

IRM PROCEDURAL UPDATE

DATE: 05/05/2023

NUMBER: wi-04-0523-0595

SUBJECT: New Unallowable Subsection Added to Provide Guidance for the IRC 1341, Claim of Right Credit

AFFECTED IRM(s)/SUBSECTION(s): 4.19.14.18.11

CHANGE(s):

IRM 4.19.14.18.11, Unallowable Program and the Claim of Right - IRC 1341, Repayment of Income Previously Reported, Credit - Added new subsection to provide guidance for the IRC 1341, Claim of Right Credit.

(1) UA Code 70 is used when a taxpayer claims a Claim of Right or IRC 1341 credit on Form 1040, Schedule 3, Additional Credits and Payments.

(2) These cases open in Source Code 03 and PC 0000. Form 14823, Supporting Documents to Prove Your Claim of Right Credit Internal Revenue Code (IRC) Section 1341, should be used in lieu of Form 886-A.

(3) If a taxpayer repays \$3,000 or more, which was included in gross income in a prior tax year, then they may be able to take a refundable credit against their tax for the year the repayment was made. The taxpayer must have had an unrestricted right to the income when it was originally paid.

Caution: IRC 1341 does not apply to deductions from bad debts, deductions from sales to customers (e.g., returns and allowances), or deductions for legal and other expenses from contesting the repayment.

(4) Follow these steps to calculate the Claim of Right Credit:

1. Figure the tax without deducting the amount repaid.
2. Refigure the tax for the earlier year of inclusion without including the amount repaid.
3. Subtract the refigured tax under step (2) from the actual tax for the earlier year. The difference is the credit.
4. Subtract the credit under step (3) from the tax under step (1).

(5) Some of the most common documents the taxpayer can submit to verify their claim include:

- Copies of bills, notices, or similar documents showing the amount(s) required to be repaid.
- Cancelled checks, money orders, paycheck deductions, or highlighted bank statements showing repayments.
- Documents showing the income amount(s), type of income and year it was included on a prior year tax return(s).

Note: CETs are responsible for verifying that the repayment was made and the calculation of credit is accurate.