

## IRM PROCEDURAL UPDATE

**DATE:** 12/13/2024

**NUMBER:** ts-21-1224-1214

**SUBJECT:** Various Updates to Credit Procedures

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

**CHANGE(s):**

**IRM 21.6.3.4 Added note to paragraph 7 that any reference to extended due date or due date (including extensions) includes the disaster due date.**

(7) The American Opportunity Tax Credit, Additional Child Tax Credit, Child Tax Credit, Credit for Other Dependents, and the Earned Income Tax Credit require the taxpayer, spouse, and qualifying child have the TIN assigned on or before the due date, or extended due date, of the return.

**Note:** Any reference throughout this IRM to the date of TIN issuance being by the extended due date or due date (including extensions), include the disaster due date, as it is an extended due date beyond the original due date of the return.

**IRM 21.6.3.4.1.38 Added link to Instructions for Form 8936, Clean Vehicle Credits (and Schedule A (Form 8936), Clean Vehicle Credit Amount).**

(1) The Inflation Reduction Act (IRA) of 2022 made several changes to the Qualified Plug-in Electric Drive Motor Vehicle Credit (Including Qualified Two-Wheeled Plug-in Electric Vehicles and New Clean Vehicles), adding fuel cell vehicles (FCV) (IRC 30D) and a new credit for previously-owned clean vehicles (IRC 25E). The credits are generally available for vehicles placed in service beginning January 1, 2023, through December 31, 2032. For vehicles placed in service prior to 2023, see IRM 21.6.3.4.1.38.4, Qualified Plug-in Electric Drive Motor Vehicle Credit (Including Qualified Two-Wheeled Plug-in Electric Vehicles and New Clean Vehicles) (Tax Year 2022 and Prior).

(2) Taxpayers attach Form 8936, Clean Vehicle Credits, to their return to claim either of the credits. They **must** attach a Form 8936, Schedule A, Clean Vehicle Credit Amount, including the vehicle identification number (VIN) for each vehicle they are claiming the credit.

(3) **New Clean Vehicle Credit (IRC 30D)** – Taxpayers can receive up to a \$7,500 non-refundable credit (per qualifying vehicle) for the purchase of new clean vehicles

providing the taxpayer and vehicle meet certain requirements. See IRM 21.6.3.4.1.38.1 (1-3), Form 8936, Clean Vehicle Credits - Qualifications.

(4) **Previously-Owned Clean Vehicles Credit (IRC 25E)** - Taxpayers can receive up to a \$4,000 non-refundable credit for the purchase of an eligible previously-owned clean vehicle providing the taxpayer and vehicle meet certain requirements. The credit amount is the lesser of \$4,000 or 30% of the sales price of the previously-owned clean vehicle. See IRM 21.6.3.4.1.38.1 (4 and 5), Form 8936, Clean Vehicle Credits - Qualifications.

(5) For more information on the Clean Vehicle Credit, see Frequently Asked Questions About the New, Previously-Owned and Qualified Commercial Clean Vehicles Credit, or Instructions for Form 8936, Clean Vehicle Credits (and Schedule A (Form 8936), Clean Vehicle Credit Amount).

**IRM 21.6.3.4.2.3.2 Added note to refer to IRM 21.4.5.6, Category D Erroneous Refund Procedures, if an ES payment refunds to the incorrect taxpayer.**

(1) If both spouses file separate returns that divide the aggregate amount of the ES payments between them, this is evidence the parties reached an agreement on the allocation and there is nothing for you to allocate.

(2) Use the following table for all other ES payments and joint allocation issues:

Row Number	If	And	Then
1	Taxpayer requests to have all or a portion of ES payments and/or credit elect credited to their individual account	You determine the taxpayer made separate ES payments (request the ES voucher, if necessary).	<ul style="list-style-type: none"> <li>• You must determine the taxpayer's share of joint liability for the credit elect overpayment.</li> <li>• Transfer the ES payment to the separate account.</li> <li>• Transfer the allocated portions of credit elect.</li> </ul>
2	Taxpayer requests to have all or a portion of ES payments credited to their individual account	You determine the taxpayer made joint ES payments	Advise the taxpayers they must allocate the payments between themselves.
3	Taxpayer has been previously advised the payments must be allocated	Both taxpayers cannot agree on an allocation of the joint payments	Advise taxpayer to submit a computation indicating the allocation of the ES credit in proportion to each spouse's

			separate tax.
4	Taxpayer submits computation with the allocation	N/A	Transfer the allocated ES credit to taxpayer's account. (Apply in four equal installments, unless directed otherwise.)
5	Taxpayer cannot provide an allocation of joint payment	You can determine allocation of payments per ratio of each spouse's separate tax	Transfer the allocated ES credit to taxpayer's account. (Apply in four equal installments, unless directed otherwise.)
6	Taxpayer resides in a community property state	N/A	Refer to Pub. 555, Community Property.

**Note:** If the ES payments have refunded to the incorrect taxpayer, follow IRM 21.4.5.6, Category D Erroneous Refund Procedures.

**IRM 21.6.3.4.2.7.4 Added link to Publication 596, Earned Income Credit (EIC), to determine what is and what is not considered earned income.**

(1) Earned income includes all employee compensation subject to income tax, net earnings from self-employment, and gross income received by a statutory employee.

**Note:** A taxpayer (or the spouse, if married filing jointly) receiving nontaxable combat pay may elect to include the amount when figuring their earned income for purposes of computing EITC.

(2) Taxable earned income includes:

- Wages
- Salaries
- Tips
- Strike pay
- Sick pay
- Union strike benefits
- Disability benefits (not disability social security) received by taxpayers under minimum retirement age (normally, this is reported on the Form 1040, U.S. Individual Income Tax Return, as wages)

**Note:** Minimum retirement age may vary.

- Net earnings from self-employment (SE) or gross income received by a statutory employee

**Note:** Net earnings from self-employment may not appear on Schedule SE if under \$400.

**Note:** Earned income generally does **not** include workfare payments to the extent subsidized under a state program for work experience (including work associated with the refurbishing of publicly assisted housing if sufficient private sector employment is not available), work in community service programs, or certain Medicaid waiver payments (see IRM 21.6.6.2.35, Qualified Medicaid Waiver Payments/Difficulty of Care Payments, for more information). However, the taxpayer may include certain Medicaid waiver payments received as wages or self-employment income in earned income if they benefit from the inclusion (even if this payment is excluded on Schedule 1).

\* Reference - Feigh v Commissioner, 152 T.C. 267 (2019)

(3) For EITC purposes, use SE income as reported on Schedule SE, minus the 50% deduction of SE tax or use EITC Worksheet B in Publication 596, Earned Income Credit (EIC).

Row Number	If	Then
1	Schedule SE is not present because the net earnings from self-employment shown on Schedule C or Schedule F (or the combined net earnings) are less than \$400	Use the amount of net profit or loss reported on Schedule C or Schedule F.
2	Schedule SE is not present and net earnings from self-employment appear to be \$400 or more	See IRM 21.6.3.4.2.7.7, Earned Income Tax Credit (EITC) and Self-Employment Tax.
3	SE income is a loss	Subtract the amount from other earned income.
4	The optional method is used	Use the optional amount as income; do not subtract the SE loss.
5	Taxpayer is a statutory employee (indicated on Form W-2, box 15)	Use Schedule C, line 1, as earned income.

**Caution:** If taxpayer receives wages from ministerial duties, some of the income reported as wages on Form 1040, may also be shown on Schedule SE, line 2. Subtract the Schedule SE, line 2 amount from taxpayer's other earned income.

**Note:** If taxpayer receives wages from ministerial duties and also receives a housing allowance or the rental value of a parsonage, the housing allowance or rental value is included in net earnings from self-employment. Thus, this amount is earned income, even though it is not subject to regular income tax.

(4) Income not included in earned income includes:

- Interest
- Dividends
- Welfare payments
- Pensions
- Veteran benefits
- Taxable scholarships or fellowship grants not reported on Form W-2
- Alimony
- Child support
- Social Security and Railroad Retirement benefits
- Worker's compensation benefits
- Unemployment compensation (insurance)
- Amounts received for work while in a penal institution, including amounts earned in a work release program or halfway house. If the amount is included in the total on Form 1040 or 1040-SR, line 1, taxpayers are instructed to enter "PRI" and the amount on the dotted line next to Form 1040 or 1040-SR, line 1

For additional information on what is and what is not considered earned income, see Publication 596, Earned Income Credit (EIC).

(5) For ministers or members of religious orders, CC ENMOD shows the ministerial indicator (MIN-SE) when Form 4029, Application for Exemption from Social Security and Medicare Taxes and Waiver of Benefits, or Form 4361, Application for Exemption from Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, is approved or denied.

<b>If</b>	<b>Then</b>
Form 4361 is approved	<p>Income from ministerial duties performed as an employee is earned income. Form W-2 won't reflect any FICA wages, or FICA tax withheld.</p> <p>Any income for services unrelated to ministerial duties (whether as an employee or a non-employee) is earned income.</p> <p>Income from non-employee ministerial duties is not earned income.</p> <p><b>Note:</b> See Publication 517, Social Security and Other Information for Members of Clergy and Religious Workers, for more information.</p>
Form 4029 is approved	<p>All wages, salaries, tips, and other employee compensation are earned income, even if FICA tax is not withheld.</p> <p>Amounts received from self-employment are not earned income.</p> <p>Losses from Schedule C, Schedule C-EZ (2018 or prior), or Schedule F cannot be subtracted from wages.</p>

(6) A special rule applies for certain taxpayers affected by the disasters shown below. Qualified individuals whose earned income for the applicable tax year is less

than the earned income in the preceding taxable year may elect to use their preceding taxable year earned income when figuring EITC. Taxpayers should enter "PYEI" and the dollar amount of the prior year earned income on the dotted line for EITC.

The main home of qualified individuals must have been in:

- the Hurricane Harvey disaster area on August 23, 2017
- the Hurricane Irma disaster area on September 4, 2017
- the Hurricane Maria disaster area on September 16, 2017
- the California wildfire disaster area on October 8, 2017
- a Presidentially declared disaster area that occurred in 2018 or 2019, but before December 21, 2019

**Note:** Verify the taxpayer was in the qualified disaster zone via the IRS Disaster Assistance Program.

These claims are centralized in Austin and Philadelphia (International). Reassign the case per the AM Site Specialization Temporary Holding Numbers. Use category code KATX and OFP 710-82365 when processing these claims.

(7) Generally, for tax years 2020 and 2021 **only**, if current year (i.e. 2020 or 2021) earned income is less than the earned income for 2019, individuals may elect to use their 2019 earned income when figuring EITC. Taxpayers may make this election even if they have no earned income for the current year. For tax year 2020, taxpayers enter "PYEI" and the dollar amount of the prior year earned income on the dotted line for EITC. For tax year 2021, taxpayers enter their 2019 earned income on Form 1040, line 27c. If they file a joint return and make the election, their 2019 earned income is the **sum** of their 2019 earned income and their spouse's 2019 earned income.

**Note:** When figuring EITC, taxpayers should use the current year AGI even if they use their earned income from 2019.

#### **IRM 21.6.3.4.2.7.8 Changed requirement to send Letter 474C to Letter 76C to match Submission Processing procedures.**

(1) If taxpayer appears to qualify for EITC but did not claim it on their original return:

- A CP 09, Earned Income Credit - You May Be Entitled to EIC, is issued to taxpayers with qualifying child(ren).
- A CP 27, EIC Potential for T/P Without Qualifying Children, is issued to taxpayers with no qualifying children.

**Exception:** The CP 09 / CP 27 generates for tax returns with no unallowable conditions.

**Note:** A TC 971 Action Code (AC) 503 means the CP 09 / CP 27 notice was suppressed.

(2) The notice advises the taxpayer to allow 8 weeks for receipt of refund or correspondence.

**Exception:** CP 09 and CP 27 responses received **prior to** September 11, 2023, were scanned in and assigned a TC 971 AC 120 and AC 010 causing a -A freeze to generate. If you receive a phone call meeting this scenario, provide the taxpayer the timeframe based on IRM 21.5.6.4.2, -A Freeze.

Take the following action if contacted by the taxpayer:

Row Number	If	And	Then
1	Less than 8 weeks have passed since taxpayer submitted CP 09 / CP 27	There is no open IDRS control, and adjustment has not been made  <b>or</b>  Research shows an open control, but adjustment has not been made	Advise the taxpayer to allow 8 weeks for normal processing time.
2	8 weeks have passed since taxpayer submitted CP 09 / CP 27	Research shows no record of receiving taxpayer's response	Advise the taxpayer to complete Form 1040-X, Amended U. S. Individual Income Tax Return, and attach Schedule EIC, if applicable.
3	8 weeks have passed since taxpayer submitted CP 09 / CP 27	The taxpayer's response has been received, there is an open control <b>to an employee</b> and an adjustment has not been made	If you have access to Correspondence Imaging Inventory (CII): <ul style="list-style-type: none"> <li>• Add a Case Note to CII indicating taxpayer called to check status.</li> <li>• Apologize for the delay in processing and advise the taxpayer to allow an additional 30 days for a response.</li> </ul> If you do not have access to CII: <ul style="list-style-type: none"> <li>• Prepare Form 4442/e-4442, Inquiry Referral, and route to the employee with the open control.</li> </ul>

			<ul style="list-style-type: none"> <li>Apologize for the delay in processing and advise the taxpayer to allow an additional 30 days for a response.</li> </ul>
4	8 weeks have passed since taxpayer submitted CP 09 / CP 27	<p>The taxpayer's response has been received, there is an open control <b>to a clerical unit or generic IDRS queue</b> and an adjustment has not been made</p> <p><b>Note:</b> Generic IDRS queue numbers for Submission Processing (SP) can be found in IRM 3.11.6.3, Controlling Cases on the Integrated Data Retrieval System (IDRS). Generic IDRS queue numbers for Accounts Management (AM) can be found in IRM 21.5.1.5.1, CII General Guidelines.</p>	<ul style="list-style-type: none"> <li>If you have access to CII and sufficient information to work the case during the phone call, reassign the case to yourself in CII, work and close the case.</li> <li>If you do not have access to CII, sufficient information to work the case or are unable to work the case due to a training issue (e.g., call sites), apologize for the delay in processing and advise the taxpayer to allow an additional 30 days for a response.</li> </ul>

(3) Generally, a completed CP 09 or CP 27 is considered an informal claim. However, if the taxpayer returns the CP 09 / CP 27 or Form 15111, Earned Income Credit Worksheet (CP 09) / Form 15112, Earned Income Credit Worksheet (CP 27), indicating they are not eligible for EITC (no other issue involved), a reply is not necessary. Destroy as classified waste per IRM 21.5.1.4.10, Classified Waste.

**Note:** Occasionally taxpayers get confused with the earned income / investment income statement and check the box. If CC IRPTR verifies earned income, continue with (5).

(4) Beginning January 2023, taxpayers can send responses to CP 09 notices electronically via the Documentation Upload Tool (DUT). Taxpayers can access the DUT by scanning the QR code or entering the access code located on the CP notice or form, or by visiting [irs.gov/dutreply](https://irs.gov/dutreply). The responses are transferred to Correspondence Imaging Inventory (CII) and worked following normal procedures.

(5) Taxpayers must complete, sign, and return the Form 15111 / Form 15112 (Earned Income Worksheet), or CP 09 / CP 27, if qualified. If incomplete, follow IRM 21.5.3.4, General Claims Procedures.



**Exception:** There is no signature requirement for Form 15111 for tax years 2022 and later.

(6) If you receive a CP 09 / CP 27 response with the incorrect revision of Form 15111 or Form 15112, respond as follows.

- For CP 27, EIC Potential for T/P Without Qualifying Children, try to contact taxpayer via telephone (refer to IRM 21.1.1.4, Communication Skills) to verify their responses for the correct tax year. If contact is made via telephone, document CII with a case note **“Verified 20XX EITC eligibility via oral statement authority.”** If unable to contact via telephone, send an appropriate “C” letter apologizing for the inconvenience and request a new Form 15112 for the correct year.
- For CP 09, Earned Income Credit - You May Be Entitled to EIC, try to contact taxpayer via telephone (refer to IRM 21.1.1.4, Communication Skills) to request a new Form 15111 for the correct year **or** Schedule EIC via fax. If unable to contact via telephone, send an appropriate “C” letter apologizing for the inconvenience and request a new Form 15111 for the correct year **or** Schedule EIC.

(7) See IRM 21.6.3.4.2.7.3, Earned Income Tax Credit (EITC) - Social Security Number Requirements, to verify SSN validity for qualifying child(ren)'s SSNs. If SSN provided for qualifying child is not valid, reduce or disallow the credit.

(8) Compute the EITC amount using normal procedures. If the taxpayer is **not** eligible for EITC based on our computation, eligibility criteria, or other reason:

- Deny the credit
- Input a TC 290 .00, BS 05, RC 054
- Send Letter 76C with the appropriate paragraph, and an open paragraph explaining why the taxpayer is not eligible, if necessary.
- Input a TC 971 AC 112, if the criteria in IRM 21.6.3.4.2.7.10, Earned Income Tax Credit (EITC) - Claims, is met

**Note:** If a refund on the module is being held by Return Integrity Verification Operations (RIVO), input a HC 4

(9) If the taxpayer claims a child on the CP 09 that was not claimed on the original return, send a Letter 76C explaining why the credit was partially disallowed and inform the taxpayer to file a Form 1040-X to claim the additional child.

(10) When allowing EITC based on a CP 09 / CP 27 or Form 15111 / Form 15112, use:

- Blocking series 05
- Source code 1
- Reason Code (RC) 017 and 053. The RC 017 is for tracking purposes only; nothing prints on the CP 21 / CP 22.

- Priority Code 3 when allowing the credit. Refer to IRM 20.2.4.8.3.3, 45-Day Rule and IRS Initiated Adjustments, for more information
- CRN 764
- Do not input the amended claims date

**Note:** If a refund on the module is being held by RIVO, see IRM 21.5.6.4.35.3, -R Freeze Overview For Accounts With Return Integrity Verification Operations (RIVO) Involvement.

**Note:** The Additional Child Tax Credit may have to be recomputed if EITC is allowed and the taxpayer claimed three or more qualifying children for the Child Tax Credit. See Instructions for Schedule 8812 (Form 1040), Credits for Qualifying Children and Other Dependents, for more information.

(11) Refer to the following chart if you receive a Form 1040-X and a CP 09 / CP 27 has been sent to the taxpayer.

<b>If</b>	<b>And</b>	<b>Then</b>
If you receive a Form 1040-X in response to a CP 09 / CP 27	A Form 15111 / Form 15112 is attached	Process the case as a CP 09 / CP 27 response
If you receive a Form 1040-X for a tax year in which a CP 09 / CP 27 was sent	A Form 15111 / Form 15112 is <b>NOT</b> attached	Process the case as a Form 1040-X
If you receive a Form 1040-X in response to a CP 09 / CP 27 with additional changes (e.g., adding a child or income)	A Form 15111 / Form 15112 is attached	<ul style="list-style-type: none"> <li>• Adjust the EITC following CP 09 /CP 27 processing</li> <li>• Do a separate adjustment for the other changes following normal Form 1040-X processing</li> </ul>

(12) If current year, update Command Code DUPED (using the child's SSN, not the primary SSN) when allowing EITC based on a CP 09. Refer to IRM 21.6.1.7, Command Code DUPED and DDBCK, for more information.

(13) Unpostable CP 27 adjustments input by Submission Processing are forwarded to Accounts Management.

**IRM 21.6.3-1 Added that TIN needs to be issued before the disaster due date.**

The tables below provide TIN requirements for exemptions/dependents and certain credits.

EITC, CTC, ACTC, AOTC, and ODC require all TINs be issued on or before the due date, extended due date, or disaster due date of the return.

**Exception:** If a child otherwise qualifies for CTC, but they did not have an SSN issued by the due date of the return, they qualify for ODC.

**Note:** For taxpayers indicating a religious (e.g., Amish/Mennonite) or conscience-based objection to obtaining a TIN, refer to IRM 21.6.1.6.1, Determining the Exemption Deduction.

**Exemptions:**

	Allowed with valid SSN	Allowed with valid ITIN	Allowed with valid ATIN
Primary TIN	Yes	Yes	N/A
Secondary TIN	Yes	Yes	N/A
Dependent TIN	Yes	Yes	Yes

**Earned Income Tax Credit**

**Note:** The SSNs for the primary, secondary (if a joint return), and the EITC qualifying child(ren) considered in computing the credit, ALL must be valid before EITC can be allowed.

	Allowed with valid SSN	Allowed with valid ITIN	Allowed with valid ATIN
Primary TIN	Yes	No	No
Secondary TIN	Yes	No	No
Qualifying Child TIN	Yes	No	No

**Child and Dependent Care Credit**

	Allowed with valid SSN	Allowed with valid ITIN	Allowed with valid ATIN
Child care provider TIN on Form 2441	Yes	Yes	Yes
Qualifying Person's TIN on Form 2441	Yes	Yes	Yes

**Other Credits**

	Allowed with valid SSN	Allowed with valid ITIN	Allowed with valid ATIN
Child Tax Credit / Additional Child Tax Credit (tax years 2018 - 2025)	Yes	<ul style="list-style-type: none"> <li>• Primary - Yes</li> <li>• Secondary - Yes</li> <li>• Dependent - No</li> </ul>	No
Lifetime Learning	Yes	Yes	Yes

Credit			
American Opportunity Tax Credit	Yes	Yes	Yes
Adoption Credit	Yes	Yes	Yes
Credit for Other Dependents	Yes	Yes	Yes
Recovery Rebate Credit	Yes	Yes, if a joint filer, and one spouse is a member of the military, then only one valid SSN is required	Yes