IRM PROCEDURAL UPDATE

DATE: 06/16/2026

NUMBER: ts-21-0626-0649

SUBJECT: Various Updates to Tax Computation Processes, Including Change to Current Reason Code for Additional Deductions

AFFECTED IRM(s)/SUBSECTION(s): 21.6.4

CHANGE(s):

IRM 21.6.4.1 Added Live Chat to audience in paragraph 2.

(2) **Audience:** The primary users of this IRM are all IRS employees in Business Operating Divisions (BODs) who are in contact with taxpayers by telephone, correspondence, in person, or Live Chat.

IRM 21.6.4.4.1.7 Updated links for the Disaster Program Office in paragraph 7 and NOTE in paragraph 8.

(7) For tax years 2018 and later, net personal casualty (including theft) losses are allowed only when caused by a Presidentially declared disaster. Verify the taxpayer had a loss in the disaster area via the Disaster Program Office (DPO).

Note: Casualty and theft losses incurred in a trade or business, or in a transaction entered into for profit may still otherwise be allowed, regardless of whether they are attributable to a federally declared disaster.

(8) For tax years 2016 and later, limitations on personal casualty losses (including theft losses) attributable to a qualified disaster area were changed:

- $100 rule changed to $500 rule
- 10% rule does not apply

Qualified individuals are those individuals who suffered a personal casualty or theft loss on or after the first day of the disaster incident period caused by:

- A major disaster declared by the President under section 401 of the Stafford Act in 2016
- Hurricane Harvey or Tropical Storm Harvey
- Hurricane Irma

- Hurricane Maria
- California wildfires disaster in 2017 and January 2018
- A Presidentially declared major disaster that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief)
- A Presidentially declared major disaster that occurred during the period between January 1, 2020, and September 2, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before July 4, 2025, and must have ended no later than August 3, 2025.

  Note: The definition of a qualified disaster loss does not extend to any major disaster that has been declared only by reason of COVID-19.

  Note: Verify the taxpayer had a loss in a qualified disaster area via the Disaster Program Office (DPO).

These taxpayers are also entitled to an increased standard deduction. See IRM 21.6.4.4.2, Standard Deduction. If the total itemized deduction is less than the increased standard deduction, send Letter 474C or Letter 4364C with the following paragraph if changing the taxpayer's refund amount: *We changed your itemized deductions. Disaster relief legislation allows you to increase your standard deduction by the amount of your casualty loss. The standard deduction plus the net disaster loss of $XXXX was more than your itemized deductions. For more information about the legislation, visit our website at IRS.gov*

Example: Total itemized deductions shown on Schedule A is $20,000. Standard deduction is $14,600, plus $15,000 loss reported on Form 4684. The taxpayer is entitled to a standard deduction of $29,600.

IRM 21.6.4.4.3.1 Added note in paragraph 9, that until specific reason codes are assigned, reason code 075 should be used for adjustments.

(9) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 075, the correct blocking series (BS) and source code (SC).

   Note: Specific reason codes for each additional deduction have been requested. Until the new reason codes are programmed, become active, and are incorporated into the IRM, use reason code 075 (Taxable Income) when inputting these

adjustments. Reason code 076 (Itemized Deductions) was used for these adjustments prior to June 16, 2026.

IRM 21.6.4.4.3.2 Added note in paragraph 8, that until specific reason codes are assigned, reason code 075 should be used for adjustments.

(8) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 075, the correct blocking series (BS) and source code (SC).

   Note: Specific reason codes for each additional deduction have been requested. Until the new reason codes are programmed, become active, and are incorporated into the IRM, use reason code 075 (Taxable Income) when inputting these adjustments. Reason code 076 (Itemized Deductions) was used for these adjustments prior to June 16, 2026.

IRM 21.6.4.4.3.3 Added note in paragraph 9, that until specific reason codes are assigned, reason code 075 should be used for adjustments.

(9) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.
3. Use Reason Code (RC) 075, the correct blocking series (BS) and source code (SC).

   Note: Specific reason codes for each additional deduction have been requested. Until the new reason codes are programmed, become active, and are incorporated into the IRM, use reason code 075 (Taxable Income) when inputting these adjustments. Reason code 076 (Itemized Deductions) was used for these adjustments prior to June 16, 2026.

IRM 21.6.4.4.3.4 Added note in paragraph 6, that until specific reason codes are assigned, reason code 075 should be used for adjustments.

(6) To adjust the account:

1. Math verify Schedule 1-A, Additional Deductions.
2. Input TC 29X to increase or decrease tax.

3. Use Reason Code (RC) 075, the correct blocking series (BS) and source code (SC).

   Note: Specific reason codes for each additional deduction have been requested. Until the new reason codes are programmed, become active, and are incorporated into the IRM, use reason code 075 (Taxable Income) when inputting these adjustments. Reason code 076 (Itemized Deductions) was used for these adjustments prior to June 16, 2026.

IRM 21.6.4.4.4 Added that if the CC TXCMP calculation differs by less than $100, to allow taxpayer figures per IPU 26U0649 issued 06-16-2026 IRM 21.5.3.4.5 (5), Math and Master File Verification of Claims and Amended Returns.

(1) To compute tax, taxpayers use the following:

a. The Tax Table when taxable income is under $100,000

b. The Tax Computation Worksheet when taxable income is $100,000 or more

You can use CC TXCMP to calculate tax for all taxable incomes. There are times when the tax provided by CC TXCMP may vary by up to $6, accept taxpayer figures if tax calculation is under $100 per IRM 21.5.3.4.5(5) , Math and Master File Verification of Claims and Amended Returns.

(2) Consider the following when computing tax:

- Schedule D, Capital Gains and Losses
- Schedule D, Tax Worksheet
- Schedule J, Income Averaging for Farmers and Fishermen
- Form 4972, Tax on Lump Sum Distributions
- Form 6251, Alternative Minimum Tax—Individuals
- Form 8615, Tax for Certain Children Who Have Unearned Income
- Form 8814, Parents' Election to Report Child's Interest and Dividends
- Foreign Earned Income Tax Worksheet
- Qualified Dividends and Capital Gain Tax Worksheet
- Tax Computation Worksheet for Certain Dependents

Note: Use the Capital Gains worksheet from Instructions for Form 1040 (and Form 1040-SR) if applicable.

(3) Self-employment tax rules usually apply if the taxpayer had net earnings from self-employment of $400.00 or more. See Publication 17, Your Federal Income Tax, and Publication 334, Tax Guide for Small Business (For Individuals Who Use Schedule C), for exceptions.

IRM 21.6.4.4.9.5.3 Updated IRM reference in paragraph 8 to IPU 26U0649 issued 06-16-2026 IRM 21.5.6.4.10.1, -E Freeze Due to a Transaction Code 810 Responsibility Code 4.

(8) If there is a Transaction Code (TC) 810 Responsibility Code (RC) 4 (-E freeze) on the module and the taxpayer files an amended return, see IRM 21.5.6.4.10.1, -E Freeze Due to a Transaction Code 810 Responsibility Code 4.

IRM 21.6.4.4.10.3 Updated IDRS# in paragraph 10, box 7.

(10) Refer to the table below to work settlement cases:

Row Number	If	And	Then
1	This is a USDA Cash Settlement payment.	The taxpayer reports only the settlement income (no expenses) on the "Other Income" line of Schedule F or Form 1040. **Note:** If the taxpayer has excess farm losses, the taxpayer should use Schedule F.	This amount is **not** subject to self-employment tax.
2	This is a USDA Cash Settlement payment.	The farmer is engaged in the business of farming.	This amount is subject to self-employment tax, see IRM 21.6.4.4.15, Self-Employment Tax. Farmers receiving this payment may benefit from filing Schedule J, Income Averaging for Farmers and Fishermen.

3	This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers.		This cancellation of debt is considered farm income. Report the amount on the "Other Income" line of Schedule F and identify as "USDA Settlement." Farmers receiving this payment may benefit from filing Schedule J.
4	This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers.	The taxpayer reports only the loan cancellation on Schedule F, "Other Income" line (no expenses).	This amount is not subject to self-employment tax.
5	This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers.	The farmer was engaged in the business of farming.	This amount is subject to self-employment tax, see IRM 21.6.4.4.15, Self-Employment Tax.
6	This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers.	The farmer was insolvent at the time the loan was cancelled or if the loan was qualified farm debt.	Loan cancellation amounts may qualify for exclusion. Refer to Publication 908, Bankruptcy Tax Guide, and Publication 225, Farmer's Tax Guide, for exclusion criteria. File Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), with the Form 1040, U.S. Individual Income Tax Return, to claim the exclusion.
7	**All claims** The taxpayer's account was not properly credited with the estimated tax	You cannot verify the payment or withholding.	1. Reassign the CII case to employee number **0933687809**. For phone calls, complete Form 4442, Inquiry Referral, and refer the case to Kansas City. Include a day and evening phone number for the taxpayer. Fax Kansas

	payment or withholding.		City P&A, **#** Cynthia Peplow, **#** Enterprise Electronic Fax (EEFax) **#** 855-346-4047 **#** . 2. Input a STAUP if in a balance due status. 3. Kansas City will open a control base, research the issue, and contact the taxpayer upon resolution.

IRM 21.6.4.4.15.2 (8) Corrected Tax Year 2025 to say Item Reference Number 878 or 879, due to error in IRM.

(8) If self-employment income exceeds the yearly limitation, or Medicare income is less than the self-employment income, the adjustment will result in an unpostable condition 189, reason code 8.

If	**Then**
Tax Year 2025	Item reference number 878 or 879 cannot exceed $176,100.
Tax Year 2024	Item reference number 878 or 879 cannot exceed $168,600.
Tax Year 2023	Item reference number 878 or 879 cannot exceed $160,200.
Tax Year 2022	Item reference number 878 or 879 cannot exceed $147,000.
Tax Year 2021	Item reference number 878 or 879 cannot exceed $142,800.

IRM 21.6.4.4.15.5.1 Update note in paragraph 1 to say line 9 instead of line 10 for uniformity with the form.

(1) Input the following to adjust the account:

- TC 29X to adjust the tax.
- Item reference number 891 to increase or decrease **primary unreported tip income** (PRIM–UNRPRTD–TIP–INC).
- Item reference number 892 to increase or decrease **secondary unreported tip income** (SECND–UNREPRTED–TIP–INC).

Note: The smaller of Form 4137, line 6 or line 9, is the item reference number 891 or 892 amount.

- Item reference number 898 to increase or decrease **primary Medicare tip income** (PRIM–MEDICARE–INC).
- Item reference number 899 to increase or decrease **secondary Medicare tip income** (SECND-MEDICARE-INC).

Note: Form 4137, line 6, is the item reference number 898 or 899 amount.

IRM 21.6.4.4.16.5 (2) Updated to say wages instead of income for clarity. Corrected Tax Year 2024 and 2025 to say IRN 873 or IRN 874, due to error in IRM.

(2) When social security wages exceeds the yearly limitation, or when Medicare wages are less than the social security wages, the adjustment will result in an unpostable condition 189, reason code 8.

If	Then
Tax Year 2025	IRN 873 or 874 cannot exceed $176,100.
Tax Year 2024	IRN 873 or 874 cannot exceed $168,600.
Tax Year 2023	IRN 873 or 874 cannot exceed $160,200.
Tax Year 2022	IRN 873 or 874 cannot exceed $147,000.

IRM 21.6.4 Various editorial updates throughout the IRM to update grammar, spelling, plain language, tax years, money amounts, weblinks, etc. An artificial intelligence (AI) tool assisted with editorial revisions throughout this IRM section, including applying plain language techniques, adhering to the IRM Style Guide and content organization.