



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

20.1.4

MARCH 11, 2024

## EFFECTIVE DATE

(03-11-2024)

## PURPOSE

- (1) This transmits revised IRM 20.1.4, Penalty Handbook, Failure to Deposit Penalty.

## MATERIAL CHANGES

- (1) IRM 20.1.4.1, Program Scope and Objectives: added Office of Servicewide Penalties contact information for recommended changes to IRM.
- (2) IRM 20.1.4.1.5, Program Controls: added annual IMD certification information.
- (3) IRM 20.1.4.7.3, Business Days and Legal Holidays: added Juneteenth as a legal holiday.
- (4) IRM 20.1.4.7.3, Business Days and Legal Holidays: clarified statewide legal holidays will no longer be considered legal holidays unless it coincides with legal holiday in the District of Columbia.
- (5) IRM 20.1.4.11.6, TC 620 on Form 1042 Account: deleted subsection, obsolete.
- (6) IRM 20.1.4.11.2, Special Deposit Requirements Form 1042 (Tax Periods 2010 and Prior): deleted subsection for deposit rules on employment tax returns more than 10 years old.
- (7) IRM 20.1.4.12, Form CT-1: updated Cincinnati Submission Processing Campus to Kansas City Submission Processing Campus.
- (8) IRM 20.1.4.13, Overview of Manual (Restricted TC 180/181) and Systemic (Computer Generated TC 186/187) Deposit Penalty: deleted reference to Form 4364, obsolete in 2019.
- (9) IRM 20.1.4.18.1, Replies to CP 207/207L Notices: clarified to provide an explanation either by mail, phone or other means with the penalty computation to the taxpayer.
- (10) IRM 20.1.4.20.2, Processing CP 294 Notice - TC 290/298 Blocking Series 20: added reversed deferred tax credit (TC 76X CRN 280) is treated as additional tax and subject to the 15% penalty rate as well. See IRM 20.1.4.28 for additional information.
- (11) IRM 20.1.4.21.2, Revised Record of Federal Tax Liability (ROFTL) Provided: added invalid ROFTL to list of examples.
- (12) IRM 20.1.4.21.3, Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase): added see IRM 20.1.4.23(11) when completely decreasing tax and IRM 20.1.4.6 for de minimis exceptions.
- (13) IRM 20.1.4.21.5, Adjusted Returns (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X): added FTD manual adjustments requirement managerial approval. IRM 20.1.4.21.5, Adjusted Returns (Forms
- (14) IRM 20.1.4.22, Master File Assessments and Recomputations: added new para (7) Form 1042 - an FTD penalty on Form 1042 accounts (MFT 12) must be manually adjusted if there is a change to withholding credit, TC 76X. The penalty on MFT 12 will not systemically recompute after an adjustment of the withholding credit.
- (15) IRM 20.1.4.23, Manual Adjustments: deleted reference to Form 6844 - form is obsolete.

- (16) IRM 20.1.4.23.1, Form 6844, FTD Computation Worksheet: deleted subsection - form is obsolete.
- (17) IRM 20.1.4.24.1, Treasury Financial Agent Mishandling: added contact information for Cincinnati's Large Corp Team.
- (18) IRM 20.1.4.24.2, Misdated Deposits: added contact information for Cincinnati's Large Corp Team.
- (19) IRM 20.1.4.26.2, Administrative Waivers: incorporated IPU 20U0642 which supersedes IPU 18U0423: expanded instruction to NSO, stock-settled SAR, and stock-settled RSU. Clarified time frame for settlement.
- (20) IRM 20.1.4.26.3, Statutory Penalty Relief: added do not assess the additional penalty unless the taxpayer agrees.
- (21) IRM 20.1.4.28, CARES Act Section 2302 Deferrals: incorporated IPU 22U0093: added new IRM subsection issuing guidance provided for by IRB 2021-11. Allows employers to defer employee Social Security taxes (or Tier 1 Railroad Retirement taxes) that would otherwise be due on or after September 1, 2020 through December 31, 2020.
- (22) IRM 20.1.4.29, Retroactive Termination of the Employee Retention Credit: incorporated IPU 22U0093: added new IRM subsection issuing guidance provided for by IRB 2021-65 regarding the retroactive termination of the employee retention credit in the fourth calendar quarter of 2021.
- (23) Incorporated IPU 18U1383 editorial and link changes throughout IRM.
- (24) Added ACT/DMI InterestNet as option to compute FTD penalty.
- (25) Minor editorial and style changes have been made throughout this IRM. Website addresses, form references and IRM references were reviewed and updated as necessary.

## **EFFECT ON OTHER DOCUMENTS**

This material supersedes IRM 20.1.4 dated February 9, 2018. This IRM also incorporates Interim Procedural Updates (IPU) 22U0093 issued 01/11/2022; IPU 20U0642 issued 05/26/2020; IPU 18U1383 issued 11/01/2018; and IPU 18U0423 issued 03/09/2018 and superseded by IPU 20U0642.

## **AUDIENCE**

All operating division employees who address Failure to Deposit penalties.

Nicole Young Scott  
Acting Director, Business Support Office  
Small Business/Self-Employed

20.1.4

Failure to Deposit Penalty

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20.1.4.1  
(03-11-2024)  
**Program Scope and Objectives**

- (1) **Purpose:** IRC 6656 provides for the failure to deposit penalty if a taxpayer doesn't deposit tax in the correct amount, within the prescribed time period, and/or in the required manner per IRC 6302.
  - a. In accordance with Policy Statement 20-1, the primary purpose of penalties is to enhance voluntary compliance (also see IRM 20.1.1.2.1, Encouraging Voluntary Compliance).
- (2) **Audience:** This section of the penalty handbook contains policies and procedures for all IRS employees and managers who work with employment tax forms and other forms subject to an FTD penalty, when examining returns, collecting taxes, managing accounts, and other compliance activities, including employees and managers in:
  - Small Business Self-Employed (SB/SE) Division,
  - Tax Exempt and Government Entities (TE/GE) Division,
  - Large Business and International (LB&I) Division,
  - Wage & Investment (W&I) Division,
  - Appeals, 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 including IRM 20.1.4, Penalty Handbook, Failure to Deposit Penalty. OSP's role is to ensure fairness and consistency in FTD penalty assessment and has overall responsibility for coordinating and approving any update to IRM 20.1.4.
- (5) **Primary Stakeholders:** All Operating Divisions
- (6) **Contact Information:** To recommend changes or any suggestions with respect to this IRM section, email OSP at \*Servicewide Penalties Team. Also see IRM 1.11.6.5, Providing Feedback About An IRM Section - Out of Clearance.
- (7) See Exhibit 20.1.4-1, Employment and Excise Tax Program Forms, for a list of the applicable forms subject to an FTD penalty

20.1.4.1.1  
(02-09-2018)  
**Background**

- (1) IRC 6656 provides for the FTD penalty if a taxpayer doesn't deposit tax in the correct amount, within the prescribed time period, and/or in the required manner.
- (2) The obligation to deposit certain taxes is ongoing and requires that the taxpayer continue to follow the requirements as long as the taxpayer is incurring these taxes. For example, as long as an employer has employees and is issuing a payroll, that employer must deposit as required.
  - a. IRC 6656 provides relief from the FTD penalty for non-compliance if the taxpayer can show that the failure to deposit was due to reasonable cause and not willful neglect.
  - b. IRC provisions for removal of the FTD penalty due to reasonable cause are expanded in Policy Statements. See IRM 1.2.1.12.1, Policy Statement 20-1 (Formerly P-1-18), Penalties are used to enhance voluntary compliance, and IRM 1.2.1.4.2, Policy Statement 3-2 (Formerly



P-2-7), Reasonable cause for late filing of return or failure to deposit or pay tax when due. Other statutory and/or administrative provisions may also apply to allow penalty relief. See IRM 20.1.4.26, FTD Penalty Relief, for penalty relief provisions specific to the FTD penalty

20.1.4.1.2  
(02-09-2018)  
**Authority**

- (1) The Internal Revenue Code(IRC) and Treasury regulations are the primary sources of authority for the administration of federal tax deposit penalties. The following sections of the IRC and Treasury Regulations are sources of that authority.

- IRC 6656, Failure to Make Deposits of Taxes
- IRC 7503, Time for performance of acts where last day falls on Saturday, Sunday, or legal holiday, IRC 6302, Mode or time of collection, and IRC 6751(a), Procedural Requirements, Computation of penalty included in notice
- 26 CFR 31.6302-1, Deposit rules for taxes under the Federal Insurance Contributions Act (FICA) and withheld taxes
- 26 CFR 31.6205-1, Adjustments of Underpayments

20.1.4.1.3  
(03-11-2024)  
**Roles and Responsibilities**

- (1) The Director, Business Support Office, is the director responsible for the servicerwide civil penalty program, including federal tax deposit (FTD) penalties.
- (2) Overall responsibility for FTD penalties is assigned to OSP. OSP resides in the Business Support (Small Business/Self Employed) Function. OSP coordinates policies and procedures concerning the administration of civil penalty programs, including FTD penalties, ensuring consistency with the penalty policy statement, reviewing and analyzing FTD penalty information, researching penalty effectiveness and determining appropriate action needed to promote voluntary compliance.
- (3) Each team manager, or immediate supervisor, must approve all manual FTD penalty assessments, unless the assessment is computed solely with CC FTDPN or ACT/DMI InterestNet without any independent judgement.

20.1.4.1.4  
(02-09-2018)  
**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 reviews should be conducted to ensure consistency with the penalty policy statement (IRM 1.2.1.12.1 , Policy Statement 20-1 (Formerly P-1-18), Penalties are used to enhance voluntary compliance) and philosophy.
- (2) To promote the goal of consistency and fairness, OSP will review semi-annually a sample of FTD penalty assessments and other penalty assessments, provided by SB/SE Research. See IRM 20.3.1, Civil Penalty Accuracy Review Process. The report of findings is shared with the Director, Business Support, the CFO, and other leadership as needed. The completed report is uploaded to an enterprise shared folder. No other reports on FTD penalties are prepared on a regular basis by OSP. Reports may be prepared when a significant issue develops, such as a correction to programming that affects many taxpayers.



20.1.4.1.5  
(03-11-2024)  
**Program Controls**

- (1) IMD Certification: this IRM is annually recertified as required by SPDER and regularly updated when new legislation or policy is published.

20.1.4.1.6  
(02-09-2018)  
**Terms/Definitions/  
Acronyms**

- (1) Refer to the exhibits at the end of the IRM section:
  - Exhibit 20.1.4-13, Dictionary of Key Terms
  - Exhibit 20.1.4-14, Table of Abbreviations and Acronyms

20.1.4.1.7  
(02-09-2018)  
**Related Resources**

- (1) CC FTDPN, See Exhibit 20.1.4-9, Instructions for Command Code FTDPN.
- (2) Job aid on the *SERP - Most Recent Payment Allocation Method - Job Aids (irs.gov)* located in Chapter 7 of IRM 21 Job Aids.
- (3) Other Exhibits in this IRM:
  - Exhibit 20.1.4-1, Employment and Excise Tax Program Forms
  - Exhibit 20.1.4-2, Electronic Deposit Requirement Threshold Amounts
  - Exhibit 20.1.4-3, FTD Averaging Methods
  - Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements
  - Exhibit 20.1.4-5, Form 944 De Minimus Exception
  - Exhibit 20.1.4-6, Form 940 Deposit Requirements
  - Exhibit 20.1.4-7, Form 720 Return Due Dates and September Deposit Dates
  - Exhibit 20.1.4-8, Form 1042 Deposit Requirements for all Periods
  - Exhibit 20.1.4-9, Instructions for Command Code FTDPN
  - Exhibit 20.1.4-10, Penalty Computation Code (PCC) Definitions
  - Exhibit 20.1.4-11, Schedule Indicator Code (SIC) Definitions
  - Exhibit 20.1.4-12, ROFTL Enclosures

20.1.4.2  
(02-09-2018)  
**General**

- (1) This subsection includes general requirements for taxpayers who withhold taxes.

20.1.4.2.1  
(03-11-2024)  
**Criteria for Reporting  
Tax and Record of  
Federal Tax Liability  
(ROFTL) Information**

- (1) Taxpayers who withhold taxes (e.g., employment tax liabilities) are required to file returns that:
  - a. Report their tax liability,
  - b. Categorize their tax liability, FICA (Social Security and Medicare), Federal Income Tax (FIT), etc., and
  - c. Indicate the date during the return period on which each liability was incurred using a record of federal tax liability (ROFTL) schedule.

**Exception:** Taxpayers whose total liability is below the deposit threshold aren't required to indicate the date each liability was incurred. In fact, the form instructions specifically instruct these taxpayers to leave the ROFTL schedule blank. See IRM 20.1.4.6, De Minimus Exception to Deposit Requirements.

- (2) In addition to reporting the total tax liability incurred within the tax return period, the taxpayer **must** provide a valid periodic breakdown of the tax liability (see exception above). This periodic breakdown is generally referred to as the ROFTL schedule. This liability information is requested in various formats on the different employment tax returns. For example, the liability amounts for a

Form 941, Employer's QUARTERLY Federal Tax Return monthly schedule depositor are reported on page 2 of Form 941, whereas the Form 941 semi-weekly schedule depositor is required to report the daily liability amounts on Form 941, Schedule B, Report of Tax Liability for Semiweekly Schedule Depositors.

- a. The ROFTL shows the dates that each liability amount is incurred (for monthly schedule depositors, only the month is shown). For employment tax forms, this is the date or month that the employer issues paychecks to the employees. The ROFTL asks for the amounts and dates that each **liability** was incurred, not for a record of the deposits that were made to pay the tax liability.
- b. Deposit (TC 650) and payment (TC 610/670) information (received by the IRS throughout the return period) is compared to the liability information (provided by the taxpayer on or with the return) to determine compliance with the deposit requirements. All transaction codes (TCs) are defined in OFFICIAL USE ONLY Document 6209, IRS Processing Codes and Information.

20.1.4.2.2  
(02-09-2018)  
**Authorized Deposit  
Methods**

- (1) Generally, taxpayers who file Form 941, Employer's Quarterly Federal Tax Return, Form 943, Employer's Annual Tax Return for Agricultural Employees, Form 944, Employer's ANNUAL Federal Tax Return, Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, Form 945, Annual Return of Withheld Federal Income Tax, Form 720, Quarterly Federal Excise Tax Return, Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and Form CT-1, Employer's Annual Railroad Retirement Tax Return must deposit taxes using an authorized deposit method when the tax liability reaches certain dollar amounts. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements, for additional information. However, Form 720 filers are only liable for deposits of certain excise taxes. See IRM 20.1.4.10, Form 720 Reporting Requirements for additional information.
- (2) A taxpayer is required to deposit taxes by electronic funds transfer (EFT) deposit systems.
- (3) Payments made directly to the IRS can result in a failure to deposit penalty assessed at the 10 percent rate. See IRM 20.1.4.26.1.1, Unbanked Taxpayers, for penalty relief for unbanked taxpayers.
- (4) As of December 31, 2010, deposits by Form 8109, Federal Tax Deposit Coupon, are no longer processed.

20.1.4.2.2.1  
(02-09-2018)  
**Electronic Funds  
Transfer (EFT)**

- (1) Treasury Decision (TD) 9507 (REG-153340-09) ended the use of paper federal tax deposit (FTD) coupons beyond December 31, 2010. Beginning January 1, 2011, all businesses are required to make their federal tax deposits via an electronic funds transfer system. This system allows for the electronic transfer of funds from taxpayer accounts and the conveyance of deposit information directly to the U.S. Treasury.
- (2) Deposits made electronically use the automated clearing house (ACH) financial network, which transfers funds and passes tax payment information to the IRS. ACH is the banking industry's system for moving payments electronically between financial institutions. For electronic federal tax payment system (EFTPS) purposes, payments are moved between financial institutions and the U.S. Treasury.

- (3) Taxpayers must enroll in the system before any attempt is made to transfer monies electronically. The enrollment process allows taxpayers to choose the type of payment method, very similar to the one a bank may use to arrange for a direct debit (e.g., an automated bill payer account), or credit (e.g., direct deposit) to an account.
  - a. Taxpayers can make payments directly through EFTPS by instructing the U.S. Treasury's financial agent to originate an ACH debit transaction against their bank account.
  - b. Taxpayers can arrange for a tax professional, financial institution, payroll service, or other trusted third party to make deposits on their behalf.
  - c. Taxpayers can instruct their financial institution to debit their accounts to the U.S. government's financial institution or
  - d. Taxpayers can instruct their financial institution to initiate a same-day wire payment on their behalf. See IRM 20.1.4.2.2.3, Same-Day Wire.
- (4) Using EFT doesn't change the basic deposit rules or deposit penalties. Taxpayers are penalized for not depositing on time, in the correct amount, or in the manner required. A taxpayer will be assessed this same **avoidance portion** of the FTD penalty for failing to deposit electronically (not depositing in the required manner).
  - a. Beginning January 1, 2011, EFT is the only authorized deposit method. A depositary tax obligation paid directly to the IRS rather than deposited will be subject to the avoidance portion of the FTD penalty for failure to deposit using the EFT system.
  - b. Taxpayers required to use EFT before 2011 who paid a depositary obligation directly to the IRS or by deposit coupon were subject to the 10% avoidance FTD penalty. Taxpayers not required to use EFT before 2011 were subject to the 10% avoidance FTD penalty if they paid a depositary tax obligation directly to the IRS or through an unauthorized financial institution.

20.1.4.2.2.2  
(02-09-2018)  
**Electronic Federal Tax  
Payment System  
(EFTPS)**

- (1) The electronic federal tax payment system (EFTPS) is the electronic tax payment system that the federal government uses to accept all electronically transmitted tax payments. EFTPS accepts all types of tax payments from both businesses and individuals.
- (2) Bank of America is the sole financial institution authorized to operate EFTPS as a U.S. Treasury financial agent.
- (3) The taxpayer must be enrolled in EFTPS before any funds can be transferred electronically.
- (4) Taxpayers are directed to call the financial agent for assistance on EFTPS. Bank of America assistance numbers are:
  - 800-555-4477 (voice)
  - 800-555-8778 EFTPS-Online
  - 800-244-4829 (Spanish)
  - 800-733-4829 (TDD)
  - 800-605-9876 for financial institutions
  - 877-333-8292 FEDTAX/EFTPS for federal agencies
- (5) Taxpayers with entity related questions that the financial agent can't resolve may be referred to the IRS Business and Specialty Tax Line at 800-829-4933.

- (6) Several indicators have been created to aid in identifying and working with electronic deposits. See IRM 3.17.277.1.4, EFTPS Customer Service Responsibilities.
- (7) Deposits made after December 31, 1996 will carry an extra field in the record layout for recording how the payment was received. Whether the deposit or payment was received electronically is displayed for determining whether the taxpayer deposited in the required manner.
- (8) Refer to IRM 21.7.1.4.8.1, Electronic Federal Tax Payment System (EFTPS), for requesting payment research information.

20.1.4.2.2.3  
(02-09-2018)  
**Same-Day Wire**

- (1) The funds-transfer system (Fedwire) owned and operated by the Federal Reserve Bank (FRB), is used primarily for the transmission and same day settlement of payment orders. Financial institutions initiate the funds-transfer through the Fedwire system. EFTPS tax wires are then processed by the Federal Tax Collection Service (FTCS) and the money transferred into the U.S. Treasury Account.
- (2) ACH is the banking industry's system for moving payments electronically between financial institutions (for EFTPS purposes, between financial institutions and the Treasury). Because ACH is a two-step process (initiate the instructions one day; the money actually moves the next), some taxpayers (e.g., \$100,000 depositors) had difficulty making timely deposits. If taxpayers missed the ACH cut-off time to initiate a timely deposit, they could use the same-day wire feature as a deposit option.
- (3) As the systems have evolved, the same-day wire feature is now referred to as the Federal Tax Collection Service (FTCS).
- (4) Taxpayers enrolled in EFTPS can initiate a same-day wire using the FTCS. The instructions for initiating a same-day wire are located in the *SAME-DAY TAXPAYER WORKSHEET*.
- (5) A taxpayer who requires a same-day settlement should assist in directing its financial institution to the proper format for making the payment.
  - a. All same-day wires are sent by the business taxpayer's financial institution. Financial institutions have two Fedwire options for making a same-day wire. It is important that the bank use the proper format.
  - b. The FTCS guidelines for financial institutions are in the *Financial Institution Handbook*.
  - c. FEDWIRE funds transfer begins daily operations at 9 p.m. Eastern Time (ET) the day before FTCS processing. The current hours for FTCS processing are 8:30 a.m. to 5:00 p.m. ET. Same-day wire transactions sent after 9 p.m. and before 8:30 a.m. ET are queued for processing when FTCS opens for the day. The same-day wire transactions sent AFTER the 5:00 p.m. ET cutoff are rejected and NOT processed the next day. It is recommended that financial institutions transmit the transaction well in advance of the cutoff. Taxpayers should make arrangements to have their financial institution notify them immediately if a payment is rejected and returned, so that the transaction can be corrected and resubmitted before the 5:00 p.m. ET cut-off.
- (6) FTCS payments are identified by Payment Method 3 or 4 in the second position of the EFT number. Since early 2004, only Payment Method 3 is used.

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- 20.1.4.4  
(02-09-2018)  
Government Agencies

(1)

There are special rules for some government agencies.
  - Federal Agencies - See IRM 20.1.4.4.1.
  - State and Local Health and Welfare - See IRM 20.1.4.4.2.
  - See IRM 20.1.4.14.7, Employment Codes A and F, for additional information about federal agencies and state and local health and welfare agencies.
- 20.1.4.4.1  
(07-17-2015)  
Federal Agencies

(1)

According to IRM 1.2.1.12.2, Policy Statement 20-2 (Formerly P-2-4), penalties and interest won't be asserted against federal agencies.

(2)

These agencies are marked with an employment code "F" on the entity module. See IRM 3.13.2.6.3, Employment Code (EC) F, for additional information.
- 20.1.4.4.2  
(04-20-2010)  
State and Local Health and Welfare

(1)

In Rev. Proc. 2013-39, the IRS determined that state and local government health and welfare agencies, acting as agents under IRC 3504 with respect to employers who receive public assistance to pay for in-home domestic services, aren't subject to federal tax deposit requirements. These state agents need only to make payments by the due date of the return. Taxes don't have to be deposited.

- (2) These agencies assume responsibility for reporting and paying FICA and FUTA and any withheld income tax for individuals furnished by the agency, or hired directly by the recipients of public assistance, to provide domestic services (chore workers) for recipients on public assistance.
- (3) Don't assess any failure to deposit penalty on these entities. In addition, abate the penalty with PRC 043 on modules (for all years) with an unreversed failure to deposit penalty when working on other issues on these modules.
- (4) These agencies are marked with an employment code "A" on the entity module.

## 20.1.4.5 (02-09-2018) Notice Information

- (1) As a return is processed, various computer codes are added to the return data. These codes are written on the return by Code and Edit function or they are systemically generated by the computer program from the input of the tax data shown on the return. See IRM 20.1.4.14.6, Schedule Indicator Codes (SIC), to determine whether the FTD penalty issue will be:
  - Manually reviewed, calculated, assessed, or
  - Systemically assessed.
- (2) Internal notices require mandatory review.
  - **CP 194 Notice**—Issued for manual review because Master File doesn't have enough information to determine if the FTD penalty applies. See IRM 20.1.4.15, CP 194 Notices (Possible FTD Penalty).
  - **CP 294 Notice**—Issued to determine if an additional 5 percent penalty (fourth tier) applies on a module where the tax liability remains unpaid and the FTD penalty is restricted by TC 180 (Deposit Penalty). See IRM 20.1.4.20, CP 294 Notice - Possible 15 Percent Rate.
- (3) The following notices issued directly to taxpayers require a response:
  - **CP 207 Notice**—Issued to request a valid ROFTL schedule if the return is received with a missing, incomplete, inaccurate, or illegible ROFTL. The notice states that an averaged FTD penalty will result if the requested ROFTL isn't received within 45 days. The penalty will be assessed systematically after 15 weeks. See IRM 20.1.4.18, CP 207/207L Notices.
  - **CP 207L Notice**—Issued to request a valid ROFTL on "Large Dollar" proposed FTD penalty notices of \$75,000 or more.
 

**Note:** Before the CP 207L notice is mailed out, the Ogden or Cincinnati Large Corp Technical Unit (LCTU) will call the taxpayer and attempt to secure the corrected ROFTL. If the corrected ROFTL is secured, the CP 207L is voided and corrective action taken by the LCTU technician. See IRM 20.1.4.18, CP 207/207L Notices.
  - **CP 161 Notice**—First notice issued to inform taxpayer of tax, penalty, and/or interest due.
  - Other adjustment notices (e.g., math error, balance due or overpayment, notices in Spanish) are issued to inform the taxpayer of a penalty assessment.



20.1.4.6  
(03-11-2024)

**De Minimis Exception to Deposit Requirements**

- (1) While taxpayers must periodically deposit employment taxes, the de minimis exception to the deposit rule allows taxpayers to remit employment taxes with the return or pay with a credit card.
- (2) The ROFTL information isn't required when the de minimis exception for depositing is met. See IRM 20.1.4.2.1, Criteria for Reporting Tax and Record of Federal Tax Liability (ROFTL) Information.
- (3) When the total tax amount exceeds the de minimis amount (as shown below) for depositing, then taxpayers must periodically deposit employment taxes using their required monthly or semi-weekly deposit schedule. Any payment of tax paid directly or remitted with the return is subject to the avoidance penalty.
- (4) See IRM 20.1.4.7.1 (1)(d), Time Sensitive Four Tier Penalty System, for the avoidance penalty rate.
- (5) The de minimis exception to the deposit requirements for **Form 941** is as follows:

- a. **Form 941(201003 and Subsequent):** The de minimis exception to deposit requirements was modified to allow employers who file quarterly Forms 941 for tax periods beginning January 1, 2010, to base the de minimis determination on the calendar quarter immediately prior. Therefore, the de minimis exception applies to the current calendar quarter if the total tax in either the current quarter or the prior quarter is less than \$2,500. See 26 CFR 31.6302-1(f)(4)(i),(ii).

**Example:** The employer's quarterly tax liability for the second quarter of 2010 is \$2,450. In the third quarter of 2010, the tax liability is \$2,550. Under the Form 941 de minimis deposit exception, if the employer pays the \$2,550 with the return for the third quarter of 2010, the amount would be considered timely deposited for that quarter.

**Caution:** If an employer accumulates \$100,000 or more of employment taxes during a deposit period, the employer must make a deposit on the next business day even if the employer's employment tax liability for the prior calendar quarter met the de minimis deposit exception.

- b. If the total tax is \$2,500 or more in the current quarter and in the prior quarter, or there is a \$100,000 next-day deposit obligation in the current quarter, any amount paid with the current quarter return is subject to the 10 percent avoidance penalty. If the prior quarter return posts later than the current quarter return, the FTD penalty is not systemically adjusted if the de minimis exception no longer applies. If an employee is assigned to a case that includes a Form 941 that is filed after the due date of the following quarter Form 941, and the tax is \$2,500 or more, the following quarter return must be reviewed to check if the de minimis still applies. If the de minimis no longer applies, assess the correct FTD penalty.
  - c. **Form 941(200103 thru 200912):** The de minimis exception to deposit requirements is applicable for tax amounts less than \$2,500. If the total tax is \$2,500 or more, any amount paid with the return is subject to the 10 percent avoidance penalty.
- (6) The de minimis exception to deposit requirements for annual **Form 943 and Form 945** is as follows:

- a. **Form 943 and Form 945 (200112 and Subsequent):** The de minimis exception to deposit requirements is applicable for tax amounts less than \$2,500. If the total tax is \$2,500 or more, any amount paid with the return is subject to the 10 percent avoidance penalty.
- (7) The de minimis exception to deposit requirements for annual **Form 944 (200612 and Subsequent)** is as follows:
  - a. If a Form 944 liability amount for the year equals or exceeds \$2,500 but for a quarter of the year is de minimis pursuant to (5)a) above, the amount for the quarter will be deemed timely deposited if the employer fully deposits the employment taxes accumulated during the quarter by the last day of the month following the close of that quarter. Employment taxes accumulated for less than \$2,500 during the fourth quarter can be either deposited by January 31 or remitted with a timely filed return for the return period. 26 CFR 31.6302-1(f)(4)(iii).
  - b. If a quarterly Form 944 liability amount reaches or exceeds \$2,500, then deposits are due monthly or semi-weekly, depending on the deposit schedule. See Exhibit 20.1.4-5, Form 944 De Minimis Exception.
- (8) For the de minimis exception to deposit requirements for annual **Form 940** , see IRM 20.1.4.9, Form 940.
- (9) The de minimis exception to deposit requirements for quarterly **Form 720** is as follows:
  - a. **Form 720 (200112 and Subsequent):** If the amount from Form 720, Part I, is over \$2,500, the amount paid with the return may be subject to the 10 percent avoidance penalty, unless a safe harbor rule applies.
- (10) The annual de minimis exception to deposit requirements for annual **Form 1042 (For All Periods)** is as follows:
- (11) If undeposited taxes are \$200 or more and it is the end of December, any amount paid with the return may be subject to the 10 percent avoidance penalty.
- (12) The de minimis exception to deposit requirements for annual **Form CT-1**, Employer's Annual Railroad Retirement Tax Return is as follows:
  - a. **Form CT-1 (200112 and Subsequent):** If the TC 150 is \$2,500 or more, any amount paid with the return may be subject to the 10 percent avoidance penalty.
  - b. **Form CT-1 (199912 thru 200012):** If the TC 150 is \$1,000 or more, any amount paid with the return may be subject to the 10 percent avoidance penalty.
  - c. **Form CT-1 (199312 thru 199812):** If the TC 150 is \$500 or more, any amount paid with the return may be subject to the 10 percent avoidance penalty.
  - d. **Form CT-1 (199212 and Before):** If the amount paid with the return exceeds \$100, it may be subject to the 10 percent avoidance penalty.

20.1.4.7  
(07-17-2015)  
**Failure to Deposit  
Penalty Rate**

- (1) The three components of a correct deposit are:
1. the deposit is made timely,
  2. in the correct amount, and
  3. in the correct manner.

**Note:** A failure to comply with any of these components will subject the deposit to the FTD penalty. Because there may be multiple deposits (with each individual deposit subject to scrutiny for compliance) on any one tax module, the FTD penalty that is assessed on the tax module is the sum of the “time-sensitive” penalty(ies) and/or the “avoidance” penalty(ies).

- (2) The percentage rate charged depends on the number of calendar days a deposit is late or whether there is a direct payment.

20.1.4.7.1  
(07-17-2015)  
**Time Sensitive Four Tier  
Penalty System**

- (1) Per IRC 6656(b)(1), there is a time sensitive four-tier penalty system for late deposits. The penalty rate assessed depends on the number of calendar days a deposit is late starting from the due date of the deposit. For liability amounts not properly or timely deposited, the penalty rates are as follows.
- a. **2 percent** for deposits **1—5 days late**,
  - b. **5 percent** for deposits **6—15 days late**,
  - c. **10 percent** for deposits made **more than 15 days late**. This also applies to amounts paid within 10 days of the date of the first notice requesting payment for the tax due.
  - d. **10 percent** for required deposits not paid by EFT.
  - e. **15 percent** ( a 5 percent addition to the 10 percent for late payment in (c) above) for all amounts still unpaid more than 10 days after the date of the first notice requesting payment of the tax due or the day on which the taxpayer received notice and demand for immediate payment, whichever is earlier. See IRM 20.1.4.14.4, Penalty Indicator Codes (PIC) (15 Percent Rate).

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20.1.4.7.2  
(03-11-2024)  
**Deposit Due Dates**

- (1) The deposit due dates are determined by the deposit requirements, which vary according to the tax form involved and the amount of tax. For help in determining deposit due dates, see Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements, IRM 20.1.4.10, Form 720 Reporting Requirements, and IRM 20.1.4.11, Form 1042.
- (2) Taxpayers may make their deposit any time between the date the payroll liability is incurred and the date the deposit is due. They aren't required to wait until the due date to make a deposit and won't receive a penalty for making deposits prior to the due date. An employer isn't required to make a deposit more often than a payroll is made. However, 100 percent of the amount required to be deposited is due on the deposit due date unless the employer meets one of the exceptions. See Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements and IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.
- (3) If the deposit due date is a Saturday, Sunday, or legal holiday in the District of Columbia, a deposit made on the next day that is not a Saturday, Sunday, or

legal holiday is timely as provided by IRC 7503 . See IRM 20.1.4.7.3, Business Days and Legal Holidays.

**Exception:** See IRM 20.1.4.10.7.1 (2), for alternative method Form 720 deposits due on September 29.

**Note:** Section 7503 does not change the date prescribed for performing an act or deem an act to be made on the prescribed due date. Compare Rev. Rul. 75-344 (re interest accrual and Rev. Rul. 81-269 (re assessment period).

- (4) Semi-weekly depositors have at least three business days following the close of the semi-weekly period. If any of the three weekdays following the close of a semiweekly period is a legal holiday, an employer has an additional day for each day that is a legal holiday to make the deposit. See IRM 20.1.4.8.5 (2), Rule For Semi-weekly Non-Business Days.
- (5) IDRS command code BMFOLE (Entity) displays an EFT indicator field shown as "Elec Dep Yr". A blank "Elec Dep Yr" field indicates that the taxpayer is required to use EFT for deposits made after December 31, 2010 per TD 9507 (REG-153340-09). A year referenced in the "Elec Dep Yr" field represents the tax year that the taxpayer became required to deposit through EFT under the old \$200,000 threshold regulations. Taxpayers avoid the FTD system when they make payments in another manner. This type of noncompliance is called FTD avoidance and is subject to the FTD penalty. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.
- (6) Effective October 17, 1995, any non-EFT deposit made by a taxpayer who is **required** to deposit via EFT is subject to a 10 percent avoidance penalty for not being made in the correct manner.
- (7) Transaction code (TC) 670 identifies direct payments and generally indicates that the FTD avoidance penalty applies. Some exceptions:
  - a. All TC 640 or 670 payments transmitted by EFT are treated as correctly deposited (effective March 1997).
  - b. FEDWIRE payments, made by Form CT-1, filers (prior to 2008), are listed as TC 670 with blocking series 700.
  - c. Taxpayers in bankruptcy may be ordered by the court to make payments directly to the IRS. In such cases, the FTD avoidance penalty doesn't apply. If the account has a bankruptcy indicator, TC 520, closing code (CC) 60-67, 81 and 85-89 with freeze code -V **or** TC 520, CC 81 with freeze code -W, contact the appropriate Insolvency function to determine if the taxpayer is under court order to make direct payments.
  - d. Any TC 670 received after the return has posted (in response to a notice/bill) won't have the avoidance penalty assessed against it. If the taxpayer files the return with a balance owing, i.e. has not deposited sufficiently, the notice sent will include the maximum FTD penalty.
- (8) Regulations require certain taxes to be paid using deposits. Payments for depositary taxes made in a manner other than EFT may be subject to the FTD avoidance penalty, unless the taxpayer meets an exception.
  - a. See Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements, for the safe harbor exception.
  - b. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.

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20.1.4.7.3  
(03-11-2024)  
**Business Days and  
Legal Holidays**

- (1) Beginning in 2011, “banking days” are replaced by “business days.” See 26 CFR 31.6305-1(c)(4) and 26 CFR 31.6302-1(c)(5) Example 5. Deposits are due only on business days. A business day for deposit purposes is every calendar day that is not a Saturday, Sunday, or legal holiday under IRC 7503. Additionally, the term **legal holiday** for FTD purposes includes only those legal holidays in the District of Columbia. Thus, a statewide legal holiday will no longer be considered a legal holiday unless the holiday coincides with a legal holiday in the District of Columbia. The following days are currently legal holidays in the District of Columbia: New Year’s Day, Birthday of Martin Luther King, Jr., Washington’s Birthday, District of Columbia Emancipation Day, Memorial Day, Juneteenth National Independence Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day, and the day of the inauguration of the President every fourth year. See D.C Code Ann. 28-2701.

**Note:** In addition to the legal holidays in the District of Columbia, IRC 7503 also applies to any statewide legal holiday of the state where the act is required to be performed. However, this rule has no application to deposits as they are made by EFTPS (which is available 24 hours a day, seven days a week) and not at a financial institution.

**Exception:** IRB 2010-87 provides transitional relief for determining the timeliness of federal tax deposits (FTDs) under IRC 6302. The notice provides that the IRS won’t assert penalties under IRC 6656 for FTDs due in calendar year 2011 that are untimely solely because the depositor treated a statewide legal holiday as if it were a legal holiday in the District of Columbia. Therefore, statewide legal holidays are treated as non-business days for 2011 and prior.

- (2) Form 8109 coupons, discontinued as of December 31, 2010, were accepted at authorized financial institutions, or depositories. Banks could establish a daily cut off time that is earlier than their lobby hours. Deposits received after the cut off time were credited to the next business day.

20.1.4.7.4  
(03-11-2024)  
**Application of Payments**

- (1) Payments are identified on Master File as follows:

- TC 610 — Payment received with a return—depending on the reason for the payment with the return, this payment may be liable for the avoidance portion of the FTD penalty.
  - TC 670 — Subsequent payment IRM 20.1.4.26.2.2,
  - TC 650 — Federal Tax Deposit,
  - TC 700 — Credit Applied,
  - TC 706 — Overpayment Offset into a Balance Due Module,
  - TC 760 — Substantiated Credit Payment Allowance,
  - TC 710 — Overpayment Credit Applied from Prior Tax Period,
  - TC 716 — Generated Overpayment Applied from Prior Tax Period,
  - TC 766 — COBRA Credit (Credit Reference Number (CRN) 299),
  - TC 766 — HIRE Credit (CRN 296),
  - TC 766 — Work Opportunity Credit (CRN 290), and
  - Item reference number (IRN) 119— Qualified Small Business Payroll Tax Credit for Increasing Research Activities (QSB Research Credit)
- (2) On a TC 706 overpayment, Master File will only use the credit against the 4th tier 15 percent penalty amount. Otherwise, the credit isn't recognized in the penalty calculation.
- (3) If the TC 716 credit availability date isn't present (e.g., on CP 194, BMFOL, etc.), Master File will use the first day of the tax period as the credit effective date.
- (4) On a TC 710 credit transfer, Master File will use the first day of the tax period as the credit effective date.
- (5) The COBRA TC 766 (CRN 299) credit is applied by Master File using the first day of the tax period as the credit effective date and uses the credit in the FTD penalty calculation. The credit was available for employees involuntarily terminated between September 1, 2008, and May 31, 2010, for fifteen months after employer provided coverage ended.
- (6) The HIRE TC 766 (CRN 296) credit is applied by Master File on April 1, 2010, as the credit effective date and uses the credit in the FTD penalty calculation.
- (7) The Work Opportunity Credit TC 766 (CRN 290) is applied by Master File on the first day of the tax period as the credit effective date and uses the credit to recalculate any FTD penalty. See IRB 2012-13 informing employers that the applicable penalty will be abated when the credit is applied, generally without any taxpayer action. It must be claimed on Form 5884-C by qualified tax-exempt organizations after Form 941, 943, or 944 is filed. The credit may not exceed the employer portion of the social security tax. See IRM 21.7.2.5.22, Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans. The credit may be applied for tax periods 201112 through 202012 for Form 941, Form 943, and Form 944.
- (8) The QSB Research Credit (IRN 119) is valid for Form 941 tax periods 201706 and later, or for Form 943 or Form 944 tax periods 201712 and later. The election and determination of the amount of credit is made on Form 6765, Credit for Increasing Research Activities, attached to an income tax return. That amount is reported on Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities, attached to the employment tax return. It is applied to the employer's share of social security tax. Each liability is reduced until the credit is used. Any excess credit can be carried forward to the next tax period



- (9) For periods after **December 31, 2001**, deposits are applied to the most recently ended deposit period or periods within the specified tax period to which the deposit relates as provided in Rev. Proc. 2001-58. The application of deposits to the most recently ended deposit period will, in some cases, prevent the cascading penalties where a depositor either fails to make deposits or makes late deposits. See the job aid on the *SERP - Most Recent Payment Allocation Method - Job Aids* ([irs.gov](http://irs.gov)) located in Chapter 7 of IRM 21 Job Aids.

20.1.4.8  
(02-09-2018)

**Deposit Rules for Forms 941, 943, 944, 945, and CT-1**

- (1) Taxpayers follow a pre-determined deposit schedule, under which the frequency of deposits generally remains consistent throughout the year.
- (2) An employer isn't required to make a deposit more often than a payroll is made. However, 100 percent of the amount required to be deposited is due on the deposit due date unless the employer meets one of the safe harbor exceptions. See IRM 20.1.4.8.7, Safe Harbor.
- (3) If taxes are required to be deposited on any day that isn't a business day, the taxes will be treated as timely deposited if deposited on the first business day thereafter. See IRM 20.1.4.7.2 (3) and IRM 20.1.4.7.3.
- (4) For the de minimis deposit exceptions for employment taxes (Form 941, Form 943, Form 944, Form 945, and Form CT-1), see IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.
- (5) Taxes that reach \$100,000 or more within a deposit period, must be deposited in time to settle on the next business day for either the monthly or semi-weekly depositor. See IRM 20.1.4.8.6, \$100,000/One-Day Rule.

20.1.4.8.1  
(01-06-2012)

**Extension of Time to Deposit for Form 941 Filers who Filed Form 944 in the Preceding Year**

- (1) An employer who was in the Employers' Annual Federal Tax Program (Form 944) in the preceding year, but will file Forms 941 instead for the current year, will be deemed to have timely deposited its (Form 941) **January** deposit obligation(s) under 26 CFR 31.6302-1(c)(1) through (4) for the first calendar quarter of the year in which it must file quarterly using Form 941 if the employer deposits the amount of such deposit obligation(s) by March 15th of that year.

**Example:** Taxpayer F (a monthly depositor) was notified to file Form 944 to report its employment tax liabilities for the 2016 calendar year. F filed Form 944 on January 31, 2017, reporting a total employment tax liability for 2016 of \$3,000. Because F's annual employment tax liability for the 2016 taxable year exceeded \$1,000 (the eligibility requirement threshold), F was notified to file Form 941 for calendar year 2017. F accumulates \$1,000 in employment taxes during January 2017. Because F is a monthly depositor, F's **January** deposit obligation is due February 15, 2017. F does not deposit these accumulated employment taxes on February 15, 2017. F accumulates \$1,500 in employment taxes during February 2017. F's February deposit is due March 15, 2010. F deposits the \$2,500 of employment taxes accumulated during January and February on March 15, 2010. Pursuant to 26 CFR 31.6302-1(c)(6), F will be deemed to have timely deposited the employment taxes due for January 2017, and, thus, the IRS won't impose a failure to deposit penalty under IRC 6656 for that month.



## 20.1.4.8.2 (07-17-2015) Lookback Periods for Employment Tax

- (2) For extended administrative waiver provisions see IRM 20.1.4.26.2 (3), Administrative Waivers.
- (1) An employer is considered either a “**monthly depositor**” or a “**semi-weekly depositor**” for a calendar year based on an annual determination of the aggregate amount of employment taxes reported on the original return filings (TC 150 amounts) during the employer’s “**lookback period.**”
  - a. Form 941 — For quarterly return filers, the “**lookback period**” for each calendar year is the twelve-month period ending the preceding June 30. For example, the lookback period for calendar year 2018 is the Form 941 return filings during the period from July 1, 2016 to June 30, 2017 (which encompasses the quarters ending 201609, 201612, 201703, and 201706).

**Note:** The lookback **quarterly** tax liability amounts for Form 941 filers can be accessed through use of command code BMFOL definer “K”.
  - b. Form 941 **with an intervening Form 944** filed in the lookback period — If there is an intervening Form 944 filing in either year of the Form 941 lookback quarters, then the lookback period is defined as the second calendar year preceding the current calendar year. The lookback tax could be either the combined quarterly Form 941 tax amounts or Form 944 tax amount (depending on which type of return(s) posted). For example, the lookback period for a 2018 Form 941 filer who filed Form 944 in either 2016 or 2017 is calendar year 2016.
  - c. Form 943 — The lookback period for employers who file Form 943 is the second calendar year preceding the current calendar year. For example, the lookback period for calendar year 2018 is calendar year 2016 Form 943 ( TC 150 tax amount).
  - d. Form 944 - The lookback period for employers who file Form 944 is the second calendar year preceding the current calendar year. For example, the lookback period for calendar year 2017 is calendar year 2015 Form 944 ,(TC 150 tax amount or 2015 quarterly Form 941 (TC 150) tax amounts).
- (2) A new employer is treated as having employment tax liabilities of zero for any calendar quarter or year of the lookback period before the date the employer started or acquired its business.
- (3) The deposit status information Computer Paragraph CP 136, CP 136B, CP 137, CP 137A, and/or CP 137B courtesy notices are sent each November to taxpayers that will change deposit frequencies from the current year (determined by the annual lookback analysis).
- (4) Taxpayers should validate the information contained in the CP 136, CP 136B, CP 137, CP 137A, and/or CP 137B courtesy notices. If the lookback liability amount(s) listed on the notice differ from the taxpayer’s records, then it is the taxpayer’s responsibility to determine which deposit schedule to follow.
- (5) The notice history on accounts that were issued a CP 136, 136B, 137, 137A, and/or 137B notice can be accessed through the use of Command Code BMFOL with definer “D”.
- (6) Taxpayers should continue depositing, following the deposit schedule they were last issued, unless:

- A deposit status information courtesy notice in (3) above is received, or
  - Their current circumstances warrant a change (e.g., incurring a \$100,000 liability within a deposit period) or
  - An analysis of the lookback period shows that the deposit status has changed.
- (7) The fact that the taxpayer and/or third party didn't receive a deposit status information notice in any of the previous or subsequent years, or didn't compare the lookback tax liability amount(s) listed on the deposit status information notice against their tax records, is not grounds for granting an abatement of the FTD penalty.
- (8) Sufficient information is readily available (e.g., Pub 15, (Circular E) Employer's Tax Guide) for the taxpayer to determine the appropriate lookback period, whether the lookback threshold has been met or exceeded and whether the taxpayer has any extraordinary circumstances that would affect the deposit schedule currently being followed.

20.1.4.8.3  
(02-09-2018)  
**Monthly Depositors**

- (1) If an employer reported employment taxes of \$50,000 or less during the one year lookback period, (See IRM 20.1.4.8.2, Lookback Periods for Employment Tax) the employer is a monthly depositor and generally must deposit employment taxes on a monthly basis during the calendar year.
- (2) Under the monthly rule, each month's taxes are required to be deposited on or before the 15th day of the following month.
- (3) If the 15th of the following month falls on a Saturday, Sunday, or a legal holiday in the District of Columbia, the employer will have until the next business day to make a timely deposit. See IRM 20.1.4.7.2 (3) and IRM 20.1.4.7.3.

**Exception:** IRB 2010-87 provides transitional relief for determining the timeliness of federal tax deposits (FTDs) under IRC 6302. The notice provides that the IRS won't assert penalties under IRC 6656 for FTDs due in calendar year 2011 that are untimely solely because the depositor treated a statewide legal holiday as if it were a legal holiday in the District of Columbia. Therefore, statewide legal holidays are treated as non-business days for 2011 and prior.

- (4) Monthly depositors whose tax reaches the de minimis amount to deposit must complete the monthly tax liability section of the tax return. For more information see IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.

20.1.4.8.4  
(07-17-2015)  
**Semi-weekly Depositors**

- (1) If an employer reported employment taxes of more than \$50,000 during the lookback period, the employer must deposit using the semi-weekly rule. Under this rule, the day a deposit is due is determined by the day of the payroll.
- a. The deposit for a pay day of Wednesday, Thursday, and/or Friday must be made on or before the following Wednesday.
  - b. The deposit for a pay day of Saturday, Sunday, Monday, and/or Tuesday must be made on or before the following Friday.
  - c. The semi-weekly rule doesn't require an employer to make deposits twice a week (semi-weekly). Rather, the deposits are due based on a schedule which divides the calendar week into two (semi-weekly) sections.
  - d. The semi-weekly depositor whose tax reaches the de minimis amount to

deposit must submit a ROFTL schedule. For more information see IRM 20.1.4.6, De Minimis Exception to Deposit Requirements. Employers who file Form 941, Employer's Quarterly Federal Tax Return, must submit a *Schedule B (Form 941)*, Report of Tax Liability for Semi-weekly Schedule Depositors. Employers who file Form 943, Employer's Annual Tax Return for Agricultural Employees must submit Form 943-A, Agricultural Employer's Record of Federal Tax Liability. Employers who file Form 944, Employer's ANNUAL Federal Tax Return, Form 945, Annual Return of Withheld Federal Income Tax, or Form CT-1, Employer's Annual Railroad Retirement Tax Return must submit Form 945-A, Annual Record of Federal Tax Liability. See Exhibit 20.1.4-12, ROFTL Enclosures.

- e. Command Code FTDPN, in IRM 2.3.28, displays the deposit due dates taking into account non-business days including weekends, and legal holidays in the District of Columbia. FTDPN treats a statewide legal holiday as non-business days in 2011 and prior years.

- (2) In the case of a return period that ends during a semi-weekly deposit period, the employer may be required to make two separate deposits. For example:
  - a. The second calendar quarter return period ends on Thursday (June 30th), and the third quarter return period begins on Friday (July 1st).
  - b. If the employer had a payroll on Thursday and another on Friday, this employer must make two separate deposits on the following Wednesday. **One** deposit is for the Thursday payroll (second quarter) and the **other** deposit is for the Friday payroll (third quarter).

## 20.1.4.8.5 (02-09-2018) Rule For Semi-weekly Non-Business Days

- (1) 26 CFR 31.6302-1(c)(2)(iii) provides that all semi-weekly depositors have at least three business days following the close of the semi-weekly period, to deposit employment taxes accumulated during the semi-weekly period.
- (2) Saturdays and Sundays were considered in arriving at a due date for semi-weekly deposits which would allow at least three business days. However, because federal holidays don't fall on a regularly recurring schedule throughout the calendar year, the regulation provides a special procedure for determining the due date:
  - a. If one or more of the intervening days between the end of the semi-weekly period and the due date is a legal holiday in the District of Columbia, the deposit due date will be extended by the same number of days. For example, if a semiweekly schedule depositor accumulated taxes for payments made on Friday and the following Monday is a legal holiday, the deposit normally due on Wednesday may be made on Thursday (this allows 3 business days to make the deposit).

## 20.1.4.8.6 (02-09-2018) \$100,000/One-Day Rule

- (1) Taxes on Form 941, Form 943, Form 944, Form 945, and Form CT-1 that reach \$100,000 or more within a deposit period, must be deposited in time to settle on the next business day for either the monthly or semi-weekly depositor.
  - a. A **monthly** depositor who incurs a \$100,000 or more tax liability, when such liability is accumulated within one calendar month, immediately becomes a semi-weekly depositor for the remainder of the current calendar year and the following calendar year. For example, if a \$100,000 tax liability is incurred on Wednesday, taxpayer becomes a semi-weekly depositor on Thursday.

- b. A **semi-weekly** depositor who incurs a \$100,000 or greater tax liability, when such liability is accumulated within one semi-weekly period, will return to the semi-weekly deposit schedule the following day. For example, if a \$100,000 tax liability is incurred on Wednesday, the taxpayer returns to being a semi-weekly depositor on Thursday.
- (2) If the deposit due date for next-day depositors is a Saturday, Sunday, or legal holiday in the District of Columbia, the deposit will be timely if it made on the next day that is not a Saturday, Sunday, or legal holiday in the District of Columbia. For example, if a deposit is due on a Friday, but that Friday is a holiday in the District of Columbia, the deposit would be timely if received by the following Monday. See IRM 20.1.4.7.2 (3) and IRM 20.1.4.7.3.

**Exception:** IRB 2010-87 provides transitional relief for determining the timeliness of federal tax deposits (FTDs) under IRC 6302. The notice provides that the IRS won't assert penalties under IRC 6656 for FTDs due in calendar year 2011 that are untimely solely because the depositor treated a statewide legal holiday as if it were a legal holiday in the District of Columbia. Therefore, statewide legal holidays are treated as non-business days for 2011 and prior.

20.1.4.8.7  
(07-17-2015)  
**Safe Harbor**

- (1) No penalty is assessed if:
- a. Any deposit shortfall does not exceed the greater of \$100 or 2 percent of the amount of taxes otherwise required to be deposited, and
  - b. The deposit shortfall is paid or deposited by the shortfall makeup date. The deposit due date for the shortfall depends upon whether the taxpayer is a monthly or semi-weekly depositor. Only monthly depositors may pay the shortfall rather than deposit the shortfall amount.
- (2) The shortfall make-up date for monthly depositors is the due date for the return period in which the underpayment occurs.
- (3) The shortfall make-up date for semi-weekly/one-day rule depositors is the earlier of:
- a. The first Wednesday or Friday (whichever comes first) that falls on or after the 15th of the month following the month in which the shortfall occurred or
  - b. The due date of the return (for the return period of the tax liability).

**Example:** a semi-weekly schedule depositor has a Form 941 deposit shortfall for a deposit due in July, the makeup date for the amount of the shortfall is the first Wednesday or Friday that falls on or after August 15th, which is the month following the month in which the original deposit was due. If however, a semi-weekly schedule depositor has a Form 941 deposit shortfall for a September payroll with deposit due in October, we apply the exception in paragraph (3) b) above and use the due date of the return (October 31st) as the shortfall makeup date and NOT the first Wednesday or Friday that falls on or after November 15th (the month after the month in which the original deposit was due), because November is later, not earlier, than the due date of the return (October 31st).

- (4) Taxpayers don't have to apply safe harbor provisions to all deposits in a specific tax period. They may apply the provisions to certain deposits, while paying 100 percent of the others.
- (5) Use of the safe harbor option doesn't change the order in which payments are applied or liabilities are satisfied. The impact of deposit periods must still be recognized when analyzing the funds deposited by the taxpayer and in determining which liability is to be satisfied first by the funds deposited by the taxpayer.
  - a. Satisfying a liability before going on to the next liability means matching deposits, payments and/or credits to 100 percent or an appropriate safe harbor amount of the liability.
  - b. For each liability, full satisfaction (100 percent) of the liability or safe harbor satisfaction is computed after consideration of all monies deposited on the same date.

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## 20.1.4.8.8 (03-11-2024) Computation of FTD Penalty

- (1) For tax periods **beginning on or after January 1, 1993**, see Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements.
- (2) To determine if a deposit is timely, compare the entry amounts on the ROFTL schedule with the deposits made. If the ROFTL schedule is incomplete, blank, or has a negative amount, then average the total tax.
- (3) If there is a discrepancy on the ROFTL due to a line item adjustment, adjust the last liability regardless of the dollar amount. See IRM 3.11.13.15.40.
- (4) When the \$100,000 One-Day Rule applies, see IRM 20.1.4.8.6, \$100,000/One-Day Rule.

## 20.1.4.8.8.1 (01-06-2012) Averaged Penalty

- (1) Use the averaging method when the total tax exceeds the de minimis exception to deposit, and the total amount on the ROFTL schedule isn't within Form CT-1, or the ROFTL is missing, incomplete, blank, or has negative amounts.

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**Note: The total tax equals the tax liability (TC 150 plus any TC 291, TC 290, TC 300 tax adjustments) reduced by any Advanced Earned Income Credit (AEIC) allowance (TC 766). The Education, Jobs and Medicaid Assistance Act of 2010 eliminated AEIC for tax years beginning after December 31, 2010.**

- (2) If there is a discrepancy on the ROFTL information due to adjustments for fraction of cents, sick pay, tips, or group term life insurance, adjust the last liability regardless of the dollar amount.
- (3) The method of averaging depends on the type of depositor and the ROFTL information provided. See Exhibit 20.1.4-3, FTD Averaging Methods.
- (4) Apply deposits to the resulting averaged liabilities.

20.1.4.9  
(07-17-2015)

**Form 940 Deposit Rules**

- (1) Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, is an annual return used to report federal unemployment tax. For deposit purposes, divide each year into quarters.
- (2) To show the correct liability for the deposit period, the taxpayer must list the tax liability in the ROFTL schedule if the total tax is more than \$500.
- (3) See Exhibit 20.1.4-6, Form 940 Deposit Requirements, to determine if the taxpayer made timely deposits.
- (4) For tax periods beginning on or after **January 1, 2005**, the deposit requirements are based on the amount of the tax liability incurred at the end of the deposit period.
  - a. If the tax liability at the end of the first, second, or third calendar quarter is \$500 or less, it is carried over to the next quarter.
  - b. If the tax liability at the end of the fourth quarter is \$500 or less, there is no requirement to deposit. The taxpayer can deposit the tax, pay the tax with a major credit card, or pay the tax with a check or money order with the return, by the return due date.
  - c. Required federal tax deposits can't be made by credit card.
  - d. If the tax liability at the end of a calendar quarter is over \$500, the taxes must be deposited by the last day of the following month.
- (5) For tax periods **beginning on or after April 1, 1991 and ending on or before December 31, 2004**, the deposit requirements are based on the amount of the tax liability incurred at the end of the deposit period.
  - a. If the tax liability at the end of the first, second, or third calendar quarter is \$100 or less, it is carried over to the next quarter.
  - b. If the tax liability at the end of the fourth quarter is \$100 or less, there is no requirement to deposit. The taxpayer pays the tax with the return or deposits it by the return due date.
  - c. If the tax liability at the end of a calendar quarter is over \$100, the taxes must be deposited by the last day of the following month.

20.1.4.9.1  
(01-06-2012)

**Computing the FTD  
Penalty Form 940**

- (1) Refer to Form 940 deposit requirements discussed above to determine if the taxpayer made sufficient deposits.
- (2) See Exhibit 20.1.4-6, Form 940 Deposit Requirements, to determine if the taxpayer made timely deposits.
- (3) Compare the taxpayer's liability information from the ROFTL schedule with the deposits made. If the liability figures aren't available, averaging is used.
- (4) If there is an overstatement in the ROFTL schedule, regardless of the dollar amount, or an understatement on the ROFTL for the amount of the credit reduction adjustment, adjust the **last** liability. Then, compute the penalty as if for a valid ROFTL schedule.

20.1.4.9.2  
(01-06-2012)

**Averaged Penalty Form  
940**

- (1) If the ROFTL schedule is overstated, see IRM 20.1.4.9.1 (4). Average the total tax when the ROFTL is incomplete, blank, or has a negative amount. The ROFTL schedule provided by the taxpayer on Form 940 must equal the tax credit reduction state:

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- a. Subtract the credit reduction amount (for tax periods with credit reduction) from the total FUTA tax.
- b. Divide the difference by 4 to get a quarterly breakdown.
- c. Add the credit reduction amount back into the fourth calendar quarter. Taxpayers determine the credit reduction amount in the fourth quarter. There is no deposit requirement until that period.
- d. **DO NOT** include the credit reduction amount in the total being averaged.
- e. Consider the posted deposits as payments against the resulting quarterly liabilities.

- (2) Compute the penalty on under-deposits, late deposits, and direct payments. Assess the penalty, if appropriate.

## 20.1.4.10 (07-17-2015) Form 720 Reporting Requirements

- (1) Form 720, Quarterly Federal Excise Tax Return, and any related attachments, are used to report certain excise taxes. The return is divided into three parts.
  - a. Part I reports taxes that **are subject** to deposit requirements.
  - b. Part II reports taxes that are **not subject** to deposit requirements.
  - c. Part III provides a **computation** of whether there is a balance due or an overpayment.
- (2) The net tax liability for each class of tax is reported separately on Schedule A, Excise Tax Liability, of Form 720 by semi-monthly periods:
  - Regular method taxes reported on line 1, and
  - Alternative method taxes on line 2.
- (3) Semi-monthly periods consist of two intervals within a month. The first semi-monthly period is the **first 15 days** of a month. The second semi-monthly period is the **16th day through the last day** of a month.
- (4) "Net tax liability" is the tax liability incurred during the semi-monthly period, plus or minus any applicable adjustments and claims for that period.
  - For communications and air transportation taxes (IRS Nos. 22, 26, 27, and 28), tax liability is treated as incurred in the semi-monthly period in which the tax is collected, or if the alternative method is elected, is considered as collected.
- (5) Form 720, Schedule C, is used to report adjustments to previously reported liabilities and claims unrelated to liabilities in lieu of filing a Form 8849, Claim for Refund of Excise Taxes.

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## 20.1.4.10.1 (04-20-2010) Form 720 Filing Requirements

- (1) Taxes are identified by an "IRS No." (also known as "Abstract Numbers") on Form 720 and in IRS records. Only one Form 720 is filed for a calendar quarter.
- (2) For all taxes, except ozone-depleting chemicals (ODC) floor stock tax (IRS No. 20), the return must be filed by the last day of the month following the end of



the calendar quarter. The tax payment for the ODC floor stock tax, a Part II tax, is due by June 30th of each year and must be reported on the Form 720 due July 31st of each year.

- (3) If any due date for filing a return falls on a Saturday, Sunday, or legal holiday in the District of Columbia, the taxpayer may file the return on the next business day.

20.1.4.10.2  
(05-22-2009)  
**Payments Form 720**

- (1) Payment **must** be made by the return due date without extension.

20.1.4.10.3  
(01-06-2012)  
**Deposits Form 720**

- (1) Taxes that are subject to deposit requirements are grouped together into the following two classes,
- Regular method taxes
  - Alternative method taxes
- (2) A deposit is due for each semi-monthly period in which a liability is incurred, except in the cases satisfying the de minimis exception to the deposit requirement. See IRM 20.1.4.10.5, De Minimis Exception to Deposit Requirements Form 720.
- (3) The amount of each deposit of tax for a semi-monthly period must be at least 95% of the amount of the net tax liability for that period unless the taxpayer elected instead to use the safe harbor (1/6th rule) explained in IRM 20.1.4.10.6, Safe Harbor (1/6th Rule) for Deposits Form 720.
- (4) Any underpayment of the amount of the tax to be deposited for the current calendar quarter must be paid by the return due date without extension.
- (5) In general, the underpayment must be paid with the return.
- (6) An additional deposit must be made in September. For special rules for deposits in September, see IRM 20.1.4.10.7, Special Rules for Deposits in September Form 720.
- (7) Beginning January 1, 2011, taxpayers are required to make their excise tax deposits for all of the excise taxes via EFT system. For information on the electronic funds transfer payment system requirements, see IRM 20.1.4.2.2.1, Electronic Funds Transfer (EFT), and IRM 20.1.4.2.2.2, Electronic Federal Tax Payment System (EFTPS).

20.1.4.10.4  
(02-09-2018)  
**Deposit Rules Form 720**

- (1) Regular method, Line 1 of Schedule A.
- a. The Regular method applies to all excise taxes, except that taxpayers making deposits of the communication and air transportation taxes (IRS Nos. 22, 26, 27, and 28) have the option to make these deposits under the alternative method by using line 2 of Schedule A.
  - b. The deposit of tax for a semi-monthly period is due by the 14th day following the end of the semi-monthly period. Generally, this is the 29th day of the month (except when February has 28 days, then March 1) and the 14th day of the following month. If the 14th day or the 29th day is a Saturday, Sunday, or legal holiday in the District of Columbia, then the deposit is due the immediate **preceding** day which is not a Saturday, Sunday, or legal holiday. This isn't the case for deposits due in

September, see IRM 20.1.4.10.7, Special Rules for Deposits in September Form 720.

- c. The net tax liability for each semi-monthly period in the quarter is entered in line 1, Boxes A thru F of Schedule A.

(2) Alternative method, Line 2 of Schedule A.

- a. Only taxpayers depositing the communication and air transportation taxes (local telephone service and teletypewriter exchange service tax (IRS No. 22), transportation of persons by air tax (IRS No. 26), use of international air travel facilities tax (IRS No. 27), and transportation of property by air tax (IRS No. 28) may elect the alternative method.
- b. Under the Alternative Method, amounts considered as collected are reported on line 2 of Schedule A.
- c. See Exhibit 20.1.4-7, Form 720 Return Due Dates.

(3) Under the alternative method:

- a. The tax included in amounts billed or tickets sold during a semi-monthly period is considered as collected during the first seven days of the second semi-monthly period following the semi-monthly period in which the amounts were billed or tickets sold.

**Example:** The tax included in amounts billed between January 1 and January 15, 2018, is considered as collected during the period February 1 through February 7, 2018.

- b. The amount reported on Schedule A for each semi-monthly period is the tax considered as collected during that period.

**Example:** The tax considered as collected during the period February 1 through February 7, 2018, is the amount reported for the period February 1 through February 15, 2018.

- c. The net tax liability for each semi-monthly period in the quarter is entered in line 2, Boxes M thru R of Schedule A.

**Example:** The tax considered as collected during the period February 1 through February 7, 2018, is reported in Box O of Schedule A.

- d. The deposit of tax considered as collected for the first semi-monthly period of the month is due by the third business day after the seventh day of that semi-monthly period (generally the 10th day of that month). A business day does not include a Saturday, Sunday, or legal holiday in the District of Columbia.

**Example:** The deposit for the semi-monthly period beginning on February 1, 2018, (this is a deposit of the tax included in amounts billed between January 1 and January 15, 2018), and considered as collected between February 1 and February 7, 2018, is due on February 10, 2018, a Wednesday.

- (4) A taxpayer can change to the regular rule of computing deposits only at the beginning of a calendar quarter. The taxpayer must notify the IRS before a new choice is made so that adjustments may be made in order to properly reflect that taxpayer's collection of excise tax.

20.1.4.10.5  
(04-20-2010)

**De Minimis Exception to  
Deposit Requirements  
Form 720**

- (1) Deposits aren't required if the net tax liability for the calendar quarter doesn't exceed \$2,500.
- (2) The \$2,500 "de minimis exception" applies only to taxes listed in Part I, Form 720.

**Example:** A return is filed reporting \$1,950 in Part I taxes, and \$4,000 in Part II taxes. Therefore, no deposits would be due against the total liability of \$5,950. The \$4,000 Part II taxes are not subject to deposit requirements, and the \$1,950 Part I taxes are below the \$2,500 "de minimis exception."

- (3) To compute the \$2,500 threshold, **exclude taxes reported on a one-time filing**, which aren't subject to deposit. For example, **no** deposits are required for a **one-time filing** of gas guzzler tax (IRS No. 40). A taxpayer is eligible to make a one-time filing of Form 720 of the gas guzzler tax (IRS No. 40) if the taxpayer imported a gas guzzling automobile, doesn't import gas guzzling automobiles in the course of the taxpayer's trade or business, and isn't required to file Form 720 reporting excise taxes for the calendar quarter, except for the one-time filing. The taxpayer must check the "final return block" on the front of Form 720.

20.1.4.10.6  
(01-06-2012)

**Safe Harbor (1/6th Rule)  
for Deposits Form 720**

- (1) The safe harbor (1/6th Rule) applies separately to deposits under the regular method and alternative method.
- (2) If the conditions of the safe harbor (1/6th rule) are met, a taxpayer that has made timely deposits by electronic funds transfer (EFT) of less than the full amount of net tax liability for each semi-monthly period in the calendar quarter, is considered to have satisfied the deposit requirement for the quarter. For information on the electronic funds transfer payment system requirements, see IRM 20.1.4.2.2.1, Electronic Funds Transfer (EFT) and IRM 20.1.4.2.2.2, Electronic Federal Tax Payment System (EFTPS). See IRM 20.1.4.10.7, Special Rules for Deposits in September Form 720.

20.1.4.10.6.1  
(07-17-2015)

**Lookback Quarter Safe  
Harbor (1/6th Rule) Form  
720**

- (1) The lookback quarter liability safe harbor (1/6th rule) applies to any entity that filed Form 720 for that class of tax for the second preceding calendar quarter (the lookback quarter). The 1/6th rule applies without regard to the amount of the liability for the current calendar quarter.
- (2) To satisfy the deposit requirements under the 1/6th rule, the taxpayer must meet the following conditions:
  - a. The deposit for each semi-monthly period in the current calendar quarter, must be at least 1/6th of the net tax liability of the lookback quarter, for the same class of tax.
  - b. Each deposit must be timely made by EFT.
  - c. Any underpayment of the liability for the current calendar quarter must be paid by the return due date without extension.
- (3) In general, the underpayment must be paid with the return.
- (4) If the taxpayer has elected the alternate method for the communications and air transportation taxes (IRS No. 22, 26, 27, and 28), then don't include these taxes when determining the net tax liability for the regular method.

- (5) If a tax rate increase goes into effect for a calendar quarter, the following additional condition applies.
  - a. The 1/6th rule does not apply for the first and second calendar quarters, beginning on or after the effective date of the increase, unless the deposit of taxes for each semi-monthly period in the calendar quarter is not less than 1/6th of the liability the taxpayer would have had for the look-back quarter, if the increased tax rate had been in effect during the look-back quarter.
  - b. Thus, if tax rates are increased, taxpayers must deposit 1/6th of the amount that they would have been liable for in the look-back quarter, had the higher rate applied at that time.
- (6) Use of the safe harbor (1/6th rule) isn't permitted unless a tax was imposed throughout the look-back quarter. A separate determination is made for regular method and alternative method taxes.
  - a. For regular method taxes, the tax liability can't include any regular method tax that was not imposed at all times during the look-back quarter or a tax on a chemical not subject to tax at all times during the look-back quarter.
  - b. For alternative method taxes, the tax liability can't include any alternative method tax that wasn't imposed at all times during the look-back quarter and the month preceding the look-back quarter.
- (7) See examples below:
  1. A taxpayer reported only regular method taxes (TC 150 adjusted by TC 29X) of \$15,000 in the look-back quarter with credits of \$3,000, resulting in a net tax liability of \$12,000. Based on the net tax liability of \$12,000, the required deposit (for each semi-monthly period) using the 1/6th rule in the current calendar quarter is \$2,000. The tax can be deposited with the return.
  2. A taxpayer reports only regular method taxes (TC 150 adjusted by TC 29X) of \$15,000 in the look-back quarter with credits of \$18,000, resulting in a net tax liability of zero. Based on the net tax liability of zero, the required deposit (for each semi-monthly period) using the 1/6th rule in the current calendar quarter is zero.
  3. A taxpayer reported zero taxes (TC 150 adjusted by TC 29X) in the look-back quarter with credits of \$3,000, resulting in a net tax of zero. The safe harbor 1/6th rule is not permitted on the net tax of zero (as allowed in example 2 above) because there was no tax imposed (TC 150 adjusted by TC 29X).

20.1.4.10.7  
(05-22-2009)  
**Special Rules for  
Deposits in September  
Form 720**

- (1) An additional deposit is required during the third calendar quarter of each year in September for each class of tax.

20.1.4.10.7.1  
(07-17-2015)  
**Alternative Method Form  
720**

- (1) In the case of alternative method taxes charged (included in amounts billed or tickets sold) during the first semi-monthly period in September, separate deposits are required for the taxes charged during the period September 1st to 11th and the period September 12th to 15th.

- (2) For taxes charged during the period September 1st to 11th, the deposit must be made by September 29th. If the due date falls on a Saturday, the deposit is due on the preceding Friday. If the due date falls on a Sunday the deposit is due on the following Monday. The net tax liability is entered in Box S of Schedule A for the **fourth calendar quarter return**.
- (3) For taxes charged during the period September 12th to 15th, the deposit must be made by the due date under the alternative method for making deposits for the first semi-monthly period in October. The net tax liability is entered in Box M of Schedule A for the **fourth calendar quarter return**.
- (4) The amount of each deposit for these periods must be at least the amount of alternative method taxes charged during the periods, unless a safe harbor rule applies.

20.1.4.10.7.2  
(01-06-2012)  
**Special Regular Method  
Safe Harbor (1/6th Rule)  
Form 720**

- (1) The 1/6th rule does not apply for the third calendar quarter unless—
  - a. The deposit of taxes for the period September 16th to 26th is not less than 11/90ths of the net tax liability reported for the same class of tax for the lookback quarter; and
  - b. The total deposit of taxes for the second semi-monthly period in September is not less than 1/6th of the net tax liability reported for the same class of tax for the lookback quarter.

20.1.4.10.7.3  
(01-06-2012)  
**Alternate Method Safe  
Harbor (1/6th Rule) Form  
720**

- (1) The 1/6th rule doesn't apply for the fourth calendar quarter unless—
  - a. The deposit for alternative method taxes charged during the period September 1st to 11th is not less than 11/90ths of the net tax liability reported for alternative method taxes for the lookback quarter; and
  - b. The total deposit for alternative method taxes charged during the first semi-monthly period in September is not less than 1/6th of the net tax liability reported for alternative method taxes for the lookback quarter.

20.1.4.10.8  
(02-09-2018)  
**Computing the FTD  
Penalty Form 720**

- (1) A deposit must be made for each semi-monthly period for which there is an entry in a box on Schedule A. The amount of each deposit for a semi-monthly period must be at least the amount of the net tax liability entered in the appropriate box on Schedule A for that period unless a safe harbor rule applies.
- (2) To determine whether a sufficient amount has been deposited, Schedule A must be completed. If Schedule A is completed, compare the amounts entered on Schedule A to the deposits and payments the taxpayer has made.
- (3) The taxpayer must separate any portion of a liability that qualifies for the "Special September Rule" from Box F or M, and enter that portion of the September liability in the Special September Rule box. Therefore, a September liability amount entered in Box M or F of Schedule A, with no accompanying entry in the "Special September Rule" box, isn't an indicator that a "Special September Rule" liability was incurred and needs to be separated from Box M or F. See the "Special September Rule" instructions shown below. See Exhibit 20.1.4-7 for explanation of Sept. 25/26.
- (4) **Instructions for Reporting Under the Special September Rule**

- **Regular Method:** the period beginning September 16th and ending September 26th should be reported in Box G, "Special rule for September".
- **Alternative Method:** the period beginning September 1st and ending September 11th should be reported in Box S, "Special rule for September", in the fourth calendar quarter return.

(5) **Instructions for remaining days in September Period**

- **Regular Method:** enter the liability for the period beginning September 27th and ending September 30th in Box F.
- **Alternative Method:** enter the tax included in the amounts billed or tickets sold for the period beginning September 12th and ending September 15th in Box M of the fourth calendar quarter return. Enter the tax included in amounts billed or tickets sold during the period beginning September 16th and ending September 30th in Box N of the fourth calendar quarter return.

- (6) If the deposit is timely made by electronic funds transfer (EFT) and equals or exceeds the amount entered in the Schedule A box for the semi-monthly period, the deposit requirement for that class of tax for the semi-monthly period is satisfied.
- (7) If Schedule A is not completed, penalties must be proposed. Proposing a penalty allows the taxpayer time to provide needed information.
- Contact the taxpayer by telephone to request a completed Schedule A.
  - If unable to secure the Schedule A by telephone, then send the taxpayer Letter 313-C, FTD Penalty Proposal.
  - If a new Schedule A is received for the review calendar quarter, determine whether an FTD penalty applies.
  - If a new Schedule A is not received, compute and assess an averaged penalty.
- (8) A penalty may be imposed if the taxpayer hasn't made timely deposits in sufficient amounts by EFT. The taxpayer must meet the following three conditions:
- Timeliness
  - Sufficient amount
  - EFT deposit

20.1.4.10.8.1  
(01-06-2012)  
**Timeliness Form 720**

- (1) If the deposit is received by the deposit due date for each rule, the deposit is timely. See Exhibit 20.1.4-7, Form 720 Return Due Dates and IRM 20.1.4.7.2, Deposit Due Dates.

20.1.4.10.8.2  
(01-06-2012)  
**Sufficient Amount Form 720**

- (1) If the deposit is timely made by EFT, but is less than 95% of the amount entered in the Schedule A box for the semi-monthly period, check if the safe harbor (1/6th rule) is satisfied by determining the following:
- The lookback quarter liability is the **net tax** liability amount entered on line 1b, or 2b, whichever applies, of the Schedule A for the lookback quarter. Divide that amount by **six** to determine the amount required to be deposited in each semi-monthly period for the current calendar quarter under the safe harbor (1/6th rule).



- b. Compare each deposit (including any credits from prior calendar quarters or semi-monthly periods) with the amount required to be deposited in each semi-monthly period.
- c. If the amounts deposited are sufficient and the amount of any underpayment is paid by the due date of the return, then the safe harbor (1/6th rule) is satisfied and **no** penalty is appropriate. An **underpayment** is the difference between the amount entered on line 1b, or 2b, whichever applies, of the current quarter Schedule A, and the same line of the Schedule A for the lookback quarter.
- d. If the safe harbor (1/6th rule) isn't satisfied for **any** semi-monthly period within the calendar quarter, the 1/6th rule does not apply for that quarter. For example, even if five of the six semi-monthly periods within the quarter are satisfied, and only one semi-monthly period isn't satisfied, then the safe harbor (1/6th rule) **cannot** be used for any of the liability periods during the quarter. However, no taxpayer has to pay more than they actually owe. For example, if the deposit for the sixth semi-monthly liability period is less than the 1/6th rule amount, but the total deposits fully pay the liability for the entire quarter, **no penalty applies**.

- (2) If the safe harbor (1/6th rule) isn't satisfied, compute the penalty. For each semi-monthly period, subtract the amount deposited from the amount entered in the Schedule A box and compute the penalty based on the difference.
- (3) If the underpayment, for the safe harbor (1/6th rule), isn't paid by the due date of the return, then the safe harbor (1/6th rule) doesn't apply for the entire calendar quarter. For each semi-monthly period, subtract the amount deposited from the amount entered in the Schedule A box and compute the penalty based on the difference.

20.1.4.10.8.3  
(07-17-2015)  
**Averaged Penalty Form  
720**

- (1) Whenever Schedule A is missing, incomplete, or invalid, and a Schedule A is not received after contact with the taxpayer, determine whether a penalty applies by computing the averaged semi-monthly liability for taxes reported on the Schedule A.
- (2) The liability breakdown provided by the taxpayer on Form 720 must equal the

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20.1.4.10.8.4  
(03-11-2024)  
**Transitional Rule for the  
Alternative Method Form  
720**

- (1) The alternative method can **only** be elected by taxpayers depositing the communications and air transportation taxes (the local telephone service tax and teletypewriter exchange service tax (IRS No. 22), the transportation of persons by air tax (IRS No. 26), the use of international air travel facilities tax (IRS No. 27), and the transportation of property by air tax (IRS No. 28). If a taxpayer is using the alternative method, **amounts considered as collected** are reported on Schedule A.
- (2) There is a special transitional rule which can be used by any taxpayer who has been making deposits under the alternative method.
  - a. This transition rule makes it appear as if the taxpayer has reported the tax too soon on Schedule A. This early reporting of tax makes otherwise timely deposits appear to be late.
  - b. For detailed information on this transitional rule, see Notice 1009, Information on the Alternative Method of Reporting, on Form 720, Schedule A.



- (3) If it appears the taxpayer reported tax too soon, **call** the taxpayer or send Letter 313-C (enclosing Notice 1009 and Form 720 including Schedule A) to inform the taxpayer about the problem. Allow the taxpayer time to respond (30 days). See IRM 20.1.4.16, Issuing Averaged FTD Penalty Proposals - Letter 313C.

20.1.4.10.8.5  
(07-17-2015)  
**Quarter in Question  
Form 720**

- (1) If the taxpayer sends in a corrected Schedule A, with
  - a. The first two semi-monthly periods blank,
  - b. Any of the other four semi-monthly periods showing a liability amount, and
  - c. The amounts in the boxes match the deposits timely received.
  - d. Then there is **no penalty**. Disregard the first two semi-monthly (blank) periods. These were reported on the previous Schedule A.
- (2) The taxpayer has only **one** opportunity to “transition” to the correct reporting period.

20.1.4.10.8.6  
(02-09-2018)  
**IRS No. 136 Medical  
Device Tax**

- (1) The Health Care and Education Act of 2010, P.L.111-152, added a medical device tax, effective for sales after December 31, 2012.
- (2) FTD penalties under IRC 6656 will not be assessed in the first three calendar quarters of 2013 and the first three quarters of 2018. See IRS IRB 2012-77 and IRS IRB 2018-10 . Letter 1206C can be used if needed to inform taxpayers that the penalty is waived. See IRM 20.1.4.15.2, FTD Penalty on Form 720 Medical Device Excise Tax.
- (3) The medical device tax is not assessed on 2016 and 2017 Forms 720. See section 174 of the Protecting Americans from Tax Hikes Act of 2015, P.L.114-113.
- (4) The medical device tax is not assessed on 2018 and 2019 Forms 720. See P.L. 115-120, Making further continuing appropriations for the fiscal year ending September 30, 2018, and for other purposes, signed into law on January 22, 2018.

20.1.4.10.8.7  
(04-24-2015)  
**Reasonable Cause for  
December 2014**

- (1) Public Law 113-295, signed on December 19, 2014, reinstated several fuel credits that had expired in 2013. IRS Notice 2015-3 instructed tax filers that they should file for the 2014 credit using Form 8849, effective February 9, 2015. The credit isn’t allowed on Form 720. See IRM 21.7.4.4.9.1, Form 4136, Credit for Federal Tax Paid on Fuels.
- (2) Taxpayers who relied on PL 113-295 and didn’t make sufficient fifth and sixth period semi-monthly deposits for the fourth quarter of 2014 are entitled to reasonable cause relief for the failure to deposit penalty for the fifth and sixth semi-monthly periods.
- (3) If a taxpayer submits Form 8849 claim for 2014 on MFT 02, 05, 06, or 34 for Credit Reference Numbers (CRN) 307, 388, 390, or other fuel credits extended by PL 113-295, effective on February 9, 2015 or later, do not assess or abate FTD penalty to the extent that credit for those CRNs could have been applied to the fifth and sixth semi-monthly periods.

(4) If there is no indication that taxpayer has filed a claim on Form 8849, the taxpayer must provide a statement showing reliance on Public Law 113-295 in making deposits for the fifth and sixth semi-monthly periods in order to obtain penalty relief.

20.1.4.11

(02-09-2018)

Form 1042

- (1) Taxpayers file Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report and pay tax due on income derived from sources in the United States. Currently, Form 1042 is processed only at the Ogden Campus.
- (2) This form is filed by a domestic or foreign withholding agent (who could be an individual, Indian tribal government, trust, estate, partnership, corporation, nominee (under IRC 1446), government agency, association, or tax-exempt foundation) who receives, controls, has custody or disposes of, or pays income from sources within the United States.
- (3) Taxpayers may file Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returnsto extend the due date of Form 1042.
- (4) Form 7004 DOES NOT provide additional time to pay the taxes.

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20.1.4.11.1

(01-06-2012)

Deposit Requirements

Form 1042

- (1) For deposit purposes, divide each month into four periods ending on the 7th, 15th, 22nd, and last day of the month. These periods are called quarter-monthly periods. The quarter-monthly periods and the monthly totals are labeled 1 through 60 on the tax return.
- (2) The taxpayer must list the tax liability in the ROFTL section if the yearly tax is at least \$200.
- (3) Deposit requirements are based on the amount of **undeposited** taxes at the end of the deposit period. Exceptions may apply due to Foreign Tax Treaties.
- (4) See Exhibit 20.1.4-8, Form 1042 Deposit Requirements For All Periods.

a. If the taxes at the end of a month (other than December) are under \$200, they are carried to the next month.

b. If taxes at the end of December are under \$200, they may be paid with the return or deposited by the return due date.

c. If the taxes at the end of a month are \$200 or more, but less than \$2,000, the deposits must be made by the 15th of the following month.

d. If an earlier quarter-monthly deposit was made and taxes are \$200 or more but less than \$2,000 (in a month other than December), the taxes are carried to the next month. For the month of December, the deposits must be made by the return due date.

- e. If undeposited taxes at the end of a quarter-monthly period are \$2,000 or more, the deposits must be made within three business days after the quarterly-monthly period.

20.1.4.11.2  
(01-06-2012)  
**Computing the FTD  
Penalty Form 1042**

- (1) Refer to Form 1042 deposit requirements to determine if sufficient deposits were made. See Exhibit 20.1.4-8, Form 1042 Deposit Requirements For All Periods.
- (2) Compare the tax liability amounts entered on the ROFTL with the deposits made. If the ROFTL is incomplete, blank, or has a negative amount, then average the total tax.
- (3) There is a time sensitive four-tier penalty system for late deposits. The penalty rate assessed depends on the number of days a deposit is late. See IRM 20.1.4.7.1, Time Sensitive Four Tier Penalty System.
- (4) Remember that **exceptions** apply only to the last month of the reporting period (December). They don't apply to the last month of each calendar quarter (March, June, and September).

20.1.4.11.3  
(01-06-2012)  
**Averaged Penalty Form  
1042**

negative amount, then average the total tax as shown below:

- a. Divide the tax liability by 24.
- b. Consider the results as the tax liability for ROFTL periods 2nd, 4th, 6th, 8th, 10th, 12th, 14th, 16th, 18th, 20th, 22nd, 24th, 26th, 28th, 30th, 32nd, 34th, 36th, 38th, 40th, 42nd, 44th, 46th, and 48th.
- c. Compute the penalty.

20.1.4.11.4  
(02-09-2018)  
**Deficiency Procedures  
Form 1042**

- (1) The determination of whether a penalty will be subject to a statutory notice of deficiency procedure usually depends on whether the underlying tax is subject to deficiency procedures.
- (2) Tax that should have been withheld under IRC 1441, Withholding of Income Tax on Nonresident Aliens, and reported on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons is subject to deficiency procedures.
- (3) The statutory notice of deficiency procedures will apply to a failure to deposit penalty on amounts of income tax withholding that aren't reported on Form 1042 as well as any underpayment of tax. Deficiency procedures don't apply to an FTD penalty imposed on reported tax that is shown on Form 1042 .
- (4) For additional information regarding deficiency vs. non-deficiency procedures, see IRM 20.1.1.4.2, Deficiency Procedures, and IRM 20.1.1.4.2.1, Non-deficiency Procedures.

20.1.4.12  
(03-11-2024)  
**Form CT-1**

- (1) The federally administered railroad retirement system covers railroad employees and provides benefits similar to those under the Social Security system (Tier 1 benefits) as well as benefits similar to those under a private pension (Tier 2 benefits).

(2) Form CT-1, Employer's Annual Railroad Retirement Tax Return is processed at the Kansas City Submission Processing Campus. Penalty adjustments on Form CT-1 should be made only after contacting the Cincinnati Campus.

(3) Forms, claims or correspondence received at other campuses must be routed or coordinated with

IRS Large Corp/Technical Unit

Stop 537G

201 W. Rivercenter Blvd

Covington, KY 41011

(4) For inquiries received via the toll-free line, prepare Form 4442 and fax to: Technical Unit at 855-307-3090, Team 4022

20.1.4.12.1  
(04-20-2010)  
**Filing Requirements  
Form CT-1**

- (1) Form CT-1, Employer's Annual Railroad Retirement Tax Act Return, is an **annual** return generally due the last day of February of the following year. The Form CT-1 is used to report and pay Railroad Retirement Tax Act (RRTA) tax.
- (2) Form CT-1 consists of two major parts (Part I and II).
  - a. **Part I — Railroad Retirement Taxes.** The total railroad retirement taxes based on compensation should equal the total tax liability for the year from Part II, Monthly Summary of Railroad Retirement Tax Liability, or the total tax liability from Form 945-A, Annual Record of Federal Tax Liability.
  - b. **Part II — Record of Railroad Retirement Tax Liability.** Deposits are due as described below in IRM 20.1.4.12.2, Deposit Requirements RRTA Part II and in IRM 20.1.4.12.3, Computing the FTD Penalty RRTA. .
- (3) Taxpayers must complete Part II, Monthly Summary of Railroad Retirement Tax Liability if they are monthly depositors.
- (4) Taxpayers must complete Form 945-A, Annual Record of Federal Tax Liability, if they:
  - a. Are semi-weekly depositors, or
  - b. Accumulate \$100,000 or more on any day during a deposit period. See IRM 20.1.4.8.6, \$100,000/One-Day Rule.
- (5) Both Part II, Monthly Summary of Railroad Retirement Tax Liability, and Form 945-A, are used to report tax liabilities reported on Form CT-1. This should be a summary of tax liability, NOT a summary of deposits.

20.1.4.12.2  
(02-09-2018)  
**Deposit Requirements  
Form CT-1**

- (1) The taxpayer must deposit by EFT if a taxpayer's total deposits of taxes, during the determination period, exceed a prescribed dollar threshold. See Exhibit 20.1.4-2, Electronic Deposit Requirement Threshold Amounts, and IRM 21.7.1.4.8.1.3, EFTPS Deposit Requirements. After December 31, 2010, all deposits must be by EFT.
- (2) When depositing RRTA taxes the taxpayer is either a monthly or semi-weekly depositor based on the lookback period.

- (3) The deposit requirements for Form CT-1 are generally the same as the deposit requirements for Form 941.
- (4) If the yearly tax liability is less than \$2,500 for return periods beginning on or after January 1, 2001, no deposits are required. The total tax liability for the period can be paid with a timely filed return instead. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements.
- (5) A taxpayer must follow the **monthly** deposit schedule if the total RRTA taxes for the lookback period are \$50,000 or less. The lookback period is the second calendar year preceding the current calendar year.
  - a. Tax liability for a calendar month must be deposited by the 15th day of the following month.
  - b. Any safe harbor shortfall (make-up) amount is due on the filing due date for the return period in which the underpayment occurs. Payment may accompany the return.
- (6) A taxpayer must follow the **semi-weekly** deposit schedule if the total RRTA taxes during the lookback period are more than \$50,000.
  - a. Tax liabilities for payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday.
  - b. Tax liabilities for payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.
  - c. The shortfall (make-up date) for semi-weekly/one-day depositors is the first Wednesday or Friday (whichever is earlier) falling on or after the 15th day of the month following the month in which the deposit was required to be made, or if earlier, the due date for the return period.

## 20.1.4.12.3 (02-09-2018) Computing the FTD Penalty Form CT-1

- (1) Refer to Form CT-1 deposit requirements. See IRM 20.1.4.12.2, Deposit Requirements Form CT-1.
- (2) See Exhibit 20.1.4-4, Forms 941, 943, 944, 945, and CT-1 Deposit Requirements, to determine timely deposits.
- (3) Compare the taxpayer's liability, using the information from the Monthly Summary of Railroad Retirement Tax Liability or the total tax liability from Form 945-A, Annual Record of Federal Tax Liability, with the deposits made. If the information is unavailable, use the averaging method.
- (4) If there is an overstatement on the RRTA tax liability due to a line adjustment, adjust the last liability regardless of the dollar amount.
- (5) See IRM 20.1.4.8.6, \$100,000/One-Day Rule, if the return indicates a monthly or semi-weekly liability of \$100,000 or more.

## 20.1.4.12.3.1 (02-09-2018) Averaged Penalty Form CT-1

- (1) Average the tax liability amount when the Monthly Summary of Railroad Retirement Tax Liability or the total tax liability, Form 945-A, Annual Record of Federal Tax Liability is incomplete, blank, or has a negative amount. For CP 194 cases, contact taxpayer for a good ROFTL by telephone or Letter 313C before averaging.
- (2) The liability breakdown provided by the taxpayer on Form CT-1 must equal the

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- (3) See IRM 20.1.4.8.8.1, Averaged Penalty .

20.1.4.13  
(03-11-2024)

**Overview of Manual  
(Restricted TC 180/181)  
and Systemic (Computer  
Generated TC 186/187)  
Deposit Penalty**

- (1) The following transactions codes identify assessment, abatement, or no change of the FTD Penalty:
  - a. TC 186 — computer generated assessment,
  - b. TC 187 — computer generated abatement,
  - c. TC 180 — manual assessment (systemic penalty recalculation restricted),
  - d. TC 180 for “zero” — penalty recalculation results in a no change (systemic penalty recalculation restricted), and
  - e. TC 181 — manual abatement (systemic penalty recalculation restricted).
- (2) Computer generated assessments result from a Master File analysis of the account information.
- (3) Manual adjustments (TC 180/181) restrict Master File from systemically recalculating the penalty. Credits transferred in or out of a module that is restricted, won't cause a systemic recalculation of the penalty because the original or corrected ROFTL information isn't accessible to Master File. See IRM 20.1.4.22, Master File Assessments and Recomputations.
- (4) Manual assessments are input through IDRS. Employees who cannot directly input the penalty assessment to IDRS must prepare an appropriate document to request input of the assessment. Various documents are available for this purpose, such as:
  - The preprinted penalty and interest block found on some tax forms,
  - Form 4844, Request for Terminal Action,
  - Form 3870, Request for Adjustment,
  - Form 8485, Assessment Adjustment Case Record,
  - Form 2859, Request for Quick or Prompt Assessment,
  - Form 5599, TE/GE Examined Closing Record.

20.1.4.14  
(04-20-2010)

**Computer Codes**

- (1) Various codes are used to identify conditions regarding the penalty assessment (e.g., base period codes, state code indicator, penalty computation codes, penalty indicator codes, computer condition codes, schedule indicator codes, and employment codes).

20.1.4.14.1  
(04-20-2010)

**Base Period Codes**

- (1) The **Base Period (BASE–PD)** code indicates which deposit schedule was used for FTD penalty analysis.

**Note:** Base Period Codes aren't applicable to Form 720, Form 940, and Form 1042.

- (2) The **Base Period (BASE–PD)** codes are:
  - a. **0 = FTD Penalty Bypassed** [For Tax Years 2000 and Prior, due to **any** penalty exclusion] A base period code of zero indicates that the FTD Penalty computation was bypassed at the time the return posted based on the presence of certain exception criteria. Examples of **exception** criteria are: The input return record contains Computer Condition Code J. The Entity Employment Code is S (Foreign Subsidiary)— Form 940, Form 941, Form 943, and Form 945.
  - b. **1 = Monthly Depositor**



- c. **2 = Semi-weekly Depositor**
  - d. **3 = Monthly/Daily/Semi-weekly Depositor**— A monthly depositor who must make a \$100,000 or more (daily) deposit immediately becomes a semi-weekly depositor for the remainder of the current year and for the following calendar year.
  - e. **4 = Semi-weekly/Daily/Semi-weekly Depositor**—Semi-weekly depositors who incur a \$100,000 or more (daily) deposit requirement return to a semi-weekly deposit schedule after the daily deposit is made.
- (3) The BASE-PD codes are displayed on TXMOD, BMFOLK, BMFOLR, and FTDPN.
- (4) You can manually override the posted BASE-PD codes of 1, 2, 3, or 4 at Master File using CC REQ77, TC 971 and action code for the calendar quarter affected. The TC 971 won't change the actual BASE-PD code displayed on TXMOD, BMFOLK, FTDPN, and BMFOLR, but will cause Master File to recognize the new deposit requirement and adjust the penalty accordingly. The TC 971 and action code will be the established audit trail.
- a. Action code **040** will recompute the penalty using BASE-PD code 1. [TC971/151-CD] Overlay CD with **040**.
  - b. Action code **041** will recompute the penalty using BASE-PD code 2. [TC971/151-CD] Overlay CD with **041**.
  - c. The TC 971 with action code **040** or **041** will be displayed on TXMOD and all transcripts.
- (5) The purpose of allowing a change to the BASE-PD code is to establish an audit trail on a particular account. The BASE-PD code should be changed only in limited situations. For example:
- a. The IRS may determine that the employer shouldn't be allowed to continue as a monthly depositor.
  - b. The employer may submit information that would warrant a change to the account.
  - c. The TC 150 belongs on another TIN or tax period.

20.1.4.14.2  
(02-09-2018)  
**State Code Indicator**

- (1) The **STATE** Code Indicator is entered on 2011 and prior Form 941, Form 943, Form 944, and Form 945, by the taxpayer to show the state in which deposits are made. If the taxpayer deposits in more than one state, the multiple state depositor (MU) code is entered. The State Code Indicator is displayed on TXMOD, FTDPN, and transcripts. TD 9507 (REG-153340-09) eliminated statewide legal holidays (for purposes of figuring the FTD liability due dates) for 2012 and later tax returns.
- a. Observed state banking holidays are considered non-business days in the determination of deposit due dates in 2011 and prior.
  - b. If the state code is MU, Master File won't use any state banking holidays, as there is no way to match the corresponding deposits and liability amounts that belong to any given state. The systemic computation of the penalty will be done using federal holidays only.
- (2) See IRM 2.3.28.7, Federal and State-Banking Holidays, for a list of the observed state banking holidays through 2011.

20.1.4.14.3  
(07-17-2015)

**Penalty Computation  
Codes (PCC)**

- (1) Penalty Computation Codes (PCC) identify conditions which affect the penalty computation. This information is useful when responding to taxpayer inquiries or when making subsequent adjustments.
- (2) Computer assessed (TC 186) FTD penalties generate the applicable PCCs.
  - The computer generated PCC is displayed with TC 186 on IDRS/ TXMOD and is listed in the “FTD-PNL-CD>” field.
  - Master File Transcripts (MFTRA), BMFOLT, and balance due notices also display the computer generated PCC.
- (3) Manually assessed (TC 180) FTD penalties require manual input of the applicable PCC. PCCs should be entered on the FTD penalty assessment or adjustment document.
  - The manual PCC is displayed in the “ADJ-RSN-CD>” field on IDRS/ TXMOD and is listed with TC 290 transaction code carrying the same DLN as TC 180 assessment.
  - Master File Transcripts (MFTRA), BMFOLA, and balance due notices also display the manual PCC.
- (4) Definitions for various PCCs are as follows:

<b>PCC:</b>	<b>Definition:</b>
<b>003</b>	applies when assessing the FTD penalty with specific liability and payment information (e.g., computing with a complete ROFTL schedule), and NO avoidance credits (TC 640/670 or marked TC 610) are present.
<b>011</b>	applies when assessing the FTD penalty on averaged tax liability information.
<b>018</b>	applies when charging the FTD penalty on a CAWR or FUTA assessment. See IRM 20.1.4.21.6, CAWR and FUTA.
<b>041</b>	applies when assessing the FTD penalty for avoiding the deposit system and the following conditions exist: ONLY avoidance credits (non-EFT TCs 610/640/670) are posted and the taxpayer provided good liability information.

<b>PCC:</b>	<b>Definition:</b>
<b>042</b>	applies when assessing the FTD penalty for avoiding the deposit system and the following conditions exist: A COMBINATION of one or more, unreversed non-avoidance credits (TC 650/700/710/716/760), are posted with either one or more, unreversed avoidance credits (non EFT TC 640/670 or a 'marked' TC 610) and the taxpayer provided good liability information.
<b>043</b>	applies when assessing the FTD penalty for avoiding the deposit system and the following conditions exist: Only unauthorized deposits/payments were made and the tax liability is averaged.
<b>044</b>	applies when assessing the FTD penalty for avoiding the deposit system and the following conditions exist: The taxpayer made both deposits (TC 650) and unauthorized payments (TC 670/610) and the tax liability is averaged.
<b>054</b>	applies when assessing the FTD penalty on averaged tax liability information and the following conditions exist: A semi-weekly depositor provided a monthly ROFTL schedule and the taxpayer made insufficient or late deposits. (TC 650).
<b>055</b>	applies when assessing the FTD penalty on averaged tax liability information and the following conditions exist: A semi-weekly depositor provided a monthly ROFTL schedule and the taxpayer made unauthorized payments (TC 670/610).

PCC:	Definition:
056	applies when assessing the FTD penalty on averaged tax liability information and the following conditions exist: A semi-weekly depositor provided a monthly ROFTL schedule and the taxpayer made insufficient or late deposits (TC 650) and unauthorized payments (TC 670/610).
057	applies when assessing the FTD penalty on averaged tax liability information and the following conditions exist: An averaged monthly tax liability of \$100,000 or more, and the taxpayer made insufficient or late deposits for tax periods beginning on or after January 1, 1993 (Form 941, Form 943 and Form 945).

- (5) **PCCs 054, 055, 056, and 057** are available for use to address penalty assessments based on averaged computations related to 1993 and later deposit rules and \$100,000 or more liabilities. Although PCC 054, 055, 056, and 057 appear on Master File records, they default to PCC 011 on notices.
- (6) See Exhibit 20.1.4-10, Penalty Computation Code (PCC) Definitions.

20.1.4.14.4  
(02-09-2018)  
**Penalty Indicator Codes  
(PIC) (15 Percent Rate)**

- (1) Penalty indicator code (PIC) “1” is generated with the systemic TC 186 posting in the same cycle as the TC 150 to mark the account module for a potential 15 percent penalty rate on the amount of the unpaid tax. Under the four-tier penalty system, the 15 percent penalty rate is applied to the balance due (tax only) that remains unpaid after notice and demand for the unpaid tax (e.g., 23C date plus 10 days). The fourth tier isn’t systemically marked or assessed if the FTD penalty (systemic TC 186) wasn’t previously assessed. The systemic analysis on whether to assess the additional 5 percent penalty (total penalty is limited to 15 percent, of which 10 percent has already been assessed with PIC “1”), is held 5 cycles to allow enough time for processing of the taxpayer’s subsequent payment. After the 5 cycle hold expires, the account is analyzed and if

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penalty is systemically assessed with a separate TC 186 identified with a PIC “2”.

- a. PIC “1” is present with the initial TC 186 and will appear on TXMOD in the “FTD-INCREASED-PNLTY-CD>\_” field to mark the potential additional 5 percent penalty rate. See example below of PIC “1” posted on TXMOD with the initial TC 186 to mark the potential 5 percent penalty rate.

**Example of PIC 1 posted to TXMOD**

186 03312011 3,652.28 201112 38139-039-88615-1 FTD-PNLTY-  
CD>003  
FTD-INCREASED-PNLTY-CD>1

- b. PIC “2” is present with the subsequent TC 186 (posted 5 cycles after the initial TC 186 with PIC “1”) and will appear on TXMOD in the “FTD-INCREASED-PNLTY-CD>\_” field to indicate the additional 5 percent portion of the FTD penalty. See example below of PIC “2” posted on TXMOD as the additional 5 percent portion of the FTD penalty.

**Example of PIC 2 posted to TXMOD**

186 05052011 1,791.75 201117 38139-039-88615-1 FTD-PNLTY-  
CD>003  
FTD-INCREASED-PNLTY-CD>2

**Caution:** If a PIC “1” is present with the initial TC 186 (posted in the cycle to the TC 150), check to be sure that the systemic 15 percent fourth tier penalty amount isn’t pending for posting as a subsequent TC 186 marked with a PIC “2”.

20.1.4.14.5  
(04-20-2010)  
**Computer Condition  
Codes (CCC)**

- (1) Computer Condition Codes (CCC) are assigned by tax examiners or are computer generated during the processing of the return. They identify a special condition or computation for the computer. Computer Condition Codes post to the Master File.
- (2) Returns processed with CCC “J” are excluded from FTD penalty processing. The CCC “J” is used in limited situations and only when authorized by the Office of Servicewide Penalties.

20.1.4.14.6  
(02-09-2018)  
**Schedule Indicator  
Codes (SIC)**

- (1) Schedule Indicator Codes (SIC) identify conditions that may affect FTD penalty computations and are computer generated by Master File unless manually coded on the return during the return processing.
- (2) Because no more than one SIC can be entered on any one return, a return with SIC other than “1” or “0” could have more than one applicable condition.
- (3) A SIC 2 coded on the return during the return processing will prevent Master File from determining a penalty amount. Instead, Master File generates CP 194, possible FTD Penalty Notice. SIC 2 is entered when the taxpayer attaches an unbanked taxpayer statement to the tax return. The Campus manually reviews all CP 194 accounts.
- (4) The SIC values range from numeric “0” through “7” and are displayed in the “SIC” field of the return record and on all transcripts for returns. The number indicates which condition applies.
- (5) See Exhibit 20.1.4-11, Schedule Indicator Code (SIC) Definitions.

- 20.1.4.14.6.1  
(04-20-2010)  
**Schedule Indicator Code (SIC) “0”**
- (1) **SIC “0”** — Master File may generate a CP 194 notice on an account with SIC “0”. This means conditions exist, other than those identified by SICs “1” through “7”, that require manual review of the account.
  - (2) The reason Master File generates a CP 194 notice with a SIC “0” may not be clearly evident, since SIC “0” means the return **has a valid ROFTL schedule** for computing the penalty.
    - a. If the tax return shows valid ROFTL information, use the ROFTL figures to compute and assess the penalty.
    - b. If the tax return shows invalid ROFTL information, compute the averaged liability and propose the penalty.
    - c. If the return isn’t available use the ROFTL figures from the account transcripts, TXMOD, BMFOLR, or BRTVU, when **valid**.
    - d. If the figures **are not valid** or if the ROFTL information isn’t available, then average the liability.
    - e. Send Letter 313-C and the appropriate form or schedule to the taxpayer.
- 20.1.4.14.6.2  
(04-20-2010)  
**Schedule Indicator Code (SIC) “1”**
- (1) **SIC “1”** — The original tax return isn’t required because SIC “1” indicates that the return doesn’t have a complete and accurate ROFTL schedule.
  - (2) When a SIC “1” is input to a return during the return processing, the ROFTL schedule isn’t transcribed because it has been deemed as invalid. Master File computes a proposed penalty by averaging the tax and generates a CP 207 or CP 207L notice (Proposed Averaged Penalty) to the taxpayer, as a means to secure a valid ROFTL schedule.
  - (3) The systemic proposed averaged penalty is held by Master File for 15 cycles to allow ample time for:
    - Receiving the requested ROFTL information,
    - Recalculating the FTD penalty using the corrected ROFTL schedule,
    - Manually inputting the related penalty adjustment (based on the valid ROFTL schedule), thereby
    - Overriding the systemic penalty assessment calculated using the averaged ROFTL schedule.
- 20.1.4.14.6.3  
(02-09-2018)  
**Schedule Indicator Codes (SIC) “2” and “3”**
- (1) **SIC “2”** — Master File generates the CP 194 notice because an unbanked taxpayer statement is attached to the return. Follow procedures for processing unbanked taxpayers in IRM 20.1.4.26.1.1, Unbanked Taxpayer.
  - (2) **SIC “3”** — “Church FICA Issue” or “Church Social Security Issue” notated on return. See IRM 3.11.13.14.5, Form 941 with Notation, **Church FICA issue**.
- 20.1.4.14.6.4  
(04-20-2010)  
**Schedule Indicator Codes (SIC) “6” and “7”**
- (1) **SIC “6”** — Good ROFTL schedule provided; penalty is calculated on a liability amount of \$100,000 or more.
  - (2) **SIC “7”** — The original tax return isn’t required because SIC “7” indicates that the return doesn’t have complete and accurate ROFTL schedule and the liability amount(s) when averaged are \$100,000 or more. SIC 7 indicates that ROFTL schedule was missing or not transcribed because it was invalid. Master File computes a proposed penalty by averaging the tax and generates a CP 207 or CP 207L notice (Proposed Averaged Penalty) to the taxpayer as a means to secure a valid ROFTL schedule.



- (3) The systemic proposed averaged penalty is held by Master File for 15 cycles to allow ample time for:
  - Receiving the requested ROFTL information,
  - Recalculating the FTD penalty using corrected ROFTL schedule,
  - Manually inputting the related penalty adjustment (based on valid ROFTL schedule), thereby
  - Overriding the systemic penalty assessment calculated using averaged ROFTL information.

20.1.4.14.7  
(07-17-2015)

## Employment Codes “A” and “F”

- (1) Employment Code “A”
  - a. Beginning 01/01/2009, the FTD penalty computation is systemically bypassed when the employment code “A” is present on the entity module.
  - b. An employment code “A” is assigned to state and local government health and welfare agencies, acting as agents under IRC 3504, with respect to employers for in-home domestic services for recipients of public assistance.
  - c. These agencies assume responsibility for reporting and paying FICA and FUTA and any withheld income tax with respect to individuals furnished by the agency, or hired directly by the recipients of public assistance, to provide domestic services for recipients on public assistance.
  - d. These agencies aren’t required to supply a ROFTL schedule and need only to make payment(s) by the due date of the return.

**Caution:** Don’t assess any failure to deposit penalty on these entities. In addition, abate the penalty on modules (for all years) with an unreversed failure to deposit penalty when working on other issues on these modules.

- (2) Employment Code “F”
  - a. An employment code “F” is assigned on the entity module to identify federal agencies.
  - b. When the employment code “F” is present on the entity module, the FTD penalty computation is systemically bypassed. See IRM 1.2.20, Policy Statements for Penalties and Interest Activities, for Policy Statement 20-2 as it relates to federal agencies.

20.1.4.15  
(03-11-2024)  
**CP 194 Notices  
(Possible FTD Penalty)**

- (1) Master File generates a Possible FTD Penalty Notice, CP 194, for the following:
  - a. Returns with Schedule Indicator Codes (SIC) input during the code and edit phase of return processing.
  - b. Certain 941, 943, 944, 945, 940, 720 and 1042 filers.
  - c. Form CT-1.
  - d. Form 941-M, if the filing requirement is 10. Form 941M is obsolete after December 2011.
  - e. Form 941-PR, Form 941-SS, Form 943 (PR), Form 940 (PR) when they meet the conditions in (a) and (b) above.
- (2) Issuance of the CP 194 notice means the Campus **must** review the account and manually calculate the penalty. Whenever possible, **call the taxpayer** to resolve the CP 194 issue.

- (3) The Campus must process CP 194 notices **within 75** calendar days of the IRS received date. This includes issuing Letter 313-C to the taxpayer.
- (4) Master File generates two copies of the CP 194 notice. The Campus Files area receives the notices and secures the original related return. One copy of the notice is attached to the tax return and the other is used as the return charge out. If the files area doesn't send the original return, proceed as follows:
  - a. Form 720, Check Command Code(CC) BRTVU — The original Schedule A, Excise Tax Liability section of Form 720 return is transcribed, when valid, and can be viewed using CC BRTVU.
  - b. If Campus Files attaches an incorrect tax return, send the return (with the CP 194) back to Files and request the correct return.
  - c. If Campus Files didn't attach a return, review the charge out information or IDRS to determine if the tax return is in another function. If so, contact that area to secure a copy of the return.
  - d. If neither the original return ROFTL schedule nor a copy is available, follow instructions for averaging the tax liability. (Refer to computation procedures for the applicable return.)
- (5) If the case has other freeze conditions, coordinate with the appropriate area for resolution.
- (6) If the case is assigned to a revenue officer(RO), coordinate with the RO to secure a valid ROFTL and assess the correct FTD penalty.

20.1.4.15.1  
(03-11-2024)

#### Working CP 194 Notices

- (1) To ensure that credit posting problems are identified and corrected before computing the penalty on **CP 194 notice accounts that show unpaid tax**, conduct the following IDRS research:
  - a. Review the account transcript (TXMOD) to see if any timely deposits posted after the generation of the CP 194 notice.
  - b. Review TXMOD for other tax periods to see if there is a misapplied deposit intended for the period in question.
  - c. Review CFOL, IDRS, etc. for FTD Credit Module (01 000000) to see if it has a deposit intended for the current period.
  - d. Review UPTIN for the EIN to see if any deposits are unpostable.
  - e. Review URINQ/XSINQ for the name control to see if any credits are in the Unidentified or Excess Collections accounts.
  - f. Review FINDE/NAMEE for any other TINs assigned to this employer.
- (2) **On CP 194 notice accounts with a credit balance**, conduct the following IDRS research:
  - a. Check for any pending assessments. If TC 976 is present, a duplicate return (or amended return) has posted. Hold CP 194 notice until CP 193 notice generates. (Master File generates CP 193 notice when a duplicate or amended return posts to an account.) Follow local procedures for associating multiple cases.
  - b. Check for other control bases. If one is present, coordinate with the other area.
  - c. Check for debit balances on other account periods to see if the credit posted in error. If so, transfer the payment(s).
- (3) No penalty due, tax \$2,500 or more on CP 194 notice:

- a. Use blocking series 000–099 to indicate a refile DLN (original return or magnetic(mag) tape facsimile is available), or
- b. Use blocking series 150–159 to indicate a non-refile DLN.
- c. Input TC 180 \$.00 as a source document (SD).
- d. Attach CP 194 notice and page 1 of FTDPN or applicable ACT/DMI InterestNet page.

**Note:** For Form 720, attach the manual computation.

- e. For CIS cases, input TC 180 \$.00 as a non-source document and capture the FTDPN computation screen or applicable ACT/DMI InterestNet page on the CIS system.

**Exception:** See IRM 20.1.4.3, Restrictions on Assessments, for the use of PRC

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20.1.4.15.2  
(03-11-2024)  
**FTD Penalty on Form  
720 Medical Device  
Excise Tax**

- (1) IRB 2012-77 provides FTD penalty relief for the first three calendar quarters of 2013 for the medical device tax on Form 720. IRB 2018-10 provides FTD penalty relief for the first three calendar quarters of 2018 for the medical device tax.
- (2) Don't assess an FTD penalty on medical device tax in the first three calendar quarters of 2013 or 2018. Any previously assessed FTD penalties on medical device tax for the first three quarters of 2013 or 2018 must be abated and an apology letter sent to the taxpayer. If Form 720 includes medical device tax and other excise tax, assess FTD penalty on the other excise tax if appropriate. Input TC 180 .00 if no FTD penalty is assessed. .
- (3) The medical device tax is not assessed on 2016 and 2017 Forms 720. See section 174 of the Protecting Americans from Tax Hikes Act of 2015, P.L.114-113.
- (4) The medical device tax is not assessed on 2018 and 2019 Forms 720. See P.L.115-120, Making further continuing appropriations for the fiscal year ending September 30, 2018, and for other purposes, signed into law on January 22, 2018.

20.1.4.15.3  
(03-11-2024)  
**Statements From  
Unbanked Taxpayers**

- (1) SIC code 2 identifies a taxpayer who attaches a statement indicating “**unbanked taxpayer.**” An unbanked taxpayer is unable to obtain bank services in order to make deposits by EFT.
- (2) See IRM 20.1.4.26.1.1, Unbanked Taxpayers, for reasonable cause criteria for unbanked taxpayers.
- (3) If there is a TC 18X with PRC 046 within the last 24 months, reasonable cause is considered met. Use PRC 030 when computing the FTD penalty.
- (4) If the taxpayer's statement meets reasonable cause criteria, compute the FTD penalty for late deposits only, using RC 062 and PRC 046. If the FTD penalty is zero, input TC 180 .00 with RC 062 and PRC 046. If the date of the statement indicates that it is a copy of a previously approved request for penalty relief, use PRC 030.

- (5) Use CC FTPDN to compute the FTD penalty. Add “E” after the transaction code (usually TC 670 or TC 610) on the payments page for all payments that meet reasonable cause for failure to deposit by EFT. The FTD penalty is computed for late payments.
- (6) If there is a history item on AMS showing the taxpayer was unable to obtain banking services within the last 24 months, then reasonable cause is considered met. Use PRC 030 when computing the FTD penalty.
- (7) A valid ROFTL is required for FTD penalty relief. If the statement is incomplete, and none of the above apply, or there is no valid ROFTL, contact the taxpayer by telephone or with Letter 313-C to obtain a signed statement showing recent attempts to obtain banking services and/or a valid ROFTL.
- (8) If the taxpayer doesn’t reply with a signed statement that meets reasonable cause criteria, assess FTD penalty per IRM 20.1.4.7.1, Time Sensitive Four Tier Penalty System.
- (9) If the taxpayer doesn’t supply a valid ROFTL, compute an averaged penalty.
- (10) If the taxpayer’s statement includes a request for penalty relief for late payments, determine whether reasonable cause is met for each payment. Inability to obtain banking services doesn’t meet reasonable cause criteria for late payments. If any payments meet reasonable cause for late deposit, overlay the intended deposit date on the FTDPN deposit screen.

20.1.4.15.4  
(04-20-2010)  
**Computing the FTD  
Penalty CP 194**

- (1) Each return type has its own format for capturing the information needed to determine if the tax reported on the return has been captured correctly and deposited/paid timely. Refer to the “Computing the FTD Penalty” section under the appropriate tax form for which the CP 194 notice generated.

20.1.4.15.5  
(07-17-2015)  
**Proposing the Averaged  
FTD Penalty CP 194**

- (1) Propose an averaged FTD penalty when the ROFTL schedule or record of net tax (RONT) information is missing or invalid using Letter 313-C. See Exhibit 20.1.4-12, ROFTL Enclosures.
- (2) **EXCEPTION:** Assess the 10 percent penalty on the total tax amount if the penalty is entirely due to:
  - a. Avoidance payments
  - b. Non EFT deposits when required to use EFT (before January 1, 2011), and/or
  - c. Unpaid tax.(Assess at the 15% rate if payment isn’t received within ten days of first notice and posted within five weeks of first notice.)
- (3) If the corrected ROFTL information in the exceptions in paragraph 2 wouldn’t decrease the amount of the penalty:
  - a. Send Letter 2782-C or CP 568.
  - b. Close the case.

20.1.4.16  
(01-06-2012)  
**Issuing Averaged FTD  
Penalty  
Proposals—Letter 313C**

- (1) When proposing an averaged penalty, send Letter 313-C, FTD Penalty Proposal. Enclose the appropriate ROFTL schedule with the two copies mailed to the taxpayer and suspend for 45 days. See Exhibit 20.1.4-12, ROFTL Enclosures.

20.1.4.16.1  
(07-17-2015)

## Replies to 313C Letters

- (1) Associate the taxpayer's reply with the suspense copy. If the suspense copy isn't located, continue without the suspense copy.

**Note:** If the reply is received late (after the averaged FTD penalty assessment), the new ROFTL schedule must be considered and the FTD penalty adjusted per item number (2) below.

- (2) If taxpayer provides a completed ROFTL schedule:
  - a. Recompute the penalty.
  - b. Assess or adjust the penalty, if required. Include the 15% 4th tier penalty if applicable. See IRM 20.1.4.17, 15 Percent 4th Tier Penalty.
  - c. Send CP 568 or appropriate correspondex letter to inform the taxpayer of the correct penalty amount, the reason for the adjustment and the correct balance due.
- (3) Taxpayer provides an unacceptable ROFTL schedule or other correspondence.
  - a. Contact the taxpayer to explain why the information provided by the taxpayer is unacceptable.
  - b. If unable to reach the taxpayer by telephone, return the unacceptable ROFTL schedule or other correspondence to the taxpayer and explain why the information is unacceptable. Highlight pertinent areas if it would help the taxpayer.
  - c. Include the appropriate blank Schedule of Tax Liability.
  - d. Advise the taxpayer that acceptable information must be received within 20 days or the proposed penalty amount will be assessed.
  - e. Suspend the case for 30 days.
- (4) Taxpayer submits an amended return.
  - a. If the amended return is a tax decrease or interest-free tax increase, See IRM 20.1.4.18.1(7) through (9).
  - b. If the amended return is a non-interest-free tax increase, see IRM 20.1.4.21.3.
- (5) Taxpayer provides an unacceptable ROFTL schedule or other correspondence after the averaged FTD penalty assessment.
  - a. Contact the taxpayer to explain why the information provided by the taxpayer is unacceptable.
  - b. If unable to reach the taxpayer by telephone, return the unacceptable ROFTL schedule or other correspondence to the taxpayer and explain why the information is unacceptable. Highlight pertinent areas if it would help the taxpayer.
  - c. Include the appropriate blank Schedule of Tax Liability.

20.1.4.16.2  
(07-17-2015)

## No Response Cases

- (1) If the taxpayer doesn't reply within the suspense period, research IDRS for an open DUPF control base, or to see if a duplicate/amended (TC 976) filing condition is present (TC 976 usually generates CP 193 or CP 293).
  - a. A taxpayer may resubmit a tax return with the completed ROFTL schedule rather than providing just the ROFTL schedule that was sent with Letter 313-C.
  - b. If a duplicate filing condition is present, refer to IRM 21.7, Business Tax Returns and Non-Master File Accounts guidelines.

	<div>c. See IRM 21.7.9.4, Duplicate Filing Conditions Procedures, for working multiple issues.</div>	
	<div>(2) For no response cases, assess the averaged penalty. Include the 15 percent 4th tier penalty if applicable. See IRM 20.1.4.17, 15 Percent 4th Tier Penalty.</div>	
<div>20.1.4.17 (02-09-2018) 15 Percent 4th Tier Penalty</div>	<div>(1) Under the four tier penalty system, the 15 percent penalty rate applies to the tax that remains unpaid on the eleventh day following the date of the first delinquency notice (aka the notice and demand) for the tax (e.g., 23C date plus 11 days).</div> <div>(2) When assessing the FTD penalty, if the entire required deposit wasn't received demand, apply the 15 percent penalty rate. If tax or the FTD penalty on a separately required deposit is simultaneously assessed with the FTD penalty, don't assess the 15 percent penalty rate on the tax or separately required deposit. Using blocking series 20 will generate CP 294.</div> <div><b>Note:</b> If TC 18X is assessed with a tax increase in blocking series 20, see instructions for the fourth tier penalty analysis located in paragraph 3 of IRM 20.1.4.20, CP 294 Notice- Possible 15 Percent Rate.</div> <div>(3) When assessing the FTD penalty as a result of a CP 194 or CP 207/CP 207L notice, include the 15 percent 4th tier penalty if the required deposit wasn't</div> <div><div>a. Use blocking series 130–139 to indicate a refile DLN (original return or mag tape facsimile is available), or</div><div>b. Use blocking series 140–149 to indicate a non-refile DLN.</div></div> <div>(4) The 15 percent penalty rate also applies on the day on which notice and demand for immediate payment is given under IRC 6861 or IRC 6862 or the last sentence of IRC 6331(a).</div>	<div>#</div> <div>#</div> <div>#</div> <div>#</div> <div>#</div> <div>#</div>
<div>20.1.4.18 (02-09-2018) CP 207/207L Notices</div>	<div>(1) When the ROFTL section of the return is incomplete or illegible, Master File generates a CP 207 or CP 207L notice in an effort to secure a valid ROFTL schedule for Form 941, Form 943, Form 944, Form 945, and Form 1042 filers. Master File also generates CP 207/207L when the total tax liability reported on</div> <div><b>Note:</b> CP 207L notices indicate that the averaged penalty amount is \$75,000 or more. The “L” signifies “Large” dollar amount and the notices are reviewed by the Ogden or Cincinnati Large Corp Technical Unit (LCTU) prior to mail out.</div> <div>(2) A negative entry will invalidate the ROFTL schedule, even if the total tax</div>	<div>#</div> <div>#</div> <div>#</div> <div>#</div> <div>#</div> <div>#</div>



- a. If this is the situation, It is especially important to contact the taxpayer and explain the reason the ROFTL schedule was rejected. Point out that it is impossible to have a negative liability—an adjustment may reduce subsequent liability(ies) to zero, but never below.
- (3) Master File generates the proposed penalty taxpayer notice (CP 207 or CP 207L) and “holds” the FTD penalty assessment action for 15 cycles (weeks).
- (4) If there is no reply to a CP 207 or CP 207L, or if the reply isn’t resolved and input by the **13th cycle** (week) after issuance of the CP 207/CP 207L notice, Master File will systemically assess an averaged penalty (TC186). If a reply is not input by the 13th cycle, see IRM 20.1.4.18.2, **Late Replies to CP207/207L Notices**.
- (5) Use blocking series 140-149 non-refile DLN (without original return) or blocking series 130-139 refile DLN (with original return) for CP 207 and CP 207L notice processing issues.

**Exception:** An adjustment input in blocking series 140-149 won’t release a -A freeze condition and shouldn’t be used if working a duplicate return issue that requires the release of a “-A” freeze condition.

- (6) Contact the taxpayer for additional information if there is enough time to receive the information and input the resulting adjustment by the **13th week** after generation of CP 207 or CP 207L notices.
- (7) CP 207L with an averaged penalty of \$1 million or more should only be mailed to the taxpayer if CP 207L can’t be resolved and the taxpayer can’t be reached by telephone.
- (8) If the case is assigned to an RO, coordinate with the RO to secure a valid ROFTL and assess the correct FTD penalty.

20.1.4.18.1  
(03-11-2024)  
**Replies to CP 207/207L  
Notices**

- (1) CP 207 or CP 207L notices requiring penalty adjustments must be input by the **13th cycle** after generation of the notice to allow time for posting of the adjustment before the automatic 15 cycle (week) hold expires. If a reply is not input by the 13th cycle, see IRM 20.1.4.18.2, **Late Replies to CP207/207L Notices**.
- (2) If the taxpayer provides a completed ROFTL schedule:
  - Compute the penalty based on the taxpayer’s figures. Include the 15% fourth tier if applicable. If the 15% tier is applicable, allow time for a timely payment to post before including the 15% fourth tier penalty.
  - If no penalty applies input TC 180 \$.00 with the appropriate fourth position PRC, to prevent the systemic assessment of the averaged penalty, and provide an explanation to the taxpayer either by mail,

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## Restrictions on Assessments

**Caution:** See IRM 20.1.1, Penalty Handbook - Introduction and Penalty Relief, and IRM 20.1.1-2, Penalty Reason Code Chart.

- If a penalty applies, assess the penalty with the appropriate first position PCC, and provide an explanation either by mail, fax, phone, or other means with the penalty computation to the taxpayer.

**Note:** See IRM 20.1.4.14.3, Penalty Computation Codes (PCC), for a list of the valid PCC codes.

- (3) **Taxpayer provides an unacceptable ROFTL schedule, payment without ROFTL schedule, and/or other correspondence.**
- a. Attempt to call the taxpayer for the necessary information if there is enough time remaining to secure a valid ROFTL schedule and input the resulting adjustment by the **13th week** after generation of CP 207 or CP 207L. See IRM 20.1.4.25.1, Telephone Contact.
  - b. If the **13th week** after the generation of CP 207 or CP 207L notice has expired, allow the computer to assess the averaged penalty.
  - c. Return the unacceptable ROFTL schedule or other correspondence to the taxpayer and explain why the information is unacceptable. Highlight pertinent areas if it would help the taxpayer.
  - d. Include a new blank ROFTL schedule.
  - e. Inform the taxpayer that a penalty adjustment notice will be issued and to submit the necessary information, as soon as possible, for reconsideration of the penalty.
- (4) **Taxpayer requests reasonable cause; corrected ROFTL schedule not provided.** If the taxpayer didn't provide an acceptable ROFTL, reasonable cause cannot be considered or denied. Follow procedures in (3) above.
- (5) **Taxpayer requests reasonable cause; corrected ROFTL schedule provided.**
- a. Before considering or denying reasonable cause, recalculate the penalty using the corrected ROFTL schedule the taxpayer provided to determine if a penalty is in fact due.
  - b. If the recalculation results in a penalty due, then follow the reasonable cause procedures. See IRM 20.1.1, Introduction and Penalty Relief, and IRM 20.1.1-2 Penalty Reason Code Chart.
- (6) If additional information for a reasonable cause determination is needed, proceed as follows:
- a. Attempt to call the taxpayer for the necessary information if there is enough time remaining to secure the information and input the resulting adjustment by the **13th week** after generation of CP 207 or CP 207L notice.
  - b. If there isn't enough time to prevent the systemic assessment of the penalty, adjust the penalty using the corrected ROFTL schedule and inform the taxpayer that a penalty adjustment notice will be issued and to submit the necessary information, as soon as possible, for reconsideration of the penalty.
- (7) **Taxpayer Submits Adjusted Return (Forms 941-X, 943-X, 944-X, 945-X), or amended return to reduce the tax.** In situations where the CP 207 or CP 207L notice was generated because ROFTL schedule didn't mathematically agree with TC 150, the taxpayer may reply with an adjustment to decrease the assessed tax. The request for tax decrease may have been submitted on:
- a. Adjusted Return (Form 941-X, Form 943-X, Form 944-X, or Form 945-X).
  - b. Amended or supplemental return.

- (8) Review the validity of the tax decrease per customer service procedures. If the adjustment is allowable, consider the FTD penalty issue on the revised tax. Determine if new tax and ROFTL figures now agree.
  - a. If so, compute FTD penalty based on ROFTL information. Input TC 180 \$.00 or assess the penalty, as appropriate.
  - b. If not, attempt to call the taxpayer for a new ROFTL schedule, if there is enough time remaining to secure a valid ROFTL schedule and input the resulting adjustment by the **13th week** after generation of the notice. If time does not permit, average the new tax.
  - c. If the averaged penalty on the corrected tax results in no penalty due, input a TC 180 \$.00 with the appropriate PRC.
  - d. If the averaged penalty on the corrected tax results in a penalty, assess the averaged penalty and inform the taxpayer to submit a new ROFTL schedule after notification of the averaged penalty assessment is received.
- (9) **Taxpayer Submits Interest- Free Adjusted Return or amended return (Forms 941-X, 943-X, 944-X, 945-X)**, Taxpayer must still submit a correct ROFTL. A correct ROFTL doesn't include TC 298/308. If taxpayer doesn't submit a correct ROFTL, contact the taxpayer, explaining what is required. If there is no reply, allow master file to compute an averaged penalty before making the interest-free adjustment.
- (10) If a tax decrease won't be input by the 13th week following CP 207 or CP 207L notice generation, follow the procedures below.
  - a. If a tax decrease is being delayed, input TC 180 \$.00 to prevent automatic generation of the averaged penalty. Input the appropriate penalty adjustment when TC 291 is input.
  - b. If the adjustment is being disallowed, inform the taxpayer of the disallowance and the need to submit a revised ROFTL schedule after they receive notification of the averaged penalty assessment.

20.1.4.18.2  
(03-11-2024)  
**Late Replies to CP  
207/207L Notices**

- (1) If the taxpayer provides the corrected ROFTL information after the 13th cycle (week) but before automatic assessment (15th cycle), compute the correct
 

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- (2) If the correct penalty differs, inform the taxpayer that the reply wasn't received in time to prevent the penalty from being automatically assessed but that we will adjust the account and issue a corrected notice.
- (3) Suspend the case until TC 186 posts and then input the appropriate TC 18X, or
- (4) If the reply is received after Master File automatically assesses the penalty (TC186), the reply is treated as any other reply to an assessed penalty notice. Adjust the penalty as appropriate using:
  - a. Blocking series 000-049 when the original tax return is part of the source document, or
  - b. Blocking series 150-179 when the original tax return isn't available.



- b. Determine net unpaid original (TC 150) tax amount as of the 23C date  
immediate payment, if earlier. #
- c. Consider only posted credits to determine net unpaid tax amount.
- d. Suspend an account until any pending or unpostable credits are resolved. #

(2) When the net unpaid tax amount is determined:

- a. Multiply this amount by 5 percent (total penalty is limited to 15 percent, of which 10 percent has already been assessed),
- b. Input TC 180 for the resulting amount,
- c. Use the same PCC as in the original assessment/adjustment,
- d. Use blocking series 000-099 when adjusting CP 294 notice **with original return** or mag tape facsimile, or
- e. Use blocking series 150-179 when adjusting CP 294 notice **without original return**. #
- g. The assessment requires approval by the employee's immediate supervisor, even if FTDPN or ACT/DMI InterestNet is used to determine the additional assessment. #

(3) Master File generates the appropriate taxpayer notice.

20.1.4.20.2  
(03-11-2024)  
**Processing CP 294  
Notice- TC 290/298  
Blocking Series 20**

- (1) Upon receipt of CP 294, Possible 15 Percent FTD Penalty, the Campus takes the following actions:
  - a. Review available account information.
  - b. Determine net unpaid tax amount on TC 290/298 blocking series 20 as of #
  - c. Consider only posted credits to determine net unpaid tax amount. Reversed deferred tax credit (TC 76X CRN 280) is treated as additional tax and subject to the 15% penalty rate as well. See IRM 20.1.4.28, CARES Act Section 2302 Deferrals for additional information.
  - d. Suspend an account until any pending or unpostable credits are resolved. #

(2) When the net unpaid tax amount is determined:

- a. Multiply this amount by 5 percent (total penalty is limited to 15 percent, of which 10 percent has already been assessed),
- b. Input TC 180 for the resulting amount,
- c. Use the same PCC as in the original assessment/adjustment, #
- e. The assessment requires approval by the employee's immediate supervisor, even if FTDPN or ACT/DMI InterestNet is used to determine the additional assessment. #

(3) Master File generates the appropriate taxpayer notice.

20.1.4.21  
(03-11-2024)  
**Taxpayer Responses**

- (1) Be familiar with the CAUTION and instructions found in IRM 20.1.4.23, Manual Adjustments, before attempting to respond to any taxpayer requests for adjustment or explanation of their account.

20.1.4.21.1  
(07-17-2015)

**Payment Information**

- (1) If the taxpayer claims the IRS didn't properly credit the account:
  - a. Review the canceled check, bank data, or other information the taxpayer provided about the payment.
  - b. Determine if the payment posted correctly to the account.
- (2) If the deposit isn't on the account, follow the functional procedures for tracing the payments. See IRM 21.5.7, Payment Tracers.
- (3) See Rev. Proc. 97-33 and Rev. Proc. 2012-32 regarding proof of payment for EFT.
  - a. For an ACH debit or credit entry, a statement prepared by the taxpayer's financial institution showing a transfer (a decrease to the taxpayer's account balance) will be accepted as proof of payment if the statement shows the amount and the date of the transfer and identifies the U.S. government as the payee.
  - b. For an FTCS same-day wire, taxpayers may request that their financial institution obtain a statement from the Federal Reserve Board (FRB) that executed the transfer. This statement will be accepted as proof of payment if the statement shows the amount and the date of the transfer and identifies the U.S. government as the payee.
  - c. For purposes of this section, statements prepared by a financial institution include statements prepared by a third party that is contractually obligated to prepare statements for the financial institution.
- (4) If the payment has posted to the correct account after Master File generated the original penalty (TC 186), an automatic recomputation of the penalty occurs. Notify the taxpayer that the payment has been properly applied or that the payment was properly credited.
- (5) If the payment posted to the correct account after a manually assessed penalty (TC 180), recompute the penalty using the latest payment information.
- (6) If a payment posted after the 15 percent rate is in effect, it may not be necessary to recompute the penalty.
- (7) If the payment posted, but the transaction date doesn't agree with the information provided, see IRM 20.1.4.24.2, Misdated Deposits.
- (8) For information regarding the application of payments, see IRM 20.1.4.7.4, Application of Payments.

20.1.4.21.2  
(03-11-2024)

**Revised Record of  
Federal Tax Liability  
(ROFTL) Provided**

- (1) Taxpayers may submit a revised ROFTL schedule. It is possible for a change in the liability information to have no effect on the previous tax, but could result in a penalty change only. Therefore, the ROFTL area must be considered before a "True Duplicate" determination can be made, assuming the amended ROFTL schedule is correct. See paragraph (6) below.
- (2) Any time the taxpayer changes ANY information or lines on a validated ROFTL schedule, a penalty computation is required (even if no penalty was originally assessed) to determine the applicable FTD penalty.

**Exception:** See paragraphs (4) and (6) of IRM 20.1.4.21.5, Adjusted Returns (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X). If the ROFTL is a reply to CP 276A or CP 276B, see IRM 20.1.4.19.



- (3) A revised ROFTL schedule received may be a reply to CP 207 or CP 207L notice or Letter 313-C.
  - a. Check TXMOD to determine if Master File issued a CP 207 or CP 207L notice.
  - b. Check ENMOD/TXMOD to see if a Campus issued Letter 313-C.
  - c. If either was issued and the penalty hasn't been assessed, coordinate with the FTD Penalty Function.
- (4) If neither CP 207, CP 207L notice, nor Letter 313-C was issued, follow the instructions at (6) below.
  - a. The CP 207 or CP 207L notice history may drop from the Taxpayer Information File (TIF) before the CP 207 or CP 207L notice reply is received and processed, or before the averaged penalty is systemically assessed 15 cycles later. Therefore, the CP 207 or CP 207L notice information may not always be present in the notice history section for use in determining whether the systemic averaged penalty assessment is outstanding.
  - b. The best way to identify if a CP 207 or CP 207L was issued is to check the tax module for a SIC of either "1" or "7". A SIC of "1" or "7" indicates that Master File computed the penalty by averaging the tax and generated a CP 207 or CP 207L notice (Proposed Averaged Penalty) to the taxpayer in the cycle of TC 150.
- (5) Since taxpayers file their returns under "penalty of perjury", taxpayer requests to revise or add return information must be resolved appropriately. **Oral** requests to change the dates or liability amounts on the ROFTL schedule are NOT accepted.
- (6) Upon receipt of a legible, complete (no negative amounts) liability schedule:
  - a. Recompute the penalty using the new ROFTL information, unless the tax liability is within the de minimis amount to deposit. If Form 941 tax liability is over the de minimis amount and was previously considered de minimis, check the prior quarter to see if the de minimis applies. If the de minimis does not apply, assess the deposit penalty based on the new ROFTL information.
  - b. For de minimis amounts, see IRM 20.1.4.6, De Minimis to Deposit Requirements. For ROFTL information, see IRM 20.1.4.2.1, Criteria for Reporting Tax and ROFTL Information.
- (7) If the revised ROFTL schedule is not legible, not complete, has negative amounts, or is otherwise invalid, attempt to resolve the discrepancy by telephone contact with the taxpayer or authorized representative. If unable to resolve the discrepancy, return the unacceptable ROFTL schedule to the taxpayer and explain why the information is unacceptable. Highlight pertinent areas if it would help the taxpayer.
- (8) If the information in the new valid ROFTL schedule requires a penalty recalculation, input the penalty update and provide the penalty computation to the taxpayer. See IRM 20.1.4.25, Taxpayer Contact Correspondence. If the FTD

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penalty is zero, the notice is sufficient. Do not send an explanation or computation. **EXCEPTION:** See IRM 20.1.4.3(4), Restrictions on Assessments.

- a. **If the taxpayer submits changes to the ROFTL schedule, accept the information and make the appropriate FTD penalty adjustment. A signature is required only if the requested action will change the total tax liability.**

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See IRM 20.1.4.23.1(5), Command Code FTDPN, for instructions on recalculating using the FIFO method. See IRM 20.1.4.3, Restrictions on Assessments.

- (9) If the recomputed penalty doesn't require a penalty adjustment, then input TC 180 for \$.00 with the appropriate PRC (even if there was no previous posted TC 18X) to indicate that no penalty was due or charged per the revised ROFTL schedule.
  - a. See IRM 20.1.1, Introduction and Penalty Relief and IRM 20.1.1-2, Penalty Reason Code Chart.
  - b. Remember to attach the penalty computation to the adjustment document.

20.1.4.21.3  
(03-11-2024)  
**Amended or  
Supplemental Return  
(Tax Decrease or  
Non-Interest-Free Tax  
Increase)**

- (1) When the taxpayer files an amended return and ROFTL schedule that results in a (TC 290 or TC 300) non-interest-free tax adjustment, recompute and update the penalty using the new corrected tax amount (TC 150 plus any TC 291, TC 301, TC 290, TC 300 tax adjustments) and new corrected ROFTL schedule, assuming the amended return is correct and the new total ROFTL  
  
plus any TC 291, TC 301, TC 290, TC 300 tax adjustments) and contains no negative entries. If the new tax is lower than the original, recompute and update the penalty, including any applicable fourth tier penalty. See IRM 20.1.4.3, **Restrictions on Assessments**.
- (2) **CAUTION:Do not use any TC 298/308 tax adjustment amounts to figure the new corrected tax amount.**
- (3) If the taxpayer files a supplemental (additional) return and ROFTL schedule that results in a (TC 290 or TC 300) non-interest-free tax increase, recompute and update the penalty using the new corrected tax amount (TC 150 plus any TC 291, TC 301, TC 290, TC 300 tax adjustments). **CAUTION:Do not use any TC 298/308 tax adjustment amounts to figure the new corrected tax amount.** Combine the liability amounts from the new supplemental ROFTL schedule with the original TC 150 ROFTL schedule. Assumption: supplemental  
  
the new corrected tax amount (TC 150 plus any TC 291, TC 301, TC 290, TC 300 tax adjustments) and contains no negative entries.
- (4) Include the fourth tier 15% FTD penalty on any prior tax (excluding TC 298/
- (5) After 2009, the Form 941 de minimis exception for depositing is based on tax amounts of less than \$2,500 in either the current calendar quarter or in the prior calendar quarter. Therefore, the Form 941 de minimis exception for de-

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positing must be refigured for both the tax adjustment calendar quarter and the following quarter. If the recomputed tax becomes over \$2,500, check the prior calendar quarter to determine if the de minimis exception still applies. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements, (for no ROFTL required) and IRM 20.1.4.2.1, Criteria for Reporting Tax and ROFTL Information.

- (6) If the recalculation of an FTD penalty on a related tax adjustment (TC 290/291, 300/301) results in NO penalty adjustment, then input TC 180 \$.00 with the tax adjustment to denote a penalty no change.
- (7) See IRM 20.1.4.23 (10), Manual Adjustments, on the use of Reason Codes.

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See IRM 20.1.4.23.1(5), Command Code FTDPN for instructions on recalculating using the FIFO method. See IRM 20.1.4.3, Restrictions on Assessments.

- (9) If the recalculation of the FTD penalty results in a change to the FTD penalty, provide the penalty computation to the taxpayer. See IRM 20.1.4.25, Taxpayer Contact Correspondence.
- (10) The adjustment will generate a notice (CP 210 or CP 220).
- (11) The account will then be subject to normal procedures for the possible assessment of the additional 5 percent 4th tier amount. See IRM 20.1.4.17.
- (12) **DO NOT** assess the FTD penalty if there is a reasonable cause indicator on the account, as follows:
  - CCC "J" in the return record, or
  - TC 181/180 with RC 062.
- (13) **Non-interest-free tax increase and revised ROFTL schedule not provided or is invalid.**

- a. Attempt to resolve the ROFTL discrepancy by telephone contact with the taxpayer or authorized representative. See IRM 20.1.4.25.1, Telephone

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taxpayer for a good ROFTL. Input TC 180 .00 with PRC 21 with the adjustment.

- b. If the discrepancy in the ROFTL can't be resolved by telephone contact, then correspond with the taxpayer using Letter 313-C, FTD Penalty

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IRM 20.1.4.16, Issuing Averaged FTD Penalty Proposals - Letter 313C.

- c. If a new ROFTL schedule is received, determine whether a failure to deposit penalty applies. See IRM 20.1.4.16.1, Replies to 313C Letters.
- d. If a new ROFTL schedule isn't received and the tax is being increased, use averaging on the new corrected tax amount (TC 150 plus any TC 291, TC 301, TC 290, TC 300 tax adjustments) and assess the penalty using the applicable PCC (for an averaged penalty). See IRM 20.1.4.16.2, No Response Cases.
- e. Whenever the penalty is assessed with an averaging PCC, a blank ROFTL schedule and Notice 746 are included with the adjustment notice.

- f. See IRM 20.1.4.14.3, Penalty Computation Codes (PCC), for a list of the valid PCC codes.

- (14) **Partial tax decrease and revised ROFTL schedule not provided or is invalid.** See IRM 20.1.4.23(11) when completely decreasing tax and IRM 20.1.4.6 for de minimis exceptions.

If	And	Then ...
the tax is being <b>partially</b> decreased...	no penalty is present	no penalty recalculation or penalty adjustment is necessary.
the tax is being <b>partially</b> decreased...	the penalty was averaged and the taxpayer hasn't submitted a good ROFTL	input a penalty abatement using an averaged penalty based on the new tax; advise the taxpayer to submit a good ROFTL.
the tax is being <b>partially</b> decreased...	the penalty was averaged and the taxpayer has submitted a ROFTL which hasn't been processed	obtain and process the taxpayer's ROFTL based on the previous tax; then follow instructions below. Combine penalty calculations.
the tax is being <b>partially</b> decreased...		Use the original ROFTL to compute the penalty.
the tax is being <b>partially</b> decreased on a module where the FTD penalty was previously charged on the higher tax...	the partial tax decrease wouldn't result in the module having a penalty higher than 10 percent of the net decreased tax liability.	advise the taxpayer to submit a revised ROFTL schedule for a possible reduction of the FTD Penalty.
the tax is being <b>partially</b> decreased on a module where the FTD penalty was previously charged on the higher tax...	the partial tax decrease (with no penalty decrease) would result <i>in the module having a penalty higher than 10 percent of the net tax liability.</i>	input a partial penalty abatement to adjust the net penalty amount equal to 10 percent of the net tax liability.

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If	And	Then ...
the tax is being <b>partially</b> decreased on a module where the FTD penalty was previously charged on the higher tax...	the partial tax decrease (with no penalty decrease) would result in the module having a penalty higher than 10 percent of the net tax liability <i>and higher than 5 percent (4th tier assessment) of any remaining unpaid net tax liability.</i>	input a combined partial penalty abatement to reduce the penalty amount to equal: <ol style="list-style-type: none"> <li>10 percent of the net tax liability, and</li> <li>5 percent (4th tier assessment) of the net tax liability <b>not paid</b> by the 10th day following the first balance due notice.</li> </ol>

- (15) The above instructions also apply to amended returns received from IRC 6020(b) or jeopardy assessments (Doc. Code 51).

20.1.4.21.4  
(01-06-2012)  
**Form 941-C Supporting Statement To Correct Information (Errors Discovered on or before December 31, 2008)**

- (1) Form 941-C, Supporting Statement to Correct Information, is obsolete and replaced with "X" forms (Form 941-X, Form 943-X, Form 944-X, Form 945-X, and Form CT-1X) for errors ascertained on or after January 1, 2009.

20.1.4.21.5  
(03-11-2024)  
**Adjusted Returns (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X)**

- (1) Beginning January 1, 2009, the "X" form adjusted returns (Form 941-X, Form 943-X, Form 944-X, Form 945-X, and Form CT-1X) replaced Form 941-C and should be filed with respect to errors discovered after December 31, 2008 per 26 CFR 31.6205-1. Unlike Form 941-C, the "X" forms aren't filed as an attachment to a current return and don't affect the liability reported on the current return.
- (2) 26 CFR 31.6302-1(c)(7) (updated per TD 9405) provides an exception to the monthly and semi-weekly deposit rules for employers submitting a timely filed adjusted return.
- An employer filing an adjusted return isn't subject to the monthly and semi-weekly deposit rules on the new adjusted tax amount if the amount reported on the adjusted return qualifies as an interest-free adjustment (TC 298/308). See IRM 20.2.10.5.4, Underpayments of Federal Insurance Contributions Act (FICA) and Railroad Retirement Tax Act (RRTA), and IRM 20.2.10.5.5, Underpayments of Income Tax Withheld from Wages, for explanation of interest-free adjustments.
  - The timeliness of deposit on an interest-free adjustment is determined strictly on the amount of the interest-free TC 298/308 adjustment. Therefore, an amended ROFTL schedule for the new total tax is not applicable on an interest-free (TC 298/308) adjustment.

- c. If the amount of TC 298/308 interest-free adjustment is paid by the

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timely paid will be deemed to have been timely deposited by the employer. The payment for the interest-free adjustment (TC 298/308) may be made by a check or money order with the adjusted return, by EFT, or by other methods of payment as provided by the instructions relating to the adjusted return.

- (3) The decision to allow an interest-free (TC 298/308), versus a non-interest-free (TC 290/300) adjustment is based on the timeliness of the adjusted return. The ascertained date is the date the taxpayer had the information to correct the error. The adjusted return is timely if filed by the due date of the return period in which the error was ascertained and before the statute expires. If an adjusted return is timely filed and the amount paid by the time the adjusted return is filed, the adjustment will be interest-free (TC298/308). If an adjusted return is timely filed but the amount of the TC 298/308 isn't paid by the time the adjusted return is filed, interest runs on the amount due from the date the adjusted return is filed until the date of payment.

**Example:** The taxpayer submitted Form 941-X reporting a tax increase for the first calendar quarter of 2016. He indicated the error was discovered on May 5, 2016, (during the second quarter of 2016). His Form 941-X and his payment of tax were received June 22, 2016. Since the additional tax was reported by the second calendar quarter due date of July 31, 2016, the entire additional tax is assessed with TC 298 and the received date of the Form 941-X (MMDDYYYY) is entered in the Interest Computation Date (INT-CMPTN-DT) field.

**Reminder:** The amount of the interest-free tax adjustment (TC 298/308) is considered timely deposited if payment is received by the received date of a

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**FTD PENALTY IS DUE** since the tax was paid by June 22, 2016, which

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- a. If the underpayment is reported timely (by the due date of the return for the period in which the error was "discovered"), but the amount of the amount of the unpaid tax is subject to a 10 percent FTD penalty. See (7) below.

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**Example:** The same underpayment occurs as in the example above. The Form 941-X was filed on June 22, 2016, reporting a tax increase of \$5,000, but the additional tax wasn't paid by the time the Form 941-X was filed. The underpayment of tax is subject to a 10 percent FTD penalty since payment for the adjusted tax amount wasn't remitted by the received date of

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adjustment) a primary TC 298 for \$5,000.00 and a secondary TC 180 for \$500.00 and a PCC 003. Enter the received date of the Form 941-X in the INT-CMPTN-DT field.

- b. If an underpayment of tax isn't reported on an adjusted return by the due date of the return for the period in which the error was ascertained, a corrected ROFTL schedule totaling the new corrected tax is required to check the timeliness of deposits on the new corrected tax (total of TC



150 plus any TC 291/301, 290/300 tax adjustments). See IRM 20.1.4.21.3, Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase).

**Example:** The same underpayment occurs as in the above example but the underpayment isn't reported and paid until August 14, 2016. Because it wasn't reported by the due date of the return period (second calendar quarter) in which the error was discovered, July 31, 2016, the entire additional tax is assessed with TC 290 on the first calendar quarter tax module. A corrected ROFTL schedule totaling the new corrected tax is required to check the timeliness of deposits on the new corrected tax (total of TC 150 plus any TC 291/301, 290/300 tax adjustments). See IRM 20.1.4.21.3, Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase).

- (4) **TC 291/301 (tax decrease) is input:** Follow instructions in IRM 20.1.4.21.5.1, Amended ROFTL (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X).
- (5) **TC 290/300 (non-interest-free) tax adjustment is input:** A corrected ROFTL schedule is required to figure the timeliness of deposits on the new corrected total tax (total of TC 150 plus any TC 291, 301, 290, 300 tax adjustments), unless the de minimis exception applies. Follow instructions in IRM 20.1.4.21.3, Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase). See IRM 20.1.4.21.3(13). Using blocking series 20 generates CP 294 if the tax isn't paid. If there is no tax change and no revised ROFTL, don't input TC 180.

- (6) **TC 298/308 Tax Amount Timely Paid:** If full payment for TC 298/308 tax

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employer. Input a secondary TC 180 \$.00 on the same adjustment as the primary TC 298 using a fourth position PRC 010. If there is no tax change, don't input TC 180. If the taxpayer overpaid, take appropriate action to refund overpayment. If a timely payment refunded, input TC 180 .00 and inform the taxpayer, requesting that the refund check be returned if not cashed.

- (7) **TC 298/308 Tax Amount Unpaid or Paid Late:** If full payment for TC 298 tax

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manually assessing the FTD penalty, you must receive written supervisory approval per IRM 20.1.4.21.7, Managerial Approval. Use PCC 003 with the TC 180 penalty assessment. Blocking series 20 generates CP 294 if the tax isn't paid.

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021, see IRM 20.1.4.3.

- (8) **Automated suspense process for monitoring the possible 15 percent 4th tier penalty rate:** See the procedures in IRM 20.1.4.20.2, Processing CP 294 Notice - TC 290/298 Blocking Series 20, that automated the suspense process

for monitoring the possible 15 percent 4th tier penalty rate. If manually assessing the FTD penalty, you must receive written supervisory approval per IRM 20.1.4.21.7, Managerial Approval.

20.1.4.21.5.1  
(07-17-2015)  
**Amended ROFTL (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X)**

- (1) An amended record of federal tax liability (ROFTL) schedule is generally not required with an adjusted return (Forms 941-X, 943-X, 944-X, 945-X, or CT-1X), unless one of the following conditions are met:

- a. An amended ROFTL schedule is required to correct the prior ROFTL schedule that was invalid, missing or incorrect and must not include TC 298/308 tax increase in the total ROFTL amount.

**Note: The recomputation may result in the reduction or elimination of a previous FTD penalty charged on an invalid, missing or incorrect ROFTL schedule.**

- b. An amended ROFTL schedule is required on a tax decrease if a prior FTD penalty was assessed on the previous higher tax amount. The ROFTL total should reflect the new revised lower tax amount (including TC 291/301 tax decrease). If a valid ROFTL isn't attached, call the taxpayer to request a valid ROFTL be submitted by fax. See IRM 20.1.4.21.3 (14), Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase) if a valid ROFTL is not received.

**Note: The recomputation may result in the reduction or elimination of a penalty charged on the previous higher tax amount.**

- c. An adjusted return received late (after the due date of the tax period the error was discovered) doesn't qualify for an interest-free adjustment and requires a corrected ROFTL schedule to figure the timeliness of deposits. The new corrected ROFTL schedule should reflect the new total tax (total of TC 150 plus any TC 291/301, 290/300 tax adjustments). Follow instructions in IRM 20.1.4.21.3, Amended or Supplemental Return (Tax Decrease or Non-Interest-Free Tax Increase).

- (2) If the recalculation of the FTD penalty results in a change to the FTD penalty, provide the penalty computation to the taxpayer. See IRM 20.1.4.25, Taxpayer Contact Correspondence.

20.1.4.21.6  
(01-06-2012)  
**CAWR and FUTA**

- (1) Combined annual wage reporting (CAWR) and federal unemployment tax adjustment (FUTA) cases are internally initiated adjustment cases.
- (2) See IRM 4.19.4, CAWR Reconciliation Balancing and IRM 4.19.5, Certification of State FUTA Credits.

20.1.4.21.6.1  
(07-17-2015)  
**Computation of the FTD Penalty (CAWR and FUTA Notices)**

- (1) If TC 290/300 is input on a CAWR adjustment, then assess a 10 percent FTD penalty (TC 180) on the amount of the tax assessment using PCC 018 with TC 180 penalty assessment.
- (2) If a TC 298/308 is input on a CAWR adjustment, then payment for the amount of the tax increase must be received on or before the interest computation

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- (3) If full payment for TC 298/308 tax amount isn't received by the interest compu-

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penalty on the amount not remitted timely. Input a secondary TC 180 on the same adjustment as the primary TC 298/308 using the first position PCC 018.

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For instructions on the use of PRC 021, see IRM 20.1.4.3, Restrictions on Assessments.

- (4) If full payment for TC 298/308 tax amount is received by the date of a timely  
er's deposit obligations with respect to the adjustment. Input a secondary TC 180 \$.00 on the same adjustment as the primary TC 298 using the first position PCC 018.
- (5) If a taxpayer responds to a FUTA notice and agrees with the increase to their taxable amount, or doesn't respond and the taxable amount is increased based on available information, assess the tax increase as well as the FTD penalty at 10 percent of the TC 290/300 amount using PCC 018 and normal penalty considerations and adjustment procedures.
- (6) Because the CAWR assessment results from reconciliations with Social Security Administration (SSA) and the FUTA assessments from information received from individual states, a revised ROFTL schedule is not applicable. Even if submitted, the revised ROFTL schedule would have no penalty impact.
- (7) When reversing a CAWR/FUTA assessment in part or in full the FTD penalty charged against the CAWR/FUTA assessment must be addressed. Input TC 181 for 10 percent of the TC 291/301 with PRC 010. The TC 181 cannot exceed the amount of previously assessed TC 18X.
- (8) The account will then be subject to normal procedures **for monitoring** the possible assessment of the additional 5 percent 4th tier amount.
  - a. After five cycles, if the taxpayer has not paid the full amount of the tax assessed within 10 days of the 23C date of the TC 290/300/298/308,  
amount equal to 5 percent of the unpaid tax (the amount of the tax increase) and close the case.
  - b. If the additional 5-percent 4th tier FTD penalty was assessed on a "no reply" or "agreed" CAWR/FUTA assessment and that tax increase is later reversed, the total FTD penalty (15-percent) related to the tax assessment must be abated.

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20.1.4.21.7  
(03-11-2024)  
**Managerial Approval**

- (1) IRC 6751(b) requires that manual FTD penalty assessments must be approved by the employee's immediate supervisor (in writing) or such higher level official as the Secretary may designate, unless CC FTDPN or ACT/DMI InterestNet is used to compute the penalty without any independent judgement with respect to the applicability of the penalty. See IRM 2.3.28 , IDRS Command Code FTDPN.

20.1.4.22  
(03-11-2024)

**Master File  
Assessments and  
Recomputations**

- (1) **Initial Systemic FTD Penalty Calculation in TC 150 Return Posting Cycle** —The ROFTL information is processed as part of TC 150 return and uploads to Master File in the cycle of the return (TC 150) posting. The penalty is systemically calculated if the ROFTL schedule is valid.
- (2) **Credit Transfers on a Module not Restricted (no TC 180/181)** —After the systemic FTD penalty is initially calculated, Master File will recalculate the FTD penalty when credits are transferred in or out of an unrestricted (no TC 180/181) module, using the original (TC 150) ROFTL information and updated payment information.

**Caution:** When credits are transferred out (updated) and a partial tax decrease (TC 291/301) is processed (even if there was no FTD penalty charged on the full TC 150 tax amount) the penalty must be manually recalculated and the module restricted to stop Master File from systemically recalculating the penalty using the updated payment information and incorrect original (higher) ROFTL amounts.

- (3) **Credit Transfers on a Restricted Module (TC 180/181)** — When transferring credits in or out of a module that is restricted (TC 180/181), the penalty isn't systemically recalculated by Master File because neither the original nor corrected ROFTL information is accessible by Master File.

**Caution:** The corrected ROFTL schedule must be secured and the penalty manually recalculated in situations where the credit transfer could potentially impact the penalty. If it is determined that the penalty must be recalculated, check the Correspondence Imaging System (CIS) to obtain the corrected ROFTL information from the prior case, if the employee has access to CIS. If the corrected ROFTL information cannot be obtained from CIS, then:

- a. Attempt to secure a faxed copy of the corrected ROFTL schedule from the taxpayer if possible, or
  - b. Order the DLN of the source document that caused the restriction (TC 180/181) to obtain the corrected ROFTL information.
- (4) **Subsequent Amended/Supplemental Return or Revised ROFTL information**— Master File is ONLY able to compute the FTD penalty on the initial ROFTL information supplied with the original return. Therefore, any adjustment to the tax when an amended/supplemental return is filed or when a revised ROFTL schedule is submitted requires a manual recalculation and update of the penalty, assuming the revised tax return and/or ROFTL schedule are correct and the revised tax isn't within the de minimis exception to deposit. See IRM 20.1.4.6, De Minimis Exception to Deposit Requirements. For ROFTL information, see IRM 20.1.4.1.2, Criteria for Reporting Tax and ROFTL Information.
  - (5) Use the information in the new ROFTL schedule to recalculate the penalty when warranted.
  - (6) If the information in the new ROFTL schedule is used to recalculate the penalty, input the penalty update (along with TC 29X/30X) using the guidelines, as follows:
    - a. If the recalculation requires a penalty adjustment, then input the appropriate TC 180/181 as required, to assess or abate the penalty.

- b. If the recalculation requires NO penalty adjustment, then input the required TC 180 \$.00 to denote a penalty no change per the penalty re-
- c. See IRM 20.1.4.23 (10), Manual Adjustments, on the use of Reason Codes.

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**Note:** For an amended ROFTL schedule provided with an adjusted return (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X), see IRM 20.1.4.21.5.1, Amended ROFTL (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X).

- (7) **Form 1042** - An FTD penalty on Form 1042 accounts (MFT 12) must be manually adjusted if there is a change to withholding credit, TC 76X. The penalty on MFT 12 will not systemically recompute after an adjustment of the withholding credit.

## 20.1.4.23 (03-11-2024) Manual Adjustments

- (1) Before adjusting or abating any FTD penalty, check for conditions that will prohibit you from taking action on the account.

**Example:** These conditions include, but are not limited to:

- a. The tax module has an open control base to another Campus or Area Office.
- b. The account has a Large Case (LCI) or Coordinated Industry Case (CIC) indicator, or certain freeze conditions.
- c. The control history indicates recent taxpayer contact, pending transactions, or penalty waiver considerations by another area.
- (2) Use BMFOLI to determine the account location. If the account is controlled to another area, you **must** coordinate with that area before adjusting or abating the penalty.
- (3) A complete understanding of the penalty computation is required. See the *SERP - Most Recent Payment Allocation Method - Job Aids (irs.gov)* in Chapter 7 of Part 21 of the Job Aids located on SERP. This Job Aid provides guidance on the method of applying deposits per Rev. Proc. 2001-58.
- (4) Command code BMFOL can be used to research FTD liability data before manual computation of FTD penalties. Several screens will be displayed based on the input definer code. See IRM 2.3.59, Command Codes BMFOL and BMFOR, for a listing of screen displays.
- (5) Check the PCC and SIC on the taxpayer's account. This may provide information on how the penalty was previously computed. See IRM 20.1.4.14.3, Penalty Computation Codes (PCC), for a list of the valid PCC codes and Exhibit 20.1.4-11, Schedule Indicator Code (SIC) Definitions.
- (6) Use CC FTDPN or ACT/DMI InterestNet to both help determine how the penalty was computed and to determine the amount of adjusted penalty. See IRM 20.1.4.23.1 (5), Command Code FTDPN, for instructions on recalculating using the FIFO (first in, first out) method. If needed, request the penalty assessment document to determine the previous computation procedure.

- (7) Always attach a FTDPN print or manual penalty computation behind the IDRS source document on non-CIS cases as part of the supporting information. Additional liability pages and payment designations must be included with the FTDPN print if applicable.
  - (8) When working CIS cases, always capture the FTDPN computation screen on the CIS system. Additional liability pages and payment designations must be included if applicable.
  - (9) Use the information in the new ROFTL schedule to recalculate the penalty as follows:
    - a. If the penalty recalculation results in a penalty adjustment, then input the appropriate TC 180/181 as required to assess or abate the penalty and provide the penalty computation to the taxpayer. See IRM 20.1.4.25, Taxpayer Contact Correspondence. If the FTD penalty is zero, the notice is sufficient. Don't send an explanation or computation. **EXCEPTION:** See IRM 20.1.4.3(4), Restrictions on Assessments.
    - b. If the penalty recalculation results in NO penalty adjustment, then input the required TC 180 \$.00 to denote a penalty no change.
  - (10) Penalty Reason Codes (PRC) and PCC must be used to explain the reason for the penalty update and are required with the input of a TC 18X.
- Exception:** CP 194 Notices (Possible FTD Penalty) — Generally a penalty reason code isn't required to explain the reason for a (TC 180 \$.00) penalty since the penalty computation was calculated on a valid ROFTL
- IRM 20.1.4.3, Restrictions on Assessments, for instructions on the use
- Penalty).
- a. Use a first position PCC to explain the reason for a (TC 180) penalty assessment. See IRM 20.1.4.14.3, Penalty Computation Codes (PCC), for a list of the valid PCC codes.
  - b. Use a fourth position PRC to explain the reason for a (TC 180 \$.00) penalty "no change." See IRM 20.1.1-2, Introduction and Penalty Relief, Penalty Reason Code Chart.
  - c. Use a fourth position PRC to explain the reason for a (TC 181) penalty abatement. See IRM 20.1.1, Introduction and Penalty Relief and IRM 20.1.1-2, Penalty Reason Code Chart.

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- (11) It is important to reconsider the FTD penalty whenever adjusting the tax amount.
  - a. It isn't necessary to input a manual TC 181 when reducing (TC 291/301) the net tax to zero, as long as the computer generated (TC186) FTD penalty hasn't been restricted (TC180/181). If no FTD penalty restriction is present (and a manual TC 181 hasn't been included with TC 291/301 tax abatement), then Master File will generate a systemic TC 187 to reduce the FTD penalty to zero.
  - b. The presence of a manual TC 180/181 on the module will prevent any tax change from posting. Therefore, when a tax adjustment is input without the required secondary TC 18X, the adjustment won't post. Unpostable Code 336, Reason Code 2, identifies these situations. These unpostables will be returned to the originator for re-input of the tax adjustment along with the required TC 18X used to address the penalty.

20.1.4.23.1  
(03-11-2024)  
**Command Code FTDPN**

- (1) Employees may use the IDRS command code FTDPN to compute the FTD penalty. CC FTDPN can provide the taxpayer with an explanation of how the FTD penalty was computed.
- (2) IDRS CC FTDPN can only be used on Form 940, Form 941, Form 943, Form 944, Form 945, Form 1042, and Form CT-1 accounts to compute the FTD penalty.
- (3) CC FTDPN can compute the penalty using the averaging method (if the liability breakdown is invalid), or by using the actual liability breakdown when valid.
- (4) If FTDPN displays a penalty "MISMATCH" with Master File, the penalty must be validated for accuracy.

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- (6) See Exhibit 20.1.4-9, Instructions for Command Code FTDPN, for a summary of CC FTDPN capabilities with its various definers. Refer to IRM 2.3, IDRS Terminal Responses, for complete information on IDRS command codes.

20.1.4.23.1.1  
(07-17-2015)  
**CP 568 FTD Penalty Notice**

- (1) CP 568 PINEX notice provides the taxpayer with written information involving inquiries on FTD issues and gives an explanation of the taxpayer's account using both posted and pending transactions reflected on the taxpayer's account. The CP 568 notice is generated from CC FTDPN.
- (2) The specific tax module must be on IDRS in order to provide a CP 568 computation. If the module isn't on IDRS, establish the account on IDRS.
- (3) FTDPN provides the option to issue a CP 568 notice at the end of each computation. It can consist of just text or be accompanied by a full or partial account transcript.

- (4) Review the CP 568 notice on-line and make appropriate changes to the letter before sending to the taxpayer. These notices must be 100 percent reviewed prior to issuance in order to prevent notices with errors being mailed to taxpayers.

- (5) See IRM 2.3.28, Command Code FTDPN, for more information.

20.1.4.24  
(01-06-2012)  
**Deposit Problem  
Identification**

- (1) A taxpayer will receive an FTD penalty even when the deposit is timely made to an authorized depository (applies to paper and EFT deposit systems), if the depository delays in forwarding the deposit to the U.S. Treasury. When it is determined that the delay occurred after being received by the authorized depository, the taxpayer is relieved of the portion of the penalty due to this delay.
- (2) See IRM 20.1.4.24.2, Misdated Deposits, if the authorized depository (applies to paper and EFT deposit systems) mishandled the deposit, or see IRM 20.1.4.24.1, Treasury Financial Agent Mishandling, if the Treasury Financial Agent (TFA) mishandled the deposit.
- (3) FTD deposit coupons aren't accepted after December 31, 2010. Previously, employers making deposits (using the coupon method) had to make their required deposits at an authorized depository.

20.1.4.24.1  
(03-11-2024)  
**Treasury Financial Agent  
Mishandling**

- (1) If a taxpayer made a timely deposit by an electronic request, (or prior to January 1, 2011, with a coupon to an authorized depository) and the TFA subsequently delayed transmitting the deposit to the U.S. Treasury, the taxpayer's account may be charged an FTD penalty for a late deposit. The taxpayer can be relieved of the portion of the penalty due to this delay, if:
  - a. It can be determined that the delay occurred after the timely payment was received by the bank and timely transmitted to the TFA, and
  - b. The TFA has an incident report and/or takes responsibility.
- (2) DO NOT initiate a credit transfer to change the date of the misdated deposit. In the case of a TFA error or delay, take the following actions:
  - a. If the return has NOT posted, refer the case to the Penalty Prevention and Resolution Group (PPRG) in Ogden's Large Corp/Technical Team B201 – 855-269-1646 (EEfax) or Cincinnati's Large Corp Team 402 - 855-307-3090 (EEfax) for determination that the TFA has provided information to stop the FTD penalty from being assessed (pre-return posting and TC 186 FTD penalty). TC 971 A/C 309 is used in this instance. A/C 309 is restricted to the PPRG. See IRM 20.1.4.24.2, Misdated Deposits for TC 971 A/C 30X input.
  - b. If the return has posted, recompute the FTD penalty using CC FTDPN by overlaying the date on the deposit screen with the intended payment date (IPD) to determine what (if any) penalty would have been assessed if the deposit hadn't been delayed. Input TC181 with PRC 032 for the difference. This is general penalty relief. ACT/DMI InterestNet may also be used to recompute the penalty.

**Reminder:** It isn't necessary to obtain or fax Form 13287, Bank Payment Problem Identification in the instance of a TFA error.

- c. The Internal Revenue Code does not authorize the IRS to charge a penalty against payroll processors. Consequently, penalty relief for deposit delays by payroll processors isn't available. This is considered an

issue between payroll processors and the taxpayer (their client) according to the contract liability clause in their service agreement.

- d. Due to Treasury Regulations, the date of a deposit/payment CANNOT be changed, unless it is an IRS error.

20.1.4.24.2  
(03-11-2024)  
**Misdated Deposits**

- (1) Form 8109 isn't accepted after December 31, 2010.
- (2) For ACH CREDITS (EFTPS), secure and review the statement prepared by the taxpayer's financial institution (bank) indicating:
  - a. The date the taxpayer notified the bank to make the deposit,
  - b. Sufficient funds were present to satisfy the deposit,
  - c. The amount and date of the transfer, and
  - d. The payee was identified as the U.S. government.

**Note:** The bank should provide a transaction trace number for the deposit. The IRS uses this (EFT) trace number to research the payment.

- (3) For ACH DEBITS (EFTPS), secure and review the following:
  - a. The ACH Debit acknowledgment number from the EFT financial agent used to trace and establish the date and time that the Financial Agent was asked to initiate a debit transaction. The number is given to the taxpayer at the conclusion of the taxpayer's phone call or successful PC transmission.
  - b. A copy of the taxpayer's bank statement or other bank records that shows a withdrawal from an account that had sufficient funds to cover the taxpayer's deposit and that the payment had not been reversed or returned.
- (4) When a taxpayer makes a timely deposit by electronic request (or with a coupon to an authorized depository before January 1, 2011), and the bank delays transmitting the deposit to the U.S. Treasury, the taxpayer's account may be charged an FTD penalty for a late deposit. The taxpayer can be relieved of the portion of the penalty due to this delay, if:
  - a. It can be determined that the delay occurred after the bank received the payment, and
  - b. The bank takes responsibility for the delay.
- (5) **DO NOT** initiate a credit transfer to change the date of the misdated deposit. In the case of a bank error or delay, the Federal Reserve Board (FRB) assesses a "cost of funds" (loss of interest) penalty and debits the bank's Treasury Tax and Loan (TT&L) account. Due to inconsistent backup provided by the IRS, banks challenged the penalty and the FRB reversed the disputed charges. **Form 13287**, Bank Payment Problem Identification, was developed to provide sufficient backup.
- (6) When a taxpayer claims bank error or delay, secure a properly completed **Form 13287 signed by a bank official**. The following information should be listed on the form:
  - a. The date the taxpayer notified the institution to make the deposit,
  - b. Sufficient funds were present to satisfy the deposit, and
  - c. The amount and date of the transfer, identifying the U.S. government as payee (the taxpayer's bank receipt is NOT sufficient).

- (7) If a letter is received without Form 13287 attached, fax or mail Form 13287 with bank instructions to the taxpayer (or to the bank, if a contact person has been provided), then allow 30 days from the date of the request for a reply.

**Note:** The taxpayer can also obtain Form 13287 and instructions at <http://www.irs.gov>.

- (8) If the form **is not** returned or properly completed or the bank doesn't take responsibility, and the taxpayer's return has posted, take the following actions:
- Inform the taxpayer that since the bank hasn't accepted responsibility by completing and signing the Form 13287, the only way the FTD penalty can be reduced or eliminated is by the taxpayer establishing reasonable cause.
  - Request additional information from the taxpayer. If the taxpayer cannot submit any information to establish reasonable cause, deny the claim. Use the Reasonable Cause Assistant (RCA), and associate the information provided as the source document. Issue Letter 852-C through RCA. If RCA isn't available, see IRM 20.1.1, Introduction and Penalty Relief, for instructions on penalty relief denial.
- (9) If Form 13287 isn't returned or properly completed, and the taxpayer's return has NOT posted, inform the taxpayer that s/he may receive an FTD penalty after the return posts. If s/he cannot provide additional information and establish reasonable cause, s/he will be liable for the penalty payment.
- (10) If a completed Form 13287 is received, the return has posted, the TC 186 isn't restricted and the original, unreversed TC 6X0 (with no other deposits with the same date) is on the account, use Command Code (CC) REQ77 on IDRS and input the corrected (intended payment) date. Refer to IRM 2.4.19, Command Codes REQ77, FRM77 and FRM7A, for information on TC 971 input.
- (11) The following fields are required input on CC FRM77:
- ABA-NUM>** Input the nine-digit American Banking Association (ABA) Number. If deposit is by EFTPS payment, the ABA number is located on Form 13287, Bank Payment Problem Identification, which is required to be collected and associated with every TC 971 Action Code (A/C) 303–309.
  - TC>** (Transaction Code)- Input "971".
  - TRANS-DT>** Input the date of the original 6X0 transaction.
  - REVERSAL-DLN>** Input the 14-digit DLN of the original transaction in the field.
  - SECONDARY-DT>** Input the Intended Payment Date (IPD) that the payment should have settled on the account. Use the date on the receipt or the date on the back of the canceled check. (If both a bank receipt and canceled check are provided, use the earlier date.)
  - TC971/151-CD>** Input one of the following 971 Action Codes:

Action Code	Action Code Definition
301	*Bank stamped FTD coupon with a date later than the date it processed on the taxpayer's check (prior to 01-01- 2011).

Action Code	Action Code Definition
302	*Bank stamped FTD coupon "other" (prior to 01-01-2011).
303	EFTPS untimely processing of transaction.
304	EFTPS erroneous processing of transaction.
305	EFTPS "other".
306	FTCS untimely processing of transaction.
307	FTCS erroneous processing of transaction.
308	Bulk and Batch Filers (Restricted to the Penalty Prevention and Resolution Group)
309	Bulk and Batch Filers (Restricted to the Penalty Prevention and Resolution Group)
<b>*Note:</b>	<b>These are FTD or Mag Tape deposits. An ABA number must be input.</b>

- g. **NSD>** Name of bank taking responsibility (and PPRG case number, if applicable)
- (12) TC 971 A/C 30X systemically reverses the FTD penalty only on Form 941 (MFT 01) with a deposit delay on a single, unreversed (non-credit transferred) deposit. TC 971 A/C 30X should be input for an audit trail, but doesn't systemically reverse the FTD penalty if the penalty is restricted, or on any form/MFT other than Form 941/01. Master File cannot always properly and systemically compute the FTD penalty using an IPD if there are deposits with the same date/DLN. In addition, a TC 971, A/C 30X will go unpostable if the delayed deposit has been reversed or the transaction code has been changed (by a credit transfer).
- (13) If the taxpayer's account is restricted (TC 180/181) from Master File FTD penalty recomputation, or is other than MFT 01 (Form 941), manually adjust the FTD penalty. Using CC FTDPN, overlay the date on the deposit screen with the IPD to determine what the penalty would have been if the deposit hadn't been delayed. Input TC 181, PRC 014 for the difference. Input TC 971 action code 30X for an audit trail.
- (14) If the TC 6X0 has been reversed or transferred in, follow (13) above, but do **NOT** input TC 971 (it will go unpostable). Fax the completed Form 13287 to:
- a. **the Penalty Prevention and Resolution Group in Ogden's Large Corp / Technical Team B201 – 855-269-1646 (EEfax), or Cincinnati's Large Corp Team 402 - 855-307-3090 (EEfax).**
- Note:** See item (19) below regarding Form 13287.
- (15) If the completed Form 13287 is received, the return has **NOT** posted, and the original, unreversed TC 6X0 is on the account, do the following:
1. Input TC 971 per item (12) above,
  2. Inform the taxpayer that there shouldn't be a penalty on that deposit when the return posts,

3. Monitor for the return to post, and
4. Verify that no penalty was assessed on that deposit.

**Note:** In the case of a deposit delay on a return other than Form 941 (MFT 01), the FTD penalty must be recomputed and manually adjusted after the return posts. Use TC 181, PRC 014. Inform the taxpayer.

- (16) In some instances, the delayed deposit is received after the return has posted, causing additional penalties and interest. TC 971 won't reverse any FTP penalty and/or interest assessed. The FTP penalty must be considered separately using penalty relief criteria. Any interest assessed must be charged by law, and is a matter between the taxpayer and the bank.
- (17) On occasion, the bank may submit payment for the amount of the FTD penalty due on a taxpayer's account because of the bank's mishandling. Since the taxpayer has been relieved of the penalty and the bank will be penalized by FRB (not IRS), follow the instructions in IRM 21.4.4, Refund Inquiries - Manual Refunds, for preparing a manual refund in situations that require the issuance of a refund to a name or address other than the one on Master File (such as refunding the payment back to the bank, not the taxpayer).
- (18) When all actions are finished, complete Form 13287 and **fax** to
  - a. **the Penalty Prevention and Resolution Group in Ogden's Large Corp / Technical Team B201 – 855-269-1646(EEfax), or Cincinnati's Large Corp Team 402 - 855-307-3090 (EEfax).**
  - b. Do NOT forward Form 13287 until after IDRS input. The customer service Campus that receives the case should work the case.
- (19) On Command Code REQ77, Transaction Code (TC) 971, when the intended payment date (IPD) based on information provided by the bank/taxpayer, is input in the "Secondary DT" field, TC 971 A/C 30X transaction posts to the taxpayer's tax module with the IPD of the cross-referenced deposit.
- (20) If the return posts after the IDRS input of TC 971 A/C 30X, and the payment is timely, no penalty will be assessed on that deposit. If TC 971 A/C 30X is input after the FTD penalty assessment, the part of the penalty that pertains to that deposit will be reversed. Master File uses the IPD in its penalty analysis on Form 941 (unless the FTD penalty has been restricted), but the original date and integrity of the deposit date remain.
- (21) TC 971 has the same posting cycle as any other IDRS adjustment, so the only way to ensure posting is to monitor any IDRS actions taken. If the return hasn't posted, TC 971 will post to an account with an A/C 30X, the original date, and the IPD. If the return has posted, the FTD penalty has been assessed, and the deposit was timely, TC 971 will be followed by TC 187 (in the same cycle). If the penalty was restricted, TC 971 must still be input, but the FTD penalty (TC 18X) must be manually reversed. In this instance, TC 971 will be followed by TC 181, PRC 014.
- (22) After input of TC 971 A/C 30X on all forms other than Form 941, the FTD penalty must be recomputed using CC FTDPN or ACT/DMI InterestNet, and manually adjusted using TC 181, PRC 014.



- (23) To assist in monitoring an account, Document 6209, IRS Processing Codes and Information, gives information pertaining to IDRS on-line input when the posted action will appear on IDRS/Master File, the scheduled 23C date, etc.
- (24) TC 971 A/C 30X provides information to the FRB so it can assess a penalty on the bank's account.

**Note:** See IRM 20.1.4.24.3.1, Third Party Mishandling.

## 20.1.4.24.3 (07-17-2015) Third Party

- (1) Third parties are those individuals or companies who make deposits and/or file returns for clients electronically or by paper. This includes reporting agents (e.g., payroll processors, bulk, and batch processors). They receive approval to work with the IRS by filing Form 8655, Reporting Agent Authorization. However, this doesn't allow the third party to act as an "authorized depository" for the U.S. Treasury.
- (2) Whenever a deposit is made late, a penalty is due. If an authorized depository (bank) or U.S. government financial agent has caused the delay, the taxpayer may be relieved of the FTD penalty because a penalty is assessed against the bank's TT&L account. There are no codified penalties that either IRS, Bureau of the Fiscal Service (BFS), or FRB can assess against a reporting agent (third party) who has delayed the submission of the client's monies to authorized depositories (because the reporting agent doesn't have a TT&L account).
- (3) Depending on the agreement the taxpayer (client) has with the third party, the taxpayer may not have copies of canceled checks. Also, the bank statements will show the date the third party withdrew funds from the taxpayer's account.

## 20.1.4.24.3.1 (04-20-2010) Third Party Mishandling

- (1) When third parties deposit funds withdrawn from the taxpayer's account, the funds should then pass through the third party's account to an authorized depository. Therefore, the removal of funds from a taxpayer's account:
  - a. Does not in and of itself constitute a tax deposit, and
  - b. The taxpayer remains liable for a deposit until funds have been placed in the control of either Treasury or its authorized depository. This applies to paper and electronic funds transfer (EFT) deposit systems.
- (2) To determine whether or not a penalty is appropriate, the following comparisons are necessary: If the date on the bank statement differs from the Advice of Credit (AOC) and FTD dates (TC 650) on the IRS microfiche copies, then the third party timely transferred the funds from the taxpayer's account, **but did not** timely transmit them to the authorized depository as required. Consequently, the third party, not U.S. Treasury, had use of the taxpayer's funds. Use RCA to determine whether the penalty should be removed.
- (3) If the date on the bank statement and the date of the AOC differ, and TC 650 and the date on the AOC also differ, then the bank has further delayed the submission of this money. See IRM 20.1.4.24.2, Misdated Deposits, for instructions on resolving misdated deposits.

## 20.1.4.25 (03-11-2024) Taxpayer Contact Correspondence

- (1) IRM 21.3.3, Taxpayer Contacts - Incoming and Outgoing Correspondence/Letters, provides guidelines for handling taxpayer correspondence.

- (2) Per IRC 6751(a), a notice of penalty adjustment must include the penalty computation. If the FTD penalty is zero, the notice is sufficient. Don't send an explanation or computation. **EXCEPTION:** See IRM 20.1.4.3(4), Restrictions on Assessments.

**Note:** A penalty computation may be provided per items (3) and (4) below.

- (3) The IDRS Correspondex Letter System provides several letters and notices that Campus employees may use to respond to taxpayers regarding FTD penalty issues. They include Letter 1206-C, Letter 1446-C, and Letter 2782-C.
- (4) The CP 568 notice, which is accessed through command code FTDPN, provides:
- A correspondex type notice where the tax examiner can tailor a response to suit the taxpayer's needs.
  - A liability specific or a complete return period calculation breakdown of tax liabilities and FTD penalties on request.
  - A complete summary of the taxpayer's account in an easy to read format.
  - A one day turn-around for getting these notices back from printing.
  - Return of the letter to the initiating unit with a **Requestor Action Sheet** listing the liabilities and credits and text selections used by the tax examiner to prepare the letter.
  - See Exhibit 20.1.4-9, Instructions for Command Code FTDPN.
- (5) Send the FTDPN print as a Correspondex letter attachment. A summary breakdown is generated by entering "S" on the first page of the FTDPN screen. It uses fewer pages and is easier to understand. Printed reports from ACT/DMI InterestNet may alternatively be sent.

20.1.4.25.1  
(07-17-2015)  
**Telephone Contact**

- (1) Whenever possible, resolve issues by telephone contact with the taxpayer or authorized representative.
- Verify that the person to whom you are speaking is authorized to discuss the return and tax period involved. Check Centralized Authorization File (CAF).
  - Document the applicable case history sheet or CIS case notes with the date and time of conversation and the name of the person contacted.
  - Document any attempted telephone calls.

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20.1.4.26  
(01-06-2012)  
**FTD Penalty Relief**

- (1) Penalty relief determinations **must** be made on a case by case basis.
- (2) The IRS won't impose, or will abate an FTD penalty when the taxpayer establishes that due to specific penalty relief provisions, the penalty shouldn't be imposed, or the assessed penalty should be abated.
- Before assessment, recommend non-assertion of the penalty for deposit amounts when taxpayers provide documentation supporting their position. Reference the appropriate penalty reason code on the closing documentation.

- b. After assessment, abate the portion of the penalty related to the deposit for which the taxpayer has provided documentation supporting the taxpayer's position. Reference the appropriate penalty reason code on the adjustment document.
- (3) A taxpayer's statement regarding the penalty relief criteria must address each specific tax liability amount on which the IRS proposes or computes a penalty for failure to deposit timely. If the dates or explanations don't correspond with the penalized tax liability amounts, the taxpayer hasn't established a valid reason to waive the penalty.
- (4) The reason for the failure to deposit timely should be addressed when securing or examining returns on which the penalty applies. Making this initial determination will prevent the need for subsequent abatements.
- (5) Requests for non-assertion or abatement of FTD penalties may require approval by the manager.
- (6) See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief, for acceptance of oral testimony relating to reasonable cause.

20.1.4.26.1  
(07-17-2015)  
**Reasonable Cause**

- (1) For general reasonable cause guidelines see IRM 20.1.1, Introduction and Penalty Relief, and IRM 20.1.1-2, Penalty Reason Code Chart.
- (2) Reasonable cause cannot be considered or denied on an averaged FTD penalty assessment. Therefore, if a reasonable cause request is received for an averaged FTD penalty, a valid ROFTL schedule must be secured and the penalty recalculated to determine if a penalty is in fact due. If there is no reply to a request for a valid ROFTL, send a no-consideration letter and assess an averaged penalty if an averaged penalty hasn't been assessed.
- (3) If the recalculation results in a penalty due, then follow the reasonable cause procedures in IRM 20.1.1, Introduction and Penalty Relief.
- (4) In the interest of effective tax administration and equity, the non-assertion or abatement of civil penalties based on reasonable cause must be made in a consistent manner and should conform to reasonable cause considerations specified in the Internal Revenue Code, Treasury Regulations, Policy Statements 3-2 and 20-1. See IRM 1.2.1.4, Policy Statements for Submission Processing Activities, and IRM 1.2.1.12, Policy Statements for Penalties and Interest Activities.

20.1.4.26.1.1  
(03-11-2024)  
**Unbanked Taxpayers**

- (1) Per IRM 20.1.4.2, Authorized Deposit Methods, depository taxes must be made by EFT. Deposits not made by EFT are subject to the 10% penalty rate per IRM 20.1.4.7.1, Time Sensitive Four Tier Penalty System, unless the taxpayer can show the failure to deposit by EFT was due to reasonable cause and not willful neglect.
- (2) Penalty relief must be made on a case by case basis. Taxpayers that fail to make deposits by EFT because they were unable to obtain banking services or had their banking services discontinued may be able to establish reasonable cause for failing to make a deposit in the proper format during the time they were unable to obtain banking services.
- (3) In order to establish reasonable cause, the taxpayer must include a signed statement that explains the taxpayer's attempts to get a bank account and may

include any corroborating documentation (denied account application(s), correspondence from banks, etc.). The signed statement doesn't have to be in a particular format, but should clearly identify the taxpayer's name, address, and taxpayer identification number. The taxpayer should include corroborating documentation establishing at least one attempt to obtain a bank account and may use the same documentation for up to 24 months from the time the taxpayer became unable to obtain banking services. The taxpayer should make continued efforts to obtain a bank account.

- (4) If a taxpayer's banking services were discontinued, and the taxpayer applied for banking services shortly after, the taxpayer may meet reasonable cause criteria for payments made after the banking services were discontinued. If the taxpayer never had banking services, reasonable cause may apply from the date the taxpayer applied for banking services.
- (5) Abate the portion of the FTD penalty applicable to each non-EFT deposit shown to be due to reasonable cause and not due to willful neglect using RC 062 and PRC 046.
  - a. Requests for FTD penalty relief must have a Record of Federal Tax Liability (ROFTL). If a ROFTL cannot be obtained from our records, contact the taxpayer for a ROFTL. If the taxpayer doesn't provide a valid ROFTL, compute an averaged penalty.
  - b. Late deposits are penalized per IRM 20.1.4.7.1, **Time Sensitive Four Tier Penalty System**. Use Command Code FTDPN or ACT/DMI Interest-Net to compute the penalty.
  - c. Add "E" after each transaction on the payments page of CC FTDPN that meets reasonable cause criteria for failure to deposit by EFT.
- (6) Enter a history item on AMS to indicate the start date of the taxpayer's inability to obtain banking services.
- (7) Taxpayers may attach correspondence to their tax return or send correspondence that says "**Unbanked Taxpayer**," or otherwise indicates that they are unable to get a bank account. Submission Processing will enter SIC code 2 if an attachment to the tax return includes "**Unbanked Taxpayer**," or otherwise indicates that the taxpayer couldn't get a bank account, which will generate CP 194 . If a penalty was adjusted with RC 062 and PRC 046 and a history item on AMS indicates that it has been no more than two years since the taxpayer was unable to obtain banking services, the taxpayer meets reasonable cause for failure to deposit by EFT. See paragraph 5. Use RC 062 and PRC 030. If there is no history item on AMS, reasonable cause applies for two years after the adjustment with PRC 046. If it has been more than two years since the taxpayer was unable to obtain banking services, the taxpayer may meet reasonable cause by providing a signed statement explaining current attempts to obtain banking services.
- (8) If the taxpayer includes a signed statement that explains the taxpayer's recent attempts to get banking services, abate the portion of the penalty due to failure to file by EFT with RC 062 and PRC 046. Enter a history item on AMS indicating the date of the most recent attempt to obtain banking services.
- (9) Reasonable cause for failure to deposit by EFT applies for 24 months after the taxpayer establishes reasonable cause by showing inability to obtain banking services, indicated by TC 180 with RC 062 and PRC 046. If the taxpayer requests penalty relief within the 24 month period, abate the portion of the

penalty for failure to deposit by EFT, using RC 062 and PRC 030, unless paragraph 8 applies. Oral statement authority threshold doesn't apply. See IRM 20.1.1.3.1, Unsigned or Oral Requests for Penalty Relief.

20.1.4.26.2  
(03-11-2024)  
**Administrative Waivers**

- (1) In addition to those waivers identified in IRM 20.1.1, Introduction and Penalty Relief, the IRS also recognizes the impact of specific operational changes which may justify either not assessing or abating a penalty for a limited length of time.
- (2) An administrative decision was made to extend IRC 6656(c)(2) to allow for a full abatement of the FTD penalty effective for deposits required to be made after January 18, 1999. If a penalty is assessed on the first deposit a taxpayer is required to make after changing the frequency of payroll deposits (e.g., monthly to semi-weekly; semi-weekly to monthly), the taxpayer is entitled to a full abatement of the penalty. If the \$100,000 rule causes a change in deposit frequency, the penalty is waived. See IRM 20.1.4.8.6, \$100,000/One-Day-Rule.
  - a. Research the account and verify that a change in deposit frequency took place. Check the deposit pattern from the prior year, using command code BMFOL definer K. If the research verifies the change in deposit frequency from the prior year, abate the entire penalty using PRC 043 (Administrative Waiver) in the fourth position of the adjustment document.
  - b. If a taxpayer has already been given partial relief of the FTD penalty, based on IRC 6656(c)(2), the remaining penalty on the first calendar quarter can be waived.
  - c. Abate the remaining penalty using PRC 043 (Administrative Waiver) in the fourth position of the adjustment document.
- (3) 26 CFR 31.6302-1(c)(6) states that an employer who filed Form 944 for the prior year will be deemed to have timely deposited its ( Form 941) **January** deposit obligation(s) under 26 CFR 31.6302-1(c)(1) through (4) for the first calendar quarter of the year in which it must file quarterly using Form 941 if the employer deposits the amount of such deposit obligation(s) by March 15 of that year. See IRM 20.1.4.8.1, Extension of Time to Deposit for Form 941 Filers who Filed Form 944 in the Preceding Year. An administrative waiver of the penalty is allowed on late deposits received after the March 15th extended due date to deposit for the first calendar quarter of the year in which a Form 944 filer is returned to filing quarterly using Form 941.
- (4) Master File will issue a CP 236 notice on Form 941, Form CT-1, Form 943, Form 944, and Form 945 to remind newly required semi-weekly depositors that **NO** deposits were received in the first month of the calendar quarter following a change from monthly to a semi-weekly deposit status. Master File will systematically generate TC 971 A/C 329 in the cycle of the notice to indicate that a CP 236 notice was issued. The CP 236 notice history must be checked when considering a reasonable cause request due to late notification of a change in frequency. Don't rely on CP 236 and TC 971 A/C 329 issued before 2014; most are incorrect.
  - a. If TC 971 A/C 329 is present, then reasonable cause due to late notification of a change in frequency must be denied because CP 236 was issued prior to the requirement for the taxpayer to make its first deposit in the second calendar quarter.
  - b. If TC 971 A/C 329 is **NOT** present, reasonable cause may be considered on the second calendar quarter. Abate the penalty using Reason Code



(RC) 062 in the first position and Penalty Reason Code (PRC) 030 in the fourth position of the adjustment document if reasonable cause criteria is met.

**Note:** A small group of taxpayers won't be required to make their first semi-weekly deposit in January and will receive CP 236 notice reminder due to the conditions set forth in the Master File analysis. If a taxpayer complains that they had only one or no payroll in January, explain to them that the notice was not a bill but a reminder.

- (5) 26 CFR 31.6302-1(c) requires an employer to deposit employment taxes on the next business day after \$100,000 or more of employment taxes have been accumulated during the deposit period. The employer's employment taxes are accumulated for determining the \$100,000 next-day deposit obligation once the liability incurs; the employee's employment taxes are accumulated once they are withheld. See 26 CFR 31.6302-1(e) and Rev. Rul. 75-191.
  - a. Consistent with IRC 83 and the employment tax treatment of most forms of non-cash compensation, the employer becomes liable for its share of employment taxes and must withhold the employee's employment taxes (income tax withholding and employee share of FICA taxes) at the time that a nonstatutory stock option (NSO) or stock appreciation right settled in stock (stock-settled SAR) is exercised or when an employer initiates payment of a restricted stock unit settled in stock (stock-settled RSU). See GLAM 2020-004.
  - b. The IRS allows for an administrative waiver of the FTD penalty in certain circumstances where the FTD penalty is asserted on a \$100,000 next-day deposit obligation of employment taxes arising from the exercise of a NSO, the exercise of a stock-settled SAR, or payment of a stock-settled RSU within a deposit period. Pending further guidance, consult Counsel if an employer asserts that the deposit obligation applied at a different date to the employee's employment taxes because they were not withheld.
  - c. To figure the amount of penalty that may be abated due to the administrative waiver, the penalty must be recalculated on the \$100,000 next-day deposit obligation (arising from the income/wages inclusion with respect to a NSO, stock-settled SAR or stock-settled RSU) using the settlement date of the NSO, stock-settled SAR or stock-settled RSU as the liability incurred date for determining the \$100,000 next-day deposit obligation.
  - d. In the case of a NSO or stock-settled SAR, the taxpayer must provide the exercise date and settlement date of the NQSO prior to consideration. In the case of a stock-settled RSU, the taxpayer must provide the payment initiation date and settlement date prior to consideration. Accept the settlement date provided when settlement occurred within two business days of: (i) the exercise date for a NSO or stock-settled SAR or, (ii) the payment initiation date for a stock-settled RSU. Otherwise, use the second business day after the exercise date or payment initiation date, as applicable, if the settlement date occurred more than 2 business days after the exercise date or payment initiation date.
  - e. Command code FTDPN can be used to recalculate the FTD penalty figured on the \$100,000 next-day deposit obligation (arising from the income/wages inclusion with respect to a NSO, stock-settled SAR or stock-settled RSU) using the settlement date of the NSO, stock-settled SAR, or stock-settled RSU as the liability incurred date. In order to



correctly recalculate the FTD penalty using CC FTDPN, two separate penalty calculations must be initiated and combined per the following steps:

FTD Penalty Recalculation Steps	FTD Penalty Recalculation Action
(1) From the FTDPN liability screen,	<ol style="list-style-type: none"> <li>Remove the cumulative daily liability amount(s) within the deposit period that created the \$100,000 next-day deposit obligation arising from a NSO, stock-settled SAR, or stock-settled RSU.</li> <li>Move the curser to the last liability listed for the quarter and transmit (Page Up).</li> </ol>
(2) Page over to the FTDPN credit screen,	<ol style="list-style-type: none"> <li>Remove the corresponding deposit(s) designated for the liability amount(s) removed in (1) above.</li> <li>Move the curser after the last deposit listed on the credit screen and transmit (Page Up) for the penalty result.</li> <li>Add the resulting penalty amount to the second penalty computation amount figured in (3) and (4) below:</li> </ol>
(3) Using the blank liability screen accessed through FTDPNA (or FTDPNG if the settlement date used for the recomputation is for a date in the subsequent quarter),	<ol style="list-style-type: none"> <li>Combine the liability amount(s) removed in (1) above.</li> <li>Enter the combined amount as a single liability incurred on the settlement date of the NSO, stock-settled RSU provided by the taxpayer.</li> </ol> <p><b>Note:</b> The time frame for the settlement date is restricted to no later than the two days after the exercise date of the NSO or stock-settled SAR or two days after the payment initiation date for a stock-settled RSU.</p>
(4) Page to the credit screen,	<ol style="list-style-type: none"> <li>Overlay the transaction code of the first credit (to remove all credits on the page) with NNN and transmit.</li> <li>Page to the credit screen and enter ONLY the deposit amounts applicable to the liability amounts entered in (3).</li> <li>Move the curser after the last deposit listed on the credit screen and transmit (Page Up) for the penalty result.</li> <li>Add the resulting penalty amount to the first penalty computation arrived at from (1) and (2) above.</li> </ol>
(5) Using PRC 043 (Administrative Waiver) in the fourth position of the adjustment document,	Abate the difference between the assessed penalty and the recalculated penalty amount arrived at in (4) above.

20.1.4.26.3  
(02-09-2018)

#### Statutory Penalty Relief

- (1) Failure to deposit penalty provisions of IRC 6656(e) provide that a taxpayer may designate the application of its federal tax deposits for a particular return period in order to minimize the FTD penalty under IRC 6656 with respect to deposits required to be made after **January 18, 1999**. See Rev. Proc. 2001-58 and the "Instructions for Designation of Federal Deposit" in *SERP - Designation of Federal Tax Deposit - Job Aids (irs.gov)*.

- a. This procedure applies with respect to all taxes required to be deposited after January 18, 1999 that are reported on Form 720, Form 940, Form 941, Form 943, Form 944, Form 945, and Form 1042.
  - b. This permits a taxpayer receiving a penalty notice (with respect to any deposit of tax made for a specific tax period) to designate during the 90-day period beginning on the date of a penalty notice, the deposit period or periods to which a deposit of tax shall apply.
  - c. A request not received within 90 days of the 23C date of a notice containing an FTD penalty assessment cannot be considered per IRC 6656(e)(2).
  - d. If the request isn't received timely (within 90 days of the 23C date of a notice containing an FTD penalty assessment), designation cannot be considered. Issue an appropriate letter such as Letter 2782-C or CP 568 notice using the sample paragraph located in the "Instructions for Designation of Federal Deposit" in *SERP - Designation of Federal Tax Deposit - Job Aids (irs.gov)*.
  - e. The taxpayer may designate more than one deposit. If the taxpayer has multiple designations, they may have used a computer program. If so, obtain a copy of the computation generated from the computer program to assist in the recomputation.
  - f. The taxpayer may designate a "FIFO computation" either in writing or orally. Command code FTDPN can compute a FIFO FTD penalty for taxpayers with many liabilities. Enter "F" on the first payment page.
  - g. Reduce the penalty amount, using PRC 012 (in the fourth position of the adjustment document).
  - h. If the re-designation results in a higher penalty amount, provide an explanation to the taxpayer along with the option of keeping the lower penalty amount. Do not assess the additional penalty unless the taxpayer agrees.
- (2) Effective July 1, 1996, the Taxpayer Bill of Rights 2 (TBOR2) provides that the IRS may waive the FTD penalties with respect to an inadvertent failure to deposit any employment tax if:
- a. The depositing entity meets the net worth requirements applicable for the award of attorney's fees,  
**Note:** For individuals — net worth doesn't exceed \$2 million. For corporations or partnerships — net worth not exceeding \$7 million.
  - b. The failure to deposit occurs during the first calendar quarter that the depositing entity was required to deposit any employment tax, and
  - c. The return for employment tax was filed on or before the due date.
- (3) TBOR2 also provides that the IRS may abate any penalty for failure to make deposits for the first time if the taxpayer sends a deposit to the IRS instead of to the required government depository. The FTD penalty for first time depositors of employment taxes (Forms 941, 943 and 944) is systemically waived and generates a CP 238, Late Federal Tax Deposit (FTD) Educational Notice - No Penalty Charged, to inform the taxpayer of the penalty waiver.
- (1) Refer to IRM 20.1.1, Introduction and Penalty Relief, for procedures to follow when a taxpayer appeals a penalty assessment.
- (2) Managers may review employee penalty determinations and are considered the first line of appeal, whenever an appeal is requested by a taxpayer.

20.1.4.28  
(03-11-2024)  
**CARES Act Section 2302  
Deferrals**

- (3) Refer to IRM 20.1.1.3.5.1, Subsequent Requests for Penalty Relief, for duties required of employees holding the Penalty Appeals Coordinator position.
- (1) Section 2302 of the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes and certain Railroad Retirement taxes that would otherwise be due on or after March 27, 2020 through December 31, 2020 as well as deposits and payments due after January 1, 2021, that are required for wages paid on or after March 27, 2020, and before January 1, 2021. One-half of the **eligible** deferred employer's share of Social Security tax is due by December 31, 2021, and the remainder is due by December 31, 2022.
- (2) Additionally, in response to the Presidential Memorandum, IRB 2020-65, as modified by IRB 2021-11, allows employers to defer employee Social Security taxes (or Tier 1 Railroad Retirement taxes) that would otherwise be due on or after September 1, 2020 through December 31, 2020. The employer must withhold and pay the taxes that were deferred ratably from wages or compensation paid between January 1, 2021 and December 31, 2021.
- (3) IDRS will show a "false credit" by using a TC 766 CRN 280 for the combined employer and employee Social Security taxes deferred. A TC 767 CRN 280 reversal will post when payment is applied toward the deferral.
  - Whenever a module with unreversed TC 766 CRN 280 is placed in a credit balance due to a payment or tax/credit adjustment, a systemic TC 767 CRN 280 will post up to the amount of the credit available or up to the amount of unreversed TC 766 CRN 280 on that module, whichever is less.
  - If a taxpayer does not pay the necessary amount of deferred Social Security tax by the installment due dates of December 31, 2021 and/or December 31, 2022, a reversal of the "false credit" for the applicable deferral amount will show on the module as a TC 298 \$.00, BLK 20, with a TC 767 CRN 280 for the reversal (or defaulted) amount and a TC 180 for the applicable FTD penalty amount. The TC 298 will show an interest computation date of either 12/31/2021 or 12/31/2022 depending on the date the unpaid deferred tax was due. This allows the FTP penalty and interest to properly compute systemically.
- (4) If the taxpayer fails to pay the deferred tax amounts by the applicable installment due dates, Failure to Pay (FTP) and Failure to Deposit (FTD) penalties, and interest, will begin to accrue on the day after the installment due dates. Failure to Deposit (FTD) penalties will be assessed on the unpaid employer portion of the deferred taxes and will be 10 percent of the underpayment with a possible five percent additional fourth tier FTD penalty if the taxpayer does not pay the amount due within 10 days after notice of the penalty.

**Note:** No FTD penalty will be assessed on any unpaid employee share of deferred taxes. When both employee and employer deferred taxes were claimed and the taxpayer did not pay a required portion of the taxes by the required due dates, assume the taxpayer paid any amounts on that module which were applied to TC 766 CRN 280 to the employer deferred Social Security taxes first and the remainder to employee deferred taxes second in the best interest of the taxpayer. Also, because both 2021 and 2022 installment due dates are on federal holidays and/or weekends, payments will be considered timely if paid by 01/03/2022 and 01/03/2023, respectively.

**Example:** (1) Taxpayer filed a Form 941 for the second quarter of 2020 and deferred \$10,000, which was only the employer share of Social Security (SS) taxes. The taxpayer was eligible to defer \$15,000 of SS taxes, so the amount due by December 31, 2021 is \$2,500 and the amount due by December 31, 2022 is \$7,500. The taxpayer paid the first installment of \$2,500 before the applicable due date, and \$1,000 towards the second installment. A TC 767 CRN 280 for \$6,500.00 posts to the account with a transaction date of 12/31/2022 representing the reversed or defaulted amount for the second installment, and \$650 in FTD penalty will be assessed.

**Example:** (2) Taxpayer filed a Form 941 for the fourth quarter of 2020 tax year and deferred \$110,000, which included \$100,000 in employer share of SS taxes and \$10,000 in employee share. The taxpayer had claimed the maximum amount of deferred employer taxes, so \$60,000 (which consists of \$50,000 employer portion and \$10,000 for all the employee portion) is due by December 31, 2021 and the remaining \$50,000 (employer portion) is due by December 31, 2022. The taxpayer paid back \$45,000 before the first installment date and \$65,000 (the remaining deferred taxes unpaid after December 31, 2021 but before December 31, 2022. The FTD penalty in this case would be \$.00 because it will be assumed the \$5,000 underpaid for the first installment was the employee share of SS taxes which will not accrue any FTD penalty, and the remaining employer deferred amount was paid before the second installment due date. FTP and interest, however, would have begun accruing on the \$5,000 as of 01/01/2022 until paid.

- (5) Taxpayers in disagreement with penalty assessments related to late or unpaid deferral amounts should follow normal guidelines for requesting penalty relief. Managers may review employee penalty determinations and are considered the first line of appeal, whenever an appeal is requested by a taxpayer. See IRM 20.1.4.26, FTD Penalty Relief.

20.1.4.29  
(03-11-2024)

**Retroactive Termination  
of the Employee  
Retention Credit**

- (1) Section 80604 of the Infrastructure Investment and Jobs Act amended IRC 3134(n) to provide that the employee retention credit under IRC 3134 shall apply only to wages paid after June 30, 2021, and before October 1, 2021 (or, in the case of wages paid by an eligible employer which is a recovery startup business, January 1, 2022). This retroactive change required special procedures for those taxpayers that had already reduced their liabilities on employment tax returns in anticipation of the employee retention credit.
- (2) IRB 2021-65 provides guidance regarding the retroactive termination of the employee retention credit in the fourth calendar quarter of 2021 for employers who are not recovery startup businesses during the fourth quarter of 2021. The notice also provides guidance to employers who received an advance payment or reduced deposits in anticipation of claiming the employee retention credit, but who are ineligible to claim the credit due to the change in law, on how to repay the advance and timely make required deposits, as well as whether they are eligible for relief from penalties.
- (3) If the employer reduced deposits in anticipation of the employee retention credit, no failure to deposit (FTD) penalty will be imposed on these liabilities if;

- a. The employer reports the tax liability resulting from the termination of the employer's employee retention credit on the applicable employment tax return or schedule that includes the period from October 1, 2021, through December 31, 2021, and
- b. The employer deposits the amounts initially retained in anticipation of the employee retention credit on or before the relevant due date for wages paid on December 31, 2021 regardless of whether the employer actually pays wages on that date. An employer may have reported any retained amounts as tax liabilities on dates earlier than December 31, 2021; in that case, the amounts must be deposited in accordance with the applicable due dates of the days any liabilities are reported to avoid an FTD penalty. Deposit due dates will vary based on the deposit schedule of the employer.

**Example:** (1) A semi-weekly depositor employer filed a Form 941 for the fourth quarter of 2021 and reduced their October and November deposits by \$8,000 in anticipation of the ERC as well as received an advance payment of \$12,000 with Form 7200. The employer repays the early refund of \$12,000 by the due date of the return and reports the \$8,000 amount previously reduced as a liability on December 20, 2021. The employer must deposit the \$8,000 as if the wages were paid on that date and therefore must deposit the \$8,000 according to the liability schedule, which would be December 27, 2021, in order to avoid any FTD penalty for this liability.

**Example:** (2) A monthly depositor employer filed a Form 941 for the fourth quarter of 2021 tax year and reduced deposits in October and November by \$3,000 total in anticipation of the ERC. The employer reports the shortfall now as a December liability on their liability schedule. The employer must deposit the \$3,000 missed amount no later than January 18, 2022, in order to avoid any FTD penalty.

- (4) Liabilities reported using these rules for any particular period WILL be included in the \$100,000 next day deposit rule per IRM 20.1.4.8.6. However, taxpayers who have had their deposit schedule changed from monthly to semi-weekly only because of the relief provisions granted in IRB 2021-65 for the 2022 tax period may request to be changed back to a monthly deposit schedule. Follow instructions in IRM 20.1.4.14.1 for input of the TC 971 040 in these cases.
- (5) Taxpayers who disagree with penalty assessments related to late or unpaid deposits resulting from the retroactive termination of the ERC should follow normal guidelines for requesting any other penalty relief. Managers may review employee penalty determinations and are considered the first line of appeal, whenever an appeal is requested by a taxpayer. See IRM 20.1.4.26, FTD Penalty Relief.

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**Exhibit 20.1.4-1 (02-09-2018)****Employment and Excise Tax Program Forms**

<b>Forms</b>	<b>Title</b>
Form CT-1	Employer's Annual Railroad Retirement Tax Return
Form CT-1X	Adjusted Employer's Annual Railroad Retirement Tax Return or Claim for Refund
Form 940,	940, Employer's Annual Federal Unemployment (FUTA) Tax Return
Form 941	Employer's QUARTERLY Federal Tax Return
<i>Schedule B (Form 941)</i>	Report of Tax Liability for Semiweekly Schedule Depositors
Form 941-X	Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund
Form 943	Employer's Annual Federal Tax Return for Agricultural Employees
Form 943-A	Agricultural Employer's Record of Federal Tax Liability
Form 943-X	Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund
Form 944	Employer's ANNUAL Federal Tax Return
Form 944-X	Adjusted Employer's ANNUAL Federal Tax Return or Claim for Refund
Form 945	Annual Return of Withheld Federal Income Tax
Form 945-A	Annual Record of Federal Tax Liability
Form 945-X	Adjusted Annual Return of Withheld Federal Income Tax or Claim for Refund
Form 1042	Annual Withholding Tax Return for U.S. Source Income of Foreign Persons
Form 720	Quarterly Federal Excise Tax Return
720, Schedule A	Excise Tax Liability (Page 3 of Form 720)
Form 6197	Gas Guzzler Tax (Reported on Form 720)
Form 6627	Environmental Taxes (Reported on Form 720)

**Exhibit 20.1.4-2 (01-06-2012)****Electronic Deposit Requirement Threshold Amounts****Electronic Deposit Requirement Threshold Amounts**

**2011 and subsequent-** Electronic depositing using the electronic funds transfer system (EFT) is required of all depositary taxes (such as employment tax, excise tax, and corporate income tax) made in 2011 and subsequent.

**2010 and prior-** Electronic depositing using EFT is required of all depositary taxes (such as employment tax, excise tax, and corporate income tax) if the taxpayer's "aggregate deposits" for the second preceding calendar year exceed \$200,000. (For example, in 2010, the taxpayer is required to deposit electronically if aggregate deposits in 2008 exceeded \$200,000.) A taxpayer must begin depositing electronically on January 1 (and forward) of the year it became required to use EFT.

**Exhibit 20.1.4-3 (04-20-2010)**  
**FTD Averaging Methods**

<b>Forms</b>	<b>941, 943, 944, 945, and CT-1</b>
Liability Schedule Missing or Unacceptable—	<b>Semi-weekly Depositors:</b> Divide the total tax by 12 (if quarterly). Divide by 48 (if annual). Assign the resulting tax liabilities to the first four Wednesdays of each month. <b>Monthly Depositors</b> Divide the total tax by 3 (if quarterly). Divide by 12 (if annual). Assign the resulting tax liabilities to each month.
Monthly Liability Schedule Provided—	<b>Semi-weekly Depositors:</b> Divide each month's tax liability by 4. Assign the resulting tax liabilities to the first four Wednesdays of each month.

**Exhibit 20.1.4-4 (07-17-2015)****Forms 941, 943, 944, 945, and CT-1 Deposit Requirements**

<b>If the TOTAL Liability is...</b>	<b>And...</b>	<b>Then a deposit must be made...</b>
\$50,000 or less during the lookback period	Payment date is: • Sunday • Monday • Tuesday • Wednesday • Thursday • Friday, and/or • Saturday	On or before the 15th day of the following month
More than \$50,000 during the lookback period...	Payment date is: • Saturday • Sunday • Monday, and/or • Tuesday	On or before the following Friday
More than \$50,000 during the lookback period...	Payment date is: • Wednesday • Thursday, and/or • Friday	On or before the following Wednesday

**Lookback Period:** A four calendar quarter period.

- Form 941 filers **(with no Form 944 in the first or second preceding calendar year)**, the twelve-month period ending the preceding June 30. For example, the lookback period for calendar year 2015 is the period from July 1, 2013 to June 30, 2014 (which encompasses the quarters ended 201309, 201312, 201403, and 201406).
- Form 941 filers **(Form 944 in the first or second preceding calendar year)**, the second preceding calendar year.
- For annual returns, the second preceding calendar year.

**\$100,000 One-day Rule:** Taxes reach \$100,000 or more within a monthly or semi-weekly deposit period.

- Must be deposited in time to settle on the next banking day for either the monthly or semi-weekly depositor.

**Safe Harbor Rule:** An employer who deposits less than the full amount of the deposit liability won't be penalized if the deposit shortfall is:

- \$100 or less, OR
- 2 percent or less of the amount which should have been deposited.

**Safe Harbor Shortfall Makeup Date:**

- For monthly depositors, the due date of the tax return
- For semi-weekly or one-day depositors, the earlier of the due date of the return, or the first Wednesday or Friday on or after the 15th of the month following the month the deposit was due.

**Exhibit 20.1.4-5 (07-17-2015)**  
**Form 944 De Minimis Exception**

If The Tax Liability is:	Deposit Obligation:
Less than \$2,500 for the year	No deposit required. The tax can be paid by check or money order with the return or by credit card. (If the employer is unsure that the tax liability for the year will be less than \$2,500, the employer should deposit under the rules below.)
\$2,500 or more for the year, but less than \$2,500 for the quarter	The employer can deposit by the last day of the month after the end of a quarter. However, if the fourth quarter tax liability is less than \$2,500, the fourth quarter's tax liability can be paid by check or money order with a timely filed Form 944 or by credit card.
\$2,500 or more for the quarter	Deposits are due monthly, or semi-weekly, depending on the deposit schedule. Taxes that reach \$100,000, or more within a deposit period, must be deposited in time to settle on the next banking day for either the monthly or semi-weekly depositor. See section 11 of Pub 15, <b>(Circular E) Employer's Tax Guide</b>

**Exhibit 20.1.4-6 (02-09-2018)****Form 940 Deposit Requirements deposit requirements for periods beginning on or after January 1, 2005**

<b>If the tax liability is...</b>	<b>And it is the end of...</b>	<b>Then,</b>
\$500 or less	first quarter	tax is carried over to next quarter.
\$500 or less	second quarter	tax is carried over to next quarter.
\$500 or less	third quarter	tax is carried over to next quarter.
\$500 or less	fourth quarter	tax is due by the return due date (RDD). Tax can be deposited, paid with a major credit card, or paid with a check or money order with the return.
Over \$500	any quarter	tax must be deposited by the last day of the following month*.

**Form 940 DEPOSIT REQUIREMENTS FOR PERIODS ENDING ON OR BEFORE DECEMBER 31, 2004**

- Substitute \$100 for \$500 in above table.

**\*IF THE EMPLOYER'S LIABILITY FOR ANY QUARTER IS OVER:**

- **\$500** for periods beginning on or after **January 1, 2005**, or
- **\$100** for periods ending on or before **December 31, 2004**

<b>Quarter</b>	<b>Ending</b>	<b>Due Date</b>
Jan-Feb-Mar	Mar 31	April 30
Apr-May-Jun	June 30	July 31
Jul-Aug-Sept	Sept 30	Oct 31
Oct-Nov-Dec	Dec 31	Jan 31



**Exhibit 20.1.4-7 (07-17-2015)****Form 720 Return Due Dates and September Deposit Dates**

<b>RETURN DUE DATES</b>	<b>FORM 720</b>
Quarter Covered:	Return Due Date:
FIRST	APRIL 30
SECOND	JULY 31
THIRD	OCTOBER 31
FOURTH	JANUARY 31

***Filing and payment dates for floor stock taxes***

<b>Tax:</b>	<b>Filing Date:</b>	<b>Payment Date:</b>
ODCs (IRS No. 20)	JULY 31	JUNE 30

***ADDITIONAL DEPOSIT OF TAXES IN SEPTEMBER:***

<b>All Part I taxes:*</b>	<b>Period Beginning On</b>	<b>Period Ending On</b>	<b>Due Date</b>
EFT	Sept 16	Sept 26	Sept 29**
Non-EFT (before 2011)	Sept 16	Sept 25	Sept 28
Alternative method taxes ( 22, 26, 27, and 28) (based on amount billed)	Period Beginning On	Period Ending On	Due Date
EFT	Sept 1	Sept 11	Sept 29**
Non-EFT (before 2011)	Sept 1	Sept 10	Sept 28

\*Except Alternative method taxes, which are listed separately.

\*\*If September 29 is a Saturday, the due date is September 28. If September 29 is a Sunday, the due date is September 30.

Exhibit 20.1.4-8 (03-11-2024)  
Form 1042 Deposit Requirements For All Periods

**DEPOSIT REQUIREMENTS FOR ALL PERIODS. (Based on the amount of undeposited\*\* taxes at the end of the deposit period called a quarter-monthly period. Exception may apply due to Foreign Tax Treaties.)**

If undeposited taxes** are...	And it is the end of...	Then,
under \$200	End of a month except December	taxes are carried to the next month.
under \$200	end of December	taxes may be paid with the return, or deposited by the RDD.
\$200 or more, but less than \$2,000*	end of any month	deposits must be made by the 15th of the following month.
\$2,000 or more	end of a quarter-monthly period	deposits must be made within three business days.

\*EXCEPTION: If an earlier quarter-monthly deposit was made and taxes are \$200 or more but less than \$2,000 in a month other than December, the taxes are carried to the next month. For December, the deposits must be made by the RDD.

\*\*Undeposited taxes are the liabilities for a quarter-monthly period, plus the liabilities that were allowed to be carried forward from a prior quarterly-monthly period.

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**Exhibit 20.1.4-9 (04-20-2010)****Instructions for Command Code FTDPN**

<b>Instructions for Command Code FTDPN</b>	
Initial output display screen attempts to “MATCH” the Master File generated penalty. <b>Caution:</b> FTDPN will display “MISMATCH” on the initial FTDPNB screen when the penalty calculation differs from Master File.	
Can be used as a calculator to determine the FTD penalty for Form 940, Form 941, Form 943, Form 945, Form 1042, and Form CT-1.	
Changes made to FTDPN don’t change the FTD penalty record on Master File.	
Allows for computation of accounts with liabilities over \$100,000	
Can generate an “account specific” explanation (CP 568) of the penalty computed for selected liability(ies) and/or a full account summary table.	
<b>FTDPN</b>	
Entering CC FTDPN with no definer will result in the response screen, FTDPNB, which displays credits and liabilities from the module but allows the user the option to change those amounts for purposes of recomputation.	
<b>FTDPNA</b>	
<ul style="list-style-type: none"> <li>– If no liability breakdown has been provided, use the A modifier to average the liability.</li> <li>– Results in the FTDPNB screen with no liability amounts displayed.</li> <li>– Entering the total tax will result in a display of both the averaged liability dates and the averaged liability amounts.</li> </ul>	
<b>FTDPNG</b>	
<ul style="list-style-type: none"> <li>– For use when account is not on TIF.</li> <li>– Results in FTDPNB with blank liability and credit screens.</li> </ul>	

**Exhibit 20.1.4-10 (03-11-2024)****Penalty Computation Code (PCC) Definitions**

TC Codes	With ROFTL	Without ROFTL	Incorrect ROFTL
ALL EFT	003	011/057*	054/057*
ALL Non EFT	041	043/057*	055/057*
MIX	042	044/057*	056/057*
\$100,000 *	003/041/042	057*	057*

\*If \$100,000 account, use PCC 057

**Note:** For CAWR and FUTA adjustments, use PCC 018

## Exhibit 20.1.4-11 (02-09-2018)

### Schedule Indicator Code (SIC) Definitions

SIC	Definitions
0	Return processed with good liability information
1	Missing valid liability information penalty computed by averaging available information
2	Unbanked taxpayer
3	Church Social Security Issue
6	Penalty is calculated with good liability information containing \$100,000 or more liability
7	Return doesn't have complete and accurate liability information and liability amount(s) when averaged are \$100,000 or more.

**Exhibit 20.1.4-12 (07-17-2015)**  
**ROFTL Enclosures**

<b>Tax Return</b>	<b>ROFTL Enclosure Form or Schedule</b>
Form 941	<i>941 Schedule B</i>
Form 941-SS	<i>941 Schedule B</i>
Form 941-PR	Anexo B (Forma 941-PR)
Form 943 (PR)	Form 943-A (PR) (Catalog No. 17031N)
Form 945	Form 945-A
Form 943	Form 945-A
Form 944	Form 945-A
Form 944(SP)	Form 943-A (PR)(Catalog No. 17031N)
Form 944-SS(obsolete in 2012)	Form 945-A
Form 944-PR(obsolete in 2012)	Form 943-A (PR)
Form 940	Form 4977
Form CT-1	Form 945-A
Form 720	Form 720, Schedule A
Form 1042	Form 4977



**Exhibit 20.1.4-13 (02-09-2018)**  
**Dictionary of Key Terms**

Term	Definition
Averaged penalty	If the taxpayer doesn't submit a correct ROFTL, the FTD penalty is computing by dividing the tax into equal liabilities. For monthly depositors, each month has the same liability. For semiweekly depositors, the first four Wednesdays of each month have the same liability.
Base Period Code	A code that indicates the taxpayer's deposit schedule.
Business Master File	The files maintained by the IRS which include business transactions and accounts.
Computer Condition Codes (CCC)	Codes used during return processing. CCC J indicates FTD penalty processing is excluded.
Computer paragraph (CP)	A notice sent to the taxpayer about the account, or an internal notice sent to employees to review tax accounts for a specific reason. For example, CP 194 is sent to employees to determine the correct FTD penalty.
de minimis	The tax amount is below a threshold that requires payments by federal tax deposit.
Deposit	Required payments made by EFT during the tax period.
EFT	Electronic payments
EFTPS	The electronic tax payment system that the federal government uses to accept all electronically transmitted tax payments. All tax deposits after December 31, 2010 are required to be made by electronic funds transfer (EFT).
Fourth tier penalty	An additional five percent penalty on undeposited tax that is not paid within ten days of the notice date.
Interest-free adjustment	A tax increase on employment taxes (other than FUTA taxes) which doesn't include interest if filed timely. For amended returns, that is by the due date of the tax return for the period in which the error was discovered. Interest starts when the tax increase is filed. If the tax is paid when filed there is no interest. If the tax isn't paid when filed, a 10% FTD penalty is assessed. For audit tax increases, Form 2504 must be signed and the tax paid when Form 2504 is signed.
Legal holidays	For federal tax deposits, all legal holidays in the District of Columbia
Lookback period	A one year period used to determine the filing requirements (Monthly or Semiweekly).
Monthly Depositor	A depositor required to deposit taxes for each month on the fifteenth of the following month, determined if taxes are \$50,000 or less in the lookback period.

**Exhibit 20.1.4-13 (Cont. 1) (02-09-2018)**  
**Dictionary of Key Terms**

<b>Term</b>	<b>Definition</b>
Penalty Computation Codes (PCC)	A code that indicates conditions for computing the penalty, such as averaging or avoidance.
Penalty Indicator Codes (PIC)	PIC codes are related to the fourth tier 15% penalty. "1" indicates the fourth tier may be assessed. "2" indicated the fourth tier penalty has been assessed.
Reasonable cause	Penalty relief based on all the facts and circumstances in each situation is generally granted when the taxpayer exercised ordinary business care and prudence but nevertheless failed to comply with tax obligations. Employees are required to use the Reasonable Cause Assistant (RCA) when available to determine penalty relief for FTD penalties.
Safe harbor	Conditions which allow the taxpayer to deposit less than the required amount. This may be based on the amount of deposits in the prior year or depositing a defined amount less than the required amount.
Schedule Indicator Codes (SIC)	Codes indicate whether taxpayer submitted a valid ROFTL. See Exhibit 20.1.4-11.
Semiweekly depositor	A depositor required to deposit taxes for payments made on Wednesday, Thursday, and Friday on the following Wednesday, and for payments made on Saturday, Sunday, Monday, and Tuesday on the following Friday.
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 allowance.
Transaction Code (TC)	A three digit code that identifies a specific action on a taxpayer's account. See Document 6209, IRS Processing Codes and Information, Section 8A.2 for a complete listing of TCs.
Unbanked taxpayer	A taxpayer who is unable to obtain banking services

**Exhibit 20.1.4-14 (02-09-2018)****Table of Abbreviations and Acronyms**

<b>Acronym</b>	<b>Definition</b>
BMF	Business Master File
CAWR	Combined Annual Wage Reporting
CC	Command Code
CCC	Computer Computation Code
CP	Computer Paragraph
EFT	Electronic Funds Transfer
EFTPS	Electronic Federal Tax Payment System
FICA	Federal Insurance Contributions Act
FTD	Federal Tax Deposit
FTD	Failure to Deposit (penalty)
FUTA	Federal Unemployment Tax Adjustment
IRC	Internal Revenue Code
PCC	Penalty Computation Code
PIC	Penalty Indicator Code
ROFTL	Record of Federal Tax Liability
PRC	Penalty Reason Code
RRTA	Railroad Retirement Tax Act
SERP	Servicewide Electronic Research Program
SIC	Schedule Indicator Code
TC	Transaction Code

