IRM PROCEDURAL UPDATE

DATE: 11/03/2026

NUMBER: ts-21-1126-0895

SUBJECT: Various Updates to Refund Inquiries; Erroneous Refunds

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

CHANGE(s):

IRM 21.4.5.3(1) (c) - Clarified the examples involving designated payments submitted with amended returns to distinguish situations in which the Assessment Statute Expiration Date (ASED) has expired from those in which the additional liability is assessed before the ASED expires. SERP Feedback 43099.

(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 designated payment and the designated payment is refunded before the account is adjusted.

   Example: A taxpayer submits an amended return with a designated payment reporting an additional liability before the ASED. The payment is refunded, and the IRS does not process the amended return or assess the additional liability before the ASED expires. 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.

   Example: A taxpayer submits an amended return with a designated payment reporting an additional liability before the ASED. The payment is refunded, but the IRS processes the amended return and assesses the additional liability **before** the ASED expires. The refunded payment **is not** a Category D erroneous refund. The additional liability is subject to normal assessment and collection procedures.

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 21.4.5.5.3(10) - Added guidance directing employees to IRM 21.4.5.15.1.1(5) when the ERSED has expired. SERP Feedback 42821.

(10) While the Category B assessments are not subject to the deficiency procedures, the assessments must be made within the ASED. See IRC 6501 If the ERSED has expired, follow IRM 21.4.5.15.1.1, Statutes of Limitations Category D Erroneous Refunds IRC 6532(b) ERSED.

Note: If the ASED has expired, Category B erroneous refunds may still be recovered using the ERSED, if the ERSED is still open. In this instance, the Category D procedures would be used. See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED.

IRM 21.4.5.5.5(5) - Updated example (g) to clarify the amended return example to address payments refunded before processing and assessments made after the ASED. SERP Feedback 43438.

(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 ASED. The payment is refunded before the amended return is processed and the assessment is made and the ASED has expired.

IRM 21.4.5.6.1(1) - Added systemic spousal transfer and manual credit transfer to the table. SERP Feedback 42702.

(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 21.7.7.7.4.5.4.1, 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]

					[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
11	Completed Systemic Spousal Transfer as described in IRM 21.5.7.3.2.2, Spousal Payments and Manual credit transfer input for the same payment	Yes	Yes	Follow procedures in (2) – (10) below	Input credit transfer to credit TC 670 back to the spouse's TIN to eliminate the debit balance created by the duplicate transfer

IRM 21.4.5.6.1(7) (a) and (b) - Clarified the TC 844 input instructions to specify that employees must use the transaction date of the erroneous refund in the TRANS-DT field to prevent potential unpostable conditions. SERP Feedback 43068.

(7) Employees must input a TC 844 using CC REQ77/FRM77 when a Category D erroneous refund is identified. The TC 844 generates a "-U" freeze on the account.

Note: If the erroneous refund date is a future date, request on the Form 12356, that a TC 844 be input by the Accounting Function upon receipt of the case. Ensure the date of demand is on or after the 23C date of the refund.

Exception: Before inputting a TC 844 on BMF accounts, verify that there is no MFT 46 account with report ranges in the 200, 400 or 800 range. If the account does contain an MFT 46 Doc Code 88 with report ranges 200, 400 or 800, please refer to Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds, IRM 21.7.7.7.4.5.4.1, Form 8038-CP Erroneous Refund Procedures. The TC 470 needs to be input on these accounts.

a. If IRS error and $50,000 or less:
   - Input TC 844. See Exhibit 2.4.19-6, Examples of Command Code FRM77, for an example of TC 844 input.
   - Enter the Date of Demand in the "EXTENSION-DT" field.
   - Enter the transaction date of the erroneous refund (TC 840 or TC 846 or TC 899 Type 2) in the "TRANS-DT" field.
   - Enter the erroneous refund amount in the "FREEZE-RELEASE-AMT" field.

b. If taxpayer error or refunds more than $50,000:
   - Input TC 844. See Exhibit 2.4.19-6, Examples of Command Code FRM77, for an example of TC 844 input.
   - Enter the transaction date of the erroneous Refund (TC 840 or TC 846 or TC 899 Type 2) in the "TRANS-DT" field.

IRM 21.4.5.6.4(3) - Clarified procedures for establishing and reassigning ERRF controls and closing originating CII/IDRS controls after referring fully paid erroneous refund cases to Accounting. SERP Feedback 43694.

(3) If the account has been fully paid by an offset or by the taxpayer submitting full payment on the account, take the following actions:

a. Input a TC 844 using the current date as the date of demand. The input of the TC 844 with the current date as the date of demand will reverse any systemically assessed interest.

b. Complete a Form 12356, Erroneous Refund Worksheet.

c. In the remarks section (section 14) state, "Full Paid Erroneous Refund", "No 510C Letter sent", "Please input TC 845 to reverse TC 844".

d. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

e. Establish a new Integrated Data Retrieval System (IDRS) control base with Category Code "ERRF", status **M**, and activity code "ERRORREF". Reassign the control base to the appropriate A/ER unit. See IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, for IDRS control numbers and case closure procedures.

f. Email the erroneous refund packages to the appropriate A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund packages. After completing all required actions and referring the erroneous refund package, close the originating CII/IDRS control. **Do not** leave the originating control open to monitor actions taken by the A/ER unit.

IRM 21.4.5.6.4(4) - Added a cross-reference to ERRF control and case closure procedures for returned erroneous refund checks.

(4) If the taxpayer returned the treasury check and there is a TC 841 with "99999" in the DLN on the account, then take the following actions:

a. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

b. Complete a Form 12356, Erroneous Refund Worksheet.

c. In the remarks section (section 14) state, "Check Returned - TC 844 Not Needed", and "No 510C Letter Sent".

d. Email the erroneous refund packages to the A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages. Follow IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, for applicable control and case closure procedures.

IRM 21.4.5.12(1) - Clarified the procedures for returning an uncashed erroneous refund check to specify that the original check must be submitted and that a copy of the check is not acceptable as a returned refund check. SERP Feedback 42896.

(1) If an erroneous taxpayer (unintended recipient) advises they have received another taxpayer's refund in error, use the following table to advise the erroneous taxpayer how to return or repay **an erroneous refund check**:

If	**Advise the taxpayer to:**
The recipient **has not cashed** the refund check	1. Write "Void" in the endorsement section on back of the check. 2. Submit the original refund check within 21 days of the "date of demand" to the taxpayer's filing campus. A copy of the refund check submitted with taxpayer correspondence is not acceptable as a returned refund check. 3. Do not staple, bend, or paper clip the check.

	4. Include a note stating, "Return of Erroneous Refund Check" and provide an explanation as to why the check is being returned. 5. See IRM 21.4.3.5.4 (1), Returned Refund Check Procedures, for more information. **Note:** Upon receipt of the returned refund, the Refund Inquiry area will research and correct the account as appropriate.
The recipient **has cashed** the refund check	1. Submit payment within 21 days of the "date of demand" to the taxpayer's filing campus. If the taxpayer wants to repay in installments, see IRM 5.19.1.5.17.1, Unassessable (Formerly Non-Rebate) Erroneous Refunds. 2. Write on the check or money order: "Payment of Erroneous Refund", the tax period (for which the refund was issued, e.g., 201912), the account type (IMF or BMF), and the TIN (i.e., SSN, EIN, or Individual Taxpayer Identification Number (ITIN)). 3. Advise recipient of possible interest accruals.