



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

20.1.1

MARCH 29, 2023

EFFECTIVE DATE

(03-29-2023)

PURPOSE

- (1) This transmits revised IRM 20.1.1, Penalty Handbook, Introduction and Penalty Relief.

BACKGROUND

- (1) Changes to IRM 20.1.1.2.3, Approval Prerequisite to Penalty Assessments, were approved by the Deputy Commissioner of the Internal Revenue Service for Services and Enforcement.

MATERIAL CHANGES

- (1) IRM 20.1.1.1.2(2) Added IRM 20.1.13, Material Advisor and Reportable Transactions Penalties, to the bottom of the table and moved IRC 6707, 6707A and 6708 from IRM 20.1.6 to IRM 20.1.13.
- (2) IRM 20.1.1.1.3 Revised language in (5) based on guidance from the Division Counsel/Associate Chief Counsel (National Taxpayer Advocate Program) and Branch 3 of the Associate Chief Counsel (Procedure and Administration).
- (3) IRM 20.1.1.1.6.2 Revised title and language per the Taxpayer Advocate Service (TAS) Standard Language approved by TAS and Counsel.
- (4) IRM 20.1.1.1.6.3 Corrected (1) to show the correct IRM reference of 13.1.7.5
- (5) IRM 20.1.1.3.1(3) Added a note after item b stating a faxed statement with signature or documentation is acceptable.
- (6) Added new subsection IRM 20.1.1.3.2.2.8, Inaccessible Notices.
- (7) IRM 20.1.1.3.3.2.1 was updated as follows:
 - a. Removed current compliance check in (2) paragraphs a and b regarding all returns or valid extensions filed and all tax paid, and removed examples.
 - b. Revised language in (3) to manually verify modules for First Time Abate (FTA) eligibility by reviewing applicable secondary and cross-reference TINs, and deleted the exception.
 - c. Added clarifying language in (4)
 - d. Revised language in (6)d to include information about the new PRN 723
 - e. Revised (7) to list some examples of returns NOT applicable for First Time Abate (FTA).
- (8) IRM 20.1.1.3.5.1 was updated as follows:
 - a. Revised (4) to update the list of information required for penalty cases going to Appeals.
 - b. Revised (5) to update the TC 470 closing codes required
 - c. Revised (6) to list instructions for penalty appeals coordinators to route cases to Appeals electronically
- (9) IRM 20.1.1.3.6.1 (2) was updated to require manual verification of modules in the three-year look-back period before granting FTA. and (7) was removed that required the current compliance check for all required returns or valid extensions to be filed and all required tax to be paid.
- (10) Added IRM 20.1.1.3.3.2.2, Administrative Waiver - Penalty Relief for Certain Taxpayers Filing 2019 and 2020 Returns. This new subsection gives guidance regarding Notice 2022-36

(11) Exhibit 20.1.1-4 was updated as follows:

- a. Updated PRNs 527, 528, 552, 583, 584, 585, 589, 591, and 592 for applicable IRM reference updates and inflationary changes to amounts.
- b. Rev. Proc. 2020-45, generally applicable for tax year 2021 returns, Rev. Proc. 2021-45, generally applicable to tax year 2022 returns, and Rev. Proc. 2022-38, generally applicable to tax year 2023 returns were added to the list of revenue procedures listed at the end.

(12) Exhibit 20.1.1-5 was updated as follows:

- a. Deleted PRN 606
- b. Added PRN 682
- c. Updated PRNs 611, 629, 658, 663, and 666 for applicable IRM reference updates and inflationary changes to amounts.
- d. Deleted outdated prior year information for PRNs 628, 645, and 650
- e. #
- f. Rev. Proc. 2020-45, generally applicable for tax year 2021 returns, Rev. Proc. 2021-45, generally applicable for tax year 2022 returns, and Rev. Proc. 2022-38, generally applicable for tax year 2023 returns were added to the list of revenue procedures at the end.

(13) Exhibit 20.1.1-6 was updated as follows:

- a. Added PRNs 722, 723, and 724.
- b. #
- c. Rev. Proc. 2020-45, generally applicable for tax year 2021 returns, Rev. Proc. 2021-45, generally applicable to tax year 2022 returns, and Rev. Proc. 2022-38, generally applicable to tax year 2023 returns were added to the list of revenue procedures listed at the end.

(14) Exhibit 20.1.1-7: Deleted abbreviations and acronyms not applicable to this IRM.

(15) Exhibit 20.1.1-8: Deleted terms and definitions not applicable to this IRM.

EFFECT ON OTHER DOCUMENTS

IRM 20.1.1 dated October 19, 2020 is superseded. IRM Procedural Update (IPU) 21U0591 dated April 15, 2021; IPU 22U0912 dated August 25, 2022; and IPU 22U0972 dated September 26, 2022 have been incorporated into this IRM.

AUDIENCE

All IRS employees who work with penalties.

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SE:S:DCCOS:OS:BSO
Acting Director, Business Support
Small Business/Self-Employed

20.1.1

Introduction and Penalty Relief

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20.1.1.1
(11-21-2017)
Program Scope and Objectives

- (1) **Purpose:** This IRM section discusses the purpose of civil penalties and provides the legal authorities, criteria for relief, and other general information about civil penalties.

Note: All penalties referenced throughout IRM 20.1, Penalty Handbook, are considered civil penalties. Refer to IRM 9.1.3, Criminal Statutory Provisions and Common Law, for criminal penalty provisions.
- (2) **Audience.** This information is for all employees and managers who work with civil penalties when examining returns, collecting taxes, managing accounts, and other compliance activities, including employees and managers in:
 - Small Business Self-Employed (SB/SE) Division,
 - Large Business and International (LB&I) Division,
 - Tax Exempt and Government Entities (TE/GE) Division,
 - Wage and Investment (W&I) Division,
 - Appeals,
 - Criminal Investigation, and
 - Other IRS functions
- (3) **Policy Owner:** The Business Support Office (BSO) is under Operations Support (OS). SB/SE is responsible for overseeing civil penalties.
- (4) **Program Owner:** The Office of Servicewide Penalties (OSP) is responsible for civil penalty policy and IRM 20.1, Penalty Handbook. OSP's role is to ensure fairness and consistency in civil penalty administration and has overall responsibility for coordinating and approving any update to IRM 20.1, Penalty Handbook.
- (5) **Contact Information:** To recommend changes or make any other suggestions to this IRM section, email OSP at **Servicewide Penalties Team*. Also see IRM 1.11.6.6, Providing Feedback About an IRM Section - Outside of Clearance.

20.1.1.1.1
(11-25-2011)
Background

- (1) In 1955, there were approximately 14 penalty provisions in the Internal Revenue Code. There are now more than ten times that number. With the increasing number of penalty provisions, the IRS recognized the need to develop a fair, consistent, and comprehensive approach to penalty administration.
- (2) In November 1987, the Commissioner of IRS established a task force to study civil penalties and develop a fair, consistent, and comprehensive approach to penalty administration. In February 1989, the Commissioner's Executive Task Force issued a Report on Civil Tax Penalties. The report established a philosophy concerning penalties, provided a statutory analysis of the three broad categories of penalties (filing of returns, payment of tax, and accuracy of information), and made recommendations where warranted to resolve the inconsistencies. Those recommendations were, in part, that the IRS should take the following actions:
 1. Develop and adopt a single penalty policy statement emphasizing that civil tax penalties exist for the purpose of encouraging voluntary compliance.
 2. Develop a single consolidated handbook on penalties for all employees (the handbook should be sufficiently detailed to serve as a practical everyday guide for most issues of penalty administration and provide clear guidance on computing penalties).

3. Revise existing training programs to ensure consistent administration of penalties in all functions for the purpose of encouraging voluntary compliance.
 4. Examine its communications with taxpayers (including penalty notices and publications) to determine whether these communications do the best possible job of explaining why the penalty was imposed and how to avoid the penalty in the future.
 5. Finalize its review and analysis of the quality and clarity of machine-generated letters and notices used in various areas within the IRS.
 6. Consider ways to develop better information concerning the administration and effects of penalties.
 7. Develop a Master File database to provide statistical information regarding penalty administration. The information in this database should be continuously reviewed for the purpose of suggesting changes in compliance programs, educational programs, penalty design, and penalty administration.
- (3) In keeping with the Commissioner's Executive Task Force Report and Congressional recommendations, the consolidated penalty IRM was developed.

20.1.1.1.2
(03-29-2023)
Authority

- (1) IRM 20.1, Penalty Handbook, is the primary source of authority for civil penalty administration by the IRS and serves as the foundation for addressing civil penalty administration by various IRS functions. By providing one source of authority for civil penalty administration, the IRS greatly reduces inconsistencies regarding civil penalty application.
- (2) IRM 20.1, Penalty Handbook, provides guidance to all areas of the IRS for all civil penalties imposed by the Internal Revenue Code (IRC). It sets forth general policy and procedural requirements for assessing and abating penalties, and it contains discussions on topics such as criteria for relief from certain penalties. The sections in IRM 20.1, Penalty Handbook, are as follows:

IRM	Title	Code Reference(s)
IRM 20.1.2	Failure to File/Failure to Pay Penalties	IRC 6651, IRC 6698, and IRC 6699
IRM 20.1.3	Estimated Tax Penalties	Individual-IRC 6654 and Corporate-IRC 6655
IRM 20.1.4	Failure to Deposit Penalty (FTD)	IRC 6656
IRM 20.1.5	Return-Related Penalties	IRC 6662, IRC 6662A, IRC 6663, and IRC 6676
IRM 20.1.6	Preparer and Promoter Penalties	IRC 6694, IRC 6695, IRC 6700, IRC 6701, IRC 6713
IRM 20.1.7	Information Return Penalties	IRC 6011, IRC 6721, IRC 6722, IRC 6723, and IRC 6724

IRM	Title	Code Reference(s)
IRM 20.1.8	Employee Plans and Exempt Organizations Miscellaneous Civil Penalties	IRC 6652, IRC 6684, IRC 6685, IRC 6690, IRC 6692, IRC 6693, IRC 6704, IRC 6710, IRC 6711, and IRC 6714
IRM 20.1.9	International Penalties	IRC 6038, IRC 6038A, IRC 6038B, IRC 6038C, IRC 6038D, IRC 6039E, IRC 6039G, IRC 6039F, IRC 6652(f), IRC 6677, IRC 6679, IRC 6683, IRC 6686, IRC 6688, IRC 6689, and IRC 6712
IRM 20.1.10	Miscellaneous Penalties	IRC 856(g)(5), IRC 1400Z-2(f), IRC 6652(a)/(b)/(j)-(l)/(n)-(p), IRC 6657, IRC 6672, IRC 6673, IRC 6674, IRC 6682, IRC 6697, IRC 6702, IRC 6705, IRC 6706, IRC 6709, IRC 6720B, IRC 6720C, IRC 7268, IRC 7519, and IRC 9707
IRM 20.1.11	Excise Tax and Estate and Gift Tax Penalties	IRC 4103, IRC 5000A, IRC 6166, IRC 6653, IRC 6675, IRC 6715, IRC 6715A, IRC 6717, IRC 6718, IRC 6719, IRC 6720A, IRC 6725, IRC 7270, IRC 7271, IRC 7272, IRC 7273, IRC 7275, IRC 7304, and IRC 7342
IRM 20.1.12	Penalties Applicable to Incorrect Appraisals	IRC 6695A
IRM 20.1.13	Material Advisor and Reportable Transactions Penalties	IRC 6707, IRC 6707A, and IRC 6708

20.1.1.1.3
(03-29-2023)
Responsibilities

- (1) The Director, Business Support, is the director responsible for the servicewide civil penalty program.
- (2) Overall responsibility for civil penalty programs is assigned to OSP. OSP is a matrix organization residing in the Business Support (Small Business/Self Employed) Function. OSP is charged with coordinating policy and procedures concerning the civil penalty program administration, ensuring consistency with the penalty policy statement, reviewing and analyzing penalty information, researching penalty effectiveness on compliance trends, and determining appropriate action necessary to promote voluntary compliance.

- (3) Each IRS organization is responsible for establishing an internal process for managing their procedures based upon these Servicewide policies and may develop additional guidance or reference materials for their specific functional administrative needs. However, such reference material must receive approval from OSP prior to distribution and must remain consistent with the policies and general procedural requirements set forth in IRM 20.1, Penalty Handbook, Policy Statement 20-1 (i.e., Penalty Policy Statement) in IRM 1.2.1.12.1, and any other guidance relating to civil penalties.
- (4) All employees should keep the following objectives in mind when handling each penalty case:
 - a. Similar cases and similarly-situated taxpayers should be treated alike.
 - b. Each taxpayer should have the opportunity to have their interests heard and considered.
 - c. Strive to make a correct decision in the first instance. A wrong decision, even though eventually corrected, has a negative impact on voluntary compliance.
 - d. Provide adequate opportunity for incorrect decisions to be corrected.
 - e. Treat each case in an impartial and honest way (i.e., approach the job, not from the government's or the taxpayer's perspective, but in the interest of fair and impartial enforcement of the tax laws).
 - f. Use each penalty case as an opportunity to educate the taxpayer, help the taxpayer understand their legal obligations and rights, assist the taxpayer in understanding their appeal rights, and in all cases, observe the taxpayer's procedural rights.
 - g. Endeavor to promptly process and resolve each taxpayer's case.
 - h. Resolve each penalty case in a manner which promotes voluntary compliance.
- (5) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information about the TBOR, see <https://www.irs.gov/taxpayer-bill-of-rights>.

20.1.1.1.4
(11-21-2017)
**Program Management
and Review**

- (1) Every function in the IRS has a role in proper penalty administration. It is essential that each function conduct its operations with an emphasis on promoting voluntary compliance. Appropriate business reviews should be conducted to ensure consistency with the penalty policy statement (*Policy Statement 20-1*) and philosophy. Attention should be directed to penalty program coordination between offices and functions to make sure that approaches are consistent and penalty information is used for identifying and responding to compliance problems.
- (2) Managers should continuously review information for trends that may suggest changes in compliance programs, training courses, educational programs, penalty design, and penalty administration. Managers should institute, on an ongoing basis, a quality review system that evaluates the timely and correct disposition of penalty cases and encourages consistent penalty administration.

- 20.1.1.1.5
(11-21-2017)
**Terms/Definitions/
Acronyms**
- (1) Refer to the following exhibits at the end of this IRM section:
 - Exhibit 20.1.1-7, Table of Abbreviations and Acronyms, and
 - Exhibit 20.1.1-8, Dictionary of Key Terms
- 20.1.1.1.6
(11-21-2017)
Related Resources
- (1) In addition to the exhibits referenced in IRM 20.1.1.1.5, Terms/Definitions/Acronyms, this IRM contains the following exhibits to assist the user in researching penalty issues:
 - Exhibit 20.1.1-1, Penalty Relief Application Chart
 - Exhibit 20.1.1-2, Penalty Reason Code Chart
 - Exhibit 20.1.1-3, Penalty Transaction Codes
 - Exhibit 20.1.1-4, Penalty Reference Numbers-500 Series
 - Exhibit 20.1.1-5, Penalty Reference Numbers-600 Series
 - Exhibit 20.1.1-6, Penalty Reference Numbers-700 Series
- 20.1.1.1.6.1
(11-21-2017)
Security Standards
- (1) IRS officials and managers must communicate security standards contained in IRM 1.4.6, Managers Security Handbook, to subordinate employees and establish methods to enforce them.
 - (2) Employees are responsible for taking required precautions to provide security for the documents, information, and property that they handle in performing official duties.
 - (3) Employees using Integrated Data Retrieval System (IDRS) should only access those accounts required to accomplish their official duties. Any unauthorized access or browsing of tax accounts by employees is prohibited by the IRS. IRM 10.8.1, Policy and Guidance, provides the authority and standards for information technology security. Also see IRM 10.5.5, IRS Unauthorized Access, Attempted Access or Inspection of Taxpayer Records (UNAX) Program Policy, Guidance and Requirements.
- 20.1.1.1.6.2
(03-29-2023)
**Taxpayer Advocate
Service (TAS)**
- (1) The Taxpayer Advocate Service (TAS) is an **independent** organization within the Internal Revenue Service (IRS), led by the National Taxpayer Advocate. Its job is to protect taxpayers' rights by striving to ensure that every taxpayer is treated fairly and knows and understands their rights under the Taxpayer Bill of Rights (TBOR). TAS offers free help to taxpayers, including when taxpayers face financial difficulties due to an IRS problem, when they are unable to resolve tax problems, they haven't been able to resolve on their own, or when they need assistance to address an IRS system, process, or procedure that is not functioning as it should. TAS has at least one taxpayer advocate office located in every state, the District of Columbia, and Puerto Rico.
- 20.1.1.1.6.3
(03-29-2023)
**Form 911 - Request for
Taxpayer Advocate
Service Assistance**
- (1) Refer taxpayers to TAS (see IRM Part 13, Taxpayer Advocate Service) when the contact meets TAS criteria (see IRM 13.1.7, TAS Case Criteria) and you cannot resolve the taxpayer's issue the same day. The definition of **same day** is within 24 hours. **Same day** cases include cases you can completely resolve in 24 hours, as well as cases in which you have taken steps within 24 hours to begin resolving the taxpayer's issue. Do not refer these cases to TAS unless they meet TAS criteria and after you have informed the taxpayer regarding the existence and role of TAS, the taxpayer asks to be transferred to TAS. See IRM 13.1.7.5, Same Day Resolution by Operations.

- (2) When referring cases to TAS, use Form 911, Request for Taxpayer Advocate Service Assistance (and Application for Taxpayer Assistance Order), and forward to TAS in accordance with your local procedures.
- 20.1.1.2
(11-21-2017)
Purpose of Penalties
- (1) Penalties exist to encourage voluntary compliance by supporting the standards of behavior required by the Internal Revenue Code.
- (2) For most taxpayers, voluntary compliance consists of preparing an accurate return, filing it timely, and paying any tax due. Efforts made to fulfill these obligations constitute compliant behavior. Most penalties apply to behavior that fails to meet any or all of these obligations.
- (3) The following factors support the public conviction that the tax system is fair and the penalty is in proportion to the severity of the noncompliance. Penalties encourage voluntary compliance by:
- Defining standards of compliant behavior,
 - Defining consequences for noncompliance, and
 - Providing monetary sanctions against taxpayers who do not meet the standard.
- 20.1.1.2.1
(11-25-2011)
Encouraging Voluntary Compliance
- (1) Taxpayers in the United States assess their tax liabilities against themselves and pay them voluntarily. This system of self-assessment and payment is based on the principle of voluntary compliance. Voluntary compliance exists when taxpayers conform to the law without compulsion or threat.
- (2) Compliant self-assessment requires a taxpayer to know the rules for filing returns and paying taxes. The IRS is responsible for providing information to taxpayers, which includes the following:
- Written materials that clearly explain the rules, and
 - Forms that permit the self-computation of tax liability.
- (3) In addition to (2) above, the IRS must also provide a means to preserve and enhance our voluntary compliance by fairly, consistently, and accurately administering a system of penalties.
- (4) Although penalties support and encourage voluntary compliance, they also serve to bring additional revenues into the Treasury and indirectly fund enforcement costs. However, these results are not reasons for creating or imposing penalties.
- (5) Penalties advance the mission of the IRS when they encourage voluntary compliance. The IRS has formalized this obligation to the public in its mission statement.
- (6) Voluntary compliance is achieved when a taxpayer makes a good faith effort to meet the tax obligations defined by the Internal Revenue Code.
- (7) Penalties support voluntary compliance by assuring compliant taxpayers that tax offenders are identified and penalized.
- (8) The IRS has the obligation to advance the fairness and effectiveness of the tax system. Penalties should do the following:
- Be severe enough to deter noncompliance,

- Encourage noncompliant taxpayers to comply,
- Be objectively proportioned to the offense, and
- Be used as an opportunity to educate taxpayers and encourage their future compliance.

- (9) IRS personnel may educate taxpayers and encourage their future compliance by doing the following:
- a. Discussing causes for the delinquency and listening to taxpayers' reasons and concerns for noncompliance,
 - b. Ensuring that taxpayers understand their filing and paying responsibilities, and
 - c. Being alert to information received in discussions with taxpayers that indicate possible reasons for abatement of a penalty.
- (10) Penalties should relate to the standards of behavior they encourage. Penalties best aid voluntary compliance if they support belief in the fairness and effectiveness of the tax system. This belief encourages compliance in areas that cannot be reached through audits or other programs. The IRS's approach to penalties is embodied in Penalty Policy Statement 20-1. See IRM 1.2.1.12.1, Policy Statement 20-1 (Formerly P-1-18) Policy Statement 20-1 (Formerly P-1-18).

20.1.1.2.2
(11-25-2011)

**Fair and Consistent
Approach to Penalty
Administration**

- (1) The IRS's approach to penalty administration must ensure the following:
- a. **Consistency:** The IRS should apply penalties equally in similar situations. Taxpayers base their perceptions about the fairness of the system on their own experience and the information they receive from the media and others. If the IRS does not administer penalties uniformly (guided by the applicable statutes, regulations, policies, and procedures), overall confidence in the tax system is jeopardized.
 - b. **Accuracy:** The IRS must arrive at the correct penalty decision. Accuracy is essential. Erroneous penalty assessments and incorrect calculations confuse taxpayers and misrepresent the overall competency of the IRS.
 - c. **Impartiality:** IRS employees are responsible for administering the penalty statutes and regulations in an even-handed manner that is fair and impartial to both the government and the taxpayer.
 - d. **Representation:** Taxpayers must be given the opportunity to have their interests heard and considered. Employees need to take an active and objective role in case resolution so that all factors are considered.

20.1.1.2.3
(10-19-2020)

**Approval Prerequisite to
Penalty Assessments**

- (1) IRC 6751(a), Computation of Penalty Included in Notice, requires that each penalty notice include the name of the penalty, applicable IRC section, and a computation of the penalty.
- (2) IRC 6751(b)(1), Approval of Assessment, states that in general, no penalty under the Internal Revenue Code shall be assessed unless the initial determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate. At this time, the Secretary has not designated any higher level official to approve initial determinations.

Note: Policy regarding the timing of supervisory approval can be found in IRM 20.1.1.2.3.1, Timing of Supervisory Approval.

- (3) IRC 6751(b)(2) provides exceptions to the supervisory approval requirement for the following additions to tax and penalties:
- IRC 6651, Failure to File Tax Return or to Pay Tax,
 - IRC 6654, Failure by Individual to Pay Estimated Income Tax,
 - IRC 6655, Failure by Corporation to Pay Estimated Income Tax, and
 - Any penalties automatically calculated through electronic means.
- Penalties that are automatically calculated through electronic means are excluded from IRC 6751(b)(1) requirements. A penalty is only considered to be “automatically calculated through electronic means” if no human Service employee makes an independent determination with respect to the applicability of the penalty.
- (4) Notwithstanding the exceptions noted in paragraph (3) above, the IRS, as an administrative matter, requires supervisory approval of the fraudulent failure to file penalty under IRC 6651(f) (see IRM 20.1.2.3.7.5.1, FTF Penalty Assessment-Procedural Requirements).
- (5) For purposes of this section, the term “penalty” includes any addition to tax or any additional amount (IRC 6751(c)).
- (6) The initial determination of the penalty must be personally approved in writing by the immediate supervisor, dated, and retained in the case file. Supervisory approval may be documented on a penalty approval form, in the form of an email, memo to file or electronically. The approval must cover all tax years and penalties, including alternative penalties.

Note: For information about signatures, see IRM 4.10.1.4.4, Digital Signatures.

- (7) An employee who is an acting supervisor with an approved Designation to Act or a Notification of Personnel Action (SF-50) on file is considered an immediate supervisor for the purpose of IRC 6751(b)(1). Per IRM 1.11.4.5, Purpose and Contents of Delegation Orders, except for limitations that may be imposed in writing in a specific case or where prohibited by law, an acting official assumes the full authority vested in or delegated to that position. Maintain documentation of the designation in the administrative file.
- (8) In addition to the information provided in IRM 20.1.1.2.3.1, Timing of Supervisory Approval, and IRM 20.1.1.2.3.2, Automated Underreporter and Correspondence Examination Automation Support Programs, additional information pertaining to the requirements for specific penalties includes, but is not limited to the following:
- IRM 20.1.5.2.3, Supervisory Approval of Penalties - IRC 6751 Procedural Requirements, return-related penalties.
 - IRM 20.1.6.1.3.2, Written Supervisory Approval of Penalty Assessments, preparer, promoter and material advisor penalties.
 - IRM 20.1.10.2, Supervisory Approval for Penalty Assessment.
 - IRM 20.1.12.6, Field Examination Procedures, appraisal penalties.
 - IRM 25.25.10.8.1, Penalty Case Creation, IRC 6702, frivolous return penalties.

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20.1.1.2.3.1
(10-19-2020)
**Timing of Supervisory
Approval**

- (1) For all penalties subject to IRC 6751(b)(1), written supervisory approval required under IRC 6751(b)(1) must be obtained **prior to** issuing any written communication of penalties to a taxpayer that offers the taxpayer an opportunity to:
 - Sign an agreement, or
 - Consent to assessment or proposal of the penalty.

20.1.1.2.3.2
(10-19-2020)
**Automated
Underreporter and
Correspondence
Examination Automation
Support Programs**

- (1) When the IRC 6662 accuracy-related penalties are systemically assessed under the Automated Underreporter (AUR) Program or Correspondence Examination Automation Support (CEAS) Program without a human employee independently determining the appropriateness of the penalty, the penalty is considered automatically calculated through electronic means. For example, when the taxpayer does not submit a response to the 30-day letter that proposes the penalty, the penalty is automatically calculated through electronic means and may be assessed without written supervisory approval.
- (2) However, if a taxpayer submits a response, written or otherwise, that challenges the penalty or the amount of tax to which the penalty is attributable, and an examiner reviews the case, written supervisory approval under IRC 6751(b)(1) is required before any subsequent written communication that includes the penalty. The exception for penalties automatically calculated through electronic means no longer applies once a Service employee makes an independent determination to assert a penalty or to assert adjustments to tax on which a penalty is applicable.
- (3) Also see IRM 20.1.5.2.3.1, Documenting Supervisory Approval of Penalties.

20.1.1.3
(10-19-2020)
**Criteria for Relief From
Penalties**

- (1) Generally, relief from penalties falls into four separate categories. Unless otherwise specified in IRM 20.1, penalty relief will be considered and applied, if criteria are met, in the following order:
 1. Correction of IRS error
 2. Statutory and Regulatory exceptions
 3. Administrative waivers
 4. Reasonable cause

Caution: These penalty relief categories do not apply equally to all civil penalties referenced throughout IRM 20.1, Penalty Handbook, nor do the relief provisions referenced in IRM 20.1.1, Introduction and Penalty Relief, apply to all penalties referenced in IRM 20.1. Always refer to the specific relief provision in the applicable IRM 20.1 section depending on the penalty for which relief is being considered (see IRM 20.1.1.1.2, Authority).

- (2) Appeals may recommend the abatement or non-assertion of a penalty based on these four criteria as well as “hazards of litigation.”
- (3) In the interest of fairness, the IRS will consider requests for penalty relief received from third parties, including requests from representatives without an authorized power of attorney. While information may be accepted, **no** taxpayer information may be discussed with a third party unless a valid power of attorney or other acceptable authorization is secured in writing from the taxpayer. See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief.

- a. If additional information is needed, contact the taxpayer or the taxpayer's authorized representative.
 - b. If the validity of the request is questionable, contact the taxpayer.
 - c. In all cases involving third party requests for penalty relief, advise the taxpayer of the request and the action taken.
- (4) All information contained within IRM 20.1.1.3, Criteria for Relief From Penalties, only applies after the penalized module for which penalty relief is being considered has been thoroughly analyzed and corrected. This means any discrepancies must first be resolved (i.e., missing payment(s), extension of time to file, or tax adjustment) to ensure the module properly reflects all acts of compliance by the taxpayer. Do not consider penalty relief until all issues have been addressed. Systemically generated penalties, such as TC166/276/186/286, will be adjusted by IRS computers when the account corrections post.

Example: A taxpayer was assessed the FTP penalty for unpaid tax on their 2018 Form 1040. The taxpayer contacted IRS on August 1, 2019, requesting reasonable cause penalty relief and provided proof of a timely payment made on April 15, 2019, which would full pay the tax due. Research shows the payment had been erroneously applied to another module. The payment was transferred to the 2018 Form 1040 module and that correction resulted in a systemic reversal of the FTP penalty which alleviated the need to take any further actions for penalty relief.

Note: Refer to IRM 20.1.2.2.3.1, Extension of Time to File, for information and procedures to follow in cases where the taxpayer believes an extension was requested but one is not reflected on their account.

- (5) When penalty relief is warranted (including a determination not to assert a penalty that is otherwise warranted), a penalty reason code (PRC) is required to indicate the reason a penalty is being removed or suppressed. See IRM 20.1.1.5.1, Master File Penalty Reason Codes. Also, see Exhibit 20.1.1-2, Penalty Reason Code Chart.

20.1.1.3.1
(03-29-2023)

Unsigned or Oral Requests for Penalty Relief

- (1) When considering requests for relief from the Failure to File (FTF), Failure to Pay (FTP), and/or Failure to Deposit (FTD) penalties, determine if the taxpayer is eligible for the First Time Abate (FTA) administrative waiver using the Reasonable Cause Assistant (RCA), when applicable. See IRM 20.1.1.3.6, Reasonable Cause Assistant (RCA), for RCA use and IRM 20.1.1.3.3.2.1, First Time Abate (FTA), for all FTA policy and criteria.
- (2) If the taxpayer does not meet FTA criteria, unsigned or oral requests for relief from the FTF, FTP and/or FTD penalties may be considered if the following are true:
- a. The request is received either orally or in writing, but is unsigned, AND
 - b. The request is received from the taxpayer, the taxpayer's authorized representative or a third party, AND

d. **Reasonable cause criteria is met.**

Exception: If RCA is used, the oral statement authority (OSA) threshold in

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cannot use RCA, they should seek managerial approval to consider

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- (3) When an unsigned or oral request for relief is received, the IRS employee must document the case file or adjustment document **clearly restating** the information provided by the taxpayer.
- If **the relief criteria are clearly established**, abate or request the abatement of the penalty or penalties following functional guidelines. See IRM 20.1.1.3.5.2, Taxpayer Entitled to Relief.
 - If **the relief criteria are not clearly established**, do not abate the penalty or penalties. Follow functional guidelines for disallowing the request. See IRM 20.1.1.3.5.3, Taxpayer Not Entitled to Relief.

Note: If a signed, written statement or other documentation is needed to continue the penalty relief consideration, a faxed statement with signature or other necessary documentation may be considered.

- (4) When an unsigned or oral request for penalty relief is received for two or more penalties, ask the taxpayer to submit a signed written request for relief from all penalties if either of the following is true:
- Any penalty exceeds the amount that can be considered, or
 - The penalty is a penalty other than the FTF, FTP, or FTD penalties.

Example: Suppose on the same module the taxpayer was assessed the following penalties:

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RCA was not used and supervisory approval for higher level OSA threshold was not obtained.

In such a case, **do not take action** to abate any of the penalties. Ask the taxpayer to submit a signed written statement requesting relief from all penalties.

- (5) The OSA thresholds in this subsection allow for **consideration** of the facts provided to establish penalty relief without a signed written statement for the FTF, FTP, and/or FTD penalties only.
- (6) The taxpayer **must** provide a written statement, signed under the penalty of perjury, requesting penalty relief for all other penalties. For example, requests for relief received either orally or without an authorized signature may **NOT** be considered for the following:
- TIN penalties,
 - Information return penalties, or
 - Penalties assessed by a compliance program.

Note: Refer to IRM 21.5.2.4.9.2, Oral Statement and Penalty Relief Request, if considering relief for the daily delinquency penalty (DDP) assessed on an employee plan (EP) return or Form 8955-SSA, Annual Registration Statement Identifying Separated Participants With Deferred Vested Benefits.

20.1.1.3.2
(11-21-2017)**Reasonable Cause**

- (1) Reasonable cause is based on all the facts and circumstances in each situation and allows the IRS to provide relief from a penalty that would otherwise apply. Reasonable cause relief is generally granted when the taxpayer exercised ordinary business care and prudence in determining their tax obligations but was nevertheless unable to comply with those obligations.
- (2) In the interest of equitable treatment of the taxpayer and effective tax administration, the non-assertion or abatement of certain civil penalties based on reasonable cause or other relief provisions provided in this IRM must be made in a **consistent** manner and should conform with the considerations specified in the IRC, Treasury Regulations (Treas. Regs.), policy statements, and IRM Part 20.1, Penalty Handbook.
- (3) Reasonable cause relief is not available for all penalties; however, other exceptions may apply.
 - a. For those penalties where reasonable cause can be considered, any reason which establishes that the taxpayer exercised ordinary business care and prudence, but nevertheless was unable to comply with a prescribed duty within the prescribed time, will be considered.
 - b. If a reasonable cause provision applies only to a specific IRC section, that reasonable cause provision will be discussed in the IRM 20.1, Penalty Handbook, section relating to that specific IRC section. See IRM 20.1.1.1.2, Authority, and Exhibit 20.1.1-1, Penalty Relief Application Chart.
 - c. When considering the information provided in the following subsections, remember that an acceptable explanation is **not** limited to those given in IRM 20.1. Penalty relief may be warranted based on an “other acceptable explanation,” provided the taxpayer exercised ordinary business care and prudence but was nevertheless unable to comply within the prescribed time. See IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence.
- (4) The wording used to describe reasonable cause provisions varies. Some IRC penalty sections also require evidence that the taxpayer acted in good faith or that the taxpayer’s failure to comply with the law was not due to willful neglect. See specific IRM 20.1, Penalty Handbook, sections for the rules that apply to a specific IRC penalty section. See IRM 20.1.1.1.2, Authority.
- (5) Taxpayers have reasonable cause when their conduct justifies the non-assertion or abatement of a penalty. Each case must be judged individually based on the facts and circumstances at hand. Consider the following in conjunction with specific criteria identified in the remainder of this subsection:
 - a. What happened and when did it happen?
 - b. During the period of time the taxpayer was non-compliant, what facts and circumstances prevented the taxpayer from filing a return, paying a tax, and/or otherwise complying with the law?
 - c. How did the facts and circumstances result in the taxpayer not complying?
 - d. How did the taxpayer handle the remainder of their affairs during this time?
 - e. Once the facts and circumstances changed, what attempt did the taxpayer make to comply?

- (6) Reasonable cause **does not exist** if after the facts and circumstances that explain the taxpayer's noncompliant behavior cease to exist, the taxpayer fails to comply with the tax obligation within a reasonable period of time.

20.1.1.3.2.1
(03-29-2023)
**Standards and
Authorities**

- (1) Any reason that establishes a taxpayer exercised ordinary business care and prudence but nevertheless failed to comply with the tax law may be considered for penalty relief.
- (2) The following Treas. Regs. contain examples of circumstances that may be helpful in determining if a taxpayer has established reasonable cause:

Regulation	Description
Treas. Reg. 1.6664–4	Accuracy-Related Penalties (see IRM 20.1.5)
Treas. Reg. 301.6651–1(c)	Failure to File a Tax Return and/or Failure to Pay tax Penalties (see IRM 20.1.2)
Treas. Reg. 301.6724–1	Information Returns Penalties (see IRM 20.1.7)
Treas. Reg. 1.6694–2(e)(1)-(6)	Tax Return Preparer Penalties (see IRM 20.1.6)
Treas. Reg. 301.6707-1(e)(3)	Material Advisor Penalties (see IRM 20.1.13)

- (3) The following Internal Revenue Service policy statements contain specific criteria that may affect the imposition of penalties:
- Policy Statement 20–2, Penalties and Interest Not Asserted Against Federal Agencies. See IRM 1.2.1.12.2.
 - Policy Statement 3–2, Reasonable Cause for Late Filing of Return or Failure to Deposit or Pay Tax When Due. See IRM 1.2.1.4.2.
 - Policy Statement 3–3, Timely Mailed Returns Bearing Foreign Postmarks to Be Accepted. See IRM 1.2.1.4.3.
 - Policy Statement 3–5, Unsigned Income Tax Returns Will Not Be Accepted for Processing; Delinquency Penalty Generally Will Not Be Imposed on Timely Filed Unsigned Income Tax Returns. See IRM 1.2.1.4.5.

See IRM 1.2.1, Servicewide Policy Statements.

20.1.1.3.2.2
(02-22-2008)
**Ordinary Business Care
and Prudence**

- (1) Ordinary business care and prudence includes making provisions for business obligations to be met when reasonably foreseeable events occur. A taxpayer may establish reasonable cause by providing facts and circumstances showing that they exercised ordinary business care and prudence (taking that degree of care that a reasonably prudent person would exercise), but nevertheless were unable to comply with the law.
- (2) In determining if the taxpayer exercised ordinary business care and prudence, review available information including the following:

- a. **Taxpayer's Reason:** The taxpayer's reason should address the penalty imposed. To show reasonable cause, the dates and explanations should clearly correspond with events on which the penalties are based. If the dates and explanations do not correspond to the events on which the penalties are based, request additional information from the taxpayer that may clarify the explanation. See IRM 20.1.1.3.2, Reasonable Cause.
- b. **Compliance History:** Check the preceding tax years (at least three) for payment patterns and the taxpayer's overall compliance history. The same penalty, previously assessed or abated, may indicate that the taxpayer is not exercising ordinary business care. If this is the taxpayer's first incident of noncompliant behavior, weigh this factor with other reasons the taxpayer gives for reasonable cause, since a first-time failure to comply does not by itself establish reasonable cause.
- c. **Length of Time:** Consider the length of time between the event cited as a reason for the noncompliance and subsequent compliance. See IRM 20.1.1.3.2, Reasonable Cause. Consider: (1) when the act was required by law, (2) the period of time during which the taxpayer was unable to comply with the law due to circumstances beyond the taxpayer's control, and (3) when the taxpayer complied with the law.
- d. **Circumstances Beyond the Taxpayer's Control:** Consider whether or not the taxpayer could have anticipated the event that caused the non-compliance. Reasonable cause is **generally** established when the taxpayer exercises ordinary business care and prudence, but, due to circumstances beyond the taxpayer's control, the taxpayer was unable to timely meet the tax obligation. The taxpayer's obligation to meet the tax law requirements is ongoing. Ordinary business care and prudence requires that the taxpayer continue to attempt to meet the requirements, even though late.

20.1.1.3.2.2.1
(11-25-2011)

**Death, Serious Illness,
or Unavoidable Absence**

- (1) Death, serious illness, or unavoidable absence of the taxpayer, or a death or serious illness in the taxpayer's immediate family, may establish reasonable cause for filing, paying, or depositing late for the following:
 - a. **Individual:** If there was a death, serious illness, or unavoidable absence of the taxpayer or a death or serious illness in the taxpayer's immediate family (i.e., spouse, sibling, parents, grandparents, children).
 - b. **Corporation, estate, trust, etc.:** If there was a death, serious illness, or other unavoidable absence of the taxpayer (person responsible), or a member of such taxpayer's immediate family, and that taxpayer **had sole authority to execute the return, make the deposit, or pay the tax.**
- (2) If someone other than the taxpayer, or the person responsible, is authorized to meet the obligation, consider the reasons why that person did not meet the obligation when evaluating the request for relief. In the case of a business, if only one person was authorized, determine whether this was in keeping with ordinary business care and prudence.
- (3) Information to consider when evaluating a request for penalty relief based on reasonable cause due to death, serious illness, or unavoidable absence includes, but is not limited to, the following:
 - a. The relationship of the taxpayer to the other parties involved.
 - b. The date of death.
 - c. The dates, duration, and severity of illness.
 - d. The dates and reasons for absence.

- e. How the event prevented compliance.
- f. If other business obligations were impaired.
- g. If tax duties were attended to promptly when the illness passed, or within a reasonable period of time after a death or return from an unavoidable absence.

20.1.1.3.2.2.2
(10-19-2020)

**Fire, Casualty, Natural
Disaster, or Other
Disturbance-Reasonable
Cause**

- (1) Determine if the taxpayer could not comply timely because the taxpayer was an “affected taxpayer” eligible for disaster relief as provided for in IRM 25.16.1.3, Identification of Covered Disaster Area, Postponement Period and Affected Taxpayers. Also see IRM 20.1.1.3.3.6, Official Disaster Area.
- (2) For taxpayers not considered an “affected taxpayer,” reasonable cause relief from a penalty may be requested if there was a failure to timely comply with a requirement to file a return or pay a tax as the result of a fire, casualty, natural disaster, or other disturbance. However, one of these circumstances by itself does not necessarily provide penalty relief.
- (3) Penalty relief may be appropriate if the taxpayer exercised ordinary business care and prudence, but due to circumstances beyond the taxpayer’s control, they were unable to comply with the law.
- (4) Factors to consider include the following:
 - Timing
 - Effect on the taxpayer’s business
 - Steps taken to attempt to comply
 - If the taxpayer complied when it became possible
- (5) The determination to grant relief from each penalty must be based on the facts and circumstances surrounding each individual case. Determine if the event resulted in a circumstance for which other penalty relief criteria may apply. For example, if the taxpayer was unable to access their records as the result of a fire. See IRM 20.1.1.3.2.2.3, Unable to Obtain Records. If the taxpayer, or responsible party, was unable to comply because they were hospitalized as the result of an accident. See IRM 20.1.1.3.2.2.1, Death, Serious Illness, or Unavoidable Absence.

20.1.1.3.2.2.3
(12-11-2009)

**Unable to Obtain
Records**

- (1) Explanations relating to the inability to obtain the necessary records may constitute reasonable cause in some instances, but may not in others.
- (2) Consider the facts and circumstances relevant to each case and evaluate the request for penalty relief.
- (3) If the taxpayer was unable to obtain records necessary to comply with a tax obligation, the taxpayer may or may not be able to establish reasonable cause. Reasonable cause may be established if the **taxpayer exercised ordinary business care and prudence, but due to circumstances beyond the taxpayer’s control, they were unable to comply.**
- (4) Information to consider when evaluating such a request includes, but is not limited to, an explanation as to the following:
 - Why the records were needed to comply.
 - Why the records were unavailable and what steps were taken to secure the records.

- When and how the taxpayer became aware that they did not have the necessary records.
- If other means were explored to secure needed information.
- Why the taxpayer did not estimate the information.
- If the taxpayer contacted the IRS for instructions on what to do about missing information.
- If the taxpayer promptly complied once the missing information was received.
- Supporting documentation such as copies of letters written and responses received in an effort to get the needed information.

20.1.1.3.2.2.4
(12-11-2009)
Mistake Was Made

- (1) The taxpayer may try to establish reasonable cause by claiming a mistake was made. Generally, this is **not** in keeping with the **ordinary business care and prudence standard** and does not provide a basis for reasonable cause.
- (2) However, the reason for the mistake may be a supporting factor if additional facts and circumstances support the determination that the taxpayer exercised ordinary business care and prudence but nevertheless was unable to comply within the prescribed time.
- (3) Information to consider when evaluating a request for an abatement or non-assertion of a penalty based on a mistake or a claim of ignorance of the law includes, but is not limited to the following:
 - a. When and how the taxpayer became aware of the mistake.
 - b. The extent to which the taxpayer corrected the mistake.
 - c. The relationship between the taxpayer and the subordinate (if the taxpayer delegated the duty).
 - d. If the taxpayer took timely steps to correct the failure after it was discovered.
 - e. The supporting documentation.

20.1.1.3.2.2.5
(11-21-2017)
Erroneous Advice or Reliance

- (1) Each request for penalty relief should be reviewed thoroughly to determine the exact basis of the taxpayer's request.
 - a. Is the taxpayer claiming they did not comply due to specific advice they received from someone, whether orally or in writing, or
 - b. Is the taxpayer claiming they relied on someone else to comply on their behalf?
- (2) Certain sections of the IRC and Treasury Regulations provide relief from certain penalties based on erroneous advice. See IRM 20.1.1.3.3.4, Advice, to first determine if a statutory exception or administrative waiver applies.
- (3) If the taxpayer states they relied on written or oral advice from the IRS but does not qualify for relief in accordance with the criteria in IRM 20.1.1.3.3.4.1, Written Advice From the IRS, or IRM 20.1.1.3.3.4.2, Oral Advice From the IRS, refer to IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence, to determine if the taxpayer exercised ordinary business care and prudence in relying on the IRS's advice.
- (4) The taxpayer may try to establish reasonable cause by claiming they relied on another party to comply on their behalf. Generally, this is **not** a basis for reasonable cause, particularly for filing or paying obligations, since **the taxpayer**

is responsible for meeting their tax obligations and that responsibility cannot be delegated. However, other factors to consider include:

- a. Was the taxpayer unable to comply because they did not have access to their own records? See IRM 20.1.1.3.2.2.3, Unable to Obtain Records.
- b. Was the failure to comply due to a change in the tax law the taxpayer could not reasonably be expected to know? See IRM 20.1.1.3.2.2.6, Ignorance of the Law.

- (5) Consider all facts and circumstances presented by the taxpayer to determine if, despite the exercise of ordinary business care and prudence, the taxpayer nevertheless was unable to comply.

20.1.1.3.2.2.6
(11-25-2011)
Ignorance of the Law

- (1) In some instances taxpayers may not be aware of specific obligations to file and/or pay taxes. The **ordinary business care and prudence standard** requires that taxpayers make reasonable efforts to determine their tax obligations. See IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence.
- (2) Reasonable cause may be established if the taxpayer shows ignorance of the law in conjunction with other facts and circumstances. For example, consider the following:
 - a. The taxpayer's education.
 - b. If the taxpayer has previously been subject to the tax.
 - c. If the taxpayer has been penalized before.
 - d. If there were recent changes in the tax forms or law which a taxpayer could not reasonably be expected to know.
 - e. The level of complexity of a tax or compliance issue.
- (3) Reasonable cause should never be presumed, even in cases where ignorance of the law is claimed.
- (4) The taxpayer may have reasonable cause for noncompliance due to ignorance of the law if the following are true:
 - a. A reasonable and good faith effort was made to comply with the law, or
 - b. The taxpayer was unaware of a requirement and could not reasonably be expected to know of the requirement.

20.1.1.3.2.2.7
(08-05-2014)
Forgetfulness

- (1) The taxpayer may try to establish reasonable cause by claiming forgetfulness or an oversight by the taxpayer, or another party, caused the noncompliance. Generally, this is **not** in keeping with the **ordinary business care and prudence standard** and does not provide a basis for reasonable cause. See IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence.
- (2) If the taxpayer claims forgetfulness or an oversight by another party, consider the following:
 - a. Relying on another person to perform a required act is generally not sufficient for establishing reasonable cause.
 - b. **It is the taxpayer's responsibility to file a timely return and to make timely deposits or payments. This responsibility cannot be delegated.**

20.1.1.3.2.2.8
(03-29-2023)

Inaccessible Notices

- (1) Policy Statement 1-47, Reasonable Accommodations for People with Disabilities (see IRM 1.2.1.2.12), requires the IRS to take necessary actions to ensure taxpayers with disabilities have an equal opportunity to participate effectively in its programs, activities and services. If a taxpayer is unable to read certain post-filing tax notices issued in standard print, they may request an accessible copy of that notice in an alternative format. See IRM 1.18.4.4.3, Conversion of Taxpayer Notices.
- (2) A taxpayer may request penalty relief if a notice in standard print format was received requiring a taxpayer action, but the taxpayer did not timely respond because the notice was inaccessible. To qualify for relief, the taxpayer must still meet the reasonable cause standard.
- (3) Reasonable cause may be established if the taxpayer exercised ordinary business care and prudence, but due to circumstances beyond the taxpayer's control, they were unable to comply. Refer to IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence, and Policy Statement 3-2 in IRM 1.2.1.4.2.
- (4) Information to consider when evaluating whether the taxpayer had reasonable cause includes, but is not limited to:
 - Did the taxpayer provide a description of the impairment that prevented them from reading the standard print notice?
 - When was the notice received and when did the taxpayer first become aware of the issue stated in the standard print notice?
 - What was the taxpayer's degree of knowledge concerning the tax, interest, or penalty owed prior to issuance of the inaccessible notice?

Example: A taxpayer filed their 2019 Form 1040 showing a tax amount due and made no payment. When the return was processed, a notice (CP 14) was issued to explain that the Form 1040 was filed with an amount owed and gives the balance due information. In this case, the taxpayer had knowledge of the unpaid tax prior to issuance of the notice and would not qualify for relief.

- When did the IRS become aware that the taxpayer needs accessible format notices?
- Did the taxpayer promptly respond to the notice once a copy of the notice in accessible format was received?

20.1.1.3.3
(11-25-2011)

Statutory Exceptions and Administrative Waivers

- (1) This subsection addresses statutory exceptions and administrative waivers. These two very separate categories are placed together because in many instances an administrative waiver is an extension of rules that were provided for by statute.

20.1.1.3.3.1
(10-19-2020)

Statutory and Regulatory Exceptions

- (1) Tax legislation may provide an exception to a penalty. Specific statutory exceptions can be found in either the penalty-related IRC section(s) or the accompanying regulation(s). For example:

Legal Reference	Title	IRM Reference
IRC 6654(e)(1), (2), or (3)	Estimated Tax Penalties (ES)	IRM 20.1.3

Legal Reference	Title	IRM Reference
IRC 7502(a) and IRC 7502(e) (IRC 7502(e) does not apply to deposits due after Dec. 31, 2010)	Timely Mailing Treated as Timely Filing and Paying	IRM 20.1.2 and IRM 20.1.4
IRC 6724	Waiver; Definitions and Special Rules, Information Return Penalties	IRM 20.1.7.12
IRC 6404(f)	Abatement of Any Penalty or Addition to Tax Attributable to Erroneous Written Advice by the Internal Revenue Service	IRM 20.1.1.3.3.4.1
IRC 7508	Time for Performing Certain Acts Postponed by Reason of Service in Combat Zone. This provision applies only in a presidentially declared Combat Zone	IRM 20.1.2.2.2.1, Combat Zone-IRC 7508
IRC 7508A and Treas. Reg. 301.7508A-1	Authority to Postpone Certain Deadlines by Reason of Federally Declared Disaster or Terroristic or Military Actions	IRM 25.16.1, Disaster Assistance and Emergency Relief, Program Guidelines and IRM 20.1.2.2.2.2, Federal Disaster Area-IRC 7508A

- (2) Legislation with retroactive provisions may provide guidance on associated penalties. As a result of that retroactive provision, the IRS may issue a news release or other guidance with instructions for the disposition of the related penalties.
- (3) IRC 6205 provides for an interest-free adjustment when an employer underreported and underpaid certain employment taxes if specific conditions are met by the employer to report the error and pay the tax due. Prior to Jan. 1, 2009, IRC 6205 and related Treasury Regulations were silent in regard to penalties. Consequently, IRS extended an administrative waiver to certain penalties. See IRM 20.1.1.3.3.2, Administrative Waivers.
 - a. The regulations under IRC 6205 provide that an interest-free adjustment cannot be made if the failure to report relates to an issue that was raised in an examination of a prior return period or if the employer knowingly underreported its employment tax liability.
 - b. Also, under the regulations, an interest-free adjustment cannot be made after receipt of notice and demand for payment or after receipt of Letter 3523, Notice of Employment Tax Determination under IRC Section 7436.

- (4) Effective Jan. 1, 2009, Treas. Reg. 31.6205–1 and Treas. Reg. 31.6302–1 have been amended for interest-free adjustments. When all conditions have been met for an employer to qualify for an interest-free adjustment, the amount timely paid will be deemed to have been timely deposited by the employer. In other words, **tax deemed to have been timely deposited** is not subject to the Failure to Deposit (FTD), Failure to Pay (FTP), and Failure to File (FTF) penalties. See IRM 21.7.2.4.6, Adjusted Employer's Federal Tax Return or Claim for Refund, IRM 20.1.2, Failure to File/Failure to Pay Penalties, and IRM 20.1.4, Failure to Deposit Penalty, for required procedures and additional information.
- a. When all regulatory requirements have been met for the amount paid to be considered timely deposited by the employer, penalties should not be assessed.
 - b. If penalties were assessed, the account must be carefully reviewed to determine if penalty relief is appropriate, and if so, the correct reason for relief. Did the taxpayer state they met all requirements for an interest-free adjustment?

If	And	Then
The adjustment was input with Transaction Code (TC) 290, see IRM 21.7.2.4.6, Adjusted Employer's Federal Tax Return or Claim for Refund, to determine if reversal of the TC 290 and reassessment with TC 298 is appropriate,	Manual penalty reversal is required (Master File will automatically reverse systemic penalty assessments),	Use Penalty Reason Code (PRC) 044.
The adjustment was input with TC 298,	IRS asserted the penalty or penalties incorrectly ,	Refer to IRM 20.1.1.3.4, Correction of Service Error.
The adjustment was input with TC 298,	IRS asserted the penalty or penalties correctly ,	Explain the reason for the penalty or penalties to the taxpayer.
The taxpayer did not meet all requirements for an interest-free adjustment,	Established they were unable to comply timely due to reasonable cause and not due to willful neglect, (see IRM 20.1.1.3.2, Reasonable Cause),	Use the appropriate PRC for penalty abatement listed in Exhibit 20.1.1-2, Penalty Reason Code Chart.

20.1.1.3.3.2
(08-05-2014)

Administrative Waivers

- (1) The IRS may formally interpret or clarify a provision to provide administrative relief from a penalty that would otherwise be assessed. An administrative waiver may be addressed in either a policy statement, news release, or other formal communication stating that the policy of the IRS is to provide relief from a penalty under specific conditions.

Example: An example of an administrative waiver is Notice 98-30, IRB 1998-22. This allowed a temporary waiver of the failure to deposit penalty for certain taxpayers first required to make federal tax deposits by EFTPS beginning on or after July 1, 1997.

- (2) An administrative waiver may be necessary when there is a delay by the IRS in the following:
 - a. Printing or mailing forms,
 - b. Publishing guidance (e.g. writing Regulations), or
 - c. Other conditions.
- (3) IRC 6205 permits adjustments to be made, without interest, to correct underpayments of employment taxes. The amount of the underpayment must be paid by the time an adjusted return (e.g., Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund) is filed or interest will begin to accrue from that date.
- (4) For errors discovered on or after January 1, 2009, see IRM 20.1.1.3.3.1, Statutory and Regulatory Exceptions, for penalty information related to interest-free adjustments for employment taxes.
- (5) For errors discovered prior to Jan. 1, 2009, take the following action to meet the IRS's responsibility to provide fair and consistent treatment to taxpayers:
 - a. For an increase of tax that qualifies for an interest-free adjustment, the IRS will not assess Failure to File (TC 16X), Failure to Pay (TC 27X), or Failure to Deposit (TC 18X) penalties; provided the tax increase was paid by the due date of the tax period in which additional tax was ascertained.

Note: If there's a previously assessed TC 16X, on the tax period, it may be necessary to restrict the Failure to File penalty by entering a TC 160 .00 on the adjustment.
 - b. The tax adjustment will be represented by a TC 298/308, with an interest computation date.
 - c. If one of the previously identified penalties has been assessed and a request for abatement is received, the abatement will be done as an administrative waiver if the penalty is based on the TC 298/308 tax increase (provided the tax increase was paid by the due date of the tax period in which it was ascertained).

20.1.1.3.3.2.1
(03-29-2023)

First Time Abate (FTA)

- (1) IRS provides administrative relief from the following penalties if the qualifying criteria contained in this subsection are met:
 - a. Failure to File (FTF) penalty under IRC 6651(a)(1), IRC 6698(a)(1), or IRC 6699(a)(1),
 - b. Failure to Pay (FTP) penalty under IRC 6651(a)(2) and/or IRC 6651(a)(3), and
 - c. Failure to Deposit (FTD) penalty under IRC 6656.

- (2) This administrative waiver was implemented in 2001 for tax periods with ending dates after December 31, 2000. It is referred to as First Time Abate (FTA) and is available for penalty relief the first time a taxpayer is subject to one or more of the referenced penalties for a single return filed by the taxpayer.
- (3) The Reasonable Cause Assistant (RCA) is programmed to perform a limited analysis to determine if FTA criteria in paragraphs (4)-(7) are met; therefore, it is important for the user to manually verify all applicable modules (i.e., secondary or cross reference TINs, etc.) to ensure all criteria are met before granting the FTA waiver. Refer to IRM 20.1.1.3.6, Reasonable Cause Assistant, for RCA policy and additional FTA guidelines in IRM 20.1.1.3.6.1, RCA and First Time Abate (FTA) Consideration, when RCA is used.
- (4) The following FTA waiver criteria applies to all taxpayers when determining if FTA relief may be granted:

Note: When determining if FTA criteria are met, the criteria below applies to the same MFT as the penalized MFT unless the penalized MFT is 01, 14, 30, or 31. If the penalized MFT is 01 or 14, the criteria applies to both MFTs 01 AND 14. If the penalized MFT is 30 or 31, the criteria applies to both MFTs 30 AND 31.

- a. The taxpayer has filed the same return as the penalized return for the 3 years preceding the penalized tax period, unless there is no filing requirement for the applicable tax period or the tax modules for the same return are not in TDI Status 02, 03 (BMF), or 04 (IMF), (see Exception), and
 - b. If required to file the same return during the preceding 3 years, those returns for the 3 preceding years were processed and the modules do **not** have **any type** of unreversed penalties (except an estimated tax
- #
- the assessed penalty or penalties (a module balance cleared with a TC 606 indicates a notice showing the assessed penalty or penalties **was not** issued), and
- c. If required to file the same return during the preceding 3 years, modules for those returns have no penalties manually suppressed or reversed with Penalty Reason Code (PRC) 018 (FTA, RCA not used), 020 (FTA, RCA used), or 021 (Tolerance). See Exhibit 20.1.1-2, Penalty Reason Code Chart (see Exception).

Exception: If subsequent information shows the taxpayer was either not required to file a return or they did in fact comply and were not subject to any penalty on a module on which a penalty abatement was input with PRC 018, 020, or 021, consider the taxpayer compliant for that module.

Note: If a MFT 06, 07, or 08 module for the first tax year beginning after December 31, 2015, and before January 1, 2017, contains a penalty abatement input with PRC 018 (or 020) AND a TC 971 with Action Code 199 stating **PER NOTICE 2017-47**, disregard the penalty reversal that was input with PRC 018 (or 020). Public Law 114-41 changed the due date of returns processed on MFTs 06, 07, and 08 from the fifteenth day of the fourth month following the close of the taxable year to the fifteenth day of the third month following the close of the taxable year for tax years beginning after

December 31, 2015. Notice 2017-71 (which superseded Notice 2017-47) provides penalty relief for the first return due for a taxable year beginning in 2016 that would have been timely if not for the due date change. The Notice also provided that taxpayers qualifying for relief would not be treated as having received a first-time abatement. A TC 971 with Action Code 199 stating **PER NOTICE 2017-47** was input on all modules meeting relief criteria, however, some penalties were incorrectly abated with PRC 018 (or 020) prior to input of the TC 971.

- (5) When determining if FTA criteria are met for penalties assessed on MFT 30 or 31, the taxpayer(s) must meet FTA criteria for the three years preceding the penalized tax period for returns required to be filed as a primary and secondary taxpayer, if applicable.

Example: If the filing status of the return on the penalized period is Married Filing Joint and the required returns in the preceding 3 years were not filed under the same primary SSN and with the same filing status and same primary and secondary SSNs, FTA criteria for both SSNs must be met.

Example: If the filing status on the return on the penalized period is other than Married Filing Joint and the taxpayer filed, or was required to file, as a secondary taxpayer during the preceding 3 years, FTA criteria must be met for the returns on which the taxpayer was reported, or was required to be reported, as the secondary taxpayer on a joint return.

- (6) In addition to the criteria in paragraph (4), FTA criteria will not be met on BMF accounts if any of the following is true:
- a. A total of four or more FTD penalty waiver codes are present in the taxpayer's three-year penalty history. Waiver Code 24 is set when the FTD penalty is waived due to a change in deposit frequency. Waiver Code 25 is set when the FTD penalty is waived per IRM 20.1.4.3, Restrictions on Assessments, criteria. Waiver codes, if posted, are shown in Command Code (CC) BMFOL definer R with the literal FTD PEN WAIVER CD.
- Note:** Some employers with COVID-19 credits that filed Form 941 for tax period ending June 30, 2020 followed directions per Notice 2020-22, Relief from Penalty for Failure to Deposit Employment Taxes, and also existing instructions for Form 941 and Schedule B when reporting their liabilities. This caused some employers to incur an FTD penalty. Due to this issue, disregard Waiver Code 25 for MFT 01 for tax period ending June 30, 2020 when determining if FTA criteria are met.
- b. The FTD penalty is charged for EFTPS avoidance. However, if the taxpayer made some deposits electronically by EFTPS as required but not all and all other FTA criterion are met, any portion of an FTD penalty not attributable to EFTPS avoidance can be removed or suppressed. If the portion of the penalty attributable to EFTPS avoidance meets IRM 20.1.4.3, Restrictions on Assessments, criteria, remove the penalty in full.
 - c. Review of the three-year look back period shows the Form 1120, U.S. Corporation Income Tax Return, or Form 1120-S, U.S. Income Tax Return for an S Corporation, was filed late but not penalized.

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- d. The penalty is charged for an incomplete Form 1120-S under IRC 6699(a)(2) or Form 1065 under IRC 6698(a)(2). See IRM 20.1.2.6, Failure to File S Corporation Return-IRC 6699, and IRM 20.1.2.4, Failure to File a Partnership Return-IRC 6698. For assessments made **before** January 1, 2022, an incomplete return penalty is assessed on MFT 02 or 06 with a TC 246 or a TC 240 without a three digit penalty reference number (PRN). For assessments made **after** January 1, 2022, an incomplete return penalty is assessed on MFT 02 or 06 with a TC 246 or TC 240 with three digit penalty reference number (PRN) 723. Taxpayers that file an incomplete Form 1120-S or Form 1065 are provided an opportunity to submit the missing information before the incomplete return penalty is assessed.
- (7) In addition to the criteria contained in paragraphs (4)-(6), penalty relief under the FTA waiver does not apply to the following:
 - a. Returns with an event-based filing requirement, generally returns filed once or infrequently.
 - b. The Daily Delinquency Penalty (DDP), see e.g., IRC 6652(c)(2)(A) and IRM 20.1.8, Employee Plans and Exempt Organization Penalties.
 - c. Information reporting that is dependent on another filing, such as various forms that are attached.
 - (8) The above items are not all inclusive. Examples of some returns where penalty relief under the FTA waiver is NOT applicable include:
 - Form 706, U.S. Estate Tax Return
 - Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return
 - Form 990, Return of Organization Exempt From Income Tax
 - Forms 1099 series information returns
 - Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business
 - Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts
 - Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner
 - Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations (See IRM 20.1.9 for exception.)
 - Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business (See IRM 20.1.9 for exception.)
 - (9) FTA is an administrative waiver and does not carry any oral statement authority (OSA) threshold. See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief, for OSA guidelines.

- (10) As stated in paragraph (2), penalty relief under the FTA waiver only applies to a single tax period. Further, penalty relief under the FTA waiver only applies to a tax period for which the qualifying criteria in paragraphs (4)-(6), as applicable, have been met. In addition, the FTA waiver is not applicable based solely on a taxpayer's first request for penalty relief.

Example: If a Form 941 filer was compliant for calendar years 2013, 2014, and 2015 but made late deposits and was assessed FTD penalties on all 4 2016 tax periods, FTA criteria can only be met and the waiver applied to the tax period ended 201603. Reasonable cause criteria must be met for tax periods 201606, 201609, and 201612.

Example: If the same Form 941 filer was not compliant during calendar year(s) 2013, 2014, and/or 2015 but didn't request penalty relief for those years and their first request for penalty relief is for the 4 FTD penalties on their 2016 returns, penalty relief under the FTA waiver is not appropriate for any of the 2016 penalties.

- (11) An FTA waiver is not penalty-specific. In other words, if the taxpayer has any unreversed penalties (except an ES penalty) on a module in the three-year look-back period, or any penalties reversed with PRC 018, 020, or 021, the FTA waiver does not apply to any penalty on the module under consideration.

Example: If a taxpayer was assessed an FTD penalty and no other penalties on Form 941 for tax period 201703 and a review of the three-year look-back notice was issued), or the FTP penalty was removed with PRC 018, 020, or 021, the FTA waiver does not apply for 201703 tax module.

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- (12) Per IRM 20.1.1.3, Criteria for Relief From Penalties, penalty relief under Administrative Waivers, including FTA, is to be considered and applied before reasonable cause. If FTA criteria are met, the FTA waiver will be applied before reasonable cause and the taxpayer must be notified that we removed their penalty or penalties based on their prior history of compliance and not based on their reasonable cause statement.

Caution: Do not provide relief under the FTA waiver if there is clear and convincing evidence that the taxpayer did in fact comply and is not subject to any penalties or if the penalty or penalties is/are the result of an IRS error. Take appropriate corrective actions that will result in systemic reversal of the penalty or penalties. If the module is restricted from removing the penalty or penalties systemically or the penalty or penalties is/are clearly the result of an IRS error then input the penalty abatement transaction(s) with penalty reason code (PRC) 045.

- (13) When penalty relief under the FTA waiver is granted, notify the taxpayer that the penalty or penalties have been removed based on their prior history of compliance and not based on a reasonable cause explanation provided, if applicable. Correspondence Letters 168C, 3502C (RCA only), and 3503C (RCA only), as well as ICS (integrated collection system) macro letters 4722, 4723, and 4724, contain appropriate paragraphs to use for this notification requirement. The following is an example of this paragraph:

Example: *We approved your request to remove the penalties. However, we only granted penalty relief because you have a good history of filing and paying on time. This type of penalty removal is only available one time. We will base our decisions to remove any future penalties on reasonable cause criteria.*

Note: When applicable, include an explanation that educates the taxpayer how to be compliant in the future. Examples of when an explanation may not be applicable include deceased taxpayers and telephone contacts during which an explanation was provided verbally.

- (14) If the tax is not paid in full on the module that meets FTA criteria, allow abatement of the FTP penalty under the FTA waiver and use reason code (**RC 062**) with the TC 271. While the FTA waiver is an administrative waiver and not reasonable cause, the **RC 062** will not restrict Master File from continuing to compute the FTP penalty on the unpaid tax and is to be used in this instance only.

Note: An open paragraph must be used in Correspondence Letters 168C, 3502C, and 3503C to inform the taxpayer that the FTP penalty will continue to apply to the unpaid tax. After the tax is paid in full, the additional FTP penalty can be removed under the FTA waiver.

Caution: If the tax is paid in full or the taxpayer has agreed to pay the balance owed immediately upon receipt of notice of abatement of the penalty (see IRM 20.1.2.2.4.1(9), Penalty Abatements and Re-assessments), allow abatement or suppression of the assessed amount of FTP penalty (i.e., input TC 270 for \$0.00 if the module only reflects accrued FTP). On IMF modules, use RC 065.

- (15) Per IRM 20.1.1.5.1, Master File Penalty Reason Codes, a PRC is required when abating an assessed penalty or suppressing a penalty that is otherwise applicable. The FTA waiver carries its own PRCs as follows:
- **PRC 018** - To be used when an independent determination of the taxpayer's eligibility for penalty relief under the FTA waiver is made. This includes situations where RCA is used but RCA did not determine FTA criteria have been met.
 - **PRC 020** - To be used when RCA is used and RCA displays a message indicating the module under review meets FTA criteria. This includes situations where RCA displays a message indicating one or more modules in the three-year history have been moved to the retention register and manual review of the module(s) moved to the retention register confirms FTA criteria have been met or review of a module under a secondary or cross reference TIN confirms FTA criteria have been met.
- (16) Taxpayers are not required to specifically request penalty relief under the FTA waiver to be eligible for the waiver. If one or more penalties eligible for relief under the FTA waiver remain after all account discrepancies have been corrected, and/or are being proposed in the course of an examination, abatement or suppression of the penalty or penalties should be made if all FTA criteria have been met.

20.1.1.3.3.2.2

(03-29-2023)

**Administrative Waiver -
Penalty Relief for
Certain Taxpayers Filing
2019 and 2020 Returns**

- (1) *Notice 2022-36*, Penalty Relief for Certain Taxpayers Filing 2019 and 2020 Returns, was issued August 24, 2022. This notice grants administrative relief, provided under the authority from IRC 7803(a) in response to the COVID-19 pandemic and the challenges experienced by both taxpayers and the IRS. The waiver:

- Provides administrative relief from certain Failure to File (FTF) penalties, certain international information return penalties, and certain information return penalties.
- Is effective for only tax years 2019 and 2020 (tax periods ending 201901 through 202012).
- Is applied systemically to modules, where applicable.
- Does not require a taxpayer request to initiate abatement.

Note: When causing a refund to generate, the overpayment is NOT subject to the overpayment interest provision of IRC 6611(e)(3). See IRM 20.2.4.7.5.5, 45-Day Rule and IRS Initiated Adjustments.

- (2) The FTF penalty is waived for the applicable returns filed on or before September 30, 2022:

- Form 1040 series (MFT 29, 30, 31)
- Form 1120 series (MFT 02)
- Form 1041 (MFT 05)
- Form 1066 (MFT 07)
- Form 990-T (MFT 34)
- Form 990-PF (MFT 44)

- (3) The FTF penalty and the missing information penalty is waived for BMF flow-through returns filed on or before September 30, 2022. Relief for a FTF and/or missing information penalty assessed **before** January 1, 2022, shows a TC 167 for the FTF penalty and a TC 241 without a Penalty Reference Number (PRN) for the missing return penalty. If the FTF and/or missing information penalty was assessed **after** January 1, 2022, the penalty relief shows a TC 241 and corresponding PRN 722 if the return was complete but received late, or PRN 723 if the return was incomplete. The applicable flow-through returns are:

- Form 1120-S (MFT 02 Doc Code 16)
- Form 1065 (MFT 06)

- (4) The FTF penalty is waived for the following International Information Returns filed on or before September 30, 2022. The relief shows on the applicable MFT 13 or 55 module with a TC 241 and the applicable PRN shown below:

- Form 5471 (PRN 599 or 712)
- Form 5472 (PRN 711)
- Form 3520 (PRN 659, 668, or 677)
- Form 3520-A (PRN 660)

Note: This relief applies only to systemically assessed Form 5471 and 5472 penalties and only to Form 3520 and Form 3520-A penalties assessed manually by the campus at filing.

- (5) The Tier 1 and Tier 2 delinquency portions of penalties, assessed on MFT 13 or 55, for certain information returns as defined in IRC 6724 are waived for the following:

- Tax year 2019 information returns filed on or before August 1, 2020.
- Tax year 2020 information returns filed on or before August 1, 2021.

Note: Other penalty provisions, such as Tier 3 delinquency, incorrect information, missing or incorrect TINs, and non-compliance with e-file requirements are not waived under this administrative relief.

- (6) The relief applies to originally filed returns with a FTF penalty related to an examination assessment and/or non-filers per current policy and precedent.

- (7) The administrative relief does NOT apply to:

- Any penalty not specifically provided for in section 3 of the Notice 2022-36.
- Any return or form showing a penalty for fraudulent FTF under IRC 6651(f) or the fraud penalty under IRC 6663.
- Any penalty in an accepted Offer-in-Compromise (OIC) under IRC 7122.
- Any penalty settled in a closing agreement or any penalty finally determined in a judicial proceeding.

- (8) Use **RC 062 PRC 046** if a manual penalty relief adjustment is needed per *Notice 2022-36*.

- (9) When determining if a taxpayer is eligible to receive First Time Abate (FTA) penalty relief, the following pertains to the 2019 and/or 2020 tax year:

- Disregard the FTF (TC166/160) assessed **on or before** September 30, 2022.
- Disregard a prior FTA penalty relief (with PRC 018/020) applicable only for FTF penalty relief granted **on or before** September 30, 2022.

Exception: If both the FTF **and** Failure to Pay (FTP) penalties were granted relief under FTA on or before September 30, 2022, the FTA will **NOT** be disregarded since the FTA administrative waiver applies to the module and is not penalty specific.)

Note: Any FTF penalty assessed **after** September 30, 2022, or any FTA penalty relief granted only for the FTF penalty **after** September 30, 2022, will **NOT** be disregarded, and will be considered normally.

20.1.1.3.3.3
(08-05-2014)
Undue Hardship

- (1) An undue hardship may support the granting of an extension of time for paying a tax or deficiency (i.e., Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship). Treas. Reg. 1.6161-1(b), provides an undue hardship must be more than an inconvenience to the taxpayer. The taxpayer must show that they would sustain a substantial financial loss if **required to pay** a tax or deficiency on the due date.

- a. Undue hardship generally **does not** affect a person's ability to file and therefore would not provide a basis for penalty relief in a failure to file situation. However, each request must be considered on a case-by-case basis.
 - b. Undue hardship may establish reasonable cause for failure to file on magnetic media under Treas. Reg. 301.6724-1. See IRM 20.1.7, Information Return Penalties.
 - (2) The extension of time to pay does not provide the taxpayer with an extension of time to file. Nor does the extension of time to pay relieve the taxpayer of any appropriate penalties. See IRM 20.1.2.2.3.2, Extensions of Time to Pay-IRC 6161.
 - (3) Undue hardship **may** also support relief from the addition to tax for failure to pay tax if the explanation for the noncompliance supports such a determination. However, the mere inability to pay **does not** ordinarily provide the basis for granting penalty relief. Under Treas. Reg. 301.6651-1(c), the taxpayer must also show that they exercised ordinary business care and prudence in providing for the payment of the tax liability.
 - a. The taxpayer may claim that enough funds were on hand, but as a result of unanticipated events, the taxpayer was unable to pay the taxes.
 - b. Consider an individual taxpayer's inability to pay a factor when considering penalty relief if the taxpayer shows that, had the payment been made on the payment due date, undue hardship (as defined in Treas. Reg. 1.6161-1(b)) would have resulted.
 - c. In the case where a taxpayer files bankruptcy, consider inability to pay a factor if the insolvency occurred before the tax payment due date.
 - (4) If payroll was met, taxes were withheld and should be available for deposit. Employers must reserve money withheld from employees' wages in trust until deposited. The employer should not use the money for any other purpose. Undue hardship does not support relief from the penalty under IRC 6672, Failure to Collect and Pay Over Tax, or Attempt to Evade or Defeat Tax (Trust Fund Recovery Program).
 - (5) Information to consider when evaluating a request for penalty relief includes, but is not limited to, the following:
 - a. When did the taxpayer know they could not pay?
 - b. Why was the taxpayer unable to pay?
 - c. Did the taxpayer explore other means to secure the necessary funds?
 - d. What did the taxpayer supply in the way of supporting documentation, such as copies of bank statements?
 - e. Did the taxpayer pay when the funds became available?
 - (6) Use the appropriate PRC if penalty relief is warranted. See Exhibit 20.1.1-2.
- 20.1.1.3.3.4
(08-05-2014)
Advice
- (1) This section discusses the following three basic types of advice that may qualify for statutory, regulatory, or administrative penalty relief:
 - a. Written advice provided by IRS
 - b. Oral advice provided by IRS
 - c. Advice provided by a tax professional

- (2) Information to consider when evaluating a request for abatement or non-assertion of a penalty due to reliance on advice includes, but is not limited to, the following:
 - a. Was the advice in response to a specific request and was the advice received related to the facts contained in that request?
 - b. Did the taxpayer reasonably rely on the advice?
- (3) The following instances address some situations where penalty relief may not be appropriate even though the taxpayer relied on written advice from the IRS regarding an item on a filed return:
 - a. The taxpayer did not reasonably rely on the advice regarding an item **included on a return** if the advice was received after the date the return was filed.

Note: A taxpayer may be considered to have reasonably relied on advice received after the return was filed if they then filed an amended return that conformed with such written advice.
 - b. A taxpayer may not be considered to have reasonably relied on written advice **unrelated** to an item included on a return, such as advice on the payment of estimated taxes, if the advice is received after the estimated tax payment was due.
 - c. If the taxpayer, or their authorized representative, provided the IRS or the tax professional with adequate and accurate information, the taxpayer is entitled to penalty relief for the period during which they relied on the advice. The period continues until the taxpayer **is placed on notice** that the advice is no longer correct or no longer represents the IRS's position.
- (4) The taxpayer is **placed on notice** as the result of any of the following events that present a contrary position and occur after the issuance of the written advice:
 - a. Written correspondence from the IRS that its advice is no longer correct or no longer represents the IRS's position.
 - b. Enactment of legislation or ratification of a tax treaty.
 - c. A U.S. Supreme Court decision.
 - d. The issuance of temporary or final regulations.
 - e. The publication of a revenue ruling, revenue procedure, or other statement in the Internal Revenue Bulletin (IRB).
- (5) Generally, Form 843, Claim for Refund and Request for Abatement, is required to be filed to request penalty abatement based on erroneous written advice by the IRS. However, if Form 843 is not filed and the information provided demonstrates that abatement of the penalty is warranted, the penalty should be abated, whether or not a Form 843 is provided. Information required to be provided includes the following:
 - a. The taxpayer's written request for advice,
 - b. The erroneous written advice furnished by the IRS to the taxpayer and relied on by the taxpayer, and
 - c. The report (if any) of tax adjustments that identifies the penalty or addition to tax and the item relating to the erroneous written advice.

20.1.1.3.3.4.1
(11-25-2011)**Written Advice From the IRS**

- (1) The IRS is required by IRC 6404(f) and Treas. Reg. 301.6404-3 to abate any portion of any penalty attributable to erroneous written advice furnished by an officer or employee of the IRS acting in their official capacity.
- (2) If the taxpayer does not meet the criteria for penalty relief under IRC 6404(f), the taxpayer may qualify for other penalty relief. For instance, taxpayers who fail to meet all of the IRC 6404(f) criteria may still qualify for relief under reasonable cause if the IRS determines that the taxpayer exercised ordinary business care and prudence in relying on the IRS's written advice. See IRM 20.1.1.3.2.2.5, Erroneous Advice or Reliance.
- (3) Requests that qualify for penalty relief based on erroneous written advice from the IRS under IRC 6404(f) must be filed according to the following under Treas. Reg. 301.6404-3(e):
 - a. Within the period allowed for collection of the penalty or addition to tax, or
 - b. If the penalty or addition to tax has been paid, within the period allowed for claiming a credit or refund of such penalty or addition to tax.

20.1.1.3.3.4.2
(12-11-2009)**Oral Advice From IRS**

- (1) The IRS may provide penalty relief based on a taxpayer's reliance on erroneous oral advice from the IRS where the penalty allows relief for reasonable cause. The IRS is required by IRC 6404(f) and Treas. Reg. 301.6404-3 to abate any portion of any penalty attributable to erroneous **written** advice furnished by an employee acting in their official capacity. Administratively, the IRS has extended this relief to include erroneous oral advice when appropriate.
- (2) In addition to considering the criteria provided in Treas. Reg. 301.6404-3, IRM 20.1.1.3.3.4, Advice, and IRM 20.1.1.3.3.4.1, Written Advice From the IRS, consider the following:
 - a. Did the taxpayer exercise ordinary business care and prudence in relying on that advice?
 - b. Was there a clear relationship between the taxpayer's situation, the advice provided, and the penalty assessed?
 - c. What is the taxpayer's prior tax history and prior experience with the tax requirements?
 - d. Did the IRS provide correct information by other means (such as tax forms and publications)?
 - e. What type of supporting documentation is available?
- (3) The following is supporting documentation:
 - a. A notation of the taxpayer's question to the IRS,
 - b. Documentation regarding the advice provided by the IRS,
 - c. Information regarding the office and method by which the advice was obtained,
 - d. The date the advice was provided, and
 - e. The name of the employee who provided the information.

20.1.1.3.3.4.3
(11-21-2017)**Advice From a Tax Advisor**

- (1) Reliance on the advice of a tax advisor generally relates to the reasonable cause exception in IRC 6664(c) for the accuracy-related penalty under IRC 6662. See IRM 20.1.5.7.4, Reliance on Advice, and Treas. Reg. 1.6664-4(c).

- (2) However, in very limited instances, reliance on the advice of a tax advisor may provide relief from other penalties when the tax advisor provides advice on a substantive tax issue.

Example: The employer researched all available IRS publications on the subject of contract labor, provided clear and convincing documentation as to the duties of the workers to the tax advisor, and requested an opinion from the tax advisor as to whether the workers were “contract labor” or “employees.” As a result, the tax advisor advised the employer that the workers were “contract labor.” However, the IRS later determined that the workers were “employees” and not “contract labor.”

- (3) Penalty relief based on reliance on the advice of a tax advisor is limited to issues generally considered technical or complicated. **The taxpayer’s responsibility to file, pay, or deposit taxes generally cannot be excused by reliance on the advice of a tax advisor.**
- (4) Because the IRC and treasury regulations sections that provide penalty relief criteria for erroneous advice from a tax advisor are generally limited to the accuracy-related penalty, relief from other penalties must meet the reasonable cause standards. See IRM 20.1.1.3.2, Reasonable Cause.

20.1.1.3.3.5
(10-19-2020)
**Fire, Casualty, Natural
Disaster, or Other
Disturbance-Major
Disasters**

- (1) This section discusses penalty relief provisions for circumstances that generally fall under the definition of “major disaster” (such as a hurricane, tornado, earthquake, etc.) or “emergency” (see IRM 25.16.1.5, Disaster Tax Relief Options) and that affect a significant number of taxpayers located within a designated geographical area (see IRM 25.16.1.7, Disaster Zip Code Communication).
- (2) Generally, relief is provided in the form of extensions of time to file or pay and is usually provided systemically with the setting of an “-O” Freeze or “-S” Freeze posted to the account. See IRM 25.16.1.8.2, -O Freeze, and IRM 25.16.1.8.1, -S Freeze.
- (3) The determination to grant relief from each penalty must be based on the facts and circumstances surrounding each individual case.
- (4) For additional guidelines, including guidelines for reasonable cause consideration where systemic penalty relief is not applicable, see IRM 20.1.1.3.2.2.2, Fire, Casualty, Natural Disaster, or Other Disturbance-Reasonable Cause.

20.1.1.3.3.6
(11-25-2011)
Official Disaster Area

- (1) When a significant disaster occurs affecting a wide area of taxpayers, the IRS often issues special instructions to facilitate evaluating the request for penalty relief.
- (2) Because these are one-time instructions, they will not be incorporated in this IRM. Territories, campuses, and customer service sites will be kept informed of any special instructions affecting their areas.

20.1.1.3.4
(08-05-2014)
**Correction of Service
Error**

- (1) An IRS error can be any error made by the IRS in computing or assessing tax, crediting accounts, etc. See Exhibit 20.1.1-2, Penalty Reason Code Chart, for the appropriate **PRC** to be used when abating either a systemically-generated or manually-input penalty.

- (2) When an analyst from any area of the IRS identifies a **computer programming application** that caused a penalty to be assessed in error, that analyst should coordinate the following with OSP:
 - a. Contact Information Technology (IT) to resolve the inadequate **computer application**, and
 - b. Include on the unified work request (UWR) a statement indicating that **PRC 015** must be used to identify any abatement of a penalty resulting from reversal of the **computer application**.
- (3) Other IRS error examples include the following:
 - a. A math error when manually computing a penalty.
 - b. An extension of time to file that did not post to the Master File (and manual input of a TC 460 did not, or will not, result in an automatic penalty reversal, if input of a TC 460 is appropriate in accordance with IRM 20.1.2.2.3.1.1, Extension of Time to File Not Found).
 - c. Any other error, when it can be shown that; (1) the taxpayer did in fact comply with the law, and (2) the IRS did not initially recognize that fact.

20.1.1.3.5
(10-19-2020)
Evaluating Penalty Relief Requests

- (1) The **initial** request for relief may occur either during or after an examination (but before a penalty is actually assessed), with a return that is either filed or paid late, or after assessment of the penalty or penalties and notification issued to the taxpayer.
- (2) When the request is received, carefully analyze the taxpayer's reasons to determine if penalty relief can be considered and is warranted. The burden of proving entitlement to relief is generally upon the taxpayer.

Caution: Prior to analyzing the taxpayer's reason(s), analyze the account to determine if penalty relief cannot be considered, or if relief can only be considered by another IRS function. An example includes, but is not limited to, Freeze Codes "F-", "-N", "-V", "-W", "-Y", "-Z", or "Z-".
- (3) The following guidelines generally apply to all penalties for which the IRC provides relief. As stated in IRM 20.1.1.3, Criteria for Relief From Penalties, the penalty relief criteria contained throughout IRM 20.1.1, Introduction and Penalty Relief, do not apply to all penalties referenced in IRM 20.1, Penalty Handbook. Refer to the applicable IRM 20.1, Penalty Handbook, section(s) for additional criteria depending on the penalty or penalties for which relief is requested. See IRM 20.1.1.1.2, Authority.
- (4) Each request must be evaluated on its own merit, including the following:
 - a. The events or parties involved,
 - b. If the taxpayer exercised ordinary business care and prudence, but due to circumstances or events beyond the taxpayer's control the taxpayer was unable to meet the tax requirement,
 - c. If other penalty relief criteria apply (such as a statutory or regulatory exception or an administrative waiver).
- (5) The taxpayer's obligation to meet the requirement is ongoing. Ordinary business care and prudence requires that the taxpayer continue to attempt to meet the requirements, even though late.

- (6) The request must identify the penalty or penalties for which relief is requested and address the reason(s) applicable to the penalty or penalties since each penalty is for a different type of failure. If one specific penalty is not identified, but it's clear the taxpayer is requesting relief from all penalties on the module, then all may be considered. However, if the taxpayer specifically requests relief from only one penalty, then only that one penalty should be considered. (If FTA criteria are met, the FTA waiver would apply to all applicable penalties on the module. Refer to IRM 20.1.1.3.3.2.1, First Time Abate (FTA), for penalty relief under the FTA administrative waiver.) Determine if the taxpayer's explanation addresses the penalty or penalties imposed.
- a. The dates and explanations should clearly correspond with events on which the penalties are based to show that the taxpayer is entitled to relief from the penalty.
 - b. Request additional information from the taxpayer to clarify any explanations if the dates and explanations do not correspond with the events on which the penalty is based.

Note: See IRM 20.1.1.3.3.2.1, First Time Abate (FTA). If the penalty or penalties being considered is/are eligible for relief under the FTA waiver, determine if the taxpayer meets FTA criteria before requesting additional information.

- (7) Review available IRS information in determining whether or not the taxpayer exercised ordinary business care and prudence. Check the **preceding tax years (go back at least three years or twelve quarters)** for payment patterns and the taxpayer's overall compliance history.
- a. Assertion of the same penalty or penalties in the taxpayer's history may indicate that the taxpayer is not exercising ordinary business care.
 - b. If this is the taxpayer's first incident of noncompliant behavior, weigh this factor with other reasons the taxpayer gives for relief since a first time failure to comply does not by itself establish reasonable cause. However, see the IRM 20.1.1.3.3.2.1, First Time Abate (FTA), administrative waiver.
- (8) Consider the length of time between the event cited as a reason for the non-compliance and subsequent compliance. The length of time between events may serve to cancel or reduce the event's effect. Penalty relief may not be appropriate if, after considering all facts and circumstances, the taxpayer failed to correct their noncompliant behavior within a reasonable period of time.
- (9) The following are examples where penalty relief may **not** be appropriate:
- a. The taxpayers claim that they were unable to comply with the filing requirement due to a death in the family. The death occurred several months prior to the due date of the return. The return was not filed until a year after the due date of the return.
 - b. Taxpayers claim that they were unable to comply with the filing requirement because the records necessary for filing were in the control of a third party, e.g., a bankruptcy trustee or an accountant. The records were returned to the taxpayer well in advance of the time the return was required to be filed. The return was not filed until several months after the records were returned.
 - c. In both of the examples, the timing of the event may prevent the taxpayer from receiving penalty relief unless other factors justify the delay in filing.

- (10) Consider if the taxpayer could have anticipated the event that caused the non-compliance. See IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence.

20.1.1.3.5.1
(03-29-2023)

**Subsequent Requests
for Penalty Relief**

- (1) A second or subsequent request for penalty relief may be received after the initial request for relief has been denied.
- (2) If the penalty was previously considered by the IRS Independent Office of Appeals (Appeals), forward the request to the appropriate Appeals office. (This may be identified by the presence of **PRC 041/042** followed by a TC 290 for \$0.00 with a Blocking Series 96X, -N Freeze Code on the account.)
- (3) If review of the account indicates that the taxpayer's request for penalty relief was previously disallowed, but not previously considered by Appeals, review the circumstances of the previous denial.

If	And	Then
The taxpayer is submitting new information,	The facts presented in the new information meet penalty relief criteria (see IRM 20.1.1.3, Criteria for Relief From Penalties),	Abate the penalty or penalties. See IRM 20.1.1.3.5.2, Taxpayer Entitled to Relief.
The taxpayer is submitting new information,	The facts presented in the new information do not meet penalty relief criteria,	Notify the taxpayer that relief cannot be granted based on the new information provided and the information contained in the original disallowance.
The taxpayer is submitting new information,	The facts presented do not meet penalty relief criteria and the taxpayer indicates a desire for appealing the decision,	Forward the case to Appeals with all required information (and notify the taxpayer the additional information does not meet penalty relief criteria and their request is being forwarded to Appeals).
The taxpayer is not submitting new information,	The taxpayer has not requested an appeal of the previous determination,	Inform the taxpayer the penalty relief request cannot be considered.
The taxpayer is not submitting new information,	The taxpayer is requesting an appeal of the previous determination,	Forward the case to Appeals with all required information.
The taxpayer is not submitting new information,	It is unclear what the taxpayer wants,	Contact the taxpayer to request clarifying information.

(4) Cases transferred to Appeals **must** include the following information:

- a. The letter or form requesting an appeal. It must be signed by the taxpayer or an authorized power of attorney (POA), as evidenced by a valid Form 2848, Power of Attorney and Declaration of Representative, either attached to the request or on file. (A copy of the Form 2848 is preferred with the case going to Appeals whenever possible.)

Note: Form 8821, Tax Information Authorization, or Form 2848, Level H (unenrolled return preparer), is not considered an authorized POA.

- b. The documentation showing written supervisory approval of the penalty (or penalties) being appealed, when required by IRC 6751(b)(1). See IRM 20.1.1.2.3, Approval Prerequisite to Penalty Assessments for more information.

Note: Appeals does not have access to the Correspondence Imaging Inventory (CII). If the written supervisory approval of any penalty being appealed is contained in CII, take action to ensure documentation showing the supervisory approval is included with the files sent by the penalty appeals coordinator.

- c. A copy of the previously denied penalty relief request. This denied request would be with the TC 290 .00 in Blocking Series 98/99 source document. (The appropriate blocking series (98/99) **must** be with the previously denied penalty relief request before transferring the case to Appeals.) If the source document is not available, provide a copy of the Files charge-out information to Appeals.
- d. A copy of the disallowance letter or a print of the LPAGE input screen showing the 'Request Completed' response message (852C, 853C, 854C, 2413(P), 2414(P) or other disallowance letter). For letters generated through the RCA program, the PDF print of the letter that was successfully transmitted is also acceptable.
- e. Any and all other information that is needed for Appeals to fully and fairly consider the applicability of the penalty and the taxpayer's abatement request.

(5) When transferring a case to Appeals, complete the following actions:

- a. Input a TC 971 with Action Code 251 on each tax period being transferred,
- b. Reassign the control base to Appeals (category APPZ), and
- c. Unless the case involves International Penalties, input TC 470 with Closing Code 90. For cases involving International Penalties, input TC 470 with Closing Code 95.

(6) The penalty appeals coordinator will transfer the case to Appeals by accessing the Appeals Electronic Case Receipts SharePoint site at <https://organization.ds.irsnet.gov/sites/APPEALS-PQCS/SitePages/WorkRepository.aspx> and taking the following actions:

- a. Select *New Case*
- b. Select the appropriate Business Unit from the drop down list
- c. Select *PENAP (Penalty Appeals)* in the Type of Case field
- d. Choose the correct type of PENAP case from the following three choices: International, MFT 06, or All Other
- e. Input the taxpayer name, TIN, MFT(s), and tax period(s) being appealed

Note: The *MFT* and *Tax Period* fields permit multiple entries for the same taxpayer.

- f. Input the requestor's name or SEID in the *Requestor* field and then select that name in the pop-up box so the *Requestor*, *Email*, *Telephone*, and *POD* fields auto-populate.
- g. Click *Add Attachment* and use the *Choose File* button to browse and select the case file contents described in paragraph (4) above to be uploaded, and

Note: Files selected for upload should be in PDF format. Each file should not exceed 25 pages. While the size of files is limited to 25 pages, penalty appeals coordinators may attach and upload an unlimited number of files.

- h. Click the *Submit* button when all information has been input and all files necessary to work the case have been added as attachments. .

Note: It is important that only penalty appeals coordinators submit cases to Appeals through the Appeals Electronic Case Receipts SharePoint site as they are most familiar with the documents that need to be transmitted to Appeals. Cases that are sent to Appeals without all necessary documents will be returned by Appeals as premature referrals with jurisdiction released.

Note: For a demonstration of the process the penalty appeals coordinator follows in submitting a case to Appeals, refer to the self-help online tutorial video titled Electronic Case Receipts, Penalty Appeals, at <https://vp2.irsvideos.gov/IRS/2022-0211-KH/Electronic%20Case%20Receipt.html>.

20.1.1.3.5.2
(10-19-2020)
Taxpayer Entitled to Relief

- (1) If the taxpayer provides an explanation that supports their request for penalty relief, waive or abate the applicable penalty or penalties. If the explanation applies to one penalty or multiple penalties but not all penalties, only the penalty or penalties to which the explanation applies should be waived or abated.
- (2) Document the decision and the basis for providing relief according to functional guidelines. Attach a copy of the information to the original return (if available) or other transaction (input) document.
- (3) Decisions with respect to penalties made by compliance personnel should not ordinarily be changed by personnel within another functional area. Before considering relief for any penalty or penalties asserted by compliance personnel, contact that office to determine if the case should be returned to the originating office.
- (4) If relief is granted prior to assertion of the penalty or penalties, use computer condition codes to suppress the automatic assertion of the penalty or penalties. Functional areas that forward returns to be processed must request that the campus prevent the assessment of the penalty or penalties. This may be done by doing the following:
 - a. Writing "reasonable cause" or "penalty relief" (as appropriate) in the pre-printed penalty block on the return,
 - b. Requesting the penalty assessment transaction code be input for zero amount,

- c. Editing a computer condition code (CCC) on the return, or
- d. Preparing other forms appropriate for forwarding returns or penalty computations for processing.

Note: In addition, annotate the appropriate penalty reason code (PRC) on the respective form or return.

- (5) If relief is granted after the assessment of a penalty, follow procedures for abating the penalty or the appropriate portion of the penalty. Adjustments to penalties that are due to reasonable cause must include **Reason Code 062** and the appropriate PRC. See Exhibit 20.1.1-2, Penalty Reason Code Chart.

20.1.1.3.5.3 (10-19-2020)

Taxpayer Not Entitled to Relief

- (1) The information contained in paragraphs (2)-(8) does not apply to all IRM 20.1, Penalty Handbook, penalties. Refer to the appropriate IRM 20.1, Penalty Handbook, section depending on the penalty or penalties considered. See IRM 20.1.1.1.2, Authority.

Example: If considering an accuracy-related penalty (IRC 6662), refer to IRM 20.1.5.5, Post Assessment Abatement Consideration of Accuracy Related Penalties. If considering an international penalty, refer to IRM 20.1.9.1.5, Common Terms and Acronyms.

- (2) If the criteria for penalty relief has not been established, determine if additional information would be helpful to evaluate the taxpayer's request. See IRM 20.1.1.3.2, Reasonable Cause .
- (3) If a final determination is that the criteria for granting penalty relief was not established, complete the following:
 - a. Document the decision and its basis according to functional guidelines, and
 - b. Attach a copy of the information to the original return (if available) or other transaction (input) document.
- (4) Employees denying a request for pre-assessment relief (prior to assessment) or abatement (after assessment), must provide written notification to the taxpayer of the denial and of the taxpayer's appeal rights, regardless of whether the request was received in the following manner:
 - In person
 - Over the phone
 - In writing
- (5) The notice should include the following:
 - a. A complete explanation of the IRS's decision and the basis for denial,
 - b. Information on the appeal procedures, including instructions on how to submit a written protest, and
 - c. Power of attorney information.
- (6) The IRS has developed standardized letters that are used by various offices. They include the following:

- IDRS Correspondex Letter 0854C, Penalty Waiver or Abatement Disallowed/Appeals Procedure Explained, which is generally used by campuses.
Note: If the reasonable cause assistant (RCA) is used (see IRM 20.1.1.3.6, Reasonable Cause Assistant (RCA), Correspondex Letter 0852C (BMF) and Letter 0853C (IMF) are generated through RCA and IDRS.
- Pattern Letter 2413(P) and Letter 2414(P), which are used by Collection area offices, available as an ICS macro.

- (7) Functions that process returns through the campus will need to alert the campus of their decision to deny penalty relief.
- (8) If a request for penalty relief is denied after assessment, request or input TC 290 for zero amount, using Blocking Series 98/99 (Appeals uses Blocking Series 96) with **Reason Code 062** and Hold Code 3 on each module for which penalty relief was requested and denied.

20.1.1.3.6
(10-19-2020)
**Reasonable Cause
Assistant (RCA)**

- (1) The Reasonable Cause Assistant (RCA) will be used where available when considering penalty relief due to reasonable cause. RCA is to be used after normal case research has been performed (i.e., applying missing deposits/payments, adjusting tax, researching for missing extensions of time to file, etc.) for the following penalties:
 - a. IMF-Failure to File (FTF) and Failure to pay (FTP) (Form 1040-series returns processed on MFT 30 or 31), and
 - b. BMF-Failure to Deposit (FTD) (currently limited to MFTs 01 (Form 941), 10 (Form 940), 11 (Form 943), 14 (Form 944), and 16 (Form 945).
- (2) RCA is a decision support interactive software program developed to assist the user in reaching a reasonable cause determination. RCA is accessed through the Account Management Services (AMS) *Tools* menu.

Note: Users must be familiar with penalty relief guidelines and are responsible for making final approval concerning the RCA penalty relief determination and to verify all reasons given by the taxpayer are addressed. Users are also responsible for reviewing and making any necessary edits before transmitting the RCA letter information in IDRS to ensure the letter reflects a thorough response to all reasons given by the taxpayer.

- (3) Use of RCA will ensure consistent and equitable administration of penalty relief consideration.
- (4) When an employee has determined that a taxpayer has requested penalty relief based on reasonable cause, whether the request was made by telephone or in writing, RCA will be accessed to determine if penalty relief will be granted.

Caution: See IRM 20.1.1.3.5, Evaluating Penalty Relief Requests, to determine if penalty relief can be considered, or if penalty relief can only be considered by another function.

20.1.1.3.6.1
(03-29-2023)
**RCA and First Time
Abate (FTA)
Consideration**

- (5) No tool or application other than the RCA application accessed from the AMS desktop application has been authorized for use by the Office of Servicewide Penalties (OSP) to assist in determining if reasonable cause or FTA criteria have been met.
- (1) Refer to IRM 20.1.1.3.3.2.1, First Time Abate (FTA), for all eligibility criteria for penalty relief under the FTA administrative waiver.
 - (2) RCA has been programmed to perform a limited analysis to determine if FTA criteria are met under most conditions; however, manual verification of modules in the three-year look-back period is required before granting FTA. RCA is unable to analyze certain module information in the three-year look-back period under secondary or cross-reference TINs, or information in modules that were moved to the retention register. If RCA determines FTA criteria may be met based on only those modules not moved to the retention register, AND one or more modules in the three-year look-back period were moved to the retention register, RCA will display a warning message.
 - a. As stated on the warning message, modules in the three-year look-back period that have been moved to the retention register must be reviewed manually to determine if FTA criteria are met. When doing this review, also check under the secondary or cross-reference TIN when applicable..
 - b. When the **Ok** button is selected in the warning message, RCA next displays the "First Time Abate" dialog message. **Cancel** must be selected if manual review of the applicable module(s) shows FTA criteria have not been met.
 - c. In cases where at least one module in the three-year look-back period is under a different TIN or has been moved to the retention register, RCA has not performed a thorough analysis to determine if FTA criteria are met. If manual review verifies FTA criteria have been met, use Penalty Reason Code (PRC) 020 with the adjustment transaction(s).
 - (3) As stated in IRM 20.1.1.3.6, Reasonable Cause Assistant (RCA), RCA is currently only programmed to review BMF modules on MFTs 01, 10, 11, 14, and 16 and only if an FTD penalty greater than \$0.00 is present:
 - a. If an FTD penalty of greater than \$0.00 is present AND FTF and/or FTP penalties are also present, the FTA recommendation by RCA applies to all penalties.

Exception: If at least one module in the three-year look-back period has been moved to the retention register and manual review shows FTA criteria have not been met, no penalties will be removed under the FTA waiver.
 - b. If an FTD penalty of greater than \$0.00 is NOT present but an FTF and/or FTP penalty is, RCA does not perform the FTA analysis for any user type. However, RCA will allow revenue officer (RO) users to process a penalty abatement transaction, if applicable, through RCA. Although the RCA Adjustment Data screen contains a message indicating RCA does check for FTA criteria under this condition, it does not. The account must be reviewed manually to determine if FTA criteria are met (see IRM 20.1.1.3.3.2.1, First Time Abate (FTA)). If FTA criteria are met, select PRC 018 from the drop-down list. **Do not use PRC 020.**

- (4) If the MFT reviewed is 30 or 31, RCA will perform an analysis to determine if the tax on the module is fully paid:
- If the tax is fully paid, RCA will use Reason Code (RC) 065 (and PRC 020) with the adjustment and will default either the total amount of the FTP penalty assessed on the module with the TC 271 or it will default TC 270 for \$0.00 if the module contains only accrued FTP.
 - If the tax is not fully paid, RCA will use RC 062 (and PRC 020) with the adjustment and will default the total FTP penalty computed to the current date for the TC 271.
 - If the TC 271 amount defaulted by RCA is incorrect, the amount must be edited before transmitting the adjustment.

Note: If RCA does not display the FTA message but it's subsequently determined FTA criteria have been met, use PRC 018. If the tax on the module is paid in full. Use PRC 020 if the tax is not paid in full. For MFTs 30 & 31, RCA will default RC 062 with PRC 020 if the tax is not fully paid but it is not currently programmed to use RC 062 with PRC 018.

- (5) If the MFT reviewed is 01, 10, 11, 14, or 16, RCA currently will NOT perform an analysis to determine if the tax on the module is fully paid, nor is RCA programmed to use RC 062 with PRC 018 or 020. If the tax on the module is NOT paid in full and PRC 018 or 020 will be used:
- a. Users that are NOT profiled as an RO user (CRs, TEs, etc.) - If a TC 271 is added to the RCA Adjustment Data screen, it will be necessary to add 062 to the first RC field on the CC ADJ54 screen in IDRS before transmitting the adjustment.
 - b. Users profiled as an RO user - At this time, there are no options to add RC 062 to the adjustment either before selecting OK on the RCA Adjustment Data screen nor by Centralized Case Processing (CCP) prior to the adjustment being transmitted. This section will be updated if programming changes can be input to allow for use of RC 062 with PRC 018 or 020 on BMF modules.
- (6) Per IRM 20.1.1.3.3.2.1, First Time Abate (FTA), individual taxpayers must be compliant as primary or secondary filers in the three-year look-back period. RCA programming was updated in Jan. 2017 to review the history of two or more SSNs under most conditions. However, if RCA displays the "First Time Abate" message when accessed on a module on MFT 30 or 31, it will be necessary to manually review the three-year history for the primary and secondary SSN as needed, to verify all FTA criteria have been met (see IRM 20.1.1.3.3.2.1, First Time Abate (FTA)). If not, select **Cancel** and proceed with RCA for a reasonable cause determination.
- (7) Per IRM 20.1.1.3.3.2.1, First Time Abate (FTA), penalty relief under the FTA waiver doesn't apply to any portion of a FTD penalty assessed for EFTPS avoidance. At this time, RCA is unable to determine if only a portion of an FTD penalty was charged for EFTPS avoidance and will not display the "First Time Abate" message if the Penalty Computation Code (PCC) used with the TC 18X is one that indicates an avoidance credit is posted (see IRM 20.1.4.14.3, Penalty Computation Codes (PCC)).
- In this situation, RCA will display "EFTPS Avoidance" in the Alerts on the Module Home Screen. The account can be reviewed manually to determine if FTA criteria are otherwise met.

Note: The Penalty History section of the RCA Module Home screen can be used as a quick reference to determine if FTA criteria have not been met as this will reflect any unreversed penalties in the three-year look-back period for modules that have not been moved to the retention register. Even if all modules in the three-year look-back period are reviewed and all reflect 'No Penalties', the account must be reviewed manually to determine if all FTA criteria have been met.

- (8) RCA will also display a FTA window on a BMF account when the taxpayer has a change in deposit frequency. Employees need to be aware this is different than a FTA for a good compliance history and use the appropriate PRC when removing the penalty for a first-time change in deposit frequency.

20.1.1.3.6.2
(03-29-2023)

Penalty Reason Codes

- (1) Per IRM 20.1.1.3, Criteria for Relief From Penalties, a penalty reason code (PRC) is required when suppressing, reducing, or removing a penalty. Also see IRM 20.1.1.5.1, Master File Penalty Reason Codes.
- (2) When RCA reaches an Abate or Mixed conclusion (also see IRM 20.1.1.3.6.10, RCA Conclusions/Determinations), RCA will default the applicable PRC for the abatement adjustment on the RCA Adjustment Data screen. The PRC field on the Adjustment Data screen also provides a drop-list of all PRCs reflected in Exhibit 20.1.1-2, Penalty Reason Code Chart. The appropriate PRC should be selected if the PRC defaulted by RCA is incorrect based on the facts and circumstances.
- (3) Although not reflected on the Adjustment Data screen, RCA will pass reason code (RC) 062 to the first RC field in CC ADJ54 if the selected PRC is 022, 024, 025, 026, 030, or 046. RCA will also pass RC 062 with PRC 020 in certain situations (see IRM 20.1.1.3.6.1).
- (4) When the conditions for use of RC 062 have not been met, RCA will pass RC 065 when accessed on MFT 30 or 31 (IMF) or no RC will be passed when accessed on MFT 01, 10, 11, 14, or 16 (BMF).

Note: When the adjustment transaction includes TC 271, the applicable RC and PRC must be selected in accordance with the requirements contained in IRM 20.1.2.2.4.1, Penalty Abatements and Re-assessments.

- (5) When RCA's determination (see IRM 20.1.1.3.6.10, RCA Conclusions/Determinations, and IRM 20.1.1.3.6.10.1, Overriding (Aborting) RCA's Conclusion) is overridden, the following options are available based on the RCA user type:
- User not profiled as a revenue officer (RO) user (i.e., contact representatives, tax examiners, etc.) - RCA does not provide an option to input the required adjustment action through RCA. The adjustment action must be input outside of RCA and the applicable RC and PRC used in accordance with IRM 20.1.1.3.6.2, Penalty Reason Codes, and Exhibit 20.1.1-2, Penalty Reason Code Chart.
 - RO users - RCA will default the abatement transaction code (TC) and abatement amount for any assessed FTF, FTP, and/or FTD penalty on the module but will not select a default PRC. The applicable PRC must be selected from the drop-down list provided on the Adjustment Data

screen in accordance with IRM 20.1.1.3.6.2, Penalty Reason Codes, and Exhibit 20.1.1-2. RCA will use RC 062 or RC 065 (IMF only) in accordance with Exhibit 20.1.1-2, Penalty Reason Code Chart.

Note: RCA will not pass RC 062 with PRC 018 on IMF nor BMF modules, and it will not pass RC 062 with PRC 020 on BMF modules.

20.1.1.3.6.3
(11-25-2011)
**Increase in Oral
Statement Ceiling**

- (1) Beginning January 1, 2002, the oral statement ceiling for Failure to File, Failure to Pay, and Failure to Deposit penalties was increased. See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief.
- (2) RCA will be used where available. Where RCA is not available, employees should receive managerial approval to allow for the oral abatement of penalties when reasonable cause criteria are met. The ceiling also applies to BMF FTF and FTP penalties (even though RCA is not programmed to consider these penalties at this time).

20.1.1.3.6.4
(02-22-2008)
**Oral Statement Ceiling
Exceeded**

- (1) A signed, written statement is not required to **deny** a penalty relief request, regardless of the penalty amount(s). Therefore, users will not be required to obtain a signed, written statement before accessing RCA in “oral” mode. If the RCA determination is to abate the penalty or penalties and the oral ceiling threshold is exceeded, RCA will display a message stating a signed, written statement is required to allow the abatement, in addition to any other documentation required. See IRM 20.1.1.3.6.5, Documentation.
 - a. If RCA determines the penalty should be sustained, follow established RCA “sustain” procedures.
 - b. If RCA determines the penalty should be abated, request a signed, written statement.

20.1.1.3.6.5
(02-22-2008)
Documentation

- (1) Specific circumstances within RCA require the taxpayer to provide documentation to support their claim before a penalty relief determination can be reached. Other circumstances will allow the employee to accept “credible information,” either orally or in writing.
 - a. “Credible information” must explain facts and circumstances showing the taxpayer exercised ordinary business care and prudence, and cite specific dates for the non-compliance. All information, including dates, must substantiate why the taxpayer was unable to comply.
 - b. RCA has been programmed to include reasonable and specific time frames to allow for filing and/or paying taxes after the event that prevented compliance ended. See IRM 20.1.1.3.2.2, Ordinary Business Care and Prudence.

20.1.1.3.6.6
(08-05-2014)
**Attaching RCA
Determination**

- (1) When RCA reaches a conclusion to either abate (remove) or sustain the penalty, the program automatically displays a print dialog to allow printing the determination that includes all information input by the RCA user. This print must be attached as a source document or attached to the CII case if applicable. See IRM 21.5.2, Adjustment Guidelines, for additional information.
- (2) See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief, for additional information concerning unsigned and oral requests.

20.1.1.3.6.7
(11-21-2017)

**Reasonable Cause
Penalty Relief Request
Prior to Penalty
Assessment**

- (1) RCA is unable to consider penalty relief on modules with no TC 150 posted. However, RCA can consider FTF and/or FTP penalty relief on IMF accounts if a TC 150 has posted, but no penalties have been assessed, or if the penalties have been fully reversed. It can also consider FTD penalty relief on BMF accounts with a posted TC 150 but no posted, or fully reversed, TC 18X.

Note: RCA does not provide an option to address any unassessed penalties for users that are profiled as revenue officer (RO) users.

- (2) While the reasons for accessing RCA under these conditions vary, this functionality is most beneficial for BMF CP 207 or CP 207L replies where the taxpayer knows they made one or more deposits late and requests penalty relief based on reasonable cause prior to assessment of the FTD penalty.
- (3) For CP 207 and CP 207L replies (see IRM 20.1.4.18, CP 207/207L Notices), use CC FTDPN to compute the appropriate penalty prior to accessing RCA.

1. If a penalty applies, access RCA for a penalty relief determination.

Note: RCA does not review the account to determine if FTA criteria have been met if an FTD penalty for a positive amount is not present on the module. Prior to accessing RCA, review the account to determine if FTA criteria have been met (see IRM 20.1.1.3.3.2.1, First Time Abate (FTA)). If so, accessing RCA is not required. If the 13th week from issuance of the CP 207 notice has not expired per IRM 20.1.4.18.1, Replies to CP 207/207L Notices, input a TC 180 for zero, BLK 14, and PRC 018. This action should prevent automatic assessment of an FTD penalty.

2. If FTA criteria have not been met and RCA determines reasonable cause criteria have been met, input a TC 180 for zero, BLK 14, **RC 062**, and the appropriate PRC in the 4th RC position. (This action is required to avoid sending the taxpayer unnecessary notices).
3. If RCA determines reasonable cause criteria have not been met, follow normal CP 207 assessment procedures (see IRM 20.1.4.18, CP 207/207L Notices) and normal penalty relief request denial procedures (see IRM 20.1.1.3.5.3, Taxpayer Not Entitled to Relief).
- (4) On IMF accounts, certain account conditions can result in the taxpayer receiving a balance due notice that includes an accrued FTP penalty charge but no TC 27X is present on the account. RCA programming was updated in Jan. 2017 to determine if accrued FTP penalty for a positive amount is present on the module and now functions in the same manner as it has on modules that contain assessed FTP penalty for a positive amount.
 - a. When RCA determines abatement of the FTP penalty is appropriate, RCA will default a TC 271 amount (or a TC 270 for zero if applicable) on the RCA Adjustment Data screen based on the requirements contained in IRM 20.1.1.3.3.2.1, First Time Abate (FTA), and IRM 20.1.2.2.4.1, Penalty Abatements and Re-assessments. However, users are responsible for determining the appropriate TC 271 amount or, if applicable, if a TC 270 for zero is appropriate and change the amount defaulted by RCA before transmitting the adjustment.
 - b. For RO users, RCA will generally default the amount of assessed FTP, or a TC 270 for zero, on all BMF modules and on IMF modules on which RCA's Sustain determination is overridden. If the module contains

accrued FTP and RC 062 will be input with the adjustment, the amount defaulted by RCA will generally need to be edited before selecting OK on the RCA Adjustment Data screen. See Exhibit 20.1.1-2, Penalty Reason Code Chart, to determine if RC 062 will be used depending on the PRC selected.

20.1.1.3.6.8
(11-21-2017)
RCA Letter Generation

- (1) If RCA determines reasonable cause has not been established, Correspondex Letter 0852C (BMF) or Letter 0853C (IMF) can be issued by users that are not profiled as an RO user through RCA providing the reason(s) for denial and explaining the appeal procedures.
 - a. “*Special Insert*” and “*Return Address*” codes are required on the Letter 0852C and Letter 0853C to generate the appropriate appeals coordinator’s name and return address. Enter the codes established by your local Campus User Support function (normally used on Letter 0854C). These codes are also available on the SERP *Penalty Appeal Coordinators List* page.
 - b. If the codes entered do not generate the correct information, report the problem to your local User Support function.
- (2) After completing the RCA Letter Data screen and having RCA send CC LETER to IDRS and transmit, RCA will send the required paragraphs and fill-ins to CC LPAGE when the **Review/Manual Transmit** button is selected. **RCA does not automatically generate the letter.** Users must manually transmit the letter in IDRS and verify the letter has been transmitted as reflected by REQUEST COMPLETED.

Note: The *Upper Case Only* setting in IDRS must be turned off prior to selecting **Review/Manual Transmit**.

20.1.1.3.6.9
(11-21-2017)
RCA for BMF

- (1) RCA cannot consider BMF FTP and FTF penalty relief at this time. However, because most BMF accounts that have been penalized for FTF and FTP penalties also include a FTD penalty, RCA should be used to consider penalty relief for the FTD penalty.

- a. If the same reasons are used for requesting FTF and FTP penalty relief (as they usually are), the RCA conclusion can generally apply to all three penalties.

Note: The FTD penalty is based on failing to make timely deposits in the proper format that were due during the tax return period (most due no later than the 15th of the month following the end of the tax period), while the FTF and FTP penalties are based on failing to file a tax return and/or pay all tax due by the last day of the month that follows the end of the tax period. Consequently, the date(s) of the event(s) that prevented compliance with the different requirements may not support removal of all penalties. Review the facts and circumstance thoroughly before applying RCA’s FTD penalty determination to the FTF and/or FTP penalties.

- b. If the RCA conclusion is to sustain the penalty and Correspondex Letter 0852C is issued, RCA provides an option to automatically insert a paragraph stating the FTD denial reason also applies to FTF and/or FTP (or an open paragraph can be inserted to notify the taxpayer the denial applies to the FTF and/or FTP penalties in addition to the FTD penalty).

Note: If the facts and circumstances justify abatement for the FTF penalty and/or FTP penalty but not the FTD penalty, do not select the option to include the penalty or penalties being abated on the RCA Letter Data screen.

- c. If more than one penalty is involved, only one IDRS adjustment should be made. Use the PRC that would be applicable for the FTD penalty abatement.

20.1.1.3.6.10
(11-21-2017)

**RCA Conclusions/
Determinations**

- (1) RCA programming applies the reasonable cause standards outlined throughout IRM 20.1.1.3.2, Reasonable Cause, against the reasonable cause category or categories chosen by the RCA user and the answers selected and/or dates entered (if applicable) to the questions posed by RCA. Therefore, to ensure the correct determination is reached, users must make every effort to choose the applicable category or categories and answers (correct date(s) entered, etc.) based on the information provided by the taxpayer. RCA will reach 1 of 5 possible conclusions for the MFT and tax period (module) reviewed (listed in order of priority):

RCA Conclusion	Explanation	Action	Additional Information
1. Abate	Reasonable cause established.	Remove the penalty or penalties.	Caution: When the FTP penalty is being abated for reasonable cause, refer to IRM 20.1.2.2.4.1, Penalty Abate-ments and Re-assessments, for additional information and, if necessary, edit the TC 271 amount defaulted by RCA.
2. Other	Not a reasonable cause issue.	RCA will display additional information/instructions.	n/a

RCA Conclusion	Explanation	Action	Additional Information
3. Suspend	Sufficient information was not provided for RCA to reach a conclusion.	RCA displays all information required to support a showing of reasonable cause.	Note: Not applicable to revenue officers except on BMF modules and a valid record of federal tax liability (ROFTL) is not readily available, when applicable.
4. Sustain	Reasonable cause not established.	Deny the request.	n/a
5. Mixed	In general, reasonable cause partially established.	<ul style="list-style-type: none"> IMF—Abate one penalty/sustain the other penalty BMF—Abate a portion of the FTD penalty applicable to one or more late deposit(s)/sustain a portion of the FTD penalty applicable to one or more late deposit(s). Also see IRM 20.1.4.3, Restrictions on Assessments 	Caution: In some instances on BMF accounts (FTD penalty), RCA reviews each late-deposited liability. When this is the case, the RCA “module conclusion” only applies to the late-deposited liability(ies) selected for review. Consequently, it may be necessary to access RCA more than once if all late-deposited liabilities were not late for the same reason(s).

- (2) An “abate” or “sustain” conclusion, dependent on the reasonable cause category(ies) chosen and the answers selected, is reached after RCA has done the following:
- Made an unbiased analysis of the facts of the case,
 - Properly applied the law and IRS policy to the facts of the case, and
 - Performed the actions in (a) and (b) fairly and consistently compared to similar cases.

20.1.1.3.6.10.1
(11-25-2011)

Overriding (Aborting) RCA's Conclusion

- (3) Therefore, fair and consistent application of penalties requires employees to make a final penalty relief determination consistent with the RCA conclusion. However, understanding that the individual facts and circumstances vary for each case and that there may be unique facts and circumstances in certain cases that RCA cannot consider, an “override (abort)” function is available in RCA. See IRM 20.1.1.3.6.10.1, Overriding (Aborting) RCA's Conclusion.

- (1) Overriding the “module conclusion” reached by RCA may be appropriate in limited situations. Prior to overriding the RCA conclusion, employees must do the following:
- Verify that all pertinent reasonable cause categories applicable to the facts and circumstances addressed in the request were selected for review. If not, select **Add Category** and select one or more additional categories for RCA review.
 - Verify the most appropriate answers to all questions posed by RCA were selected (correct dates entered, etc.). If not, select **Previous** to return to previous questions and select a more appropriate answer.
- (2) If there are unique individual facts and circumstances RCA is unable to consider, those individual facts and circumstances must be carefully analyzed and must clearly show, in accordance with the reasonable cause guidelines outlined throughout IRM 20.1.1.3.2, Reasonable Cause, that despite the exercise of ordinary business care and prudence the taxpayer was nevertheless unable to comply within the prescribed time.

Caution: Per IRM 20.1.1.3.6.10, RCA Conclusions/Determinations, RCA has properly applied the law and IRS policy to the facts it has considered. A determination to override RCA's conclusion cannot conflict with law or IRS policy. For example, delegating a non-delegable duty may appear to show the exercise of ordinary business care and prudence, but such an act is not legally supported.

- (3) A determination to override RCA's conclusion must be justified. The reason(s) the RCA conclusion is being overridden is required and must clearly state why the RCA conclusion is incorrect and why, or why not, the facts and circumstances of the case support the action being taken. In addition, the specific IRM 20.1.1.3.2, Reasonable Cause, section(s) used to support an override determination is required.
- (4) Managerial approval to override RCA's determination is not required but is recommended.

20.1.1.4
(03-29-2023)

Methods of Appealing Penalties

- (1) Various administrative and legislative remedies are provided for taxpayers who disagree with the IRS' determination that they are liable for a particular penalty. Generally, when a taxpayer disagrees with the determination regarding a penalty, they have the right to an administrative appeal.
- (2) Taxpayers have the right to challenge the assertion or assessment of a penalty, and generally may do so at any stage in the penalty process. Taxpayers may request the following:
- A review of the penalty prior to assessment (e.g., deficiency procedures),
 - A penalty abatement after it is assessed, and either before or after it is paid (post-assessment review), or

c. An abatement and refund after payment (claim for refund).

- (3) Taxpayers may indicate their disagreement with the determination either verbally or in writing, or if the penalty has already been paid, by filing a claim for refund or credit.
- (4) If agreement cannot be reached at the area field office or the campus, the taxpayer may request a conference with the employee's immediate manager, or (in most cases) the taxpayer may request that the case be forwarded to the IRS Independent Office of Appeals (Appeals). Taxpayers should provide a written request for consideration by Appeals. Also see IRM 20.1.1.3.5.1, Subsequent Requests for Penalty Relief.
- (5) The taxpayer may also file suit in court. Depending on the procedural circumstances of the taxpayer's case, the taxpayer may petition the United States Tax Court or file a complaint with either the United States District Court or a United States Court of Federal Claims (as appropriate). See IRM 8.21.2, Account and Processing Support (APS) Statute Responsibility.
- (6) Also see IRM 8.11.1, Penalties Worked in Appeals, Return-Related Penalties in Appeals.

20.1.1.4.1
(02-22-2008)

The Appeals Function

- (1) The IRS Independent Office of Appeals (Appeals) is an independent administrative body within the IRS that is the only formal internal level of appeal.
- (2) The review of a penalty determination by Appeals is not automatic. Appeals will only review a penalty if the request for relief has been previously denied by an IRS employee and the taxpayer requests an appeal.
- (3) In addition, Appeals may make a determination that the taxpayer did not commit the prohibited action or failure to act for which the penalty is asserted (charged). Issues of basic liability for a penalty may be considered in the appeals process, and should be considered before determining if reasonable cause or other relief criteria exist.
- (4) Appeals has the authority to settle penalties for less than the full amount based on hazards of litigation.

20.1.1.4.1.1
(10-19-2020)

Pre-assessment Appeals

- (1) Generally, Appeals will consider the appropriateness of the following type of penalties prior to assessment:
 - a. Penalties that are asserted by the IRS in the course of an examination of a taxpayer's income tax return,
 - b. Penalties that are granted a specific pre-assessment appeal right such as the Trust Fund Recovery penalty (TFRP) under IRC 6672 (see IRM 8.25.1, Trust Fund Recovery Penalty (TFRP), Overview and Authority) or the Preparer penalties under IRC 6694 (see IRM 8.11.3, Return Preparer Penalty Cases), and/or
 - c. The Intentional Disregard penalty of IRC 6721(e) when it is asserted for failures to comply with the cash reporting requirements of IRC 6050I (Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business).
- (2) Generally, if Appeals considers a penalty before it is assessed, Appeals will not reconsider the same penalty after it is assessed.

- a. However, at its discretion, Appeals may reconsider its prior decision if evidence becomes available that indicates further consideration is warranted.
- b. Taxpayers may also pay the penalty previously upheld by Appeals and file a claim for refund. The claim for refund may be transferred to Appeals, if denied at the campus level.

(3) Also see IRM 8.11.1, Return-Related Penalties in Appeals.

20.1.1.4.1.2
(11-21-2017)

**Post-assessment
Appeals**

- (1) To request abatement of a penalty after assessment, the taxpayer must submit a written request to the IRS.
- (2) The employee must consider all the facts and circumstances to determine if the taxpayer's explanation meets the penalty relief criteria. See IRM 20.1.1.3, Criteria for Relief From Penalties and IRM 20.1.1.3.5.1, Subsequent Requests for Penalty Relief.
 - a. If a taxpayer orally requests the abatement of a penalty, instruct the taxpayer to submit the request in writing. IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief.
 - b. If a taxpayer orally requests an appeal of a decision, instruct the taxpayer to submit the request in writing.

20.1.1.4.2
(10-19-2020)

Deficiency Procedures

- (1) IRC 6211 generally defines a deficiency as the excess of the correct amount of income tax, estate tax, or gift tax owed, minus the tax amount shown on the return and amounts previously assessed (or collected without assessment) as a deficiency, plus the amounts of rebates made. In general, deficiency procedures are used when additional income, estate, gift taxes, and/or related penalties are proposed. The IRS generally can or cannot do the following:
 - a. **Cannot** assess an additional amount of income tax, estate tax, or gift tax, and related penalties, without providing a notice of deficiency;
 - b. **Can** assess additional amounts of employment tax and certain excise tax, and related penalties, without providing a notice of deficiency;
 - c. **Can** assess penalties not related to a tax (e.g., IRC 6694, IRC 6695, IRC 6695A, IRC 6700, IRC 6701, IRC 6702, and IRC 6713) without providing a notice of deficiency;
 - d. **Can** assess estimated tax penalties (IRC 6654 and IRC 6655) applicable to the portion of the tax liability that is not a tax deficiency, without providing a notice of deficiency; and
 - e. **Can** assess the failure to file and failure to pay additions to tax (IRC 6651) applicable to the portion of the tax liability that is not a tax deficiency, without providing a notice of deficiency.

Example: Taxpayer files the return one month late and reports and pays a tax of \$4,000. During an audit, the IRS determines a tax deficiency of \$1,000. The failure to file addition to tax (FTF) is 5 percent per month (for up to 5 months) of the amount of tax. The **total** FTF addition to tax is \$250 (5 percent of \$5,000 for one month). If the taxpayer contests the deficiency, a notice of deficiency must be issued for \$1,050 (\$1,000 tax deficiency and \$50 FTF addition to tax (5 percent of \$1,000)). The remaining \$200 failure to file addition to tax which was attributable to the original tax assessment is not part of the deficiency and is collectible by immediate assessment.

- (2) A penalty is subject to deficiency procedures if the related tax underpayment being assessed is subject to deficiency procedures. For example, if the negligence penalty relates to an underpayment of income tax, the deficiency procedures would apply to the Negligence penalty as well as the income tax deficiency. However, if the penalty was the result of an underpayment of employment tax, deficiency procedures would not apply to the penalty.
 - a. The taxes and related penalties subject to deficiency procedures include income tax, estate tax, gift tax, and certain excise taxes.
 - b. The taxes and related penalties not subject to deficiency procedures include employment taxes imposed by Subtitle C of the IRC, and certain excise taxes.
- (3) The notice of deficiency provides the taxpayer an opportunity to appeal a proposed tax deficiency and/or penalties and additions to tax to the United States Tax Court prior to assessment. See IRC 6212.

20.1.1.4.2.1
(03-29-2023)
**Non-Deficiency
Procedures**

- (1) Most excise taxes are not subject to deficiency procedures. No statutory notice of deficiency is issued and the taxpayer cannot petition the Tax Court.
- (2) Some employment tax determinations are reviewable by the Tax Court in proceedings to determine employment status under IRC 7436. See IRM 4.23.22.11, Special Procedures for Letter 3523 under IRC 7436, for how to determine which issues can be assessed without providing the taxpayer the opportunity to seek Tax Court review. Additionally, the penalties set forth in Letter 3523, Notice of Employment Tax Determination under IRC 7436, cannot be assessed without providing the taxpayer the opportunity to seek Tax Court review. The penalties related to the taxes which are not subject to Tax Court review can be assessed without the issuance of Letter 3523.
- (3) Generally, procedures for assessing penalties that are not subject to pre-assessment Tax Court review are as follows:

If	And	Then
Penalties are proposed	The taxpayer agrees,	The penalties are assessed.
Penalties are proposed	The taxpayer disagrees,	A 30-day letter is issued and the taxpayer may file a protest with Appeals.
Appeals sustains the penalty proposal,	n/a	The penalties are assessed.

Note: See IRM 20.1.1.2.3, Approval Prerequisite to Penalty Assessments.

- (4) If penalties are assessed and the taxpayer cannot or does not file a protest with Appeals, the taxpayer must pay the penalty, then file a claim for credit or refund.
- (5) If a 30-day letter was not issued, or if a claim for refund was denied, give the taxpayer the opportunity for an appeal.

20.1.1.5
(02-22-2008)
Master File Indicators

- (1) Master File indicators are listed in the following subsections:
 - a. Master File Penalty Reason Codes
 - b. Penalty Transaction Codes
 - c. Penalty Reference Numbers

20.1.1.5.1
(11-25-2011)
Master File Penalty Reason Codes

- (1) Penalty reason codes (PRCs) were adopted to enable the IRS to track penalties. Accurate reporting of these reason codes is vital. PRCs provide the basis for determining a taxpayer's compliance history and the foundation for analyzing trends in penalty abatements. PRCs are used with both BMF and IMF Document Code 54 and 47 transactions.
- (2) PRCs are divided into the following two categories:
 - Systemically generated
 - Manually input
- (3) Exhibit 20.1.1-2, Penalty Reason Code Chart, shows all current PRCs and identifies which PRCs are available for manual input and which are systemically generated.
- (4) If an abatement, partial abatement, or suppression of a penalty is appropriate, either input the abatement transaction or complete the appropriate form to request that the support area abate the penalty using the specified PRC.
 - a. **Taxpayer Service:** IDRS (ADJ54): The PRC **MUST** be input **only in the fourth reason code position**.
 - b. **Compliance:** The PRC must be used to identify the reason for the abatement or non-assertion of a penalty when completing any of the following forms: Form 5344, Examination Closing Record (ADJ47); Form 5599, TE/GE Examined Closing Record (ADJ47); and Form 8278, Assessment and Abatement of Miscellaneous Civil Penalties (ADJ54).
 - c. **Appeals:** The PRC must be used to identify the reason for the abatement or non-assertion of a penalty when completing any of the following forms: Form 5403, Appeals Closing Record (ADJ47), Form 5402, Appeals Transmittal and Case Memo (ADJ54), and Form 8278, Assessment and Abatement of Miscellaneous Civil Penalties (ADJ54).
- (5) The main categories of PRCs available for manual input are the following:
 - a. **Reasonable Cause**-used when the taxpayer has established that they were unable to comply due to circumstances beyond their control despite the exercise of ordinary business care and prudence. Reason Code (RC) 062 is required in addition to the appropriate PRC. See IRM 20.1.1.3.2, Reasonable Cause.
 - b. **General Penalty Relief**-including disaster relief, penalty removal or reduction due to an amended return, or other specific penalty provisions provided throughout IRM 20.1, Penalty Handbook, (including certain statutory exceptions and administrative waivers). See IRM 20.1.1.3, Criteria for Relief From Penalties.
 - c. **Statutory Exception or Administrative Waivers**-to be used when written procedures have been established. Generally, **PRC 044** identifies penalty relief based on a statutory or regulatory exception, and **PRC 043** identifies administrative waivers. Some exceptions and waivers are assigned a specific PRC. Use PRCs 043 and 044 when a specific PRC is not assigned.

- d. **Correction of Service Error**-to be used when it is determined that the IRS made an error that resulted in an incorrect penalty or computed the penalty incorrectly or inappropriately. Generally, **PRC 045** is to be used to identify penalty relief based on the correction of an IRS error.
 - e. **Appeals**-the following four **PRCs** are to be used only by Appeals: **PRC 039**-third party full or partial abatement of penalties (Appeals settlement usually involving a bulk or batch filer or payroll tax service bureau with one penalty issue, but multiple taxpayers); **PRC 040**- hazards of litigation, or other Appeals settlement, when the entire penalty is abated; **PRC 041**-penalties are sustained by Appeals; **PRC 042**- partial abatement (Appeals settlement where only part of the penalty is abated).
- (6) If more than one penalty is abated for more than one reason, each abatement action must reference its own **PRC**. This will require a separate adjustment for each **PRC**. For example:
- 16X Reasonable Cause- **PRC 025**
 - 27X Partially Abated- **PRC 042**
 - 18X Hazards- **PRC 040**
- (7) If all penalties are abated for the same reason, only one **PRC** must be referenced. For example:
- 16X Reasonable Cause-**PRC 025**
 - 27X Reasonable Cause
 - 18X Reasonable Cause

20.1.1.5.2
(11-25-2011)
**Penalty Transaction
Codes**

- (1) Penalty transaction codes (TCs) indicate penalty assessment or abatement actions. Generally, return-related penalties are based on an underpayment of tax. See Exhibit 20.1.1-3, Penalty Transaction Codes, for a description of the penalty TCs and their related IRC section(s). Related penalty TCs in a series are shown with the first two digits, followed by an "X" as the third digit.

Example: In the Failure to File (FTF) penalty series, the TC will be shown as 16X.

- (2) Generally, when the penalty is assessed on the tax module, each penalty is assigned a TC that identifies the type of penalty. However, some penalties assessed on a tax module will use a TC 240 with a Penalty Reference Number (PRN) that identifies the type of penalty. See IRM 20.1.1.5.3, Penalty Reference Numbers (PRNs). These reference numbers are generally between 500 and 799. See Exhibit 20.1.1-4, Penalty Reference Numbers (500 Series); Exhibit 20.1.1-5, Penalty Reference Numbers (600 Series); and Exhibit 20.1.1-6, Penalty Reference Numbers (700 Series).
- (3) There are usually four potential transaction codes for each penalty, one each for manual and computer assessments with the related abatement codes. For example, FTF penalty TCs are the following:
- 1. TC 160: **Manually Assessed**
 - 2. TC 161: **Manually Abated**
 - 3. TC 166: **Systemically Generated Assessment**
 - 4. TC 167: **Systemically Generated Abatement**

20.1.1.5.3
(10-19-2020)**Penalty Reference
Numbers (PRNs)**

- (1) Generally, Penalty Reference Numbers (PRNs) are used to identify penalties that are **not** based on information from a tax return. These penalties are based on a failure to perform an act required by the IRC. The penalty is usually assessed on MFT 13 (BMF) or 55 (IMF), and is identified by TC 240 and the appropriate PRN. However, assessment of a penalty with an assigned PRN(s) is not limited to MFTs 13 and 55.

Caution: Because a PRN for a positive amount will result in a systemic TC 240 assessment, and a PRN for a negative amount will result in a systemic TC 241 abatement, manual input of a TC 240 or 241 is appropriate only in rare circumstances.

- (2) At times, several PRNs will be assigned to identify one IRC section, though the failure may be the same or similar. This is done to identify the area or program responsible for assessing or abating the penalty. For example, both PRNs 500 and 600 are used to identify a penalty assessed as the result of IRC 6721.
- a. PRN 500 is used if the failure was identified on the Payer Master File (PMF) and is assessed by a campus function.
 - b. PRN 600 is used if the failure was identified during an examination, audit, or other compliance determination based on the taxpayer's books and records and is assessed by a compliance field function.
- (3) Some PRNs between 600 and 799 are used to identify return-related penalties. For example:
- PRNs 786-790, 792, 680 (prior to 2015 and for court ordered assessments) and 681 are used to identify accuracy-related penalty assessments and abatements (per IRC 6662 and IRC 6662A, respectively). See IRM 20.1.5, Return-Related Penalties.
 - PRN 666 is used to identify a frivolous tax return penalty (per IRC 6702(a)). See IRM 20.1.10.13, IRC 6702 - Frivolous Tax Submissions.
- (4) See Exhibit 20.1.1-4, Penalty Reference Numbers (500 Series), Exhibit 20.1.1-5, Penalty Reference Numbers (600 Series), and Exhibit 20.1.1-6, Penalty Reference Numbers (700 Series), for PRNs, their related IRC section, and a brief description of the penalty computation, or the computer paragraph language inserted in the balance due notice.
- (5) The following are examples of PRNs assigned for various failures relating to IRC 6721, Failure to File Correct Information Returns.

Reference Number	Description	Source
500-514	Used by Campuses to assess/abate penalties based on PMF information	IRM 20.1.7, Information Return Penalties
549/550	Use to assess/abate penalties based on the Combined Annual Wage Reporting (CAWR) Program	IRM 4.19.4, CAWR Reconciliation Balancing

Reference Number	Description	Source
600 series	Use to assess/abate a penalty as the result of an examination or a determination made by a Compliance Field Function employee, i.e., PRN 600 - failure to timely file, or accurately file, or file in the correct format an information return PRN 651 - failure to file Form 8300 reporting cash transactions greater than \$10,000 PRN 652 - Intentional disregard of the requirement to file Form 8300, reporting cash transactions greater than \$10,000.	Exhibit 20.1.1-5, Penalty Reference numbers (600 Series)

20.1.1.5.4
(02-22-2008)
Corporate Files On-Line (CFOL)

- (1) CFOL provides on-line research of Master File account and return data. The use of command codes such as IMFOL, BMFOL, RTVUE, BRTVU, and TRDBV is an alternative to MFTRA or ESTAB requests.
- (2) However, since Master File does not carry all information available on the IDRS screen displays (IDRS notice status, case control information, pending transaction, etc.), it is imperative that IDRS research be initiated before accessing Master File information via CFOL command codes.

Note: IDRS input command codes that will cause a change to Master File data cannot be preceded by BRTVU or RTVUE.

- (3) CFOL command codes should be used to research entity and/or tax data that may not be available on IDRS.
 - a. It is recommended that CFOL command codes be used in lieu of MFTRA or ESTAB when the case can be resolved from information provided by the CFOL command codes.
 - b. This will eliminate the need to order MFTRA transcripts in most cases.
- (4) IMFOL accesses the Individual Master File (IMF) and allows several screen displays based on an input definer code. These include the following definers:
 - a. I-Shows whether a specific tax period is available on-line or not. The index screen also includes a balance due field showing if the account is in debit, credit, or zero balance.

- b. E-Shows entity type information (similar to INOLE).
 - c. T-Shows specific data from the tax account (similar to TXMOD and MFTRA).
 - d. A-IMF Adjustment Transaction information which includes details about input adjustment transactions.
 - e. V-Displays retention register account information.
 - f. R-Posted TC 150 return information, which displays return data that is transcribed along with systemically-generated fields.
 - g. S-Status history information, which includes extension to file data.
 - h. H-Displays help information to assist in using IMFOL (or BMFOL).
- (5) RTVUE accesses the Return Transaction File (RTF). It contains all edited, transcribed, and error corrected data from data entry lines of returns and related forms and schedules filed in the current processing year (including returns for prior tax years). This file contains information for the current year and two prior year returns. This command code requires a definer to access a particular screen and has an index type screen.
- (6) For further explanation of the screen displays and applicable definer codes, refer to IRM 4.4.32, AIMS, ERCS, and IDRS Data Processing, or IRM 2.3, IDRS Terminal Responses.

Exhibit 20.1.1-1 (08-05-2014)

Penalty Relief—Application Chart

Statute	Type of Penalty	Reasonable Cause Relief	Other Relief
IRC 6039E	Failure to Provide Information Concerning Resident Status	Yes	Yes
IRC 6651(a)(1)	Failure to File Tax Return	Yes	Yes
IRC 6651(a)(2)	Failure to Pay Tax When Due	Yes	Yes
IRC 6651(a)(3)	Failure to Pay Within 10 Days of Notice of Additional Tax Due (notices issued prior to 1/1/1997)	Yes	Yes
IRC 6651(a)(3)	Failure to Pay Within 21 Days of Notice of Additional Tax Due (10 business days if amount is \$100,000 or more) (notices issued after 12/31/1996)	Yes	Yes
IRC 6651(f)	Fraudulent Failure to File	No	No
IRC 6652(a)(1)	Failure to File Certain Information Returns	Yes	Yes
IRC 6652(c)(1)	Failure to File Annual Return by Exempt Organization	Yes	Yes
IRC 6652(c)(2)	Failure to File Returns Under IRC 6034 or IRC 6043(b))	Yes	Yes
IRC 6652(d)(2)	Notification of Change in Status of a Plan	Yes	Yes
IRC 6652(e)	Information Required in Connection With Certain Plans of Deferred Compensation—Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i>	Yes	Yes
IRC 6652(h)	Failure to Give Notice to Recipients of Certain Pension, Etc., Distributions	Yes	Yes
IRC 6652(i)	Failure to Give Written Explanation to Recipients of Certain Qualifying Rollover Distributions	Yes	Yes
IRC 6652(j)	Failure to File Certification With Respect to Certain Residential Rental Projects	Yes	Yes
IRC 6654	Estimated Tax Penalty on Individuals	No	Yes
IRC 6655	Estimated Tax Penalty on Corporations	No	No
IRC 6656(a)	Failure to Deposit	Yes	Yes
IRC 6657	Bad Checks	Yes	Yes
IRC 6662	Accuracy-Related Penalty on Underpayments	Yes*	Yes
IRC 6662A	Accuracy-Related Penalty on Understatements With Respect to Reportable Transactions	Yes*	Yes
IRC 6663	Fraud	No	No

Exhibit 20.1.1-1 (Cont. 1) (08-05-2014)**Penalty Relief—Application Chart**

Statute	Type of Penalty	Reasonable Cause Relief	Other Relief
IRC 6676	Erroneous Claim for Refund or Credit	Yes	No
IRC 6692	Failure to File Actuarial Report	Yes	Yes
IRC 6698	Failure to File Partnership Return	Yes	Yes
IRC 6699	Failure to File S Corporation Return	Yes	Yes
IRC 6721	Failure to File Correct Information Reporting Returns	Yes	Yes
IRC 6722	Failure to Furnish Correct Payee Statements	Yes	Yes
IRC 6723	Failure to Comply With other Information Reporting Requirements	Yes	Yes

*Reasonable cause does not apply to any portion of the underpayment (IRC 6662) or understatement (IRC 6662A) attributable to an IRC 6662(b)(6) transaction (transactions lacking economic substance within the meaning of IRC 7701(o), or failing to meet the requirements of any similar rule of law).

Note: This list is not all inclusive. Refer to the appropriate IRM 20.1 section (see IRM 20.1.1.1.2) for relief provisions for penalties not listed in this exhibit.

Exhibit 20.1.1-2 (10-19-2020)
Penalty Reason Code Chart

The PRCs contained in this exhibit are to be used when abating or suppressing a penalty. The exhibit has been divided by PRC group type. Where applicable, the 1st, 2nd, or 3rd position reason code (RC) shown with each PRC is required. PRCs are input in the 4th RC position.

The definitions of relief criteria contained in this exhibit are not to be used as justification for abatement or suppression of a penalty. Penalty relief guidelines contained throughout IRM 20.1, Penalty Handbook, must be followed first and, if relief criteria are met, then select the applicable PRC. In some cases, a specific PRC to use will be reflected in IRM 20.1, Penalty Handbook, (see IRM 20.1.2.2.4.1(9), Penalty Abatements and Re-assessments, and IRM 20.1.3.2.2(8), Manual Penalty Adjustments, for examples) or a functional IRM such as Parts 4, 5, or 21.

In addition, the definitions provide general guidelines and are not all-inclusive. If a specific PRC is not referenced in an IRM section and the definitions do not apply to a specific situation, select the most appropriate PRC.

The PRCs contained in the table below are to be used when manually abating/suppressing a penalty when reasonable cause has been established.

Exhibit 20.1.1-2 (Cont. 1) (10-19-2020)
Penalty Reason Code Chart

IMF RC	BMF RC	PRC	Definition/ Relief Criteria
062	062	022	Normal business care and prudence followed, but taxpayer was still unable to comply due to circumstances beyond their control. Generally used when the taxpayer establishes a single circumstance prevented compliance. See IRM 20.1.1.3.2.2.
062	N/A	024	IMF -Death, serious illness, or unavoidable absence of the taxpayer or a member of their immediate family. See IRM 20.1.1.3.2.2.1.
062	062	025	Records inaccessible / Unable to obtain records / Records destroyed by fire or other casualty. See IRM 20.1.1.3.2.2.3.
N/A	062	026	BMF -Death, serious illness, or unavoidable absence of the person responsible for filing and/or paying taxes (i.e., owner, corporate officer, partner, etc.) or a member of their immediate family. See IRM 20.1.1.3.2.2.1.
062	062	030	Other-Combination of mistakes -Normal business care and prudence followed, but documentation shows non-compliance was due to circumstances beyond the taxpayer's control. See IRM 20.1.1.3.2.1.
062	062	046	This was originally established to identify Y2K Relief but is now used for specific situations that will be identified in an IRM section. See IRM 20.1.2.3.2.2 and IRM 20.1.4.15.3(4) for examples.
N/A	062	071	Limited to Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation, (MFT 44)-Allows a private foundation reasonable cause for FTF and FTP 90 days after it received a determination letter from the IRS stating the organization is a private foundation or it cannot be expected to be a public charity.
N/A	062	072	Membership organization (MFT 67) has no full-time employees responsible for administering finances and was unable to timely file due to little continuity or understanding of duties due to frequent officer changes. Normal business care and prudence.
N/A	062	073	Membership organization (MFT 67) has no full-time employees responsible for administering finances and has no prior history of late filing and claims ignorance of the requirement.

The PRCs in the table below are limited to use by Appeals.

Exhibit 20.1.1-2 (Cont. 2) (10-19-2020)
Penalty Reason Code Chart

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	039	Appeals-Partial/full abatement of penalties based on third party (bulk and batch filers or payroll tax service bureaus) settlement.
065	None	040	Appeals settlement based on hazards of litigation. Complete removal of penalty/penalties.
065	None	041	Appeals sustains penalty/penalties.
065	None	042	Appeals partial abatement.

The PRCs in this table are used when manual penalty relief/suppression is warranted/required per the IRM for criteria other than reasonable cause.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	010	Amended/corrected return or schedule. TP prepared original (for example, FTD-Schedule B/CP 207 replies).
065	None	013	Amended/corrected return. Original prepared by IRS (substitute for return (SFR)/ IRC 6020(b).
065	None	014	Misdated FTD. After 1-1-2000 used only for manual abatement if the penalty is restricted from systemic abatement after TC 971 AC 301 to 308 is input to adjust a TC 186. Also use for misdated payments affecting FTF, FTP, and estimated tax penalties.
065	None	016	Estimated tax penalties-taxpayer computational error (Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, or Form 2220, Underpayment of Estimated Tax by Corporation. See IRM 20.1.3.2.2, Manual Penalty Adjustments.
065	None	021	Tolerance criteria met-FTD, FTF, FTP and estimated tax penalties.
065	None	023	Taxpayer relied on practitioner or third party advice. See IRM 20.1.1.3.2.2.5.
065	None	027	Timely mailed/timely filed.
065	None	028	Official disaster area. See IRM 20.1.1.3.3.6.
065	None	029	Undue economic hardship/inability to pay (FTP). See IRM 20.1.1.3.3.3, IRM 20.1.2.2.4.1(9) and IRM 20.1.2.2.4.3(5). Note: Rarely allowed on employment tax deposits.
N/A	None	066	Cascading FTD penalty relief (1998 only).

Exhibit 20.1.1-2 (Cont. 3) (10-19-2020)
Penalty Reason Code Chart

IMF RC	BMF RC	PRC	Definition/Relief Criteria
N/A	None	067	Educational FTD penalty relief (i.e., ABCs of FTD).
065	None	017	Bank error caused dishonored check penalty (TC 286). Banking documentation provided showing credit availability.
065	None	018	First-time penalty relief. RCA not used-manual three-year look back for compliant behavior. See IRM 20.1.1.3.3.2.1.
065	None	019	Bulk/batch filer-payroll tax service bureau related penalty. Use restricted to the penalty prevention and resolution group (PPRG).
065	None	020	RCA used-good history of compliance. See IRM 20.1.1.3.6.1.

The PRC in this table is used when manual penalty relief/suppression is warranted/required per the IRM for an administrative waiver.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	043	IRS provided relief for a valid penalty. (i.e., RRA '98 section 3304(b) change in FTD deposit frequency for 1st quarter only starting in 1999). See IRM 20.1.1.3.3.2.

The PRCs in this table are used when manual penalty relief/suppression is warranted/required per the IRM for a statutory waiver or regulatory exception.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
N/A	None	012	Decrease to FTD penalty per IRC 6656(e) and Rev. Proc. 2001-58. Taxpayer designated FTD applications; based on a valid ROFTL. See IRM 20.1.4.26.3, Statutory Penalty Relief.
None	None	044	Erroneous or late written advice by IRS. Relief based on revenue procedures. See IRM 20.1.1.3.3.1.

The PRCs in this table are used when systemic penalty relief/suppression is warranted.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	001	Suppressed/abated due to tolerance criteria.
065	None	002	Penalty adjusted due to computational error.
065	None	003 066	Master File recovery.

Exhibit 20.1.1-2 (Cont. 4) (10-19-2020)
Penalty Reason Code Chart

IMF RC	BMF RC	PRC	Definition/Relief Criteria
N/A	None	068	Systemic FTD penalty abatement per the EFTPS/FTD Penalty Refund Program.

The PRCs in this table are used to identify manual penalty relief/suppression as a result of some error caused by IRS or some other Treasury agency.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
065	None	015	General IRS error. Specific instructions for use of this code would be released in IRM updates or SERP alerts.
065	None	031	Erroneous oral advice by IRS. See IRM 20.1.1.3.3.4.2.
065	None	032	Other Treasury agency errors (FMS or EFTPS treasury financial agent (TFA) errors).
065	None	045	IRS error. Math error in computing the penalty or penalties. Extension to file not posted to Master File. Taxpayer complied with law but IRS did not recognize compliance. See IRM 20.1.1.3.4.

This table identifies user fee reversal codes (input with TC 361). These are not used for penalty relief/suppression, but they are used in the same manner as PRCs. Refer to IRM 5.19.1.6.4.6.3, User Fee Payment Transfer/User Fee Abatements, for additional information.

IMF RC	BMF RC	PRC	Definition/Relief Criteria
None	None	047 048 049 050 051	User fee reversals.

Exhibit 20.1.1-3 (03-29-2023)**Penalty Transaction Codes**

The descriptions provided in this exhibit are intended to provide a general overview of the penalty calculation. Refer to the specific IRM 20.1, Penalty Handbook, section for current penalty rates and policy.

Note: With the exception of TC 270, when a manual penalty assessment is reversed, the reversed portion is reflected separately from the remaining portion (if any). The reversed portion is also uniquely identified by an “R” following the transaction code for BMF transactions, and by the “0” being replaced by a “3” for IMF transactions. For example, the reversed portion of a TC 160 assessment becomes a TC 160R in BMF, and a TC 163 in IMF; the reversed portion of a TC 240 assessment becomes a TC 240R in BMF, and a TC 243 in IMF.

Exhibit 20.1.1-3 (Cont. 1) (03-29-2023)

Penalty Transaction Codes

TC	Statute	Description	Reference
16X	IRC 6651(a)(1)	<p>Failure to file a tax return (FTF). The FTF penalty is equal to 5 percent (5%) of the net tax due multiplied by each month or part of a month (not to exceed 5 months) the return is not filed.</p> <p>Note: The penalty is reduced by the amount of any failure to pay (FTP) penalty for any month in which both the FTF and FTP penalties apply.</p> <p>Note: For income tax returns filed 60 days or more late, a minimum penalty may apply. See IRM 20.1.2.3.7.4.</p>	IRM 20.1.2.3.7 IRM 20.1.2.3.7.3

Exhibit 20.1.1-3 (Cont. 2) (03-29-2023)
Penalty Transaction Codes

TC	Statute	Description	Reference
16X	IRC 6698(a)(1)	<p>Failure to file partnership return-Late filed Form 1065, U.S. Return of Partnership Income, or Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return. The penalty is computed by multiplying the applicable base penalty rate times number of partners times the number of months late, up to a maximum of 5 months for returns due before Dec. 21, 2007, or up to a maximum of 12 months for returns due after Dec. 20, 2007. The more recent applicable base penalty rates are as follows:</p> <ul style="list-style-type: none"> • For returns for taxable years beginning after Dec. 31, 2009, \$195. • For returns due on or before December 31, 2017 the penalty base rate is \$195. • For returns due between January 1, 2018 and December 31, 2019 (without regard to extensions) the base penalty rate is \$200. • For returns due between January 1, 2020 and December 31, 2020 (without regard to extensions) the base penalty rate is \$205. • For returns due between January 1, 2021 and December 31, 2022 (without regard to extensions) the base penalty rate is \$210. • For returns due between January 1, 2023 and December 31, 2023 (without regard to extensions) the base penalty rate is \$220. • For returns due between January 1, 2024 and December 31, 2024 (without regard to extensions) the base penalty rate is \$235. <p>Note: These rates are subject to change and are subject to an annual inflationary adjustment. Refer to IRM 20.1.2.4.2 for past and current rates.</p> <p>Note: As of January 1, 2022 this penalty is assessed via TC 24X with PRN 722.</p>	IRM 20.1.2.4.2

Exhibit 20.1.1-3 (Cont. 3) (03-29-2023)

Penalty Transaction Codes

TC	Statute	Description	Reference
16X	IRC 6699(a)(1)	<p>Failure to file an S Corporation return-Late filed Form 1120-S, U.S. Income Tax Return for an S Corporation. The penalty is computed by multiplying the applicable base penalty rate times number of shareholders times the number of months late, up to a maximum of 12 months. The more recent applicable base penalty rates are as follow:</p> <ul style="list-style-type: none"> • For returns for taxable years beginning after Dec. 31, 2009, \$195. • For returns due on or before December 31, 2017 the penalty base rate is \$195. • For returns due between January 1, 2018 and December 31, 2019 (without regard to extensions) the base penalty rate is \$200. • For returns due between January 1, 2020 and December 31, 2020 (without regard to extensions) the base penalty rate is \$205. • For returns due between January 1, 2021 and December 31, 2022 (without regard to extensions) the base penalty rate is \$210. • For returns due between January 1, 2023 and December 31, 2023 (without regard to extensions) the base penalty rate is \$220. • For returns due between January 1, 2024 and December 31, 2024 (without regard to extensions) the base penalty rate is \$235. <p>Note: These rates are subject to change and are subject to annual inflationary adjustment. Refer to IRM 20.1.2.6.2 for past and current rates.</p> <p>Note: As of January 1, 2022 this penalty is assessed via TC 24X with PRN 722.</p>	IRM 20.1.2.6.2
17X	IRC 6654	<p>Failure by an individual to pay estimated income tax (aka ES penalty):</p> <ul style="list-style-type: none"> • The excess of the required installment minus the amount paid or credited on or before the due date of the installment is the underpayment. • To determine the penalty for each installment, multiply: <ul style="list-style-type: none"> -The penalty rate (the underpayment interest rate for the applicable quarter) -By the amount of the underpayment, -For the period of the underpayment (the earlier of the date the payment is received or the return due date). 	IRM 20.1.3.3 IRM 20.1.3.3.1.1

Exhibit 20.1.1-3 (Cont. 4) (03-29-2023)

Penalty Transaction Codes

TC	Statute	Description	Reference
17X	IRC 6655	<p>Failure by a corporation to pay estimated income tax.</p> <ul style="list-style-type: none"> The excess of the required installment minus the amount paid or credited on or before the due date of the installment is the underpayment. To determine the penalty for each installment, multiply: <ul style="list-style-type: none"> -The penalty rate (the underpayment interest rate for the applicable quarter) -By the amount of the underpayment, -For the period of the underpayment (the earlier of the date the payment is received or the return due date). 	IRM 20.1.3.4 IRM 20.1.3.4.1.1
18X	IRC 6656	<p>Failure to Deposit (FTD). The penalty is based on the following:</p> <ul style="list-style-type: none"> Required amount(s) not properly or timely deposited, and The number of days between the deposit due date and the date the deposit is received 2%: 1 to 5 days late 5%: 6 to 15 days late 10%: more than 15 days late but before 10 days after notice and demand, or 15%: payments received more than 10 days after notice and demand 10%: FTD avoidance-payments made directly to the IRS, or deposits made to a bank when the employer is required to deposit electronically. <p>Note: All deposits due after Dec. 31, 2010, must be made electronically.</p>	IRM 20.1.4 IRM 20.1.4.2 IRM 20.1.4.7.1
20X	IRC 6723	<p>Failure to provide a taxpayer identification number (TIN). The penalty is \$50 per failure, not to exceed \$100,000 per calendar year.</p>	IRM 20.1.7.10

Exhibit 20.1.1-3 (Cont. 5) (03-29-2023)

Penalty Transaction Codes

TC	Statute	Description	Reference
23X	IRC 6652(c)	<p>Daily Delinquency Penalty (DDP): Generally, \$20 times the number of days the failure to file or the failure to include required information continues after the due date, not to exceed the lesser of \$10,000 or 5% of the gross receipts per return. The penalty rate and maximum penalty are subject to an annual inflationary adjustment. Refer to the applicable Revenue Procedure based on the tax year of the return, etc. as follows:</p> <ul style="list-style-type: none"> • Tax year 2015 - see Rev. Proc. 2016-11. • Tax year 2016 - see Rev. Proc. 2015-53. • Tax year 2017 - see Rev. Proc. 2016-55. • Tax year 2018 - see Rev. Proc. 2018-18. • Tax year 2019 - see Rev. Proc. 2018-57. • Tax year 2020 - see Rev. Proc. 2019-44. • Tax Year 2021 - see Rev. Proc. 2020-45. • Tax Year 2022 - see Rev. Proc. 2021-45. • Tax Year 2023 - see Rev. Proc. 2022-38. 	IRM 20.1.8.3.1
240**	N/A	<p>Assesses a miscellaneous penalty generally associated with a penalty reference number (PRN).</p> <p>Caution: Manual input of a TC 240 is limited to rare circumstances. Input of a PRN for a positive amount will result in a systemic TC 240.</p>	N/A
241**	N/A	<ul style="list-style-type: none"> • Abates a miscellaneous penalty generally associated with a PRN, or • Abates a TC 246 FTF penalty <p>Caution: Manual input of a TC 241 is limited to rare circumstances (except TC 246 reversals). Input of a PRN for a negative amount will result in a systemic TC 241.</p>	N/A
246	IRC 6698(a)(2)	<ul style="list-style-type: none"> • Prior to January 1, 2022, the TC 246 assesses the partnership FTF penalty for missing information. • After January 1, 2022, the penalty for missing information is assessed to the partnership via TC 24X with PRN 723. <p>Refer to the TC 16X, IRC 6698(a)(1) description in this table for penalty computation.</p>	IRM 20.1.2.4

Exhibit 20.1.1-3 (Cont. 6) (03-29-2023)
Penalty Transaction Codes

TC	Statute	Description	Reference
246	IRC 6699(a)(2)	<ul style="list-style-type: none"> Prior to January 1, 2022, the TC 246 assesses the S Corporation FTF penalty for missing information. After January 1, 2022, the penalty for missing information is assessed to the S Corporation via TC 24X with PRN 723. <p>Refer to the TC 16X, IRC 6699(a)(1), description in this table for penalty computation.</p>	IRM 20.1.2.6
246	IRC 6721(a)(2)(A)	TC 246 with PRN 688 identifies failure by a large partnership (over 100 partners) to file electronically. The penalty is the applicable rate times the number of partners in excess of 100. The applicable rate depends on the due date of the return. See IRM 20.1.2.5 for applicable rates and maximums.	IRM 20.1.2.5 and IRM 21.7.4.4.2.8.1.1
246	IRC 7519(f)(4)	MFT 15 - Failures related to Form 8752, Required Payment or Refund Under Section 7519. The TC 246 is assessed with PRN 684.	IRM 20.1.10.20
247	N/A	Systemically abates a penalty assessed with a TC 246.	N/A
27X	IRC 6651(a)(2)	Failure to Pay tax shown on a return (FTP). The penalty rate is $\frac{1}{2}$ of 1% (.005) per month, for each month or part of a month, from the due date of the return to the date the tax is paid or the maximum of 25% of the unpaid tax is reached.	IRM 20.1.2.3.8.4
27X	IRC 6651(a)(3)	Failure to Pay tax required to be shown on a return (FTP). The penalty rate is $\frac{1}{2}$ of 1% (.005) for each month or part of a month, from 21 calendar days (10 business days for amounts of \$100,000 or more) of the date of notice and demand until the tax is paid or the maximum of 25% of the unpaid tax is reached. Note: For notices issued prior to 1/1/1997, the penalty is from 10 days of the date of the notice and demand for any amount.	IRM 20.1.2.3.8.5
27X	IRC 6651(d)	Increases the FTP penalty from $\frac{1}{2}$ of 1% (.005) to 1% (.01) per month, the earlier of the day on which notice and demand for immediate payment is given or 10 days after the IRS has issued the notice of intent to levy.	IRM 20.1.2.3.8.1.1
27X	IRC 6651(h)	When specific conditions are met, the FTP penalty rate decreases from $\frac{1}{2}$ of 1% (.005) to $\frac{1}{4}$ of 1% (.0025) for any month that begins on or after the taxpayer has entered into an installment agreement.	IRM 20.1.2.3.8.1.2

Exhibit 20.1.1-3 (Cont. 7) (03-29-2023)

Penalty Transaction Codes

TC	Statute	Description	Reference
28X	IRC 6657	<p>Bad check penalty imposed against dishonored checks or other forms of payment.</p> <p>Note: Prior to July 2, 2010, only payments made in the form of a paper check or money order were subject to this penalty.</p> <p>If the instrument is \$1,250 or more (\$750 or more for payments received before 5/26/2007):</p> <ul style="list-style-type: none"> The penalty is 2 percent of the amount of the instrument. <p>If the instrument is less than \$1,250 (less than \$750 for payments received before 5/26/2007), the penalty is the lesser of the following:</p> <ul style="list-style-type: none"> \$25, or The amount of the instrument. 	IRM 20.1.10.7
31X*	IRC 6652(b)	Penalty for failure to report tips imposed on an employee (who received the tips) equal to 50 percent of the employee's portion of the FICA tax or railroad retirement tax applicable to the tip amount that was not reported at the time and in the manner required.	IRM 20.1.10.6.2
32X*	IRC 6663	<p>Fraud penalty. Imposes a penalty of 75% of the portion of any underpayment of tax if the underpayment is attributable to fraud.</p> <p>Note: IRC 6663 applies to returns due after Dec. 31, 1989. For returns due prior to Jan. 1, 1990, the fraud penalty was applicable under repealed IRC 6653(b).</p>	IRM 20.1.5.16
35X*	Repealed IRC 6653(a)	<p>Negligence penalty assessed for return periods prior to January 1, 1990, at a rate of 5% of the underpayment of tax due to negligence.</p> <p>For return periods after Dec. 31, 1989, negligence is assessed under IRC 6662(b)(1) using PRN 786 (PRN 680 was previously used). See IRM 20.1.5.4.2(8).</p>	IRM 20.1.5.8

*The penalty was assessed as the result of an examination or other compliance employee determination. These penalties should be abated **only** by the area responsible for assessing the penalty or by Appeals.

**See penalty reference numbers in Exhibit 20.1.1-4, Exhibit 20.1.1-5, and Exhibit 20.1.1-6.

Exhibit 20.1.1-4 (03-29-2023)**Penalty Reference Numbers (500 Series)**

This exhibit is divided into 3 separate tables as follows:

- Penalty Reference Numbers (PRN) 500-514 - These PRNs are assessed by the Information Return Program (IRP) Penalty Unit
- PRNs 549 and 550 - These PRNs are assessed by the Combined Annual Wage Reporting (CAWR) function
- Other miscellaneous 500-series PRNs - These PRNs are assessed by various functions via Form 8278

Refer to the end of this exhibit for additional information.

The following table provides general information for PRNs 500 through 514 assessments. These PRNs are assessed by the IRP Penalty Unit. Refer to IRM 20.1.7, Information Return Penalties, for additional information.

PRN	Code Section	Penalty Description
N/A	IRC 6721	Imposition of Penalty for Failure to Comply with Certain Information Reporting Requirements
N/A	N/A	<p>IRC 6721 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, IRC 6721 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p>
500*	IRC 6721	<p>Late Filing Penalty</p> <p>A penalty is charged for each information return defined under IRC 6724(d) that was not correctly and timely filed as required. (See the specific form instructions for electronic filing requirements and thresholds.)</p>
501*	IRC 6721	<p>Magnetic Media Penalty</p> <p>A penalty is charged for each information return defined under IRC 6724(d) not filed electronically (or by magnetic media before 12/2/2008) when required. (See the specific form instructions for electronic filing requirements and thresholds.)</p>
502*	IRC 6721	<p>Missing or Incorrect TIN Penalty</p> <p>A penalty is charged for each information return defined under IRC 6724(d) submitted with missing or incorrect TINs.</p>

Exhibit 20.1.1-4 (Cont. 1) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
503*	IRC 6721	Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) submitted in an improper format as provided for in the IRC, Treas. Regs, or Social Security Administration (SSA) procedures.
504*	IRC 6721	Late and Magnetic Media Penalty A penalty is charged for each information return defined under IRC 6724(d) that was not filed: <ul style="list-style-type: none"> • Correctly and timely, and • Electronically (or using magnetic media before 12/2/2008) (See the specific form instructions for electronic filing requirements and thresholds.)
505*	IRC 6721	Late and Missing or Incorrect TIN Penalty A penalty is charged for each information return defined under IRC 6724(d) that was: <ul style="list-style-type: none"> • Not correctly and timely filed, and • Submitted with a missing or incorrect TIN. (See the specific form instructions for electronic filing requirements and thresholds.)
506*	IRC 6721	Late and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was not: <ul style="list-style-type: none"> • Correctly and timely filed, and • Submitted in an improper format as provided for in the IRC, Treas. Regs, or SSA procedures. (See the specific form instructions for electronic filing requirements and thresholds.)
507*	IRC 6721	Magnetic Media and Missing or Incorrect TIN Penalty A penalty is charged for each information return defined under IRC 6724(d) that was as follows: <ul style="list-style-type: none"> • Not filed electronically (or using magnetic media before 12/2/2008) , and • Filed with missing or incorrect TINs. (See the specific form instructions for electronic filing requirements and thresholds.)
508*	IRC 6721	Magnetic Media and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was not as follows: <ul style="list-style-type: none"> • Filed electronically (or using magnetic media before 12/2/2008) , and • Submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures. (See the specific form instructions for electronic filing requirements and thresholds.)

Exhibit 20.1.1-4 (Cont. 2) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
509*	IRC 6721	Missing or Incorrect TIN and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was filed as follows: <ul style="list-style-type: none"> • With a missing or incorrect TIN, and • In an improper format as provided for in either the IRC, Treas. Regs. or SSA procedures.
510*	IRC 6721	Late, Magnetic Media, and Missing or Incorrect TIN Penalty A penalty is charged for each information return defined under IRC 6724(d) that was as follows: <ul style="list-style-type: none"> • Not correctly and timely filed, • Not filed electronically (or by magnetic media before 12/2/2008) required by IRC 6011(e)(2)(A), and • filed with missing or incorrect TINs. (See the specific form instructions for electronic filing requirements and thresholds.)
511*	IRC 6721	Late, Magnetic Media, and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was not as follows: <ul style="list-style-type: none"> • Correctly and timely filed, • Filed electronically (or by magnetic media before 12/2/2008) required by IRC 6011(e)(2)(A), and • Submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures. (See the specific form instructions for electronic filing requirements and thresholds.)
512*	IRC 6721	Late, Missing or Incorrect TIN, and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was as follows: <ul style="list-style-type: none"> • Not correctly and timely filed, • Filed with missing or incorrect TINs, and • Not submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures. (See the specific form instructions for electronic filing requirements and thresholds.)
513*	IRC 6721	Magnetic Media, Missing or Incorrect TIN, and Improper Format Penalty A penalty is charged for each information return defined under IRC 6724(d) that was as follows: <ul style="list-style-type: none"> • Not filed electronically (or using magnetic media before 12/2/2008), • Filed with missing or incorrect TINs, and • Not submitted in the proper format as provided for in either the IRC, Treas. Regs. or SSA procedures. (See the specific form instructions for electronic filing requirements and thresholds.)

Exhibit 20.1.1-4 (Cont. 3) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
514*	IRC 6721	<p>Late, Magnetic Media, Missing or Incorrect TIN, and Improper Format Penalty</p> <p>A penalty is charged for each information return defined under IRC 6724(d) that was as follows:</p> <ul style="list-style-type: none"> • Not correctly and timely filed, • Not filed electronically (or using magnetic media before 12/2/2008), • Filed with missing or incorrect TINs, and • Not submitted in the proper format as provided for in either the IRC, Treas. Regs., or SSA procedures. <p>(See the specific form instructions for electronic filing requirements and thresholds.)</p>

PRNs 549 and 550 are used by the CAWR Penalty Program

PRN	Code Section	Penalty Description
549*	IRC 6721(e)	<p>Penalty in the Case of Intentional Disregard</p> <p>A penalty is charged for each Form W-2 that was not filed as required by IRC 6051. The penalty is the greater of:</p> <ul style="list-style-type: none"> • The applicable penalty rate per missing Form W-2, or • 10% of the total wages that were required to be reported. <p>See <i>Section 10.7</i> of Document 6209 for applicable penalty rates and IRM 4.19.4.3.1.1.</p>
550*	IRC 6721(a)	<p>Late Filing Penalty</p> <p>The penalty is assessed at the applicable penalty rate) for each Form W-2 secured by CAWR.</p> <p>See <i>Section 10.7</i> of Document 6209 for applicable penalty rates and IRM 4.19.4.3.1.2.</p>

The 500 series PRNs in this table are assessed with Form 8278.
Refer to and use the most current revision of Form 8278.

PRN	Code Section	Penalty Description
519	IRC 6652(o)	<p>Failure to Provide Notices With Respect to Qualified Small Employer Health Reimbursement Arrangements</p> <p>A penalty of \$50 applies for each failure to provide a written notice as required by IRC 9831(d)(4) unless the failure is due to reasonable cause and not due to willful neglect. The maximum penalty per calendar year is \$2,500.</p>
527* IMF	IRC 6652(c)(1)(D)	<p>Failure to Provide Public Inspection of Application as Required by IRC 6104(d)</p> <p>See IRM 20.1.8.3.2.1.</p> <ul style="list-style-type: none"> • \$20* per day for each day the failure continues. • No maximum penalty amount.

Exhibit 20.1.1-4 (Cont. 4) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
528* IMF	IRC 6652(c)(1)(C)	Failure to Provide Public Inspection of Annual Returns and Reports as Required by IRC 6104(d) and IRC 527(j) See IRM 20.1.8.3.2.1. <ul style="list-style-type: none"> \$20* per day for each day the failure continues. Maximum penalty is \$12,000* per return or report.
537*	IRC 6721(e)	Failure to File Correct Information Returns Due to Intentional Disregard See IRM 20.1.7.8.2. The penalty is the applicable penalty rate for each failure or, if greater, one of the following: <ul style="list-style-type: none"> 10% of the total amount required to be reported on the information returns for dividends, patronage dividends, interest, fishing boat operators, royalties, and wage and tax statement, or 5% of the total amount required to be reported on the information returns for brokers, exchange of partnership interest, or disposition of donated property payments, or If Form 8300, the greater of \$31,520*, or the amount of cash required to be reported in the transaction up to \$126,000*. <p>Note: * - These amounts are subject to inflationary adjustments. Refer to the applicable Rev. Proc. depending on the due date of Form 8300.</p> <ul style="list-style-type: none"> No maximum penalty amount. See <i>Section 10.7</i> of Document 6209 for the applicable penalty rates depending on the return due date.
543	IRC 6702(b)	Penalty for Specified Frivolous Submissions referenced in IRC 6702(b)(2) See IRM 20.1.10.12.2.1. <ul style="list-style-type: none"> \$5,000 per submission.
551	IRC 6720B	Fraudulent Identification of Exempt Use Property See IRM 20.1.10.16. <ul style="list-style-type: none"> \$10,000. No maximum penalty.
552	IRC 6652(e)	Failure to File Returns and Reports Relating to Certain Trusts and Annuity Plans Required Under IRC 6047(d) See IRM 20.1.8.4.3 <ul style="list-style-type: none"> \$25 per day Maximum \$15,000 Effective for returns due after 12/31/2019: <ul style="list-style-type: none"> \$250 per day Maximum \$150,000
553	IRC 6693(a)(2)(B)	Failure to File a Report Relating to Archer MSAs Required Under IRC 220(h) See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.

Exhibit 20.1.1-4 (Cont. 5) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
554	IRC 6693(a)(2)(C)	Failure to file a Report Relating to Health Savings Accounts Required Under IRC 223(h) See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.
555	IRC 6693(a)(2)(D)	Failure to File a Report Relating to Qualified Tuition Programs Required Under IRC 529(d) See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.
556	IRC 6693(a)(2)(F)	Failure to File a Report Relating to Coverdell Education Savings Accounts Required Under IRC 530(h) See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.
557	IRC 6693(b)(1)	Overstatement of Designated Nondeductible Contributions See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$100 for each failure. No maximum penalty.
558	IRC 6693(b)(2)	Failure to File a Form Relating to Nondeductible Contributions Required by IRC 408(o)(4) See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.
562	IRC 6652(n)	Failure to Make Reports Required Under IRC 3511, IRC 6053(c)(8), and IRC 7705 <ul style="list-style-type: none"> \$50 per failure, or \$100 per failure when due to negligence or intentional disregard. No maximum penalty.
563	IRC 6720C	Penalty for Failure to Notify Health Plan of Cessation of Eligibility for COBRA Premium Assistance (This was re-enacted effective March 11, 2021 and provides for a penalty against individuals for failure to notify the employer, health plan, or issuer when they no longer qualify for COBRA premium assistance under ARP). See IRM 20.1.10.17. <ul style="list-style-type: none"> \$250 for each failure, or The greater of \$250 or 110 percent of the COBRA premium assistance improperly received, if the failure to provide notice is fraudulent.

Exhibit 20.1.1-4 (Cont. 6) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
564	IRC 6685	Failure to Comply With the Public Inspection Requirements for Certain Tax Exempt Organizations per IRC 6104(d) The penalty is in addition to any criminal penalty imposed by IRC 7207. See IRM 20.1.8.3.4. <ul style="list-style-type: none"> \$5,000 per return or application. No maximum penalty.
565	IRC 6676	Penalty for Erroneous Claim for Refund or Credit Effective for claims filed or submitted after 5/25/2007. See IRM 20.1.5.18 for non-deficiency cases and MFT 13 and 55. Exception: For married filing joint assessments, the penalty is assessed on MFT 30 using Form 3870 with PRN 687. 20% of the excessive amount of the claim.
566	IRC 6684	Assessable Penalties With Respect to Liability for Tax Under Chapter 42 See IRM 20.1.8.3.3. Penalty is equal to the amount of the excise tax for which it is determined the person is liable.
567	IRC 6711	Failure to Disclose Availability of Information or Service From Federal Government See IRM 20.1.8.3.6. For any day on which a failure under IRC 6711(a) occurs, the penalty is the greater of: <ul style="list-style-type: none"> \$1,000, or 50% of the daily combined cost for all the offers and solicitations where a failure to disclose occurred. No maximum penalty.
568	IRC 6693(a)(2)(E)	Failure to File a Report Relating to Qualified ABLE Programs as Required by IRC 529A <ul style="list-style-type: none"> \$50 per failure. No maximum penalty.
570	IRC 6689	Failure to File Notice of Redetermination of Foreign Tax Required by IRC 905(c) See IRM 20.1.9.19. <ul style="list-style-type: none"> 5% of the deficiency per month, or fraction thereof. Maximum penalty is 25% of the deficiency.
573	IRC 6693(c)	Penalties Relating to Simple Retirement Accounts See IRM 20.1.8.4.8. <ul style="list-style-type: none"> \$50 for each day on which such failures continue. No maximum penalty.

Exhibit 20.1.1-4 (Cont. 7) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
574	IRC 6653	Failure to Pay Stamp Tax See IRM 20.1.11.3. Penalty is 50% of the total amount of the underpayment amount.
575	IRC 6674	Fraudulent Statement or Failure to Furnish Statement to Employee as Required by IRC 6051 or IRC 6053(b) See IRM 20.1.10.9. <ul style="list-style-type: none"> \$50 for each failure. No maximum penalty.
578	IRC 6709(a)	Negligence Penalty With Respect to Mortgage Credit Certificates See IRM 20.1.10.15.1. <ul style="list-style-type: none"> \$1,000 per misstated certificate.
579	IRC 6709(b)	Fraud Penalty with Respect to Mortgage Credit Certificates See IRM 20.1.10.15.2. <ul style="list-style-type: none"> \$10,000 per misstated certificate attributable to fraud.
580	IRC 6709(c)	Failure to Timely File Report Relating to a Mortgage Credit Certificate Required Under IRC 25(g) See IRM 20.1.10.15.3. <ul style="list-style-type: none"> \$200 per failure. Maximum penalty is \$2,000.
581	IRC 6695A	Substantial and Gross Valuation Misstatements Attributable to Incorrect Appraisals See IRM 20.1.12. The penalty is the lesser of: 1. The greater of 10% of the understatement attributable to the misstatement, or \$1,000; or 2. 125% of the gross income received by the appraiser from the preparation of the appraisal. .
582	IRC 6697	Assessable Penalties With Respect to Liability for Tax of Regulated Investment Companies See IRM 20.1.10.11. Note: IRC 6697 has been repealed for tax years beginning after Dec. 22, 2010. <ul style="list-style-type: none"> Equal to the interest charge paid by the trust on the deficiency dividend. May not exceed 50% of the deficiency dividend deduction allowed by IRC 860(a).
583	IRC 6652(d)(1)	Failure to File a Registration Statement by Pension Plan See IRM 20.1.8.4.2.1 <ul style="list-style-type: none"> \$1 per failure per participant. Maximum penalty is \$5,000 per Plan year. Effective for returns due after 12/31/2019: <ul style="list-style-type: none"> \$10 per failure per participant Maximum penalty is \$50,000 per Plan year.

Exhibit 20.1.1-4 (Cont. 8) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
584	IRC 6652(d)(2)	Failure to File a Notification by Pension Plan See IRM 20.1.8.4.2.2 <ul style="list-style-type: none"> \$1 per failure per day. Maximum penalty is \$1,000. Effective for returns due after 12/31/2019: <ul style="list-style-type: none"> \$10 per failure per day Maximum penalty is \$10,000
585	IRC 6652(h)	Failure to Give a Notice to Recipients Required Under IRC 3405(e)(10)(B) See IRM 20.1.8.4.4 <ul style="list-style-type: none"> \$10 per failure. Maximum calendar year penalty is \$5,000. Effective for returns due after 12/31/2019: <ul style="list-style-type: none"> \$100 per failure Maximum calendar year penalty is \$50,000
586	IRC 6652(i)	Failure to Give Written Explanation to Recipients of Certain Qualifying Rollover Distributions Required Under IRC 402(f) See IRM 20.1.8.4.5 . <ul style="list-style-type: none"> \$100 per failure. Maximum calendar year penalty is \$50,000.
587	IRC 6652(j)	Failure to File Certification With Respect to Certain Residential Rental Projects as Required by IRC 142(d)(7) See IRM 20.1.10.6.3. <ul style="list-style-type: none"> \$100 for each failure. No maximum penalty.
588	IRC 6652(k)	Failure to Make Reports Required Under IRC 1202(d)(1)(C) See IRM 20.1.10.6.4. For reports covering periods in 2 or more years, the penalty is multiplied by the number of years. <ul style="list-style-type: none"> \$50 for each failure. If the failure is due to negligence or intentional disregard, \$100 for each failure. No maximum penalty.
589*	IRC 6652(c)(2)(C)(ii)	Failure to File Return for Split-Interest Trusts (as required under IRC 6034(a)) With Gross Income in Excess of \$302,000* See IRM 20.1.8.3.2.2. <ul style="list-style-type: none"> \$120* for each day the failure continues. Maximum penalty is \$60,000* per return.
590	IRC 6652(a)	Failure to File Information Returns With Respect to Certain Payments Aggregating Less than \$10 as Required Under IRC 6042(a)(2) and IRC 6044(a)(2) See IRM 20.1.10.6.1. <ul style="list-style-type: none"> \$1 for each statement not filed. Maximum penalty is \$1,000 per calendar year.

Exhibit 20.1.1-4 (Cont. 9) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
591*	IRC 6652(c)(1)(B)(ii)	Failure to Comply With Notice of Demand by Manager of Organization See IRM 20.1.8.3.2.1. <ul style="list-style-type: none"> \$10* for each day the failure continues after expiration of the time specified in the demand. Maximum penalty is \$6,000* per return.
592*	IRC 6652(c)(2)(B)	Failure to Comply With Notice of Demand by Manager of Exempt Organization or Trust See IRM 20.1.8.3.2.2. <ul style="list-style-type: none"> \$10* for each day the failure continues after expiration of the time specified in the demand. Maximum penalty is \$6,000* per return.
593	IRC 9707	Failure to Pay Premium as Required by IRC 9704 See IRM 20.1.10.21. <ul style="list-style-type: none"> \$100 per day. No maximum penalty amount.
594	Voluntary Disclosure Initiative Penalty-27.5%	Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code See IRM 20.1.9.24. <ul style="list-style-type: none"> 27.5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure. Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.
595	Voluntary Disclosure Initiative Penalty-5%	Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code See IRM 20.1.9.24. <ul style="list-style-type: none"> 5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure. Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.
596	Voluntary Disclosure Initiative Penalty-20%	Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code See IRM 20.1.9.24. <ul style="list-style-type: none"> 20% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure. Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.

Exhibit 20.1.1-4 (Cont. 10) (03-29-2023)
Penalty Reference Numbers (500 Series)

PRN	Code Section	Penalty Description
597	Voluntary Disclosure Initiative Penalty-12.5%	Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code See IRM 20.1.9.24. <ul style="list-style-type: none"> 12.5% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure. Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.
598	Voluntary Disclosure Initiative Penalty-25%	Failure to Timely Notify the IRS of One or More Various Activities Related to Foreign Bank Accounts/Entities and Various Sections of Titles 26 and 31 of the United States Code See IRM 20.1.9.24. <ul style="list-style-type: none"> 25% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax years covered by the voluntary disclosure. Requires a closing agreement entered into by the taxpayer with the Commissioner of IRS.
599	IRC 6038	LB&I - Systemic Penalty for Failure to File Form 5471 in Conjunction with Failure to File a Corporate Return See IRM 20.1.9.3.3 and IRM 21.8.2.20.2. <ul style="list-style-type: none"> Refer to PRN 623 explanation for manual assessment, penalty rate, and additional information.

* - PRNs and dollar amounts marked with an asterisk “*” are subject to annual inflationary adjustments.

- For PRNs applicable to penalties under IRC 6721 and IRC 6722, refer to *Section 10.7* of Document 6209 for amounts as adjusted for inflation, if applicable. For others, refer to the applicable Revenue Procedure based on the tax year of the return, etc. as follows:
- Tax year 2015 - see Rev. Proc. 2016-11.
- Tax year 2016 - see Rev. Proc. 2015-53.

Note: Section 3.48(3) of Rev. Proc. 2015-53 contains an incorrect rate. The correct rate is reflected in Section 4 of Rev. Proc. 2016-11.

- Tax year 2017 - see Rev. Proc. 2016-55.
- Tax year 2018 - see Rev. Proc. 2018-18 (supersedes Rev. Proc. 2017-58).
- Tax year 2019 - see Rev. Proc. 2018-57.
- Tax year 2020 - see Rev. Proc. 2019-44.
- Tax year 2021 - see Rev. Proc. 2020-45
- Tax year 2022 - see Rev. Proc. 2021-45
- Tax year 2023 - see Rev. Proc. 2022-38

Exhibit 20.1.1-5 (03-29-2023)**Penalty Reference Numbers (600 Series)**

Penalty Reference Numbers (PRN) marked with an asterisk “*” identify penalties assessed with Form 8278.

Caution: Refer to and use the most current revision of Form 8278.

PRN	Statute	Penalty Description
600*	IRC 6721	<p>Failure to File Correct Information Returns</p> <p>IRC 6721 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, IRC 6721 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p> <p>For other circumstances that may apply, see IRM 20.1.7.8.</p>
603*	IRC 6038C	<p>Failure of Foreign Corporation Engaged in a U.S. Business to Furnish Information or Maintain Records</p> <p>See IRM 20.1.9.8.</p> <ul style="list-style-type: none"> • An initial penalty for each taxable year applies. • If the information is not received within 90 days from notification, a continuation penalty is charged for each 30-day period (or fraction thereof) the failure continues. No maximum penalty amount (assess continuation penalty with PRN 705). <p>The penalty rates are:</p> <ul style="list-style-type: none"> • \$25,000 per year and for each 30-day period for tax years beginning after 12/31/2017. • \$10,000 per year and for each 30-day period for tax years beginning before 1/1/2018.
604*	IRC 6652(f)	<p>Failure of Foreign Person to File Return Regarding Direct Investment in U.S. Real Property Interests</p> <p>See IRM 20.1.9.12.</p> <ul style="list-style-type: none"> • The penalty applies to returns required under IRC 6039C. • \$25 per day. Maximum is the lesser of \$25,000, or 5% of the aggregate fair market value of the United States real property investments.

Exhibit 20.1.1-5 (Cont. 1) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
605*	IRC 6686	Failure to File Returns or Supply Information by DISC or Former FSC See IRM 20.1.9.17. <ul style="list-style-type: none"> \$100 for each failure to supply information to shareholders on Schedule K. Maximum \$25,000 per calendar year. \$1,000 for each failure to file Form 1120-DISC, Domestic International Sales Corporation Return, Form 1120-IC DISC, Interest Charge Domestic international Sales-Corporation Return or Form 1120-FSC, U.S. Income Tax Return of a Foreign Sales Corporation.
607*	IRC 6721(a)	Failure to File Information Returns or Registration Statements by Due Date Caution: Use of PRN 607 is limited to employees of the Bank Secrecy Act (BSA) Program. See PRN 600 above for an explanation of the applicable penalty rates.
609*	IRC 6721(a)	Failure to Comply With Certain Information Reporting Requirements-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business Caution: Use of PRN 609 is limited to employees of the Bank Secrecy Act (BSA) Program. All others use PRN 651 See PRN 651 for an explanation and the applicable penalty rates.
611*	IRC 6652(c)(3)(A)	Failure to File a Disclosure Required of Tax-Exempt Entity See IRM 20.1.8.3.2.3 <ul style="list-style-type: none"> \$120** per failure per day. \$60,000** maximum for any 1 disclosure. **-Subject to annual inflationary adjustments. See additional information at end of exhibit.

Exhibit 20.1.1-5 (Cont. 2) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
612*	IRC 6722	<p>Failure to Furnish Correct Payee Statement A penalty will be imposed for each failure to:</p> <ul style="list-style-type: none"> Furnish a payee statement on or before the due date to the person to whom the statement must be furnished, Furnish all information required, and Furnish correct information. <p>Note: Only one penalty per statement, regardless of the number of failures per statement.</p> <p>IRC 6722 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, for statements required to be furnished on or after Jan. 1, 2011, IRC 6722 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> Failures corrected within 30 days after the due date of the information return, and Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p> <p>For failures that are due to intentional disregard:</p> <ul style="list-style-type: none"> No maximum penalty. No reduction in penalty rate.
613*	IRC 6679	<p>Failure to File Returns, Etc., With Respect to Foreign Corporations or Foreign Partnerships See IRM 20.1.9.15.</p> <ul style="list-style-type: none"> <i>Form 5471, Schedule O</i>, Organization or Reorganization of Foreign Corporation and Acquisitions and Dispositions of Its Stock <i>Form 8865, Schedule P</i>, Acquisitions, Dispositions and Changes of Interests in a Foreign Partnership. <p>See IRC 6046 and IRC 6046A.</p> <ul style="list-style-type: none"> The initial penalty is assessed at \$10,000 per failure. If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum additional penalty up to \$50,000 (assess with PRN 704).
614*	IRC 6714	<p>Failure to Meet Disclosure Requirements Applicable to Quid Pro Quo Contributions as Required by IRC 6115 See IRM 20.1.8.3.7.</p> <ul style="list-style-type: none"> \$10 per failure to provide the required written statement to the payor (donor). Maximum penalty is \$5,000 for a particular fundraising event or mailing.

Exhibit 20.1.1-5 (Cont. 3) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
616*	IRC 6682	False Information With Respect to Withholding See IRM 20.1.10.10. <ul style="list-style-type: none"> False information on Form W-4, Employee's Withholding Allowance Certificate, and/or Form W-9, Request for Taxpayer Identification Number and Certification. \$500 for each false statement (Form W-4/Form W-9).
618	IRC 6672	Failure to Collect and Pay Over Tax, or an Attempt to Evade or Defeat Tax See IRM 5.7.3.1.1. <ul style="list-style-type: none"> Trust Fund Recovery Program. The penalty is assessed against responsible corporate officers. 100% of the tax required to be collected, accounted for, and paid over.
619*	IRC 6038(b)(2)	Failure to File Returns With Respect to Foreign Corporations or Foreign Partnerships-Continuation Penalty for Failure to Provide Information After 90-Day Period See IRM 20.1.9.3.4. <ul style="list-style-type: none"> The penalty is assessed at \$10,000 per 30-day period (or fraction thereof). \$50,000 maximum continuation penalty. The initial penalty is assessed with PRN 623.
621*	IRC 6723	Failure to Comply With Other Information Reporting Requirements See IRM 20.1.7.10. <ol style="list-style-type: none"> A penalty of \$50 per failure: <ul style="list-style-type: none"> To comply timely with specified information reporting requirements, or To include correct information. The maximum penalty is \$100,000 per year.
623*	IRC 6038	Failure to Furnish Information With Respect to Certain Foreign Corporations See IRM 20.1.9.3. Failure to file Form 5471, and/or Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships <ul style="list-style-type: none"> Initial penalty is \$10,000 per annual accounting period plus FTC reduction. If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum additional penalty up to \$50,000 (assess with PRN 619). <p>Note: PRN 623 was used temporarily in 2009 for systemically-assessed penalties which are now assessed with PRN 599. See IRM 21.8.2.20.2 for additional information.</p>

Exhibit 20.1.1-5 (Cont. 4) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
624	IRC 6695	<p>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons See IRM 20.1.6.5.</p> <p>Caution: PRNs 714-718 were intended to be used for IRC 6695(a)-(e) assessments but have not yet been activated. We'll retain the PRN 714-718 descriptions for more detailed information for each of the IRC 6695(a)-(e) penalties, but PRN 624 will continue to be used for assessments under these sections.</p> <p>Any failure by the preparer to:</p> <ol style="list-style-type: none"> Furnish a copy of the return to the taxpayer-IRC 6695(a) Sign the return-IRC 6695(b) Furnish the preparer's identifying number-IRC 6695(c) Retain a copy, return or list, as required by IRC 6107(b)-IRC 6695(d) File a correct information return or other requirement of IRC 6060-IRC 6695(e) <p>These penalties are assessed at \$50** per failure, not to exceed:</p> <ul style="list-style-type: none"> \$25,000** per calendar year for IRC 6695(a), IRC 6695(b), and IRC 6695(c) \$25,000** per return period for IRC 6695(d) and IRC 6695(e) <p>** -Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.</p>
625*	IRC 6038A	<p>Information With Respect to Certain Foreign Owned Corporations Failure to furnish information or maintain records as required by IRC 6038A(a) and IRC 6038A(b). Form 5472, <i>Information Return of a Foreign Owned Corporation</i>. See IRM 20.1.9.5.</p> <ul style="list-style-type: none"> Initial penalty for each taxable year with respect to which the failure occurs. If the failure continues for more than 90 days after notice of failure mailed, an additional penalty is imposed for each 30-day period during which the failure continues after the expiration of the original 90 day period. No maximum penalty amount (assess continuation penalty with PRN 701). <p>The penalty rates are:</p> <ul style="list-style-type: none"> \$25,000 per year and for each 30-day period for tax years beginning after 12/31/2017. \$10,000 per year and for each 30-day period for tax years beginning before 1/1/2018.

Exhibit 20.1.1-5 (Cont. 5) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
626*	IRC 6695(f)	Negotiation of Check by Tax Return Preparer See IRM 20.1.6.5.6. <ul style="list-style-type: none"> Endorses or otherwise negotiates a refund check (with respect to income tax) issued to a taxpayer. \$500** per failure. No Maximum amount. **-Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.
627*	IRC 6695(g)	Failure to Be Diligent in Determining Eligibility for Certain Tax Benefits See IRM 20.1.6.5.7, IRM 20.1.6.5.7.1, and IRM 20.1.6.5.7.2. A penalty applies to any tax return or claim for refund that fails to comply with due diligence requirements imposed by the Secretary. The penalty rate varies depending on the tax year of the return and is subject to annual inflationary adjustments. Refer to IRM 20.1.6-1 for penalty rates. There is no maximum amount.
628*	IRC 6700	Promoting Abusive Tax Shelters See IRM 20.1.6.13. <ul style="list-style-type: none"> For such activities after 10/22/2004, the penalty is the lesser of \$1,000 or 100% of gross income derived (or to be derived). In the case of a statement described in IRC 6700(a)(2)(A), the penalty is 50% of gross income derived (or to be derived).
629*	IRC 6652(c)(3)(B)(ii)	Failure by Entity or Manager to Comply With Written Demand to File a Disclosure Required Under IRC 6033(a)(2) See IRM 20.1.8.3.2.3. <ul style="list-style-type: none"> \$120** for each day the failure continues after the date specified in the demand. Maximum penalty is \$12,000** with respect to any 1 disclosure. **-Subject to annual inflationary adjustments. See additional information at end of exhibit.
630*	IRC 6720	Donee's Failure to Issue Acknowledgement on Used Vehicle Donation as Required by IRC 170(f)(12) See IRM 20.1.8.3.8. Multiple calculations. See IRC 6720(1) and IRC 6720(2) for calculations.
631*	IRC 6701	Penalties for Aiding and Abetting Understatement of Tax Liability Aiding and abetting-Preparer See IRM 20.1.6.14 The penalty is assessed for each document that relates to the tax liability of: <ul style="list-style-type: none"> Individual-at \$1,000, or Corporate-at \$10,000.

Exhibit 20.1.1-5 (Cont. 6) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
632*	IRC 6705	Failure by a Broker to Provide Notice to Payors See IRM 20.1.10.13. \$500 for each failure.
633*	IRC 6713	Disclosure or Use of Information by Preparers of Returns See IRM 20.1.6.7. <ul style="list-style-type: none"> \$250 per disclosure or use Maximum of \$10,000 per calendar year.
634*	IRC 6707	Failure to Furnish Information Regarding Reportable Transactions Required by IRC 6111(a) See IRM 20.1.13. See IRC 6707A(c) for definitions of reportable and listed transactions. <ol style="list-style-type: none"> For reportable transactions, the penalty for returns due after 10/22/2004 is \$50,000 per failure. For listed transactions, the penalty for returns due after 10/22/2004 is the greater of \$200,000, or 50% of the gross income derived relating to the listed transaction. In the case of an intentional failure or act, 75% of the gross income derived.
635	IRC 6651(f)	Fraudulent Failure to File Caution: Effective July 2, 2013, PRN 635 is no longer used for IRC 6651(f) assessments. Use PRN 686. See IRM 20.1.2.3.7.5 for additional information.
636*	IRC 6708	Failure to Maintain Lists of Investors/Advisees in Potentially Abusive Tax Shelters Required by IRC 6112(a) See IRM 20.1.13. <ul style="list-style-type: none"> \$10,000 per day, from the 21st day after the list is requested, until a complete list is provided to IRS. No maximum penalty amount.

Exhibit 20.1.1-5 (Cont. 7) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
637*	IRC 6721(a) or IRC 6722(a)	<p>Failures for Returns Relating to Higher Education Tuition and Related Expenses as Required by IRC 6050S (Form 1098-E, <i>Student Loan Interest Statement</i>) See IRM 20.1.7.8 and IRM 20.1.7.9.</p> <p>IRC 6721 and IRC 6722 provide different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s) and/or statement(s). In addition, IRC 6721 and IRC 6722 provide reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>Exception: For IRC 6722, the reduced rates only apply to statements required to be furnished on or after Jan. 1, 2011.</p> <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p>
638*	IRC 6721	<p>Failures Related to Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, as Required by IRC 6053 See IRM 20.1.7.8.</p> <p>IRC 6721 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, IRC 6721 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p> <p>Exception: In the case of intentional disregard, there are no reduced penalty rates or maximum penalty.</p>

Exhibit 20.1.1-5 (Cont. 8) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
639*	IRC 6704(b)	Failure to Keep Records Necessary to Meet Reporting Requirements Under IRC 6047(d) See IRM 20.1.8.4.9. <ul style="list-style-type: none"> \$50 per calendar year, multiplied by the number of failures. Maximum penalty for any person for any calendar year is \$50,000.
642	IRC 6722(e)	Failure to Furnish Payee Statements-Intentional Disregard See IRM 20.1.7.9.1. The penalty is the greater of: <ul style="list-style-type: none"> The applicable rate reflected in <i>Section 10.7</i> of Document 6209 depending on the statement due date, or 10% of the amount of income required to be reported on payee statements for dividends, patronage dividends, interest, fishing boat operators, royalties, and wage and tax statements, or 5% of the amount required to be reported on the payee statements for brokers, exchange of partnership interest, or disposition of donated property payments. There is no maximum penalty amount.
643*	IRC 6673(a)	Sanctions and Costs Awarded by Courts See IRM 20.1.10.8. <ul style="list-style-type: none"> Tax Court determined that the proceedings before it have been instituted by the taxpayer primarily for delay, etc. Court awarded sanctions, penalties, or costs not to exceed \$25,000.
644*	IRC 6673(b)	Sanctions and Costs Awarded by Courts (IRC 7433) See IRM 20.1.10.8.2. <ul style="list-style-type: none"> A Court (other than the Tax Court) determination that the taxpayer filed frivolous suit against the United States. Court awarded sanctions, penalties, or costs not to exceed \$10,000.
645*	IRC 6694(a)	Understatement of Taxpayer's Liability by Tax Return Preparer See IRM 20.1.6.4. The penalty is assessed against a tax return preparer. The penalty is based on an understatement of liability due to an unreasonable position that the tax return preparer knew (or should have known) was unreasonable. No maximum penalty amount. <ul style="list-style-type: none"> For tax returns or claims prepared after May 25, 2007, the penalty is the greater of \$1,000, or 50% of the income derived, or to be derived, per return or claim.

Exhibit 20.1.1-5 (Cont. 9) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
647*	IRC 6710	<p>Failure to Disclose That Contributions Are Nondeductible as Required by IRC 6113 See IRM 20.1.8.3.5.</p> <ul style="list-style-type: none"> \$1,000 for each day the failure occurs. Maximum penalty is \$10,000 per calendar year. If the failure is due to intentional disregard, the penalty for each day the failure occurs is the greater of \$1,000 or 50% of the aggregate cost of the solicitations. The \$10,000 limitation does not apply if the failure is due to intentional disregard.
648*	IRC 6707A	<p>Failure to Include Reportable Transaction Information With Return (Form 8886, Reportable Transaction Disclosure Statement) See IRM 20.1.13.3.</p> <p>For each failure to include information with respect to a reportable transaction, the penalty is 75 percent of the decrease in tax shown on the return as a result of the reportable transaction with the following maximum and minimum penalty amounts:</p> <ol style="list-style-type: none"> For listed transactions (see IRC 6707A(c)(2)), the maximum penalty is \$100,000 in the case of a natural person, or \$200,000 for all other taxpayers. For any other reportable transaction (see IRC 6707A(c)(1)), the maximum penalty is \$10,000 in the case of a natural person, or \$50,000 for all other taxpayers. The minimum penalty for both listed and any other reportable transaction is \$5,000 in the case of a natural person, or \$10,000 for all other taxpayers.
649*	IRC 6652(l)	<p>Failure by Corporation to File Returns Required by IRC 6043(c) (Form 8806, Information Return for Acquisition of Control or Substantial Change in Capital Structure) See IRM 20.1.10.6.5.</p> <ul style="list-style-type: none"> \$500 per day per failure. Maximum \$100,000.
650*	IRC 6694(b)	<p>Willful or Reckless Understatement of Taxpayer's Liability by Tax Return Preparer See IRM 20.1.6.4.</p> <p>The penalty is assessed if any part of the understatement is due to willful or reckless conduct or intentional disregard of the rules or regulations in preparing the return or claim for refund. The penalty is reduced by any amount of penalty paid under IRC 6694(a). No maximum penalty amount.</p> <ul style="list-style-type: none"> For tax returns or claims prepared after May 25, 2007, the penalty is the greater of \$5,000, or 75% of the income derived, or to be derived, per return or claim (50% for tax years ending on or before December 18, 2015).

Exhibit 20.1.1-5 (Cont. 10) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
651*	IRC 6721(a)	<p>Failure to Comply With Certain Information Reporting Requirements-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.. See IRM 20.1.7.8. The penalty is assessed for each Form 8300 not timely and/or correctly filed as required by IRC 6050I.</p> <p>IRC 6721 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, IRC 6721 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209</p>
652*	IRC 6721(e)(2)(C)	<p>Intentional Disregard of the Failure to Comply With Certain Information Reporting Requirements-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business See IRM 20.1.7.8.2(8). Note: This reference number is used to assess the intentional disregard penalty when Form 8300 is not timely and/or correctly filed.</p> <p>The penalty is assessed at the greater of:</p> <ul style="list-style-type: none"> • \$25,000**, or • The amount of cash received in such transaction, to the extent the cash does not exceed \$100,000**. <p>The maximum yearly limitations under IRC 6721 shall not apply.</p> <p>**Subject to annual inflationary adjustments. See additional information at end of exhibit.</p>

Exhibit 20.1.1-5 (Cont. 11) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
653*	IRC 6722(a)	<p>Failure to Furnish Correct Statements Required by IRC 6050I(e)-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business See IRM 20.1.7.9.</p> <p>IRC 6722 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s) or statement(s). In addition, IRC 6722 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following:</p> <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. <p>Exception: The reduced penalty rates don't apply to returns or statements due on or before Jan. 1, 2011.</p> <p>In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209.</p>
654*	IRC 6722(e)	<p>Intentional Disregard of the Requirement to Furnish a Correct Payee Statement Required by IRC 6050I(e)-Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business See IRM 20.1.7.9.1.</p> <p>a. The intentional disregard penalty is the greater of the applicable rate reflected in <i>Section 10.7</i> of Document 6209 depending on the statement due date, or 10% of the amount required to be reported correctly on the statement.</p> <p>b. The maximum yearly limitation does not apply.</p>
655*	IRC 6717(a)	<p>Penalty for Refusal of Entry per IRC 4083(d)(1) See IRM 20.1.11.8.2.</p> <ul style="list-style-type: none"> • A penalty of \$1,000 for each refusal to admit entry or to permit examination. • A penalty of \$1,000 for each refusal to admit entry or to permit examination if the refusal is related to any place where taxable fuel is stored or produced.

Exhibit 20.1.1-5 (Cont. 12) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
656*	IRC 6715	<p>Dyed Fuel Sold for Use or Used in Taxable Use, Etc. See IRM 20.1.11.6. Generally, the penalty is assessed on any dyed fuel (nontaxable use) that is sold, used, or held for sale or use, for a taxable use.</p> <ol style="list-style-type: none"> 1st offense, the penalty is the greater of \$1,000, or \$10 for each gallon of dyed fuel involved. Subsequent violations, the penalty is the greater of \$1,000 multiplied by the sum of one plus the number of prior violations assessed per IRC 6715 on that person (or any related person or predecessor of that person or related person), or \$10 for each gallon of dyed fuel involved.
657*	IRC 6718	<p>Failure to Display Tax Registration on Vessels See IRM 20.1.11.8.4. The penalty is assessed on any vessel required to display proof of registration as required by IRC 4101(a)(3) and fails to do so. The penalty is:</p> <ul style="list-style-type: none"> \$500 per vessel for the initial one month failure to display. For multiple monthly violations: \$500, plus the amount derived by multiplying \$500 times the number of monthly penalties previously imposed.
658*	IRC 6652(c)(2)(A)	<p>Failure to File Information Return Required by IRC 6034 (relating to returns by certain trusts) or IRC 6043(b) (relating to terminations, etc., of exempt organizations) See IRM 20.1.8.3.2.2.</p> <ul style="list-style-type: none"> \$10** per day per return. Maximum penalty is \$6,000** per return. <p>**Subject to annual inflationary adjustments. See additional information at end of exhibit.</p>
659*	IRC 6677	<p>Failure to File Information With Respect to Certain Foreign Trusts as Required by IRC 6048 - Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts See IRM 20.1.9.13.</p> <ol style="list-style-type: none"> Initial penalty is the greater of 35% of the gross reportable amount, or \$10,000 . If failure continues for more than 90 days after notice, \$10,000 for each 30-day period (or fraction thereof) the failure continues after the expiration of the 90-day period (assess with PRN 702). Total penalty cannot exceed gross reportable amount.

Exhibit 20.1.1-5 (Cont. 13) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
660*	IRC 6677(b)	Form 3520-A Annual Return of Foreign Trust With a U.S. Owner - IRC 6048(b) See IRM 20.1.9.14. a. Initial penalty is the greater of 5% of the gross reportable amount, or \$10,000. b. If failure continues for more than 90 days after notice, \$10,000 for each 30-day period (or fraction thereof) the failure continues after the expiration of the 90-day period (assess with PRN 703). c. Total penalty cannot exceed gross reportable amount.
661*	IRC 6675	Excessive Claims With Respect to the Use of Certain Fuels-Per IRC 6416(a)(4), IRC 6420, IRC 6421, or IRC 6427 See IRM 20.1.11.5. The penalty is the greater of: <ul style="list-style-type: none"> Two times the excessive amount, or \$10.
662* (BMF)	IRC 527(j)(1)	Failure to Make Required Disclosure of Expenditures and Contributions (Form 8872, Political Organization Report of Contributions and Expenditures) See IRM 20.1.8.3.1. <ul style="list-style-type: none"> Penalty for each failure is equal to the highest rate of tax specified in IRC 11(b) multiplied by the amount to which the failure relates. Also see IRC 6652(c).
663* (BMF)	IRC 6652(c)(1)(A)	Failures Related to Annual Returns Required by IRC 6033(a)(1) (Exempt Organizations) and IRC 6012(a)(6) (Political Organizations) See IRM 20.1.8.3.2.1 a. For organizations with gross receipts of \$1,208,500** or less, the penalty is \$20** per day during which such failure continues. The maximum penalty is the lesser of \$12,000** or 5% of gross receipts b. For organizations with gross receipts of more than \$1,208,500**, the penalty is \$120** per day during which such failure continues. The maximum penalty is \$60,000**. **Subject to annual inflationary adjustments. See additional information at end of exhibit.
664*	IRC 6712	Failure to Disclose Treaty-Based Return Position as Required by IRC 6114 See IRM 20.1.9.20. <ul style="list-style-type: none"> \$10,000 per failure for C corporations. \$1,000 per failure for all other taxpayers.

Exhibit 20.1.1-5 (Cont. 14) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
665*	IRC 6715A	Tampering With, or Failing to Maintain Security Requirements, for Mechanical Dye Injection Systems See IRM 20.1.11.7. a. For IRC 6715A(a)(1) (Tampering), the penalty is the greater of \$25,000 per violation, or \$10 for each gallon of fuel involved. b. For IRC 6715A(a)(2) (Failure to Maintain Security Requirements), the penalty is \$1,000, and \$1,000 per day for failing to correct the violation for each day after which such violation was discovered or such person should have reasonably known of such violation.
666*	IRC 6702(a)	Frivolous Return Caution: Only PRN 666 assesses IRC 6702(a) after 1/24/2005 See IRM 20.1.10.13.1. The penalty is assessed per frivolous document. On a Married Filing Joint frivolous return, the penalty is assessed on each spouse. The penalty is: <ul style="list-style-type: none"> \$500 per document for filings and submissions prior to March 16, 2007. \$5,000 per document for filings and submissions after March 15, 2007.
667*	IRC 6725	Failure to Report Information Under IRC 4101 (failure to report a vessel/facility) See IRM 20.1.11.8.7. <ul style="list-style-type: none"> \$10,000 per failure to timely file a report on each vessel or facility. \$10,000 per failure to include all of the required information or for the inclusion of incorrect information.
668*	IRC 6039F(c)	Failure to File Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, to Report Receipt of Foreign Gifts See IRM 20.1.9.10. <ul style="list-style-type: none"> 5% of the amount of the foreign gift for each month the failure continues. Maximum penalty cannot exceed 25% of the amount of the gift.
669* (IMF)	IRC 6688	Failure to File Form 8898, Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession, Regarding Residence in a US Possession as Required by IRC 937(c) See IRM 20.1.9.18. \$1,000 per failure.
670*	IRC 6719	Failure to Register or Reregister as Required by IRC 4101 See IRM 20.1.11.8.5. <ul style="list-style-type: none"> \$10,000 for each initial failure, and \$1,000 for each day thereafter the failure continues.

Exhibit 20.1.1-5 (Cont. 15) (03-29-2023)**Penalty Reference Numbers (600 Series)**

PRN	Statute	Penalty Description
671* (IMF)	IRC 6039G	Failure to File Form 8854, Initial and Annual Expatriation Information Statement, Regarding Expatriate/Residency Report See IRM 20.1.9.11. \$10,000 per failure.
672*	IRC 6721	Failures in Regard to Information Returns Relating to Taxable Mergers and Acquisitions as Required by IRC 6043A See IRM 20.1.7.8. IRC 6721 provides different penalty rates per failure as well as maximum annual penalties per taxpayer depending on the due date of the return(s). In addition, IRC 6721 provides reduced penalty rates and maximum penalties for small businesses with gross receipts of \$5 million or less as well as reduced rates and maximum penalties based on the following: <ul style="list-style-type: none"> • Failures corrected within 30 days after the due date of the information return, and • Failures corrected after the 30th day following the due date of the information but on or before August 1st. In addition, the penalty rates and maximum penalties are subject to inflationary adjustments for returns required to be filed on or after Jan. 1, 2016. For all rates and maximum penalties as adjusted for inflation, if applicable, refer to <i>Section 10.7</i> of Document 6209. Note: In the case of intentional disregard, there is no maximum penalty amount.
673*	IRC 6720A	Resale of Certain Adulterated Diesel Fuels See IRM 20.1.11.8.6. <ul style="list-style-type: none"> • \$10,000 for each transfer, sale, or holding out for resale. • \$10,000 for retailers for each instance of holding such liquid out for sale.
674*	IRC 6723	Failure by Transferor to Notify Partnership of Exchange as Required by IRC 6050K(c) <ul style="list-style-type: none"> • A penalty of \$50 is imposed for each failure to comply timely with specified information reporting requirements. • The maximum penalty for failure to comply with all specified information reporting requirements is \$100,000 per year.

Exhibit 20.1.1-5 (Cont. 16) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
676*	IRC 6038B	Notice of Certain Transfers to Foreign Persons: <ul style="list-style-type: none"> • Failure to File Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, • Failure to File <i>Form 8865, Schedule O</i>, Transfer of Property to a Foreign Partnership, • Failure to File initial IRC 367 documents (e.g., an initial gain recognition agreement) under, or failure to comply with the requirements of, the IRC 367 regulations, • Failure to File statements under, or failure to comply with the requirements for, the gain deferral method under the IRC 721(c) regulations See IRM 20.1.9.7. <ul style="list-style-type: none"> • 10% of the fair market value of the property transferred at the time of exchange. • Maximum \$100,000. • No maximum if failure is due to intentional disregard.
677	IRC 6677(b)	Failure to File Part II of Form 3520 See IRM 20.1.9.13. <ul style="list-style-type: none"> • Initial penalty is the greater of 5% of the gross reportable amount, or \$10,000. • If the failure continues for more than 90 days, a continuation rate of \$10,000 applies for each 30-day period the failure continues. • The continuation penalty is assessed with PRN 706. • Total penalty cannot exceed gross reportable amount.
678*	IRC 6706(a)	Failure to Show Information on Debt Instrument Required by IRC 1275(c)(1) (reported on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments) See IRM 20.1.10.14.1. \$50 for each instrument to which a failure exists.
678*	IRC 6706(b)	Failure to Furnish Information to Secretary Required by IRC 1275(c)(2) (reported on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments) See IRM 20.1.10.14.2. <ul style="list-style-type: none"> • 1% of the aggregate issue price of debt instrument amount. • Maximum \$50,000.
679* (IMF)	IRC 6039E	Failure by Passport and Immigration Applicants to Provide Information Concerning Residence Status See IRM 20.1.9.21. \$500 for each failure to provide the required information.

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Exhibit 20.1.1-5 (Cont. 17) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
680	IRC 6662	<p>Accuracy-Related Penalties See IRM 20.1.5. See PRNs 786-792 for IRC 6662(c)-(h) assessments input after 2014.</p> <p>For assessments input after 2014, use PRN 680 if the following are true:</p> <ul style="list-style-type: none"> • The penalty is imposed for substantial understatement of income tax under IRC 6662(d), and • Negligence under IRC 6662(c) is a secondary consideration. <p>Note: See IRM 20.1.5.4.2(8).</p> <p>For assessments input before 2015, penalties assessed with PRN 680 were computed as follows:</p> <ul style="list-style-type: none"> • For IRC 6662(c) through IRC 6662(g), the penalty is 20% of the underpayment. • For IRC 6662(h) (Gross Valuation Misstatements), the penalty is 40% of the underpayment. <p>To reverse assessments input with PRN 680, when applicable, a TC 680 for a negative amount must be input. Do not use PRNs 786-792 to reverse PRN 680 assessments.</p>
681	IRC 6662A	<p>Accuracy-Related Penalty on Understatements With Respect to Reportable Transactions See IRM 20.1.5.17.</p> <ul style="list-style-type: none"> • 20% of reportable transaction understatement. • 30% for nondisclosed listed or other avoidance transactions.
682	IRC 6662/IRC 6663	<p>Self-Computed Penalty for BBADocument 6209</p> <ul style="list-style-type: none"> • Penalty assessed on the partner's return when the partnership has elected to push out the assessment of the imputed deficiency per IRC 6626.
683	IRC 6662(j)	<p>Undisclosed Foreign Financial Asset Understatement See IRM 20.1.5.14.</p> <ul style="list-style-type: none"> • 40% if any portion of an underpayment is attributable to any undisclosed foreign financial asset.
684	IRC 7519(f)(4)	<p>Required Payments for Entities Electing Not to Have Required Taxable Year (IRC 444 Elections) See IRM 20.1.10.19.</p> <ul style="list-style-type: none"> • The penalty is assessed for failing to make a timely election payment. • The penalty is assessed at 10 percent of the underpaid amount and is assessed on MFT 15 with TC 246.

Exhibit 20.1.1-5 (Cont. 18) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
686	IRC 6651(f)	Fraudulent Failure to File See IRM 20.1.2.3.7.5 and IRM 25.1.7. <ul style="list-style-type: none"> 15 percent of unpaid tax for each month the return is late, not to exceed 75 percent (5 months). For any month where the FTP penalty also applies, the FFTF penalty is reduced by the amount of the FTP penalty for that month.
687	IRC 6676	Penalty for Erroneous Claim for Refund or Credit Caution: PRN 687 is used for Married Filing Joint assessments only. All others use PRN 565 See IRM 20.1.5.18.3 and IRM 20.1.5.18.6. <ul style="list-style-type: none"> 20% of the excessive amount of the claim. Assessed with Form 3870, Request for Adjustment.
688	IRC 6721(a)(2)(A)	Failure to File Partnership Return Using Electronic Media See IRM 20.1.2.5 and IRM 21.7.4.4.2.8.1. <ul style="list-style-type: none"> Applies to partnerships with over 100 partners. Penalty is systemically assessed with TC 246 and PRN 688. The penalty rate and maximum penalty varies depending on the due date of the return. For returns due on or after Jan. 1, 2016, the penalty rate and maximum penalties are subject to annual inflationary adjustments. See IRM 20.1.2.5 for penalty rates and maximum penalties.
690	N/A	Insurance Provider Fee (IPF) Late Filing Penalty See IRM 25.21.2.10(1). a. Applicable under section 9010(g)(2)(A) of the Patient Protection and Affordable Care Act of 2010 (ACA). b. Penalty is \$10,000 plus the less of \$1,000 for each day the failure continues, or the amount of the fee for which the report was required. Note: This section is repealed for calendar years beginning after 12/31/2020 per H.R. 1865, Section 502.
691	N/A	Insurance Provider Fee (IPF) Accuracy-Related Penalty See IRM 25.21.2.10(2). a. Applicable under section 9010(g)(3)(A) of the Patient Protection and Affordable Care Act of 2010 (ACA). b. The penalty is equal to the excess of the amount of the covered entity's fee for the fee year that should have been paid in the absence of the understatement, over the amount of the fee determined based on the understatement. Note: This section is repealed for calendar years beginning after 12/31/2020 per H.R. 1865, Section 502.

Exhibit 20.1.1-5 (Cont. 19) (03-29-2023)
Penalty Reference Numbers (600 Series)

PRN	Statute	Penalty Description
692	IRC 5000A	Individual Shared Responsibility Payment See IRM 20.1.11.2. <ul style="list-style-type: none"> The penalty applies for failure to maintain minimum essential coverage required under IRC 5000A(a). The penalty rate varies depending on the taxable year. Refer to IRM 20.1.11.2.1 for the penalty rates. Note: Public Law 115-97, Section 11081 reduced the shared responsibility payment under IRC 5000A to zero for months beginning after 12/31/2018.
693	IRC 1400Z-2(f)	Failure of Qualified Opportunity Fund to Maintain Investment Standard See IRM 20.1.10.4 <ul style="list-style-type: none"> See IRM 20.1.10.4.1 for penalty computation. No Maximum penalty.
694	IRC 6652(p)	Failure to Provide Notice Under Section 83(i) See IRM 20.1.10.6.8 <ul style="list-style-type: none"> \$100 per employee per calendar year for each failure to timely provide a notice. \$50,000 maximum penalty per calendar year.
697	IRC 6672	Trust Fund Recovery Penalty - Payment by Related Responsible Party See IRM 5.19.14.3.5.
699	IRC 6672	Trust Fund Recovery Penalty - Payment by Related BMF Account See IRM 5.19.14.3.5.

Note: 689 is **NOT** a Penalty Reference Number. It is used by TEGE for sanction assessments pertaining to closing agreements. See IRM 4.5.2.7.1.29, Credit and Tax Computation Adjustment (Item 15), for additional information.

** - These amounts are subject to annual inflationary adjustments. For PRNs applicable to penalties under IRC 6721 and IRC 6722, refer to *Section 10.7* of Document 6209 for amounts as adjusted for inflation, if applicable. For others, refer to the applicable Revenue Procedure based on the tax year of the return, etc. as follows:

- Tax year 2015 - see Rev. Proc. 2016-11.
- Tax year 2016 - see Rev. Proc. 2015-53.

Note: Section 3.48(3) of Rev. Proc. 2015-53 contains an incorrect rate. The correct rate is reflected in Section 4 of Rev. Proc. 2016-11.

- Tax year 2017 - see Rev. Proc. 2016-55.
- Tax year 2018 - see Rev. Proc. 2018-18 (superseded Rev. Proc. 2017-58).
- Tax year 2019 - see Rev. Proc. 2018-57.
- Tax year 2020 - see Rev. Proc. 2019-44.
- Tax year 2021 - see Rev. Proc. 2020-45.
- Tax year 2022 - see Rev. Proc. 2021-45.
- Tax year 2023 - see Rev. Proc. 2022-38.

Exhibit 20.1.1-6 (03-29-2023)**Penalty Reference Numbers (700 Series)**

Penalty reference numbers marked with an asterisk “*” identify penalties assessed with Form 8278.

Caution: Refer to and use the most current revision of Form 8278.

PRN	Statute	Description
700*	IRC 6038D(d)(1)	Information With Respect to Foreign Financial Assets See IRM 20.1.9.22. <ul style="list-style-type: none"> Initial penalty is \$10,000 for each taxable year. If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues (assess with PRN 710).
701*	IRC 6038A(d)(2)	Information With Respect to Certain Foreign-Owned Corporations-Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.5.4. <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty is charged for each 30-day period (or fraction thereof) the failure continues. No Maximum Penalty Initial penalty assessed with PRN 625 The penalty rates are: <ul style="list-style-type: none"> \$25,000 per year and for each 30-day period for tax years beginning after 12/31/2017. \$10,000 per year and for each 30-day period for tax years beginning before 1/1/2018.
702*	IRC 6677	Failure to File Information With Respect to Certain Foreign-Trusts - Form 3520-Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.13.4. <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues. Maximum aggregate initial and continuation penalty cannot exceed gross reportable amount <p>Note: In cases where the gross reportable amount is less than \$10,000, only an initial penalty equal to the gross reportable amount applies.</p> <ul style="list-style-type: none"> Initial penalty assessed with PRN 659.

Exhibit 20.1.1-6 (Cont. 1) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
703*	IRC 6677	<p>Failure to File Information With Respect to Certain Foreign-Trusts Form 3520-A - Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.14.4.</p> <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues. Maximum aggregate initial and continuation penalty cannot exceed gross reportable amount <p>Note: In cases where the gross reportable amount is less than \$10,000, only an initial penalty equal to the gross reportable amount applies.</p> <ul style="list-style-type: none"> Initial penalty assessed with PRN 660.
704*	IRC 6679(a)(2)	<p>Failure to File Returns, Etc., With Respect to Foreign Corporations or Foreign Partnerships- Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.15.4.</p> <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues. Maximum penalty is \$50,000. Initial penalty assessed with PRN 613.
705*	IRC 6038C	<p>Information with Respect to Foreign Corporations Engaged in U.S. Business-Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.8.4.</p> <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty is charged for each 30-day period (or fraction thereof) the failure continues. No Maximum Penalty. Initial penalty assessed with PRN 603. <p>The penalty rates are:</p> <ul style="list-style-type: none"> \$25,000 per year and for each 30-day period for tax years beginning after 12/31/2017. \$10,000 per year and for each 30-day period for tax years beginning before 1/1/2018.

Exhibit 20.1.1-6 (Cont. 2) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
706	IRC 6677	<p>Failure to File Part II of Form 3520 - Continuation Penalty See IRM 20.1.9.13.</p> <ul style="list-style-type: none"> Initial penalty is assessed with PRN 677. If the failure continues for more than 90 days, a continuation rate of \$10,000 applies for each 30-day period the failure continues. The total aggregate initial and continuation penalty cannot exceed the gross reportable amount. <p>Note: In cases where the gross reportable amount is less than \$10,000, only an initial penalty equal to the gross reportable amount applies.</p>
707	IRC 965(i)(7)(C)	<p>Failure to Annually Report Deferred S Corporation - Related Net 965 Tax Liability See IRM 20.1.9.16.</p> <ul style="list-style-type: none"> Penalty is 5 percent of the unreported deferred net 965 tax liability. Penalty is assessed as an addition to tax on the return module (i.e. MFT 05 or MFT 30) for the year where the reporting requirement was not met.
708	2014 Voluntary Disclosure Initiative Penalty-5%	<p>Offshore Voluntary Disclosure Program (OVDP) - 2014 OVDP 5% Penalty See IRM 20.1.9.24.</p> <ul style="list-style-type: none"> Applies to OVDP submissions made on or after July 1, 2014.
709	2014 Voluntary Disclosure Initiative Penalty-50%	<p>Offshore Voluntary Disclosure Program (OVDP) - 2014 OVDP 50% Penalty See IRM 20.1.9.24.</p> <ul style="list-style-type: none"> Applies to OVDP submissions made on or after July 1, 2014.
710*	IRC 6038D(d)(2)	<p>Information With Respect to Foreign Financial Assets-Increase in Penalty Where the Failure Continues After Notification See IRM 20.1.9.22.4.</p> <ul style="list-style-type: none"> If the information is not received within 90 days from notification, a continuation penalty of \$10,000 is charged for each 30-day period (or fraction thereof) the failure continues. Maximum penalty is \$50,000. Initial penalty assessed with PRN 700.

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Exhibit 20.1.1-6 (Cont. 3) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
711	IRC 6038A	LB&I - Systemic Penalty for Failure to File Form 5472 in Conjunction with Failure to File Corporate Return See IRM 20.1.9.5.3 and IRM 21.8.2.21.2. <ul style="list-style-type: none"> Refer to PRN 625 explanation for manual assessment, penalty rates, and additional information.
712	IRC 6038	LB&I - Systemic Penalty for Failure to File Form 5471 in Conjunction with Failure to File Partnership Return See IRM 20.1.9.3.3 and IRM 21.8.2.20.2. <ul style="list-style-type: none"> Refer to PRN 623 explanation for manual assessment, penalty rate, and additional information.
713	IRC 6652(c)(4)	Failure to Submit a Notice Required Under IRC 506(a) See IRM 20.1.8. <ul style="list-style-type: none"> Relates to organizations required to notify Secretary of intent to operate as an IRC 501(c)(4) organization. IRC 6652(c)(4)(A) - \$20 for each day the organization fails to submit notice, up to \$5,000. IRC 6652(c)(4)(B) - \$20 for each day the responsible person fails to submit notice by the date promised, up to \$5,000.
714	IRC 6695(a)	Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Furnish Copy to Taxpayer See IRM 20.1.6.5.1. Note: PRNs 714-718 have not been activated as expected. Continue to assess IRC 6695(a)-(e) penalties with PRN 624 until further notice. <ul style="list-style-type: none"> \$50** per failure. Maximum \$25,000** per preparer per calendar year. **Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.
715	IRC 6695(b)	Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Sign Return See IRM 20.1.6.5.2. Note: PRNs 714-718 have not been activated as expected. Continue to assess IRC 6695(a)-(e) penalties with PRN 624 until further notice. <ul style="list-style-type: none"> \$50** per failure. Maximum \$25,000** per preparer per calendar year. **Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.

Exhibit 20.1.1-6 (Cont. 4) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
716	IRC 6695(c)	<p>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Furnish Identifying Number of Tax Return Preparer See IRM 20.1.6.5.3.</p> <p>Note: PRNs 714-718 have not been activated as expected. Continue to assess IRC 6695(a)-(e) penalties with PRN 624 until further notice.</p> <ul style="list-style-type: none"> • \$50** per failure. • Maximum \$25,000** per preparer per calendar year. <p>**Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.</p>
717	IRC 6695(d)	<p>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Retain Copy of List See IRM 20.1.6.5.4.</p> <p>Note: PRNs 714-718 have not been activated as expected. Continue to assess IRC 6695(a)-(e) penalties with PRN 624 until further notice.</p> <ul style="list-style-type: none"> • \$50** per failure. • Maximum \$25,000** per return period. <p>**Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.</p>
718	IRC 6695(e)	<p>Other Assessable Penalties With Respect to the Preparation of Income Tax Returns for Other Persons-Failure to Satisfy Reporting Requirements for Tax Return Preparers See IRM 20.1.6.5.5.</p> <p>Note: PRNs 714-718 have not been activated as expected. Continue to assess IRC 6695(a)-(e) penalties with PRN 624 until further notice.</p> <ul style="list-style-type: none"> • \$50** for each failure to file a return as required by IRC 6060, and • \$50** for each failure to include a required item in the return. • Maximum \$25,000** per return period. <p>**Subject to annual inflationary adjustments. See IRM 20.1.6-1 and additional information at end of exhibit.</p>

Exhibit 20.1.1-6 (Cont. 5) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
722	IRC 6698(a)(1) and IRC 6699(a)(1)	Failure to File Form 1065, 1066, or 1120-S. <ul style="list-style-type: none"> Penalty is computed by calculating the number of months delinquent (up to 12 months), multiplied by the number of partners/shareholders, multiplied by the applicable penalty rate. The penalty rate varies depending on the due date of the return. See IRM 20.1.2.4.2, Penalty Computation, for the applicable penalty rate for partnerships. See IRM 20.1.2.6.2, Penalty Computation, for the applicable penalty rate for S corporations. This PRN is valid for Forms 1065, 1066 and 1120-S penalty assessments made AFTER January 15, 2022.
723	IRC 6698(a)(2) and IRC 6699(a)(2)	Missing Information on Form 1065 or 1120-S See IRM 20.1.2.4 and IRM 20.1.2.6 <ul style="list-style-type: none"> Penalty is computed by calculating the number of months the information is missing (up to 12 months), multiplied by the number of partners/shareholders, multiplied by the applicable penalty rate The penalty rate varies depending on the due date of the return. See IRM 20.1.2.4.2, Penalty Computation, for the applicable penalty rate for partnerships. See IRM 20.1.2.6.2, Penalty Computation, for the applicable penalty rate for S corporations. This PRN is valid for Forms 1065, 1066, and 1120-S penalty assessments made AFTER January 15, 2022.
724	IRC 6698	Failure to File Tracking Report on Form 1041, 1065, or 1120-S See IRM 20.1.2.3.12.2.1 <ul style="list-style-type: none"> Penalty is computed by calculating the number of months the tracking report is delinquent (up to 12 months), multiplied by the number of partners/shareholders, multiplied by the applicable penalty rate. See IRM 20.1.2.4.2, Penalty Computation, for the applicable penalty rate for partnerships. See IRM 20.1.2.6.2, for the applicable penalty rate for S corporations. This PRN is valid for Form 1065 penalty assessments made AFTER January 15, 2022.
780	IRC 6662(b)(6)	Penalty for Underpayments Attributable to a Transaction Lacking Economic Substance See IRM 20.1.5.13. <ul style="list-style-type: none"> 20% of underpayment attributable to transaction lacking economic substance.

Exhibit 20.1.1-6 (Cont. 6) (03-29-2023)
Penalty Reference Numbers (700 Series)

PRN	Statute	Description
781	IRC 6662(i)	Increase in Penalty in Case of Nondisclosed Noneconomic Substance Transaction See IRM 20.1.5.13.1. <ul style="list-style-type: none"> 40% of underpayment attributable to nondisclosed transaction lacking economic substance.
786	IRC 6662(c)	Accuracy Related Penalty on Underpayments due to Negligence or Disregard of the Rules and Regulations See IRM 20.1.5.8. <ul style="list-style-type: none"> 20% of the underpayment attributable to negligence or disregard of the rules and regulations.
787	IRC 6662(d)	Accuracy Related Penalty on Underpayments due to Substantial Understatement See IRM 20.1.5.9. <ul style="list-style-type: none"> 20% of the underpayment in the case of a substantial understatement of income tax.
788	IRC 6662(e)	Accuracy Related Penalty on Underpayments due to Substantial Valuation Misstatement See IRM 20.1.5.10. <ul style="list-style-type: none"> 20% of the underpayment attributable to a substantial valuation misstatement.
789	IRC 6662(f)	Accuracy Related Penalty on Underpayments due to Substantial Overstatement of Pension Liabilities See IRM 20.1.5.11. <ul style="list-style-type: none"> 20% of the underpayment attributable to a substantial overstatement of pension liabilities.
790	IRC 6662(g)	Accuracy Related Penalty on Underpayments due to Substantial Estate or Gift Tax Valuation Understatement See IRM 20.1.5.12. <ul style="list-style-type: none"> 20% of the underpayment attributable to a substantial estate or gift tax valuation understatement.
792	IRC 6662(h)	Increase in Accuracy Related Penalty on Underpayments in Case of Gross Valuation Misstatement See IRM 20.1.5.10.3. <ul style="list-style-type: none"> 40% of the underpayment in the case of a gross valuation misstatement.

** - These amounts are subject to annual inflationary adjustments. Refer to the applicable Revenue Procedure based on the tax year of the return, etc. as follows:

- Tax year 2015 - see Rev. Proc. 2016-11.
- Tax year 2016 - see Rev. Proc. 2015-53.

Note: Section 3.48(3) of Rev. Proc. 2015-53 contains an incorrect rate. The correct rate is reflected in Section 4 of Rev. Proc. 2016-11.

- Tax year 2017 - see Rev. Proc. 2016-55.
- Tax year 2018 - see Rev. Proc. 2018-18 (supersedes Rev. Proc. 2017-58).

Exhibit 20.1.1-6 (Cont. 7) (03-29-2023)**Penalty Reference Numbers (700 Series)**

- Tax year 2019 - see Rev. Proc. 2018-57.
- Tax year 2020 - see Rev. Proc. 2019-44.
- Tax year 2021 - see Rev. Proc. 2020-45
- Tax year 2022 - see Rev. Proc. 2021-45
- Tax year 2022 - see Rev. Proc. 2022-38

Exhibit 20.1.1-7 (03-29-2023)**Table of Abbreviations and Acronyms**

The following table reflects commonly-used abbreviations and acronyms that may be referenced throughout IRM 20.1. For any acronyms not listed, refer to the *Acronym Database*.

Exhibit 20.1.1-7 (Cont. 1) (03-29-2023)**Table of Abbreviations and Acronyms**

ABBREVIATIONS	DEFINITION
AIMS	Audit Information Management System
AMS	Account Management Services (formerly DI—Desktop Integration)
AO	Appeals Officer
ASFR	Automated Substitute for Return
BMF	Business Master File
CAF	Centralized Authorization File
CAWR	Combined Annual Wage Reporting
CC	Command Code
CEAS	Correspondence Examination Automation Support
CII	Correspondence Imaging Inventory
CP	Computer Paragraph
CPA	Certified Public Accountant
DDP	Daily Delinquency Penalty
EA	Enrolled Agent
EFTPS	Electronic Federal Tax Payment System
DLN	Document Locator Number
EIN	Employer Identification Number
ES	Estimated Tax
FICA	Federal Insurance Contributions Act
FFTF	Fraudulent Failure to File
FTA	First Time Abate
FTD	Failure to Deposit (also, Federal Tax Deposit)
FTF	Failure to File
FTP	Failure to Pay
FUTA	Federal Unemployment Tax Act
ICS	Integrated Collection System
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRA	Individual Retirement Account
IRC	Internal Revenue Code
IRP	Information Return Program

Exhibit 20.1.1-7 (Cont. 2) (03-29-2023)

Table of Abbreviations and Acronyms

ABBREVIATIONS	DEFINITION
IRM	Internal Revenue Manual
IR Regs	Internal Revenue Regulations
IRS	Internal Revenue Service
MF	Master File
MFT	Master File Tax
OPI	Office of Penalties and Interest In Nov. 2006, OPI was split into the Office of Servicewide Penalties and the Office of Servicewide Interest
OSI	Office of Servicewide Interest
OSP	Office of Servicewide Penalties
PCC	Penalty Computation Code
PINEX	Penalty and Interest Notice Explanations
PMF	Payer Master File
POA	Power of Attorney
PRC	Penalty Reason Code
PRN	Penalty Reference Number
RC	Reason Code
RCA	Reasonable Cause Assistant
RDD	Return Due Date
REMIC	Real Estate Mortgage Investment Conduit
ROFT/ROFTL	Record of Federal Tax/Record of Federal Tax Liability (deposit liability schedule)
SFR	Substitute for Return
SNOD	Statutory Notice of Deficiency
SSA	Social Security Administration
SSN	Social Security Number
TE/GE	Tax Exempt/Government Entities
TIN	Taxpayer Identification Number
TP	Taxpayer
TY	Tax Year

Exhibit 20.1.1-8 (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
ABATEMENT	A reduction in the assessment of tax, penalty, or interest when it is determined the assessment is incorrect, or when the taxpayer should be relieved of a liability, e.g., penalty abatement for reasonable cause.
ACCOUNT	A record of a taxpayer's assessments, abatements and credits.
ACCRUALS	The increase of interest and penalty amounts amassed from the date a penalty or interest assessment is posted to an account (23C Date) to the date the amounts are paid.
ASSERT	Determine that tax, penalty, or interest applies to a taxpayer account.
ASSESS	Formal entry of tax debt including penalty, and/or interest that has been determined to be due and collectable by IRS.
ASSESSMENT	A bookkeeping entry, recording the amount of tax, penalties, and/or interest charged to a taxpayer's account.
BALANCE DUE	The amount of tax, penalty, interest or other receivables that remain unpaid on a taxpayer's account.
BLOCK	Returns or documents that have been grouped together for processing and filing purposes. Blocks consist of one hundred or fewer documents.
BUSINESS MASTER FILE (BMF)	The files maintained by the IRS which include business transactions and accounts. These include employment taxes, income taxes on businesses, use taxes, wagering taxes, and excise taxes.
BURDEN OF PROOF	The necessity of affirmatively proving a fact or facts in dispute on an issue.
CALENDAR YEAR	A 12-consecutive month period beginning with January 1.
CLAIM—FORMAL	A request from the taxpayer on the proper form, such as Form 843, Claim For Refund and Request for Abatement, Form 1040X, Amended U.S. Individual Income Tax Return, or Form 1120X, Amended U.S. Corporation Income Tax Return, asking that a liability previously assessed be reduced.
CLAIM—INFORMAL	A written request, other than on the proper form, signed by the taxpayer, requesting changes to obtain a correct and accurate reflection of their tax liability.
COMMAND CODE (CC)	A five or six character code used to access IDRS.

Exhibit 20.1.1-8 (Cont. 1) (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
COMPUTER PARAGRAPH NOTICE (CP)	A computer generated message relating to a taxpayer's account.
DELINQUENT RETURN	A return which is filed after the prescribed due date (determined with regard to any valid extension of time).
DISCLOSURE	See IRC 6103 and IRC 6664(c).
DISHONORED CHECK	A taxpayer's check or money order that a financial institution does not accept for payment. See IRM 20.1.10.
DOCUMENT CODE (Doc Code)	The Code which identifies the specific type of return or document that was filed or processed. See Document 6209, IRS Processing Codes and Information, Section 2.2.
DUE DATE	Date by which a return must be filed or a payment or deposit made.
FISCAL YEAR	An accounting period of 12 consecutive months other than a calendar year.
FRAUD	The intentional commission of an act or acts for the specific purpose of evading a tax believed to be owing.
FREEZE CODE	A condition on an account which prohibits any further action being taken.
FRIVOLOUS	Clearly lacking in substance, or clearly insufficient as a matter of law.
HARDSHIP	See undue hardship.
INDIVIDUAL MASTER FILE (IMF)	The files maintained by the IRS which include transactions on individual tax accounts.
INTEGRATED DATA RETRIEVAL SYSTEM (IDRS)	A computer system capable of retrieving or updating stored information which works in conjunction with the Master File records of a taxpayer's account.
LEVY	An administrative means of collecting taxes by seizure of the taxpayer's property and rights to property to satisfy delinquent taxes.
MASTER FILE TAX (MFT) CODE	A two-digit code that identifies the type of return filed and the tax class. See Document 6209, Section 2.2 for a complete listing of MFTs.
MODULE	A specific TIN, MFT, and Tax Period on which tax, payments, etc. for a single return are reflected.
NORMAL (LEGAL) DUE DATE	The date the statute requires the filing of the return. If the normal or extended due date falls on a Saturday, Sunday or legal holiday, the return is considered timely if it is filed on the next succeeding day that is not a Saturday, Sunday, or legal holiday.

Exhibit 20.1.1-8 (Cont. 2) (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
OFFER-IN-COMPROMISE	An agreement resolving a taxpayer's account where it has been determined that there is either doubt as to collectibility, effective tax administration issues present or doubt as to liability.
ORAL EVIDENCE	Non-written information received from the taxpayer, authorized representative or other third party, providing additional facts for requesting penalty relief. See IRM 20.1.1.3.1 for additional information on acceptable oral evidence.
PENALTY	A sanction primarily used to promote voluntary compliance of the tax laws.
PENALTY COMPUTATION CODE (PCC)	A three-digit code which is used to denote the reasons why, or methods by which, a FTD penalty was charged.
PENALTY PERIOD	The time for which a penalty is applicable.
PENALTY REASON CODE	A three-digit code, entered in the 4th position reason code field, which is used to denote the reason for penalty removal or reduction. See Exhibit 20.1.1-2.
PENDING TRANSACTION	A transaction entered into IDRS which has not yet posted to the Master File. Pending transactions will affect the IDRS account balance, but will not change the Master File account balance.
PERIOD ENDING	The ending year and month of the period covered by a tax return.
PINEX	An IDRS computer program used to produce penalty and interest explanations for taxpayers.
POST-ASSESSMENT APPEAL	An appeal of tax, penalty and/or interest made by the taxpayer after the tax and/or penalty has been assessed.
PREPAID CREDITS	Payments of tax, such as withholding, estimated payments, etc., made prior to the due date of the return.
PRESCRIBED DUE DATE	The due date designated for filing a return, including any extension of time for filing.
PRESUMPTIVE DUE DATE	The due date designated for filing a return, not taking into account any extensions.
REASON CODE	A three-digit code used when adjusting an account to denote which item on the tax return is affected by the adjustment. See <i>Document 6209 Section 8C.2-2</i> .
REASONABLE BASIS	As defined by Treas. Reg. 1.6662-3(b)(3), "Reasonable basis is a relatively high standard of tax reporting, that is, significantly higher than not frivolous or not patently improper. The reasonable basis standard is not satisfied by a return position that is merely a colorable claim...."

Exhibit 20.1.1-8 (Cont. 3) (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
REASONABLE CAUSE ASSISTANT (RCA)	See IRM 20.1.1.3.6.
REBATE	A credit, refund or other repayment where too much tax was paid.
RECEIVED DATE:	<ul style="list-style-type: none"> • Timely filed return—The original or extended due date of the return. • Late filed return—The IRS received date stamped on the face of the return.
REFUND	Money returned to the taxpayer as a result of overpayment of a tax liability.
REMITTANCE AMOUNT	The amount of money received in payment of a liability. This remittance may be by check, money order, cashier's check, cash, credit card, or EFTPS.
SECURED DELINQUENT RETURN	A return secured after a taxpayer has been contacted by the IRS but prior to an assessment made under Substitute for Return procedures.
SOCIAL SECURITY NUMBER	A unique nine-digit number used to identify an individual taxpayer account, in NNN-NN-NNNN format issued by the Social Security Administration.
SOURCE DOCUMENT	Backup documentation used by IRS personnel to explain an adjustment to a taxpayer's account; for example, taxpayer correspondence.
STATUS CODE	A two-digit numeric code indicating the Master File and/or IDRS status of a tax module.
STATUTE OF LIMITATIONS	A set of rules specifying the period in which actions may occur, or within which rights may be enforced.
SUBSEQUENT PAYMENT	A payment received for an account that has been assessed and for which the taxpayer has been billed.
SUBSTANTIAL AUTHORITY	The objective determination that a position taken by a taxpayer is supportable.
SUBSTITUTE FOR RETURN (SFR)	A return prepared on behalf of a taxpayer by the IRS pursuant to IRC 6020(b). The return is prepared when it has been determined that a taxpayer is liable for filing the tax return but has failed to do so upon due notice from the IRS.
SUPERSEDING RETURN	An amended return filed on or before the return due date. It is filed on an original return form, not an amended return form.
TAX CLASS	A one-digit code which identifies the type of tax involved in a transaction.

Exhibit 20.1.1-8 (Cont. 4) (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
TAX MODULE	A record of one account for one taxpayer covering one type of tax for one tax period.
TAX PERIOD	The period of time for which a return is filed.
TAXPAYER ADVOCATE SERVICE (TAS)	An independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.
TAXPAYER DELINQUENT ACCOUNT (TDA)	An internal computer notice indicating the taxpayer has not responded to prior balance due notices or paid a balance due.
TAXPAYER IDENTIFYING NUMBER (TIN)	A nine-digit number assigned to taxpayers for identification purposes. Depending on the nature of the taxpayer, the TIN is either an employer identification Number (EIN), a social security number (SSN), an adoption taxpayer identification number (ATIN), or an individual TIN (ITIN).
TAXPAYER INFORMATION FILE (TIF)	The IDRS file which contains entity and module information.
TIMELY FILED	A return or document which was filed by the taxpayer and received by the IRS within specified time frames. A return is timely filed if postmarked by the original or extended due date, IRC 7502. Also see Rev. Rul. 73-133 and IRM 20.1.2.2.1.
TOLERANCE	The allowable deviation from standard in order to facilitate administration of a program. A tolerance can take the form of a dollar amount or a time volumetric allowance.
TRANSACTION CODE (TC)	Three-digit code that identifies a specific action on a taxpayer's account. Document 6209, IRS Processing Codes and Information, Section 8A.2, contains a complete listing of TCs.
UNDERPAYMENT	In general, the amount by which any tax imposed exceeds the tax shown by the taxpayer on the return, plus amounts previously assessed (or collected without assessment) before the return was filed in excess of any rebate.
UNDERSTATEMENT	In general, the excess of the amount of the tax required to be shown on the return over the amount of the tax imposed which is shown on the return (reduced by any rebate). See Treas. Reg. 1.6662-4(b)(2) for additional information.

Exhibit 20.1.1-8 (Cont. 5) (03-29-2023)
Dictionary of Key Terms

TERMS	DEFINITION
UNDUE HARDSHIP	In general, an economic condition that is so severe that the taxpayer is, or would be financially debilitated if the tax or deficiency was paid. See IRM 20.1.1.3.3.3, Undue Hardship.
VOLUNTARY COMPLIANCE	Taxpayers who freely obey the tax laws. Compliance is defined in the IRC as: a. Filing accurate and complete returns on time, b. Paying amounts due, and c. Reporting information required.
WAIVER	A waiver is a limited form of penalty relief.
WILLFUL NEGLIGENCE	Conscious, intentional failure to comply with the provisions of the IRC, or reckless indifference to such provisions.

