administrative means of collecting taxes by seizure of the taxpayer's property and rights to property to satisfy delinquent taxes.
<b>MASTER FILE TAX (MFT) CODE</b>	A two-digit code that identifies the type of return filed and the tax class. See Document 6209, Section 2.2 for a complete listing of MFTs.
<b>MICROFILM SERIAL NUMBER (MSN)</b>	A ten-digit locator number printed across each FTD and AOC processed through the optical character recognition (OCR) equipment as each service center. The MSN is used to identify and/or locate individual FTD coupons.
<b>NON-MASTER FILE</b>	The files maintained by the IRS which include transactions on tax accounts not included on the Master File.
<b>NORMAL (LEGAL) DUE DATE</b>	The date the statute requires the filing of the return. If the normal or extended due date falls on a Saturday, Sunday or legal holiday, the return is considered timely if it is filed on the next succeeding day that is not a Saturday, Sunday, or legal holiday.
<b>OFFER-IN-COMPROMISE</b>	An agreement resolving a taxpayer's account where it has been determined that there is either doubt as to collectibility, doubt as to liability, or both.
<b>ORAL EVIDENCE</b>	Non-written information received from the taxpayer, authorized representative or other third party, providing additional facts for requesting penalty relief. See <i>IRM 20.1.1.3.1</i> for additional information on acceptable oral evidence.
<b>PENALTY</b>	A sanction primarily used to promote voluntary compliance of the tax laws.
<b>PENALTY COMPUTATION CODE (PCC)</b>	A three-digit code which is used to denote the reasons why, or methods by which, a FTD penalty was charged.
<b>PENALTY PERIOD</b>	The time for which a penalty is applicable.
<b>PENALTY REASON CODE</b>	A three-digit code, entered in the 4th position reason code field, which is used to denote the reason for penalty removal or reduction. See <i>Exhibit 20.1.1-2</i> .
<b>PENDING TRANSACTION</b>	A transaction entered into IDRS which has not yet posted to the Master File. Pending transactions will affect the IDRS account balance, but will not change the Master File account balance.

<b>TERMS</b>	<b>DEFINITION</b>
<b>PERIOD ENDING</b>	The ending year and month of the period covered by a tax return.
<b>PINEX</b>	An IDRS computer program used to produce penalty and interest explanations for taxpayers.
<b>POSTASSESSMENT APPEAL</b>	An appeal of tax, penalty and/or interest made by the taxpayer after the tax and/or penalty has been assessed.
<b>PREPAID CREDITS</b>	Payments of tax, such as withholding, estimated payments, etc., made prior to the due date of the return.
<b>PRESCRIBED DUE DATE</b>	The due date designated for filing a return, including any extension of time for filing.
<b>PRESUMPTIVE DUE DATE</b>	The due date designated for filing a return, not taking into account any extensions.
<b>REASON CODE</b>	A three-digit code used when adjusting an account to denote which item on the tax return is affected by the adjustment. Document 6209 Section 8C.2–2.
<b>REASONABLE BASIS</b>	As defined by Treas. Reg. 1.6662–3(b)(3), "Reasonable basis is a relatively high standard of tax reporting, that is, significantly higher than not frivolous or not patently improper. The reasonable basis standard is not satisfied by a return position that is merely a colorable claim...."
<b>REASONABLE CAUSE ASSISTANT (RCA)</b>	See <i>IRM 20.1.1.3.6</i> .
<b>REBATE</b>	A credit, refund or other repayment where too much tax was paid.
<b>RECEIVED DATE:</b>	<ul style="list-style-type: none"> <li>• <b>Timely filed return</b>—The original or extended due date of the return.</li> <li>• <b>Late filed return</b>—The IRS received date stamped on the face of the return.</li> </ul>
<b>REFILE DLN</b>	A new DLN assigned to a return or other document after an audit or tax adjustment has been completed. The tax return and related documents are filed under this refile DLN.
<b>REFUND</b>	Money returned to the taxpayer as a result of overpayment of a tax liability.
<b>REMITTANCE AMOUNT</b>	The amount of money received in payment of a liability. This remittance may be by check, money order, cashier's check, cash, credit card, or EFTPS.
<b>SECURED DELINQUENT RETURN</b>	A return secured after a taxpayer has been contacted by the IRS but prior to an assessment made under Substitute for Return procedures.
<b>SEIZED PROPERTY</b>	Property of the taxpayer over which the IRS has exercised actual or constructive dominion and control for the purpose of satisfying outstanding tax liabilities.
<b>SERVICE CENTER CONTROL FILE (SCCF)</b>	A magnetic tape control system record the receipt of returns/documents, to trace their progress through the processing system and finally to verify that all items have been completed. The SCCF systems maintain separate totals for revenue receipts and other items.
<b>SOCIAL SECURITY NUMBER</b>	A unique nine-digit number used to identify an individual taxpayer account, in NNN-NN-NNNN format issued by the Social Security Administration.
<b>SOURCE DOCUMENT</b>	Backup documentation used by IRS personnel to explain an adjustment to a taxpayer's account; for example, taxpayer correspondence.
<b>STATUS CODE</b>	A two-digit numeric code indicating the Master File and/or IDRS status of a tax module.
<b>STATUTE OF LIMITATIONS</b>	A set of rules specifying the period in which actions may occur, or within which rights may be enforced.
<b>SUBSEQUENT PAYMENT</b>	A payment received for an account that has been assessed and for which the taxpayer has been billed.
<b>SUBSTANTIAL AUTHORITY</b>	The objective determination that a position taken by a taxpayer is supportable.

<b>TERMS</b>	<b>DEFINITION</b>
<b>SUBSTITUTE FOR RETURN (SFR)</b>	A return prepared on behalf of a taxpayer by the IRS pursuant to IRC 6020(b). The return is prepared when it has been determined that a taxpayer is liable for filing the tax return but has failed to do so upon due notice from the IRS.
<b>SUPERSEDING RETURN</b>	An amended return filed on or before the return due date. It is filed on an original return form, not an amended return form.
<b>TAX CLASS</b>	A one-digit code which identifies the type of tax involved in a transaction.
<b>TAX MODULE</b>	A record of one account for one taxpayer covering one type of tax for one tax period.
<b>TAX PERIOD</b>	The period of time for which a return is filed.
<b>TAXPAYER ADVOCATE SERVICE (TAS)</b>	An independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.
<b>TAXPAYER DELINQUENT ACCOUNT (TDA)</b>	An internal computer notice indicating the taxpayer has not responded to prior balance due notices or paid a balance due.
<b>TAXPAYER IDENTIFYING NUMBER (TIN)</b>	A nine-digit number assigned to taxpayers for identification purposes. Depending on the nature of the taxpayer, the TIN is either an employer identification Number (EIN), a social security number (SSN), an adoption taxpayer identification number (ATIN), or an individual TIN (ITIN).
<b>TAXPAYER INFORMATION FILE (TIF)</b>	The IDRS file which contains entity and module information.
<b>TIMELY FILED</b>	A return or document which was filed by the taxpayer and received by the IRS within specified time frames. A return is timely filed if postmarked by the original or extended due date, IRC 7502. Also see Rev. Rul. 73-133 and IRM 20.1.2.1.1.
<b>TOLERANCE</b>	The allowable deviation from standard in order to facilitate administration of a program. A tolerance can take the form of a dollar amount or a time volumetric allowance.
<b>TRANSACTION CODE (TC)</b>	Three-digit code that identifies a specific action on a taxpayer's account. Document 6209, <i>IRS Processing Codes and Information</i> , Section 8A.2, contains a complete listing of TCs.
<b>UNDERPAYMENT</b>	In general, the amount by which any tax imposed exceeds the tax shown by the taxpayer on the return, plus amounts previously assessed (or collected without assessment) before the return was filed in excess of any rebate.
<b>UNDERSTATEMENT</b>	In general, the excess of the amount of the tax required to be shown on the return over the amount of the tax imposed which is shown on the return (reduced by any rebate). See Treas. Reg. 1.6662-4(b)(2) for additional information.
<b>UNDUE HARDSHIP</b>	In general, an economic condition that is so severe that the taxpayer is, or would be financially debilitated if the tax or deficiency was paid. See <i>IRM 20.1.1.3.3.3, Undue Hardship</i> .
<b>VOLUNTARY COMPLIANCE</b>	Taxpayers who freely obey the tax laws. Compliance is defined in the IRC as: <ul style="list-style-type: none"> <li>A. Filing accurate and complete returns on time,</li> <li>B. Paying amounts due, and</li> <li>C. Reporting information required.</li> </ul>
<b>WAIVER</b>	A waiver is a limited form of penalty relief.
<b>WILLFUL NEGLECT</b>	Conscious, intentional failure to comply with the provisions of the IRC, or reckless indifference to such provisions.

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