

IRM PROCEDURAL UPDATE

DATE: 09/21/2026

NUMBER: ts-21-0926-0809

SUBJECT: Various Updates to Erroneous Refunds

AFFECTED IRM(s)/SUBSECTION(s): 21.4.5

CHANGE(s):

IRM 21.4.5.1 - Updated Policy Owner, Program Owner, Primary Stakeholders and Program Goals.

- 1) **Purpose:** This IRM covers information on erroneous refunds, including research procedures to be used when working erroneous refunds.
- (2) **Audience:** The primary users of the IRM are anyone who prepares, inputs or creates erroneous refunds.
- (3) **Policy Owner:** The policy owner of this IRM is the director of Accounts Management.
- (4) **Program Owner:** The program owner of this IRM is Accounts Management, Policy and Procedures IMF (PPI), Individual Adjustments.
- (5) **Primary Stakeholders:** The primary stakeholders include the following organizations that Accounts Management collaborates with:
 - Taxpayer Services (TS) Service Centers
 - Submission Processing (SP)
 - Customer Assistance-Relationship and Education (CARE)
 - Small Business/ Self Employed (SB/SE) Service Centers
 - Compliance
 - Return Integrity and Verification Operations (RIVO)
 - Criminal Investigation (CI)
- (6) **Program Goals:** The program goals for this type of work are:
 - Provide high-quality service to telephone and face-to-face customers
 - Achieve a high customer accuracy rate for phone calls and paper adjustments related to erroneous refunds.

- Resolve paper adjustment cases related to erroneous refunds efficiently using taxpayer-provided documentation in accordance with IRS policy and procedures
- Continuously assess program vulnerabilities and identify opportunities for improvement
- Communicate effectively with customers and stakeholders

For more information, refer to the Accounts Management SharePoint, FY 2026 Program Letter and Operating Guidelines, and IRM 1.4.16 , Accounts Management Guide for Managers.

IRM 21.4.5.1.1 - Updated the section to include Live Chat for consistency with other IRMs.

(1) Employees in the Accounts Management (AM) organization respond to taxpayer inquiries and phone calls, Live Chat, as well as process inquiries and other internal adjustment requests related to erroneous refunds.

IRM 21.4.5.1.2 - Updated the section to include all relevant authorities for consistency with other IRMs.

(1) Authorities for this IRM are found in IRM 1.2.1.2, Policy Statements for Organization, Finance and Management Activities, and includes:

- IRS Restructuring and Reform Act (RRA 98) Section 3705(a), enacted on July 22, 1998
- The Protecting Americans from Tax Hikes (PATH) Act, enacted December 18, 2015
- The Disaster Tax Relief and Airport and Airway Extension Act of 2017, enacted on September 29, 2017
- Tax Cuts and Jobs Act (TCJA) (Public Law 115-97), enacted on December 22, 2017
- The Bipartisan Budget Act of 2018, enacted on February 9, 2018
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020
- The Consolidated Appropriations Act, 2021, enacted on December 27, 2020
- The American Rescue Plan Act of 2021, enacted on March 11, 2021
- The Inflation Reduction Act of 2022 and CHIPS Act, enacted on August 16, 2022

- Working Families Tax Cuts (WFTC), enacted on July 4, 2025
- IRC 965, Treatment of deferred foreign income upon transition to participation exemption system of taxation
- IRC 6201, Assessment authority
- IRC 6204, Supplemental assessments
- IRC 6212, Notice of deficiency
- IRC 6402, Authority to Make Credits or Refunds
- IRC 6601, Interest on underpayment, nonpayment, or extensions of time for payment, of tax
- IRC 7508A, Authority to postpone certain deadlines by reason of federally declared disaster, significant fire, or terroristic or military actions
- IRC 7801, Authority of Department of the Treasury
- IRC 7805, Rules and Regulations
- Policy Statement 5-2, Collecting Principles
- Policy Statement 10-2, Privacy First: Protecting Privacy and Safeguarding Confidential Tax Information
- Policy Statement 21-1, Service Commitment to Taxpayers Service Program
- Policy Statement 21-2, The public impact of clarity, consistency, and impartiality in dealing with tax problems must be given high priority
- Policy Statement 21-3, Timeliness and Quality of Taxpayer Correspondence
- Policy Statement 21-4, One-stop service defined
- Policy Statement 21-5, Assistance furnished to taxpayers in the correction of accounts
- Policy Statement 21-6, Monitoring Employee Contacts with Taxpayers

(2) The IRM cites specific pieces of legislation when the information is relevant to the issue or is useful for greater understanding.

(3) Authority granted by the United States Code (USC), Title 26, Internal Revenue Code, Subtitle A, Income Taxes.

IRM 21.4.5.1.3 - Updated roles and responsibilities.

- (1) The Taxpayer Services Chief oversees all policy related to this IRM. This IRM is published annually.
- (2) The Accounts Management director oversees the IRM content that provides instructions to employees.
- (3) Accounts Management Policy and Procedures IMF (PPI), Individual Adjustments, oversee the content in this IRM and act as the point of contact for all Accounts Management sites.
- (4) Managers and leads must ensure compliance with the guidance and procedures in this IRM to address and timely resolve taxpayer contacts, preventing and resolving erroneous refunds, and Form 4442 referrals.
- (5) Employees respond to taxpayer inquiries, prevent, and resolve erroneous refunds and prepare Form 4442 referral requests following procedures in this IRM.
- (6) The Taxpayer Bill of Rights (TBOR) summarizes existing rights in the tax code, presents them in plain language, and groups them into 10 fundamental rights. Employees must be familiar with and act in accordance with taxpayer rights.
 - IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights
 - For more information about the TBOR, see Taxpayer Bill of Rights
- (7) Additional information is found in IRM 1.1.13.6.3, Accounts Management, and IRM 21.1.1, Accounts Management and Compliance Services Overview.

IRM 21.4.5.1.4 - Updated the section to move Program Reports and Annual Review into this section and expand the Program Effectiveness content for consistency with other IRMs.

- (1) **Program Reports:** The program reports in this IRM help Accounts Management contact representatives (CRs) and tax examiners (TEs) identify applicable reports. For reports concerning quality, inventory, and aged listings, refer to IRM 1.4.16, Accounts Management Guide for Managers. Aged listings are also available through Control Data Analysis, Project PCD, on the Control-D/Web Access server which requires a login. Duplicate Manual Erroneous Refund (DMER) and Erroneous TC 840/846 Reports are used to identify and track potential erroneous refunds.
- (2) **Program Effectiveness:** The program effectiveness of this IRM are measured through the following:
 - National Quality Review System (NQRS)

- Centralized Evaluative Review (CER)
- Managerial reviews
- Quarterly reviews conducted by Accounts Management Policy and Procedures IMF (PPI), Individual Adjustments

Reviews and analysis must evaluate whether employees use IRM guidance to perform required account actions and duties.

(3) **Annual Review:** The processes in this IRM are reviewed annually to ensure accuracy and promote consistency in tax administration.

IRM 21.4.5.1.5 - Expanded the section to include all relevant controls for consistency with other IRMs.

(1) The Federal Managers Financial Integrity Act (FMFIA) of 1982 requires federal agency executives to periodically review and annually report on internal control systems.

(2) The Government Accountability Office (GAO) establishes standards for effective internal control in the federal government.

(3) **Program Controls:** Quality data and guidelines for measurement are referenced in IRM 21.10.1, Embedded Quality (EQ) for Accounts Management, Campus Compliance, Tax Exempt Government Entities, Return Integrity and Compliance Services (RICS) and Electronic Products and Services Support. The Embedded Quality Review Program (EQRS) is the system used by Accounts Management to review the employees' quality of work. The quality review process monitors, measures, and supports continuous improvement in employee performance. Quality review data provides statistics for the Service's business results component of Balanced Measures and identifies trends, problem areas, training needs, and opportunities for improvement.

(4) The Centralized Quality Review System (CQRS), operated by the Joint Operations Center (JOC), provides independent quality review services for multiple product lines.

(5) Accounts Management Policy and Procedures IMF (PPI), Individual Adjustments, conducts operational quality reviews. Local quality reviews support employee development and on-the-job instruction. The Accounts Management function may also request local quality reviews for processes not subject to national quality review. Managerial reviews, prepared in EQRS, evaluate employee performance.

(6) Quality Review data helps management measure and improve program effectiveness by identifying the following:

- Defects resulting from site or systemic actions or inactions

- Drivers of customer accuracy
- Reasons for defect occurrence
- Defect trends
- Recommendations for corrective action
- Training needs

IRM 21.4.5.1.7 - Expanded the section to include all relevant resources for consistency with other IRMs.

(1) Refer to IRM 1.4.2.1.8 , Related Resources, for information on related resources that impact internal controls.

(2) Below are additional websites, job aids, or electronic tools that are required to assist in completing work in Accounts Management (AM) (list is not all inclusive):

- Account Management Services (AMS) is a web-based system that emphasizes the sharing of key business data and provides a consolidated and synchronized view of taxpayer data and contact information from various IRS systems
- CCJA - IDRS Command Code Job Aid
- Correspondence Imaging Inventory (CII) may be used for scanning all AM adjustment receipts and correspondence into digital images for case work resolution
- Correspondex Letters
- Document 6209, IDRS Processing Codes & Information
- Electronic Publishing website may be used to research forms, instructions, publications, and other Internal Revenue Manuals, revenue procedures and IRS announcements
- Employee User Portal (EUP) is used to view corporate and individual electronic tax returns filed via MeF
- Integrated Automation Technologies (IAT) Job Aids are tools used to simplify taxpayer account processing by assisting the user with IDRS research and input
- Servicewide Electronic Research Program (SERP) is utilized to find SERP Alerts, IPU's, Correspondex Letters, IRM Supplements and other information
- Technical Communication Documents (TCD)
- Erroneous Refund Calendar (2026) Job Aid

IRM 21.4.5.3(1) - Added note to clarify that superseding returns are not erroneous refunds.

(1) The following situations may cause or create an erroneous refund (this list is not all-inclusive):

- a. Misapplied Payments – A payment applied to the wrong TIN. The misapplied payment overpays the account, causing an erroneous refund.
- b. A taxpayer's **designated** payment posts to the correct TIN but the wrong type of tax or tax year.
- c. A taxpayer's **designated** payment posts to the correct TIN and tax period but is refunded before actions can be taken on the account.

Example: An Automated Underreporter (AUR) or BMF Underreporter (BUR) reply received with a payment and the payment is refunded before the account is adjusted.

Example: A taxpayer submits an amended return with payment reporting an additional liability before the ASER. The payment is refunded before the amended return is processed/assessed and the ASER has expired. The refunded payment is a Category D erroneous refund. See IRM 21.4.5.5.5, Overview of Category D Erroneous Refunds. No underpayment interest should be charged on the erroneous refund pursuant to IRC 6404(e)(2) when applicable. See IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds.

- d. A credit refund of any type if the taxpayer is not entitled.
- e. Return of court ordered restitution.
- f. An incorrect tax assessment or adjustment causing an incorrect refund.
- g. A joint refund issued in one spouse's name only (if the other spouse did not benefit in any way).
- h. Two taxpayers file refund returns, using the same TIN, and the refund goes to the wrong taxpayer.
- i. A taxpayer fraudulently or by mistake, receives refunds from more than one TIN for the same tax period.
- j. A taxpayer receives both a manual (transaction code (TC) 840) and a computer-generated (TC 846) refund for the same overpayment.
- k. A taxpayer files a claim on a lost check, receives a replacement check, finds the original check and cashes both.

- l. Incorrectly computed interest.
- m. A direct deposit is applied to the wrong person's bank account due to IRS error (owner of account may or may not be known).
- n. Improper release of the TC 700 (false credit) "-U" freeze. See Document 6209, Section 8A. 2, for a complete description of TC 700.

Note: On Category D erroneous refunds, the Submission Processing, Accounting/Erroneous Refund Unit (A/ER), inputs a TC 700 to remove the erroneous refund amount from Master File and the account is re-established in Accounting. This action is taken to prevent administrative collection action (filing Notices of Federal Tax Lien or issuing levies) from occurring on the erroneous refund liability. **Do not release the TC 700 credit. Do not reverse or transfer the false TC 700 credit, which can be identified by a DLN with document code 58 and blocking 850-899 or 950-999.**

- o. Statute barred refunds.

Note: Erroneous refund procedures **do not** apply when a superseding return reduces or eliminates a refund that was issued based on the original return. Instead, assess the additional tax shown on the superseding return and collect any balance due using normal collection procedures.

IRM 21.4.5.3(1)(c) - Added an example clarifying the treatment of amended return payments refunded before the amended return is processed as Category D erroneous refunds.

(1) The following situations may cause or create an erroneous refund (this list is not all-inclusive):

- a. Misapplied Payments – A payment applied to the wrong TIN. The misapplied payment overpays the account, causing an erroneous refund.
- b. A taxpayer's **designated** payment posts to the correct TIN but the wrong type of tax or tax year.
- c. A taxpayer's **designated** payment posts to the correct TIN and tax period but is refunded before actions can be taken on the account.

Example: An Automated Underreporter (AUR) or BMF Underreporter (BUR) reply received with a payment and the payment is refunded before the account is adjusted.

Example: A taxpayer submits an amended return with payment reporting an additional liability before the ASER. The payment is refunded before the amended

return is processed/assessed and the ASER has expired. The refunded payment is a Category D erroneous refund. See IRM 21.4.5.5.5, Overview of Category D Erroneous Refunds. No underpayment interest should be charged on the erroneous refund pursuant to IRC 6404(e)(2) when applicable. See IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds.

- d. A credit refund of any type if the taxpayer is not entitled.
- e. Return of court ordered restitution.
- f. An incorrect tax assessment or adjustment causing an incorrect refund.
- g. A joint refund issued in one spouse's name only (if the other spouse did not benefit in any way).
- h. Two taxpayers file refund returns, using the same TIN, and the refund goes to the wrong taxpayer.
- i. A taxpayer fraudulently or by mistake, receives refunds from more than one TIN for the same tax period.
- j. A taxpayer receives both a manual (transaction code (TC) 840) and a computer-generated (TC 846) refund for the same overpayment.
- k. A taxpayer files a claim on a lost check, receives a replacement check, finds the original check and cashes both.
- l. Incorrectly computed interest.
- m. A direct deposit is applied to the wrong person's bank account due to IRS error (owner of account may or may not be known).
- n. Improper release of the TC 700 (false credit) "-U" freeze. See Document 6209, Section 8A. 2, for a complete description of TC 700.

Note: On Category D erroneous refunds, the Submission Processing, Accounting/Erroneous Refund Unit (A/ER), inputs a TC 700 to remove the erroneous refund amount from Master File and the account is re-established in Accounting. This action is taken to prevent administrative collection action (filing Notices of Federal Tax Lien or issuing levies) from occurring on the erroneous refund liability. **Do not release the TC 700 credit. Do not reverse or transfer the false TC 700 credit, which can be identified by a DLN with document code 58 and blocking 850-899 or 950-999.**

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Note: Erroneous refund procedures **do not** apply when a superseding return reduces or eliminates a refund that was issued based on the original return. Instead,

assess the additional tax shown on the superseding return and collect any balance due using normal collection procedures.

IRM 21.4.5.3(1)(c) - Removed note stating amended return payments refunded before amended return processed is not an erroneous refund.

(1) The following situations may cause or create an erroneous refund (this list is not all-inclusive):

- a. Misapplied Payments – A payment applied to the wrong TIN. The misapplied payment overpays the account, causing an erroneous refund.
- b. A taxpayer's **designated** payment posts to the correct TIN but the wrong type of tax or tax year.
- c. A taxpayer's **designated** payment posts to the correct TIN and tax period but is refunded before actions can be taken on the account.

Example: An Automated Underreporter (AUR) or BMF Underreporter (BUR) reply received with a payment and the payment is refunded before the account is adjusted.

Example: A taxpayer submits an amended return with payment reporting an additional liability before the ASER. The payment is refunded before the amended return is processed/assessed and the ASER has expired. The refunded payment is a Category D erroneous refund. See IRM 21.4.5.5.5, Overview of Category D Erroneous Refunds. No underpayment interest should be charged on the erroneous refund pursuant to IRC 6404(e)(2) when applicable. See IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds.

- d. A credit refund of any type if the taxpayer is not entitled.
- e. Return of court ordered restitution.
- f. An incorrect tax assessment or adjustment causing an incorrect refund.
- g. A joint refund issued in one spouse's name only (if the other spouse did not benefit in any way).
- h. Two taxpayers file refund returns, using the same TIN, and the refund goes to the wrong taxpayer.
- i. A taxpayer fraudulently or by mistake, receives refunds from more than one TIN for the same tax period.
- j. A taxpayer receives both a manual (transaction code (TC) 840) and a computer-generated (TC 846) refund for the same overpayment.

- k. A taxpayer files a claim on a lost check, receives a replacement check, finds the original check and cashes both.
- l. Incorrectly computed interest.
- m. A direct deposit is applied to the wrong person's bank account due to IRS error (owner of account may or may not be known).
- n. Improper release of the TC 700 (false credit) "-U" freeze. See Document 6209, Section 8A. 2, for a complete description of TC 700.

Note: On Category D erroneous refunds, the Submission Processing, Accounting/Erroneous Refund Unit (A/ER), inputs a TC 700 to remove the erroneous refund amount from Master File and the account is re-established in Accounting. This action is taken to prevent administrative collection action (filing Notices of Federal Tax Lien or issuing levies) from occurring on the erroneous refund liability. **Do not release the TC 700 credit. Do not reverse or transfer the false TC 700 credit, which can be identified by a DLN with document code 58 and blocking 850-899 or 950-999.**

- o. Statute barred refunds.

Note: Erroneous refund procedures **do not** apply when a superseding return reduces or eliminates a refund that was issued based on the original return. Instead, assess the additional tax shown on the superseding return and collect any balance due using normal collection procedures.

IRM 21.4.5.5.5(5) - Updated example (f) for clarity and added example (g) to add an example of a Category D erroneous refund involving a payment submitted with an amended return that refunds before the amended return is processed and the additional liability is assessed.

(5) The following are examples and causes of Category D erroneous refunds. This list is not all-inclusive:

- a. Misapplied Payments: A payment is misapplied to the wrong TIN, overpays the account and generates an erroneous refund.
- b. A taxpayer receives both a manual refund (TC 840) and a systemically generated refund (TC 846).
- c. A taxpayer files a non-receipt claim on a refund check and receives a replacement check. The taxpayer cashes both checks.
- d. A direct deposit is applied to the wrong taxpayer's bank account (unintended recipient) due to IRS error.

- e. A refund of court ordered restitution.
- f. An AUR or BUR reply is received with a payment, and the payment is refunded before AUR or BUR inputs the proposed assessment.
- g. A taxpayer submits an amended return reporting an additional liability and remits a payment before the ASER. The payment is refunded before the amended return is processed and the assessment is made.

IRM 21.4.5.6.1(1) - For clarity, added a column of row numbers to the table and direction for incorrectly designated payments. SERP Feedback 40642.

(1) The necessary account actions will depend on what caused the erroneous refund:

Row	Cause of Error	Issue Letter 510C or advise by phone	Input TC 844 and Refer to Accounting	Procedures to Follow	Other Account Actions
1	TC 840 and TC 846 for same overpayment	Yes	Yes	Follow procedures in (2) - (10) below and in IRM 21.4.5.5.6, Duplicate Manual Erroneous Refunds (DMER)	None
2	Taxpayer cashed lost check and replacement check	Yes	Yes	Follow procedures in (2) - (10) below	None
3	IRS Direct Deposit Error	Yes, if account owner known	Yes	Refer to IRM 21.4.5.11.1, IRS Error Direct Deposit	Issue Manual Refund to correct taxpayer
4	Misapplied payments to an incorrect TIN	Yes	Yes	Follow procedures in (2) - (10) below	Credit transfer to correct TIN

5	Refunds issued after the Refund Statute has expired	Yes	Yes	Follow procedures in (2) - (10) below	None
6	Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds	Yes, send the letter to the bond issuer, not to the trustee.	No	Refer to IRM 21.7.7.4.5.4.1, Form 8038-CP Erroneous Refund Procedures	None
7	TC 899 Type 2 or TC 971 AC 599 Type 2	Yes, if the account owner's address is known	Yes	Follow procedures in (2) - (10) below	See IRM 21.4.5.6.4, Full Paid Erroneous Refunds Procedures, when an adjustment to the TIN owner's return fully pays the TC 899 Type 2.
8	Incorrect refund issued to the TIN owner as the result of fraudulently filed tax return	Yes	Yes	Follow procedures in (2) - (10) below	None
9	Taxpayer filed a return under both an ITIN and an SSN and received refunds from both	No	No	Refer to IRM 21.5.2.4.23.10, Moving Refunds.	This is not a Category D erroneous refund. These would be treated as Category A2 or Category B erroneous refunds, depending on the composition of the refund (refundable/non-refundable versus pre-paid credits). Follow procedures in IRM 21.4.5.5.2, Category A2 Erroneous Refund, or IRM 21.4.5.5.3,

					Category B Erroneous Refunds. Note: # [REDACTED] #
10	Refund of a payment the taxpayer designated for a tax year or type of tax that did not match the tax year or type of tax the taxpayer intended to pay	Yes	Yes	Follow procedures in (2) through (10) below. IRM 21.4.5.8, Erroneous Refunds on Designated and Non-Designated Payments, to determine whether the taxpayer designated the payment for the intended tax year and type of tax.	None

IRM 21.4.5.6.1(6) - For consistency, added the word posted for the TC846/TC840 date throughout the table.

(6) To determine whether the taxpayer owes interest when issuing a Letter 510C determine whether the taxpayer or the IRS caused the erroneous refund, then use the table below. For a designated payment, determine whether the tax year and type of tax selected by the taxpayer matched the tax year and type of tax the taxpayer intended to pay.

If	Then
The taxpayer (or related party) caused the error, deliberate or not, regardless of the amount of the erroneous refund	Interest is assessed from the posted date of the refund (TC 846/TC 840). Follow instructions in paragraph 7(b) below.
IRS caused the error and the erroneous refund is \$50,000 or less	Interest is assessed from the notice and demand date (date of the Letter 510C) Follow instructions in paragraph 7(a) below.
IRS caused the error and the erroneous refund is over \$50,000	Interest is assessed from the posted date of the refund (TC 846/TC 840). Follow instructions in paragraph 7(b) below. Note: Refer to IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds, for case-by-case discretionary authority to abate interest on erroneous refunds that exceed \$50,000.

Note: Interest is not charged when a Treasury check is returned (i.e., the check was not cashed).

IRM 21.4.5.6.1(10) - Clarified IDRS control procedures for Category D erroneous refunds. Added instructions to establish and reassign a new ERRF control and to close the originating CII/IDRS control after completing referral actions. SERP Feedback 41622.

(10) Establish a new Integrated Data Retrieval System (IDRS) control base with Category Code "ERRF", status "M" and activity code "ERRORREF". Reassign the ERRF control base to the appropriate A/ER unit. After completing all required actions and referring the erroneous refund package to the A/ER unit, close the originating CII/IDRS control. **Do not** leave the originating control open to monitor actions taken by the A/ER unit. The first five digits of the Erroneous Refund Units IDRS numbers are as follows:

- Austin - 0611300000
- Kansas City - 0911800000
- Ogden - 0411700000

Note: To determine the appropriate campus, see IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

IRM 21.4.5.6.3(1) - Updated the Reminder to clarify ERRF control establishment, reassignment, and closure of the originating control before completing the erroneous refund referral. SERP Feedback 41622.

(1) Effective October 1, 2020, all Category D erroneous refunds will be emailed to the organizational mailbox established for each A/ER function. The email will include all required documentation as discussed in IRM 21.4.5.6.1 (2) and be merged into one pdf document. The Form 12356 needs to be the first page of the document. No Form 3210 will be needed any longer. The subject line on the email and the file will be the Refund Schedule Number (RSN)_last four digits on TIN. Example: 2014094175W_6081.

- *TS SP Erroneous Refund Austin
- *TS SP Erroneous Refund Kansas City
- *TS SP Erroneous Refund Ogden

Reminder: Establish and reassign the ERRF control as required by IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, before emailing the erroneous refund package to the A/ER unit. Close the originating CII/IDRS control after completing the required referral actions.

IRM 21.4.5.8 (1 Note) - Added a cross-reference directing employees to paragraphs (4) and (5). SERP Feedback 40642.

(1) A taxpayer may designate a voluntary payment three ways:

- a. Tax year and the type of tax are designated on the front of the check.
- b. Payment is attached to or included in an envelope with an IRS payment voucher (completed) or with an IRS notice for the tax period and type of tax intended.
- c. Taxpayer correspondence is associated with the payment and identifies the tax period and type of tax to which the payment should be applied.

Note: Electronic payments are designated payments where the electronic system makes the user designate the tax year and type of tax. If the taxpayer selects a tax year or type of tax that does not match the tax year or type of tax the taxpayer intended to pay, follow paragraphs (4) and (5).

IRM 21.4.5.8(4) - Revised the applicable "If" condition to include situations where the taxpayer either did not designate the payment or incorrectly designated the payment. SERP Feedback 40642.

(4) Generally, if the taxpayer **does not** designate how a payment should be applied, the IRS is entitled to apply the payment in the best interest of the government. Once applied, the IRS is not required to move the payment. See the following table.

If	Then
Erroneous refund was a refund of the taxpayer's voluntary payment and the payment was properly designated.	The credit must be moved to the designated tax year and type of tax.
Any portion of the payment has refunded and the taxpayer did not designate the tax year or type of tax, or selected a tax year or type of tax that did not match the tax year or type of tax the taxpayer intended to pay.	DO NOT transfer the credit. Advise the taxpayer the payment refunded. Until the taxpayer repays the full amount previously refunded, IRS cannot post a credit to the account. Interest and penalties continue to accrue until the tax is paid in full.

IRM 21.4.5.8(5) - Clarified when a refunded payment may be transferred and added procedures for verifying the taxpayer's intended payment designation. SERP Feedback 40642.

(5) Do not transfer the payment (in part or in whole) if the payment has refunded unless the taxpayer designated the payment for a specific tax year and type of tax that matches the tax year and type of tax the taxpayer intended to pay. If designation cannot be verified via internal research, the taxpayer must submit proof of the intended designation.

IRM 21.4.5.14(3)(b) - For clarity, added from the posted date of the refund (TC846/TC840) throughout table. SERP Feedback 35933.

(3) Interest on any unpaid amount is charged from the date of the refund to the date of repayment if:

- a. The erroneous refund is more than \$50,000, (see IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds-IRC, for exceptions) or
- b. The taxpayer (or related party) caused the erroneous refund

If	Then
The taxpayer (or related party) caused the error, deliberate or not, regardless of the amount of the erroneous refund	Interest is assessed from the posted date of the refund (TC 846/TC 840). The Letter 510C will provide a balance due which includes interest calculated to the notice date. Taxpayers have 21 days # [REDACTED] # to pay the balance due or interest will continue to accrue. Note: If the erroneous refund amount is \$100,000 or more, taxpayers have 10 business days # [REDACTED] # to pay the balance due or interest will continue to accrue.
The IRS caused the error and the amount of the refund is \$50,000 or less	Interest is assessed from the notice and demand date (date of the Letter 510C). The taxpayer has 21 days # [REDACTED] # to pay the balance due stated in the notice and demand or interest will accrue starting on the notice and demand date.
The IRS caused the error and the amount of the erroneous refund is more than \$50,000 but less than \$100,000	Interest is assessed from the posted date of the refund (TC 846/TC 840). The taxpayers have 21 days # [REDACTED] # to repay the amount to avoid additional interest.
The IRS caused the error and the amount of erroneous refund is \$100,000 or more	Interest is assessed from the posted date of the refund (TC 846/TC 840). Taxpayers have 10 business days # [REDACTED] # to repay the amount to avoid additional interest.

Note: Interest is not charged when a treasury check is returned (the check was not cashed).

Note: Refer to IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds, for case-by-case discretionary authority to abate interest on erroneous refunds that exceed \$50,000.

IRM 21.4.5 - Minor editorial changes made throughout this IRM includes updating links, typographical errors, and plain language improvement, where applicable.

IRM 21.4.5 - Artificial Intelligence (AI) tools were used to make editorial changes including plain language revisions, correcting punctuation and grammar, and adhering to IRM style format.