

IRM PROCEDURAL UPDATE

DATE: 11/20/2023

NUMBER: wi-21-1123-1103

SUBJECT: Credit for Increasing Research Activities; AdvCTC procedures for Refund Inquiry; Filing Deadlines for RRC for 2020 and 2021

AFFECTED IRM(s)/SUBSECTION(s): 21.6.3

CHANGE(s):

IRM 21.6.3.4.1.12 Added paragraph 4 to provide procedures for claims filed between January 10, 2022, and January 10, 2025.

(1) Generally, to qualify for the credit, taxpayer must have qualified research expenses paid or incurred in carrying on an active trade or business.

(2) The credit can be claimed as a general business credit on Form 3800, General Business Credit, or Form 6765, Credit for Increasing Research Activities.

(3) Taxpayers must attach one of the forms listed in paragraph 2 to claim the credit.

Exception: If the research credit comes from an amended Schedule K-1, neither form needs to be attached.

(4) Route all amended returns for research credits to CAT-A for consideration before processing the adjustment. This includes amended Form 1040-X with changes to the research credit from an amended Schedule K-1. See Exhibit 21.5.3-2 (box 27), Examination Criteria (CAT-A) General, for more information.

(5) For claims filed between January 10, 2022, and January 10, 2025, if the claim is not complete, CAT-A will return to AM to send the taxpayer Letter 6426C, Additional Information Needed to Process Your Section 41 Claim.

- Use your individual or department fax number for the letter.
- Allow the taxpayer 45 days to respond.
- Suspend your case for 60 days.
- If the taxpayer responds, return the information to CAT-A so they can determine if the taxpayer meets the 5 criteria to be considered a valid claim.
- If the taxpayer does not respond after 60 days, send the taxpayer Letter 6424C, Claim for Credit for Increasing Research Activities Incomplete; No Consideration.

(6) For more information about Form 6765, see IRM 21.7.4.4.8.3.5, Form 6765, Credit for Increasing Research Activities.

(7) To adjust the account based on the credit:

- a. Use TC 291 with a money amount to allow/increase the credit.
- b. Use TC 290 with a money amount to decrease the credit.
- c. Use RC 036 and the applicable source code and blocking series.

(8) See Instructions for Form 6765, Credit for Increasing Research Activities (or for claiming the orphan drug credit) for detailed information.

IRM 21.6.3.4.1.24.2.2 Added new subsection for Refund Inquiry employees.

Reconciling Advance Child Tax Credit (AdvCTC) Payments - REFUND INQUIRY EMPLOYEES ONLY

(1) Taxpayers who received Advance Child Tax Credit (AdvCTC) payments were required to complete Schedule 8812, Credit for Qualifying Children and Other Dependents, to reconcile the advance payments with the amount of Child Tax Credit (CTC) / Refundable Child Tax Credit (RCTC) they were eligible to claim on their 2021 return.

(2) You cannot issue a replacement check for an AdvCTC payment if it was issued but not received, you must:

- determine if the payment has been systemically reversed on the tax module
- verify the taxpayer has filed a tax return for tax year 2021 including Schedule 8812
- determine if the taxpayer is still eligible for all or any of the payment

(3) If the taxpayer has not filed their 2021 tax return or has not included a Schedule 8812 with their original return, send a closing letter for your refund inquiry case. You may use the suggested verbiage below in 2 open paragraphs:

- **No tax return on file:** We are no longer authorized to reissue your Advance Child Tax Credit payment. To receive any amount of the payment you may be entitled to, you must file a 2021 tax return including Schedule 8812, Credit for Qualifying Children and Other Dependents, to reconcile any payments you received with the total amount of Child Tax Credit you are entitled to based on your 2021 tax return.
Please have Letter 6419, 2021 Total Advance Child Tax Credit (AdvCTC) Payments, for both you and your spouse (if applicable), available when completing Schedule 8812.
- **No Schedule 8812 filed with original tax return:** We are no longer authorized to reissue your Advance Child Tax Credit payment. To receive any

amount of the payment you may be entitled to, you must complete Schedule 8812, Credit for Qualifying Children and Other Dependents, to reconcile any payments you received with the total amount of Child Tax Credit you are entitled to based on your 2021 tax return.

Please have Letter 6419, 2021 Total Advance Child Tax Credit (AdvCTC) Payments, for both you and your spouse (if applicable), available when completing Schedule 8812.

(4) If there is a 2021 tax return on file with a Schedule 8812 included, complete the Schedule 8812 worksheet on AMS to verify if the taxpayer is eligible for the returned payment. Refer to IRM 21.6.3.4.1.24, Child Tax Credit (CTC), for eligibility. If the taxpayer is eligible for the payment, adjust the account to allow RCTC (CRN 336 and reason code 061) or CTC (reason code 036).

Note: When you complete the Schedule 8812 on the AMS worksheet, make sure you only include payments the taxpayer received.

Note: If, after completing the Schedule 8812, there is an input on Line 29 (Excess AdvCTC) or line 40 (AdvCTC Repayment), refer to IRM 21.6.3.4.1.24.2.1, Reconciling Advance Child Tax Credit (AdvCTC) Payments.

If the taxpayer is no longer eligible for the payment and there are no entries on line 29 or line 40 of the Schedule 8812, follow paragraph 5 below and correspond with the taxpayer to advise they are no longer eligible. You may use the suggested verbiage "Our records indicate you are no longer eligible for the advance child tax payment based on your 2021 return information. If you disagree, please send us a completed Schedule 8812, Credit for Qualifying Children and Other Dependents."

(5) If the payment(s) have not posted back to the account and the credit(s) have not been systemically reversed on the tax module, follow procedures in IRM 21.6.2.4.8.2, AdvCTC - Manual Adjustments - General Information, paragraphs 2 through 4, to reverse the credit(s).

(6) Whether the taxpayer has or has not filed a 2021 tax return, if the financial institution will not return the misdirected funds, follow IRM 21.4.5.11.1, IRS Error Direct Deposit, paragraph 4, so the balance created by the AdvCTC reversal does not negatively impact the taxpayer.

IRM 21.6.3.4.2.14 Added specific filing deadlines to claim RRC for 2020 and 2021.

(1) Taxpayers who didn't receive the Economic Impact Payments (EIP), or received less than entitled to, as shown in IRM 21.6.3.4.2.13, Economic Impact Payments, may qualify for the Recovery Rebate Credit (RRC). RRC is a refundable credit on the tax year 2020 / 2021 return and is based on the following:

Legislation	Credit amount	Applicable posting tax year
The Coronavirus Aid, Relief and Economic Security (CARES) Act IRC 6428	The sum of \$1,200 (\$2,400 if married filing jointly), plus an additional \$500 for each qualifying child.	2020 Fiscal year filers (202101 - 202111)
The Consolidated Appropriation Act, 2021 IRC 6428A	The sum of \$600 (\$1,200 if married filing jointly), plus an additional \$600 for each qualifying child.	2020 Fiscal year filers (202101 - 202111)
American Rescue Plan Act of 2021 IRC 6428B	The sum of \$1,400 (\$2,800 if married filing jointly), plus an additional \$1,400 for each qualifying dependent.	2021 Fiscal year filers (202201 - 202211)

Note: Credit may be reduced based on income limitations.

(2) For tax year 2020, taxpayers compute the RRC based on eligibility shown on their tax year 2020 return. RRC is reduced by the first and second EIPs. Any remaining credit is claimed on the tax year 2020 return. If the taxpayer was eligible for EIP 1 and/or 2 based on their 2018 or 2019 tax return, but the credit based on their 2020 tax return is less than the EIPs they received, no repayment is required. For tax year 2021, RRC is based on eligibility shown on their tax year 2021 return and is reduced, but not below zero, by the third EIP. If the taxpayer was eligible for EIP 3 based on their 2019 / 2020 tax return, but the credit based on their 2021 tax return is less than the EIP they received, no repayment is required.

Example: A taxpayer received EIP 1 of \$1,700 based on their 2019 return filed as HOH with one qualifying child (QC). EIP 2 was issued for \$1,200. They filed their 2020 return as HOH with two QC. The taxpayer is entitled to \$1,100 for RRC. (\$500 + \$600 for the second QC.)

Example: A taxpayer received EIP 1 of \$3,400 based on their 2019 return filed as MFJ with two QC. EIP 2 was issued for \$2,400. They filed their 2020 return as MFJ with two QC but different from the two QC claimed on their 2019 return. The taxpayer is entitled to \$0 for RRC because the taxpayer received the maximum credit for two eligible individuals and two QC.

Example: A taxpayer received EIP 1 of \$2,900 based on their 2019 return filed as MFJ with one QC. EIP 2 was issued for \$1,800. They filed their 2020 return as HOH with one QC so the taxpayer should have received a total of \$2900 (EIP 1 \$1200 + \$500 and EIP 2 \$600 + \$600). The taxpayer's share of the EIP already received is \$2,350 (\$4,700/2). The taxpayer is entitled to Recovery Rebate Credit of \$550 on the 2020 return (\$2900-\$2,350).

Example: A taxpayer received EIP 3 of \$4,200 in April of 2021 based on their 2019 return filed as MFJ with one QC. In June of 2021 they filed their 2020 return as MFJ

with two QC. They were sent a “plus up” payment of \$1,400 for the additional child once their 2020 return posted. In March of 2022 they filed their 2021 tax return as MFJ with three QC. They are entitled to \$1,400 RRC for the third QC.

Example: A taxpayer received EIP 3 of \$2,800 in May 2021 based on their 2020 return filed as HOH with one QC. The taxpayer filed their 2021 return in March 2022 as Single with no QC. The taxpayer is entitled to \$0 Recovery Rebate Credit but does not owe back the \$1,400 EIP they received for the child claimed on their 2020 return.

(3) The refund is issued from the tax year 2020 / 2021 module. See IRM 21.6.3.4.2.14.1, Recovery Rebate Credit - Adjusting the Credit, for the transaction codes used to identify the payment.

(4) Eligibility for RRC is the same as EIP (unless specified). Refer to IRM 21.6.3.4.2.13, Economic Impact Payments, for eligibility criteria for each EIP. If eligibility for RRC is not met, the taxpayer was issued and received (i.e., was not returned to the account) the full amount of EIP they were entitled to, or the full amount of RRC they were entitled to on either an original or amended return, refer to IRM 21.5.3.4.6.1, Disallowance and Partial Disallowance Procedures.

Exception: Taxpayers must have a valid SSN assigned before the return due date, disaster return due date, or the extended due date, if an extension was filed. If a joint return is filed and only one spouse has a valid SSN, a partial credit is allowed.

(5) For taxpayers who do not have a filing requirement or would not normally need to file but may be eligible for the RRC, they **must** file a 2020 / 2021 tax return. Individuals who are e-filing only to claim the RRC should use the following for prior year AGI verification:

- If the Non-Filers tool was used to file a 2019 return to register for an EIP, “\$1” should be entered as the prior year AGI verification.
- If they did not use the Non-Filers tool and did not file a return for 2019, or 2020 as applicable, then “\$0” should be entered as the prior year AGI verification.

Note: If an EIP is returned and the taxpayer is now eligible for RRC but has not filed a return, advise the taxpayer they must file a tax return to claim the RRC. Advise the taxpayer normal Refund Statute Expiration Date (RSED) procedures apply. The RSED is generally three years from the Return Due Date (RDD) for prepaid credits if a return was filed, or two years from the payment date for other payments whichever is later. See IRM 25.6.1, Statute of Limitations Processes and Procedures, for further explanations.

The filing deadline to claim RRC if the taxpayer has not filed a return is May 17, 2024, for tax year 2020 and April 15, 2025 for tax year 2021.

(6) While the law allows RRC to offset, the IRS's policy is that RRC does not offset to an IRS debt, but does offset to non-tax debts. Some RRC offset in early March 2021 prior to the policy change. There is no recourse for those that did offset, unless injured spouse applies.

(7) Overpayment Interest - Unlike EIP refunds, where no interest was allowed, interest is paid on RRC refunds and/or offsets, when permitted under normal interest rules. See IRM 20.2.4, Overpayment Interest, for information.