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

SMALL BUSINESS/SELF-EMPLOYED DIVISION

December 29, 2011

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MEMORANDUM FOR ALL EMPLOYEES

FROM: Duane M. Gillen /s/ Susan Deidrich
Director, Examination Policy

SUBJECT: Calculation of Credit Interest under CADE 2, Transition State 1, Processing

The purpose of this memorandum is to communicate an update to IRM 20.2.4, *Overpayment Interest*. The impacted Internal Revenue Manual will be updated to reflect the procedures outlined in this memorandum within one year from the date of issuance.

Purpose: To describe how CADE 2 (Customer Account Data Engine), Transition State 1, processing (effective January 2012) will affect the computation of credit interest on refunds.

Background/Source(s) of Authority: CADE 2 is a step in IRS' Information Technology modernization program. CADE 2 will provide faster refunds for eligible individual taxpayers and faster payment postings, account updates, and taxpayer notices. CADE 2 will be implemented in a phased approach. The first phase, known as Transition State 1 (TS 1), will support daily versus weekly processing – providing more accurate, timely data to our frontline employees; and is expected to allow the IRS to update and settle accounts more quickly.

CADE Accounts: Beginning in mid-2004 a sub-set of IMF accounts began to be moved, processed by and reside in CADE. Transactions posted by CADE (2004 through 2011) will have Day Designations of 01 through 05 in the "DD" (Day/Day) portion of the posting cycle (YYYYCCDD). See IRM 3.30.123.4.9, *Customer Accounts Data Engine (CADE) Cycle*, for additional information related to CADE account processing information, when applicable.

Procedural Changes: To provide information on the change in processing time frames for credit interest computed on refunds under CADE 2, Transition State 1, the following sections of IRM 20.2.4, *Overpayment Interest*, are updated as follows:

IRM 20.2.4.7.1.1, *Systemic Refund Dates for IMF and BMF*:

(1) IRC 6611(b) (2) provides interest on overpayments refunded to taxpayers will run until a date "preceding the date of the refund check by not more than 30 days." The date of the refund check for computer-generated Individual Master File (IMF) and Business Master File (BMF) refunds is:

- **CADE 2 (IMF):** Date shown with the literal "RFND-PAY-DT" / "RFND-PYMT-DT" that accompanies TC 846. CADE 2 processing is **effective January 2012**.
- **IMF:** 23C Date of the TC 846 minus three calendar days, for refunds processed **prior** to CADE 2 implementation (minus 10 calendar days for direct deposit).
- **BMF**: 23C Date of the TC 846 plus one calendar day (minus six calendar days for direct deposit).

(2) Credit interest on systemic refunds is computed to:

- **CADE 2 (IMF):** "RFND-PAY-DT" / "RFND-PYMT-DT" minus six business days (minus four business days for direct deposit) **effective January 2012**. ***Note:*** If a systemic refund is being issued with a manual interest calculation (TC 770), calculate interest to the 23C Date minus18 calendar days.
- **IMF:** 23C Date minus 13 calendar days (minus 20 calendar days for direct deposit), for refunds processed **prior** to CADE 2 implementation (January 2012). ***Note:*** Prior to July 10, 1984, credit interest on IMF accounts was computed to the 23C Date minus 12 days.
- **BMF:** 23C Date minus nine calendar days (minus 16 calendar days for direct deposit). ***Note:*** Prior to July 10, 1984, credit interest on BMF accounts was computed to the 23C Date minus seven calendar days.

(3) To determine if the TC 846 amount was direct deposited, look for a Direct Deposit (DD) indicator on TXMOD or IMFOLT (DD: "0" for paper check, "9" for direct deposit) near the right margin either on the same line as the TC 846 or the next line. See IRM 3.14.1.5.4.3, *Direct Deposit Refunds*, for additional identifiers of direct deposit refunds.

(4) The back-off period is applicable to systemic refunds, not manual refunds.

<u>IRM 20.2.4.7.5.2, 45-Day Rule and All Original Tax Returns:</u>

(1) For returns with due dates **on or after** January 1, 1994, without regard to extensions, the 45-day rule was expanded to apply to **all** types of tax returns (i.e., employment, excise, estate and gift taxes), not just income tax returns. — IRC 6611(e) (1), as amended by the Omnibus Budget Reconciliation Act of 1993 (P.L. 103–66).

(2) To determine whether the 45-day period has been met, consider these dates:

- The return due date (determined without regard to any extension of time for filing the return).
- The return received date (used when the return is filed after the return due date, determined without regard to any extension of time for filing the return).
- The date the return was received in processible form (Return Processible Date (RPD), or Correspondence Received Date (CRD) may be present).

(3) Add 45 days to the later of these dates. If the date of the refund check is not ***on or before*** that date, interest must be allowed on the refund. The date of the refund check for computer-generated refunds is:

- **CADE 2 (IMF):** Date shown with the literal “RFND-PAY-DT” / “RFND-PYMT-DT” that accompanies TC 846. CADE 2 processing is **effective January 2012**.
- **IMF:** 23C Date of the TC 846 minus three calendar days, for refunds processed **prior** to CADE 2 implementation (minus 10 calendar days for direct deposit).
- **BMF:** 23C Date of the TC 846 plus one calendar day (minus six calendar days for direct deposit).

(4) Systemic calculation of credit interest on refunds is computed TO:

- **CADE 2 (IMF):** “RFND-PAY-DT” / “RFND-PYMT-DT” minus six business days (minus four business days for direct deposit) **effective January 2012**. ***Note:*** If a systemic refund is being issued with a manual interest calculation (TC 770), calculate interest to 23C Date minus18 calendar days.
- **IMF:** 23C Date minus 13 calendar days (minus 20 calendar days for direct deposit), for refunds processed **prior** to CADE 2 implementation (January 2012).
- **BMF:** 23C Date minus nine calendar days (minus 16 calendar days for direct deposit).

(5) Compute credit interest on manual refunds to the date certified by Accounting for allowing the refund.

If you have any questions, please contact Thomas Ryan, Program Manager, Office of Servicewide Interest or a member of your staff may contact Clay Coleman, Tax Analyst, Office of Servicewide Interest.

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