

IRM PROCEDURAL UPDATE

DATE: 07/11/2014

NUMBER: WI-21-0714-1132

SUBJECT: Sequestration Rate and the Obligation Date

AFFECTED IRM(s)/SUBSECTION(s): 21.7.4

CHANGE(s):

IRM 21.7.4.4.9.3.3 Added new subsection titled: The Sequestration Rate and the Obligation Date.

1. Cases determined to be subject to the Corporate AMT sequestration criteria identified in the previous subsections that were processable prior to October 1, 2013 had the Form 8827 credit reduced (sequestered) by 38%. Refunds issued on or after October 1, 2013 have a reduced Corporate AMT sequestration rate of 7.2%. The sequestration rate is based on the obligation date. The sequestration rate for TY 2014, effective 10/01/2014, will be increased from 7.2% to 7.3%.
2. The obligation date is the date that all administrative actions are completed. Generally, the obligation date for systemically generated refunds (TC 846) will be Thursday for the posted cycle. Per Document 6209, transactions input on 9/22/2014 that are released timely (not DQ or unpostable) will post in cycle 201339 and will be sequestered at the 7.2% rate. Transactions that are not released on or before 9/24/2014 or are input on 9/23/2014 and subsequent will be sequestered at the 7.3% rate and will post in cycle 201440. The obligation date when a manual refund is issued is the date the manual refund is prepared and sent to Accounting. See the examples below.
 - **Example:** If an adjustment is input on 9/19/2014 and released timely, a systemically generated refund (TC 846) will post in cycle 201439. The obligation date would be the Thursday date for that cycle (09/25/2014) and would be sequestered at the FY 2013 sequestration rate.
 - **Example:** If an adjustment is input on 9/24/2014 and released timely, a systemically generated refund (TC 846) will post in cycle 201440; the obligation date would be the Thursday date for that cycle (10/02/2014) and would be sequestered at the FY 2014 sequestration rate.
 - **Example:** If a manual refund is prepared and sent to Accounting on 9/29/2014, the obligation date is when the TC 840 is created, and therefore should be sequestered at the FY 2013 rate. If the manual refund is prepared on 10/02/2014 the credit should be sequestered at the FY 2014 rate.

3. There are exceptions to the general rule as follows (these exceptions are not all inclusive):

- a. If a freeze is applied to the credit or refund due to sequestration activities, such as programming changes, determination from Counsel, or development of sequestration policy and procedure, then the obligation date is the date the account was frozen.

Example: A TC 570 “-R” freeze was applied to taxpayer’s module due to sequestration programming in cycle 201333. The freeze stayed on the module until cycle 201350 because Counsel needed to make a determination on the sequestration rate. Since all administrative actions were completed when the freeze was applied, the obligation date was 08/14/2013 (cycle 201333), even though the TC 846 posted in cycle 201350.

- b. If a taxpayer’s return is not processed timely due to an IRS error, then the obligation date is when normal processing of the return would have been completed. A Memorandum with an explanation of the untimely processing will be prepared by the area that caused the delay and will be submitted to their senior management and CFO for approval of the obligation date and rate.

Example: A return was received on April 1, 2013, but the TC 846 was not posted until cycle 201348 due to the misplacement of the return (TC 150). If the return was not misplaced, the TC 846 would have been posted in cycle 201317 (Obligation date: 04/25/2013) not in cycle 201348.

- c. If a taxpayer is sent a refund where the bank account and/or address is incorrect, the refund is sent back to IRS and we resubmit a new refund, the obligation date is the posting cycle of the first TC 846.

Example: A taxpayers first TC 846 posted in cycle 201333, the refund was undelivered due to incorrect address, and a subsequent refund was posted in cycle 201348. Since all administrative actions were complete when the first refund was posted, the obligation date is 08/15/2013 (cycle 201333). Therefore, the account should be sequestered at the 7.2% rate.

IRM 21.7.4.4.9.3.4(1) Removed the information in the paragraph and stated to see the previous subsection for determining the proper obligation date and the correct sequestration rate.

1. The sequestration rate is based on the obligation date (the date that all administrative actions have been completed). See the previous subsection for determining the proper obligation date and the correct sequestration rate.