IRM PROCEDURAL UPDATE

DATE: 01/30/2026

NUMBER: ts-21-0126-0173

SUBJECT: CP 234 Cases on IRC 965 Accounts Should Be Reassigned to IRC 965 SMEs

AFFECTED IRM(s)/SUBSECTION(s): 21.7.11

CHANGE(s):

IRM 21.7.11.4.8 Updated paragraph 10 to clarify CP234 cases on an IRC 965 account should only be worked by IRC 965 trained individuals.

(1) CP 234, *Potential ES Penalty Transcript on Forms 1120, 1120F, 1120L, 1120M, 1041, 990C*, is electronically generated through the Correspondence Image Inventory /Account Management Services with the basic information to identify the account.

(2) A CP 234 generates when the computer computation of the Estimated Tax (ES) penalty differs from the amount computed by the taxpayer (TC 170) by **#** ████████ **#** .

(3) A CP 234 generates when there is no TC 170 posted and the **#** ███████████ ████████████████ **#** and one of the conditions below applies:

- Computer Condition Code A is present (shows a non-penalty Form 2220, *Underpayment of Estimated Tax by Corporations*, was submitted).

- Form 1120, *U.S. Corporation Income Tax Return*, is a consolidated return.

- Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, was filed with tax that included effectively and non-effectively connected income.

(4) In addition to the criteria above, a CP 234 also generates on Form 1041, *U.S. Income Tax Return for Estates and Trusts*, if the Fiduciary Code is other than 9 and the computer computation of the ES Penalty is **#** ██████ **#** and either of the following applies:

- Immediately prior tax year is not present.

- Immediately prior tax year is present and:
  A TC 150 is not present, and the Status is other than 2 or 3, or,
  A TC 150 is present, but the prior year ES Tax Base is zero and the return is for a full 12-month period, or,
  A TC 150 has document code 51 or 52, and the Total Tax Settlement is zero.

(5) A CP 234 is received with the original return. The computer computation of the ES penalty is shown as "CP 234" in the "Notice History Section" of Command Code TXMODA. The TC 170 is the penalty amount computed by the taxpayer.

Caution: Do not use the computer computation of the ES penalty to adjust the ES penalty except for situations described in IRM 21.7.11.4.8.1, *Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts/Form 2220, Underpayment of Estimated Tax by Corporations, Not Received with Return*, and IRM 21.7.11.4.8.2, *Original Return Not Received with CP 234, Potential ES Penalty Transcript on Forms 1120, 1120F, 1120L, 1120M, 1041, 990C*. Manual computation of the penalty amount is required in all other situations.

(6) See IRM 20.1.3, *Estimated Tax Penalties*, for information on the penalty computation, exceptions to the penalty, and the application of payments when re-computing the penalty. To determine if the prior year is a short period return, see the following:

- IRM 3.11.14.8.19, *CCC "Y" – Short Period Return for Change of Accounting Period*

- IRM 3.11.16.7.4, *Short Period – Editing Proof of Entitlement*, and

- IRM 3.11.16.7, *Tax Period*

(7) If a CP 234 generates on a Form 1041 or Form 1120 account and the adjusted seasonal or annualized income installment method is used and the annualization worksheet is attached to the return, **#** ▮▮▮▮ **#** math verify the Form 2210, *Underpayment of Estimated Tax by Individuals, Estates and Trusts*, Form 2220, or Form 8804 Schedule A, *Penalty for Underpayment of Estimated Section 1446 Tax by Partnerships*.

Exception: If a significant discrepancy is found, see
IRM 20.1.3.3.1.7.1.2, *Form 2210 or Form 2210-F Discrepancies*, and
IRM 20.1.3.4.1.7.4, *Significant Discrepancies*.

If no significant discrepancies are found, input a TC 170 $.00 and put the following remarks in the source document field: "CP 234 generated in error, annualized income installment method utilized."

Note: The above procedure applies only to the originally filed Form 2210 or Form 2220. You must verify the annualization computation on a subsequently filed Form 2210 or Form 2220.

(8) If the adjusted seasonal or annualized income installment method is not used, verify the accuracy of the taxpayer's distribution of the tax liability: e.g., did the taxpayer follow Large Corp. rules. If the taxpayer's distribution of the tax liability is correct and the penalty result differs from the Service's computation, verify whether the credits claimed by the taxpayer match those posted on the account. If they do not match, try to locate any missing payments. Follow the table below:

Note: Be sure to consider the information in (9) below when computing the ES penalty. See IRM 20.1.3.3.1.7, *Determining the Penalty Amount*, and IRM 20.1.3.4.1.7, *Determining the Penalty Amount* for specific examples for adjusting accounts per the chart below.

If	Then
1) Math verification results in an increase **#** ▮▮▮▮▮ **#** .	1. Input a TC 170 for the amount of the increase using the appropriate blocking series (BS). 2. Send Letter 369C, *Estimated Tax Penalty (F2210) Explained*, or Letter 1320C, *Estimated Tax Penalty (F2220) Explained*, to the taxpayer explaining the penalty increase, such as, the payments claimed did not match those on the account. Include a copy of the penalty computation (COMPAS) in your correspondence or a DMI print as long as it matches the penalty computation. You may prepare page 1 of Form 2210 or Form 2220, but it is not mandatory. 3. Attach or capture a print of the penalty computation for documentation to the case file.
2) Math verification results in a decrease **#** ▮▮▮▮▮ **#** .	1. Input a TC 171 for the amount of the decrease using the appropriate BS. 2. Use Penalty Reason Code 016. 3. Use the appropriate Priority Code per IRM 21.5.2.4.16, *Priority Codes (PC)*. 4. Send Letter 369C or Letter 1320C to the taxpayer explaining the penalty decrease, such as, we based your penalty on your prior year tax. Include a copy of the penalty computation (COMPAS) in your correspondence or a DMI print as long as it matches the penalty computation. You may prepare page 1 of Form 2210 or Form 2220, but it is not mandatory. 5. Attach or capture a print of the penalty computation for documentation to the case file.
3) Math verification results in an increase or decrease of less than **#** ▮▮▮ **#** .	1. Input a TC 170 $.00 using the appropriate BS. 2. Close the case as "no change." 3. Attach or capture a print of the penalty computation for documentation to the case file.

(9) The IRS has extended the due dates on certain estimated tax payments for business entities due to Statutory Exceptions and Administrative Waiver. Also, see the IRS Disaster Assistance Program website for other payment dates that have been postponed due to various Presidentially declared disasters. Go to the Media & Publications Product Catalog for prior revisions of this IRM and of IRM 20.1.3, *Estimated Tax Penalties*, when

calculating or researching the ES penalty for tax periods not covered in this revision. Choose the revision date following the date of the disaster, Statutory Exception, etc.

(10) Per Notice 2018-26, no underpayment (estimated tax) penalty will be imposed under IRC 6654 or IRC 6655, with respect to a taxpayer's net tax liability under IRC 965. If the tax module contains an IRC 965 transaction code (TC) 971 with AC 114, TC 766/767 with Credit Reference Number 263, or a TC 670 payment with a Designated Payment Code (DPC) 64, refer to IRM 21.5.13.4, *IRC 965 Transition Tax BMF*, for guidance.

Note: Only IRC 965 trained employees should be working these cases. All non-trained employees should **reassign** the case to the IRC 965 subject matter experts.

(11) Notice 2019-25 provided special relief from the estimated tax penalty under section 6654 for tax year 2018. Under this notice, the section 6654 penalty is waived for any taxpayer whose total withholding and estimated tax payments made on or before January 15, 2019, equal or exceed eighty percent of the tax shown on that taxpayer's 2018 return. See IRM 20.1.3.2.7.2.3, *Notice 2019-11 and Notice 2019-25, Relief from Addition to Tax for Underpayment of Estimated Income Tax by an Individual*, for more information.

(12) Notice 2020-23 postponed to July 15, 2020, all estimated income tax payments due on or after April 1, 2020, and before July 15, 2020. As a result, first quarter 2020 estimated income tax payments due April 15, 2020, and second quarter 2020 estimated income tax payments due June 15, 2020, were both postponed to July 15, 2020. Taxpayers were instructed to make a single payment in an amount sufficient to cover both the first and second quarter estimated tax payments on or before July 15, 2020.

(13) Under Section 2302(b)(2) of the Coronavirus Aid, Relief and Economic Security (CARES) Act, half of the IRC 1401(a) self-employment tax imposed on net earnings from self-employment attributable to the period from March 27, 2020, through December 31, 2020, is disregarded in calculating the section 6654 estimated tax penalty. Because Schedule H household employment taxes are generally treated as self-employment taxes of the employer for purposes of the section 6654 estimated tax penalty, the employer's portion of social security tax imposed on wages paid from March 27, 2020 through December 31, 2020 and reportable on Schedule H is excludible from the ES tax base for the taxable year qualifying for the deferral. A Form 1041 (MFT 05) that includes tax from Schedule H for household employees may be affected by this provision and impact the CP 234. See IRM 20.1.3.2.7.2.5, *CARES Act Section 2302, Delay of Payment of Employer Payroll Taxes*, for additional details.

(14) Notice 2023-42 provides penalty relief from the addition to tax under IRC 6655 for a corporation's failure to pay estimated income tax in connection with the application of the Corporate Alternative Minimum Tax (CAMT) for taxable years beginning after December 31, 2022, and before January 1, 2024. See IRM 20.1.3.4.2.2, *Relief from Certain Additions to Tax for Corporation's Underpayment of Estimated Income Tax under Section 6655*, for additional details.

(15) A programming problem was identified with the CP 234, *Potential ES Penalty Transcript on Forms 1120, 1120F, 1120L, 1120M, 1041, 990C*, for tax periods that began in 2016. Until the programming was corrected for periods beginning in 2017, the CP 234 notices did not compute the ES Penalty correctly on corporate income tax returns. Programming used the incorrect return due date (RDD) when calculating the ES Penalty. For more details about this issue, refer to prior revisions of this IRM.