



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

20.2.5

MAY 11, 2023

## EFFECTIVE DATE

(05-11-2023)

## PURPOSE

- (1) This transmits revised IRM 20.2.5, Interest, Interest on Underpayments.

## MATERIAL CHANGES

- (1) This IRM is being revised to include minor editorial changes. Web site addresses, legal references, IRM references, and tables were reviewed and updated as necessary. Minor editorial changes have been made throughout this IRM (e.g., formatting, links, punctuation, citations, etc.). Other significant changes to this IRM are shown below.
- (2) Effect on Other Documents: removed outdated IPU information.
- (3) Signature: Updated signature line to Acting Director, Business Support Office, Nicole L. Young Scott.
- (4) IRM 20.2.5.1, Program Scope and Objectives, updated text in the following paragraphs:
  - (1) Purpose - omitted redundant sentence.
  - (2) Audience - added bullet list of Business Operating Divisions whose employees may handle interest computations.
  - (3) Policy Owner - removed TBOR link. Updated TBOR information moved to IRM 20.2.5.1.3 , Responsibilities, paragraph (4). Replaced remaining text with, "Responsibility for overseeing interest resides with SB/SE, Operations Support (OS), Business Support Office (BSO)."
  - (4) Program Owner - updated to expand the responsibilities of the program owner, the Office of Servicewide Interest.
- (5) IRM 20.2.5.1.1, Background, updated and expanded content.
- (6) IRM 20.2.5.1.2, Authority, added additional reference to IRC 6611, Interest on Overpayments.
- (7) IRM 20.2.5.1.3, Responsibilities, paragraph (4), added the following TBOR information: "The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), for additional information about the TBOR Execution of Duties in Accord with Taxpayer Rights, see *Taxpayer Bill of Rights*."
- (8) IRM 20.2.5.1.4 added new paragraph (2) and expanded content to describe program management and review.
- (9) IRM 20.2.5.1.5 added new subsection for program controls and renumbered the following subsections.
- (10) IRM 20.2.5.1.7 Revised link to OSI Knowledge Base in paragraph (1).
- (11) IRM 20.2.5.2, Underpayment Interest, added additional bullet, "c) Special rules apply for Bipartisan Budget Act (BBA) partnership returns. See IRM 4.31.9, Pass-Through Entity Handbook, Centralized Partnership Audit Regime (BBA) Field Examination Procedures."
- (12) IRM 20.2.5.2, Underpayment Interest, paragraph (1) bullet item f), IRM citation updated to IRM 3.11.212.10.1, General Information and the term "overseas" changed to "a foreign country".

- (13) IRM 20.2.5.6.2, Manual Computations, paragraph (8), updated IRM citation from IRM 20.2.7.8.1, Suspension Period Calculation, to IRM 20.2.7.9 and its subsections.
- (14) IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC 340), paragraph (3), added additional bullet, b) BBA interest, to list of examples where a non-restricting TC 340 should not be used.
- (15) IRM 20.2.5.7.2, Revenue Ruling 99-40 and Refunds Without Interest, paragraph (1) corrected “reminder” to “remainder,” paragraph (4), updated IRM citation to IRM 20.2.14.4, Within Module Netting Under Revenue Procedure 94-60.
- (16) IRM 20.2.5.7.2, Revenue Ruling 99-40 and Credit Elects (May/Sequa), paragraph (5) corrected wording to clarify the requirement does not apply when the tax is reduced to zero, paragraph (8), IRM citation updated to IRM 20.1.3.4.1.1.4, Foreign Corporations, paragraph (9) added wording in caution to note the applicable IMF computer condition code and to clarify wording in the last sentence.
- (17) IRM 20.2.5.8.2, Applicable Date for LCU Interest Rate, paragraph 11 changed “impacted” to “affected” per IRS Style Guide.
- (18) IRM 20.2.5.8.4, Computation of the LCU Interest Rate, paragraph (1)(b) changed “existing” to “selected” to match the current ACT/DML screen referenced.
- (19) IRM 20.2.5.9.2.1, Reference Numbers for TMT Interest, paragraph (2) note added to describe current IDRS literals for item reference numbers 221 and 222.
- (20) IRM 20.2.5.9.4, Waiver Date Processing TMT Interest and Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), paragraph (2) first “Note,” updated IRM citation to IRM 20.2.7.9, IRC 6601(c) Suspension of Interest on Deficiencies.
- (21) IRM 20.2.5.9.5.1, Computing Interest on Non-TMT Tax Underpayment and Penalty, updated IRM citation in Figure 20.2.5-1, step (4), to 20.2.5.2.1, Application of Payments.
- (22) Exhibit 20.2.5-3 Added content to blank cells in tables for 508 compliance purposes.

#### **EFFECT ON OTHER DOCUMENTS**

This material supersedes IRM 20.2.5 dated October 2, 2020.

#### **AUDIENCE**

This IRM is intended for servicewide use by all employees who handle computations of interest.

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

20.2.5

Interest on Underpayments

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20.2.5.1  
(05-11-2023)  
**Program Scope and Objectives**

- (1) **Purpose:** This IRM provides policy guidance for computing underpayment interest on most cases and return types.
- (2) **Audience:** This IRM is intended for servicewide use by all business operation divisions (BODs) needing to compute underpayment interest. The primary audience is for Restricted Interest tax examiners (TE), who handle computations of interest, including employees in:
  - Small Business Self-Employed (SB/SE) Division,
  - Large Business and International (LB&I) Division,
  - Tax Exempt and Government Entities (TE/GE) Division,
  - Wage and Investment, (W&I) Division,
  - IRS Independent Office of Appeals, (Appeals),
  - Taxpayer Advocate Service (TAS), and
  - Other IRS functions
- (3) **Policy Owner:** Responsibility for overseeing interest resides with SB/SE, Operations Support (OS), Business Support Office (BSO).
- (4) **Program Owner:** The Office of Servicewide Interest (OSI) is responsible for overpayment and underpayment interest policy and IRM 20.2, Interest. OSI's role is to ensure the accuracy of interest and its fair and consistent application. OSI has overall responsibility for coordinating and approving any update to IRM 20.2, Interest, including IRM 20.2.5, Interest on Underpayments.
- (5) **Primary Stakeholders:** All operating divisions.

20.2.5.1.1  
(05-11-2023)  
**Background**

- (1) Underpayment interest is sometimes referred to as debit interest or deficiency interest. The Office of Servicewide Interest provides policy, training materials, interest tools, and manual interest procedures, when applicable, for overpayment and underpayment interest purposes. It is essential that managers, senior management officials, personnel, and examiners working with computations of underpayment interest correctly understand and follow technical guidance and information for interest rates and methods of computation.

20.2.5.1.2  
(05-11-2023)  
**Authority**

- (1) These procedures are covered under the following authority:
  - IRC 6601, Interest on Underpayment, Nonpayment, or Extension of Time for Payment, of Tax
  - IRC 6611, Interest on Overpayments,
  - IRC 6621, Determination of Date of Interest,
  - IRC 6622, Interest Compounded Daily,
  - Rev. Rul. 99-40

Additional authorities can be found in the table located in IRM 20.2.5.6.1, Reasons to Manually Compute Interest.

20.2.5.1.3  
(05-11-2023)  
**Responsibilities**

- (1) The Office of Servicewide Interest is responsible for the content of this IRM, answering related questions, and inputting any work requests.
- (2) The program manager of Office of Servicewide Interest is responsible for oversight of the Interest programs.
- (3) The Director, Business Support Office is the executive responsible for policy and procedures.

- (4) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information about the TBOR, see *Taxpayer Bill of Rights*.
- 20.2.5.1.4  
(05-11-2023)  
**Program Management and Review**
- (1) Nearly every function in the IRS has a role in proper interest administration. It is essential that each function conduct its operations with an emphasis on mitigating risk of inaccurate interest computations. Appropriate reviews should be conducted to ensure interest accuracy, consistency, and fairness.
- (2) To promote the goals of accuracy, consistency, and fairness in the interest program, the Complex Interest Quality Measurement System (CIQMS) Staff, a section within OSI, conducts reviews of interest computations, forwarding their findings to program partners/stakeholders. OSI also prepare reports of significant issues, such as corrections to computer programming that affect taxpayers.
- 20.2.5.1.5  
(05-11-2023)  
**Program Controls**
- (1) In accordance with **IRC 6601**, the payment of interest is required on underpayments of tax unless otherwise specified by law.
- (2) **IRC 6621**, provides the interest rates on overpayments and underpayments of tax, which are tied to the Federal short-term interest rate. Interest rates are determined quarterly based on changes to the Federal short-term rate.
- (3) Interest is statutory. It **cannot** be reduced or abated due to reasonable cause, nor can it be negotiated. See **IRM 20.2.7**, Abatement and Suspension of Debit Interest, for situations in which interest can be lawfully reduced or abated.
- 20.2.5.1.6  
(05-11-2023)  
**Terms and Definitions**
- (1) See IRM Exhibit 20.2.1-2, Definition of Terms, for the definitions of interest terms.
- 20.2.5.1.7  
(10-02-2020)  
**Related Resources**
- (1) For additional information, such as the latest interest news, job aids, interest tool updates, training material, list of the analysts, etc., see the Interest Knowledge Base at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB022>.
- 20.2.5.2  
(05-11-2023)  
**Underpayment Interest**
- (1) Underpayment (debit) interest, at the underpayment rate established under IRC 6621, is charged on an outstanding liability from the due date of the **unpaid** liability to the date fully paid. Since taxpayers are required to pay the tax due on or before the due date of the return, any interest charged is computed from the return due date. See Document 6209, IRS Processing Codes and Information, Section 2, for the due dates for filing various returns.
- Underpayment interest rates are determined quarterly.
  - Special rules apply for large corporate underpayments (LCU) and tax motivated transactions (TMT). See IRM 20.2.5.8 and IRM 20.2.5.9.
  - Special rules apply for Bipartisan Budget Act (BBA) partnership returns. See IRM 4.31.9, Pass-Through Entity Handbook, Centralized Partnership Audit Regime (BBA) Field Examination Procedures.
  - See IRM 20.2.11, Miscellaneous Interest Provisions, for other special interest rules.



and the ASED is imminent, then input a TC 290 for the amount shown as a credit to be assessed as tax, plus input TCs 160, TC 270, and TC 340 for zero. See IRM 25.6.1, Statute of Limitations - Statute of Limitations Processes and Procedures . If the return is later filed or located, then penalties and interest will need to be adjusted to reflect the actual amount.

**Note:** TC 610 payment posted to the module does **not** mean the taxpayer actually filed a return. All it means is that a payment was mailed to IRS around the same time as the return was due.

- (3) Interest on consolidated or acquired corporate returns starts from the due date of the parent or acquired return. Due to the e-filing requirement for most corporations, the short-period return will show the wrong return due date on Master File. Since this date cannot be changed, interest and penalties may need to be manually computed and assessed/abated. See IRM 21.7.4.4.4.4, Consolidated Returns, IRM 20.1.2.2.7, Short Years , and Treas. Reg. 1.1502-76(c).
- (4) Pursuant to Public Law 114-41, the due date changed for most corporate returns with a tax period beginning date of 201601 and subsequent (i.e., taxable years beginning after December 31, 2015), except those with a fiscal year ending (FYE) in June. The return due date was modified to one month later than the former requirement. For instance, a return for a calendar year corporation due March 15 is now due April 15.

**Note:** The return of any C corporation with an FYE on June 30 will remain due on September 15 until taxable years beginning after December 31, 2025.

#### 20.2.5.2.1 (10-02-2020)

#### Application of Payments

- (1) Payments are generally applied to liabilities in effective date order. When a taxpayer does not designate how a payment is to be applied (i.e., undesignated payment/remittance), it is first credited, on its effective date, to the earliest taxable year for which there is a liability, typically in the following order:
  - a. Tax
  - b. Tax Motivated Transaction (TMT) tax
  - c. Penalties and fees
  - d. Non-TMT interest
  - e. TMT interest

**Note:** Pursuant to IRC 6601(e), interest is owed and due as it accrues, and is assessed, collected and paid in the same manner as tax.

- (2) Since undesignated payments/remittances are first credited to the earliest outstanding liability, there are occasions when the above order of payment application is altered. For instance, when a carryback liability of tax has a later due date than a penalty and/or interest charge that precedes it.
- (3) For additional information concerning undesignated remittances, see Rev. Proc. 2005-18 which provides procedures to make, withdraw, or identify deposits to suspend the running of interest on potential underpayments of tax.
- (4) Interest accrues on unpaid liabilities of tax, penalty, additions to tax, additional amounts, and interest until they are fully satisfied.

20.2.5.2.1.1  
(10-02-2020)

**Allocation of Payments**

- (1) Payment **allocation** is a term used to describe the assigning or earmarking of a payment to a specific liability or set of liabilities; while payment **reallocation** describes the application of a previously applied payment to a different liability or set of liabilities.

**Caution:** The reallocation of payments and credits for purposes of computing an underpayment interest suspension under IRC 6601(c) is methodology no longer supported by the Service. See archived IRM for obsolete procedures. If a previous interest suspension amount was computed using the reallocation method, that adjustment should not be changed to the current procedure. However, current and future suspension amounts are to be computed using the method described in IRM 20.2.7.9.1, **IRC 6601(c) Suspension Period Calculation**.

- (2) Payments specifically allocated by the taxpayer for tax, interest, or penalty are posted with unique transaction codes: TC 640 for tax; TC 680 for interest; and TC 690 for penalty. However, a remittance is only designated when a written designation accompanies the remittance in compliance with the procedures for making a designated deposit or payment.
- (3) The request to designate all or part of the payment to interest is honored if one of the following conditions is met:
- The taxpayer agrees to assessment and collection of the liability by executing a waiver of restrictions; or
  - The taxpayer pays the underlying tax with respect to the amount to be designated as interest and the amount designated does not exceed the amount of interest that has accrued on the tax being paid.
- (4) If a payment is not specifically designated, the payment will be allocated to the earliest unpaid and collectible liability owed and due as of the payment availability date, i.e., oldest open Collection Statute Expiration Date (CSED).

**Exception:** If a taxpayer specifically requests allocation of a payment to tax, penalties, or interest, it remains allocated as requested unless the liability for which it was designated is overpaid, then it is considered undesignated.

**Caution:** Payments with effective dates before December 31, 1982 must have interest manually computed. They cannot be reallocated to subsequent assessments when computing interest.

- (5) A payment lawfully applied against an assessment when the CSED was open cannot be reallocated to another assessment after the CSED has expired on the initial assessment. When computing interest, payments and credits that were applied to the expired CSED need to be “excluded” from the computation along with the applicable tax and penalties.

20.2.5.2.1.2  
(04-27-2016)

**Availability Dates for Interest Calculation and Offset**

- (1) For purposes of computing underpayment interest, payments and credits are generally available as follows:
- Prepaid credits (e.g., withholding) are available on the due date of the return (determined without regard to any extension of time for filing the return).

- b. Subsequent payments made on or after the return due date (determined without regard to any extension of time for filing the return) are available on the received date or transaction date shown on the transcript. See IRM 20.2.5.4 and Exhibit 20.2.5-2 for additional guidance concerning payment availability dates.
- c. Credits transferred from another module (TC 700/706/730/736) are available as of the applicable credit availability date. See IRM 20.2.5.13 for additional information on how to compute underpayment interest on offsets.

20.2.5.2.2  
(05-11-2023)

**Assessment of Interest  
Accruals**

- (1) Interest will accrue on a liability (tax, penalties, additions to tax and/or interest) until it is fully paid. Interest accruals are not assessed (recorded) on the transcript [Command Code (CC) TXMOD/IMFOL/BMFOL] until one of the following conditions occurs:
- Input of an adjustment (e.g., TC 29X or TC 30X), or
  - Posted payment is in excess of tax and/or penalties, or
  - Issuance of annual reminder notices (e.g., IMF - CP 71, 71A, 71C, 71D; Spanish versions CP 771, 772, 773, 774; BMF - CP 160, 163, 171, 187)
  - Input of a TC 290 for zero (\$.00) with Priority Code (PC) 5, provided Hold Code 2, 3, or 4 is **not** also used.

**Note:** Input of a TC 342 for zero (\$.00) **without** Priority Code 5 will not update interest accruals.

- (2) Starting in 2017, any assessment (TC 29X or TC 30X) that includes Hold Code 2, 3, or 4, which prevents a systemic notice to the taxpayer, also prevents the posting of any accrued failure to pay (FTP) penalty and interest for all MFTs. If the hold code is input because a manual notice is required (e.g., quick and prompt assessments or other non-systemic notices), then the penalty and interest must be manually assessed with a TC 270 and TC 340/190. After the TC 270 and TC 340 have posted, but a module restriction is **not** otherwise necessary, the restriction can be subsequently removed via TC 272 and TC 342, as applicable.
- (3) The input of TC 290 for zero and Priority Code 5, with the appropriate hold code on an unrestricted (not blocked from systemic calculation) tax module, will post any accrual of interest. When adjusting with Document Code 54, use Hold Code 0, so that notices are issued. Refer to Section 8C.2(3) of Document 6209, IRS Processing Codes and Information, for information on hold codes. An on-line version can be found on SERP at <http://serp.enterprise.irs.gov/databases/irm.dr/current/6209/section-8c-2-2.html>.

**Caution:** Only use TC 290 - 0, PC 5 to update interest when necessary. This procedure is useful when working with taxpayers on payoffs and offsets. For instance, if a module is being moved to Non-Master File or MFT 31, or if a module balance shows zero, but interest is accruing and unpaid and significant enough to warrant the posting of interest and penalties.

- (4) The input of TC 290 or TC 300 for zero and Priority Code 5 will post unrestricted failure to pay (FTP) penalty accruals.
- (5) To stop the accrual of penalty and/or interest (e.g., balance due notice erroneously generated for a tax module that is fully paid), input a TC 290 for zero,

accompanied with (as appropriate) TC 340 and/or TC 270 for zero. See IRM 21.5.2.4.8.3, Clearance Tolerances, for further discussion of accounts in Master File Status Code 12.

**Reminder:** If a module is restricted or blocked from systemically computing interest, Master File will **not** automatically assess accrued interest. Refer to Section 8A of Document 6209, IRS Processing Codes and Information, or IRM 20.2.5.6 for an explanation of conditions that restrict or block systemic interest computations.

**Caution:** Do **not** input a TC 340 for a zero amount to bypass unpostable conditions (the unpostable would be erroneously addressed but the cause of the unpostable would not be corrected), or to bypass a module restriction (e.g., -I freeze), when an actual manual computation of interest must be made.

**Note:** For manual interest computations, see *Interest Knowledge Base*, <https://portal.ds.irsnet.gov/sites/VL022/Pages/default.aspx> for a list of resources, located under the **Other Interest Resources** tab.

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20.2.5.2.3  
(05-11-2023)  
**Steps to Compute Interest**

- (1) To compute interest to a specific date after a tax underpayment and penalties have posted:

If	Then
the module is not restricted or blocked from systemically computing interest,	use CC INTST.
the module is restricted or blocked from systemically computing interest, or module conditions exist that prevent systemic calculations,	manually compute interest.

- (2) Use the following process to determine the net amount of interest to be assessed or abated. This process allows for consideration of any interest-free periods and allows comparison of the adjusted amount to interest already assessed. Use either the ACT/DMI program or CC COMPA.
  - a. Using a current TXMOD or Master File transcript, compute a running module balance on the entire tax module.
  - b. Enter debits and credits on the appropriate dates.

- c. Suspend and resume interest (on a specific amount if necessary) for waiver/suspension periods. See IRM 20.2.7.9.1, IRC 6601(c) Suspension Period Calculation, for how to compute a suspension amount.
- d. Compare the amount of interest assessed on the module to your interest computation to determine the additional interest to be assessed (TC 340) or abated (TC 341). For a quick or prompt assessment, use TC 190/340 as appropriate. Compare the module balance, then add or subtract your adjustment with the balance of interest and principal on your computation. If the balances are not the same, go through the computation to determine if there is an error in the entries.

**Note:** Always balance your computation with the tax module balance adding or subtracting your adjustment.

**Reminder:** All prior underpayment and overpayment interest transactions, whether systemically or manually computed (e.g., TC 19X, TC 34X, TC 77X), must be verified when recomputing underpayment interest on a tax module. See IRM 20.2.1.4.2, Manual Calculation of Interest. If you are unable to verify the TC 34X or TC 77X amount, secure the adjustment document or case file.

20.2.5.2.4  
(05-11-2023)

**Statutory Period for  
Assessment, Collection,  
and Refund of Interest**

- (1) **Assessment and Collection** - Interest may be assessed and collected at any time during which the tax to which it relates may be collected. See IRC 6601(g).
  - a. Generally, taxes assessed after November 5, 1990, must be collected within 10 years after the assessment of the tax [Collection Statute Expiration Date (CSED), IRC 6502(a)(1)]. See IRM 25.6.1.12, Collection Statute Expiration Date (CSED) , for additional information on CSED.
  - b. Prior to November 6, 1990, the statutory period for collection was six years.
  - c. If underpayment interest is insufficiently charged or erroneously abated; resulting in a subsequent **refund** to be excessive, the additional interest may be assessed, provided the 10-year collection statute for the tax to which the interest relates is open. Follow the appropriate procedures to recover any erroneous refunds. See IRM 21.4.5.5, Erroneous Refund Categories and Procedures.
  - d. If underpayment interest is insufficiently charged or erroneously abated; resulting in a subsequent **offset** to be excessive, the offset can be reversed so long as the 10-year collection period described in IRC 6502 for the account to which the offset was applied has not expired. If a refund was issued from the account to which the offset was applied, and said refund included all or a portion of the offset, the offset reversal can be made. Follow the appropriate procedures to recover any erroneous refunds. See IRM 21.4.5.5 Erroneous Refund Categories and Procedures.
- (2) **Credit and/or Refund** -IRC 6511(a)provides the general period of limitations for filing claims for credit or refund. A claim for credit or refund of underpayment interest must be filed by the later of the following dates:
  - a. Three years from the time the return is filed; or
  - b. Two years from the time the tax (including interest) was paid, whichever period expires later

- c. If an agreement is made between the taxpayer and the IRS to extend the period of time for assessment (i.e., Form 872, Consent to Extend the Time to Assess Tax), the request must be filed within 6 months of the extended Assessment Statute Expiration Date (ASED).

**Note:** If no return is filed by the taxpayer, the claim must be filed within two years from the time the tax was paid.

**Note:** Contact Chief Counsel if there are questions about whether an alternate period of limitation applies under IRC 6511(d), IRC 6511(f), IRC 6511(g), or IRC 6511(h). See IRC 6511 for details.

- d. If the request is timely, determine the amount of tax that may be credited or refunded under IRC 6511(b).
- e. If a request is filed during the 3-year period, the amount of credit or refund shall not exceed the portion of the tax paid within the period immediately preceding the filing of the request, equal to 3 years, plus the period of any extension of time for filing the return.
- f. If the request is not filed within the 3-year period, the amount of the credit or refund shall not exceed the portion of the tax paid during the 2 years immediately preceding the filing of the request. For credit OFFSETS, add 2 years to the cycle date of the offset to determine the applicable 2-year period.

**Exception:** If the offset is a misapplied payment, use the date of the payment to determine the applicable 2-year period.

- g. If a Form 872 was signed by the taxpayer, the amount of credit or refund may not exceed the portion of the tax paid after the execution of the agreement and before the filing of the net rate request **plus** the portion of the tax that would have been open under the two or three year period of limitations described above, if a request had been filed on the date the agreement was executed.

**Note:** See IRC 6511 and IRM 25.6.1, Statute of Limitations Processes and Procedures, for further details.

**Caution:** Verify that the TC 560 on the module is due to having received Form 872 and not due to some other statute extension reason, e.g., bankruptcy.

20.2.5.3  
(05-11-2023)  
**Interest on Penalties and Additions to Tax**

- (1) The date from which interest will begin to accrue on an assessable penalty, including those referred to as an “addition to tax,” varies by penalty type. Some penalties begin to accrue interest on the date of notice and demand (i.e., assessment date/23C date), while others accrue interest from the **later** of the return due date or extended return due date. See the table below for the appropriate interest start date for each penalty type.
- (2) Refer to archived IRM 20.2.5.3, dated July 25, 2017, for the appropriate interest start date on penalties assessed before July 18, 1984, for guidance on the 50% interest component that’s applicable to negligence and fraud penalties assessed on returns due after December 31, 1981 and before January 1, 1989, and for penalties assessed on returns with due dates prior to January 1, 1990.
- (3) See the 20.1 family of IRMs (Penalty Handbook), as well as Document 6209, Section 10, Penalties and Interest Provisions, for more information on each penalty.

- (4) The table below displays the interest beginning date for the most commonly encountered penalties.

Title	Transaction Code	Interest Start Date
Failure to File Penalty IRC 6651(a)(1)	160/166	Return due date or extended return due date whichever is later  <b>Exception:</b> IRC 6698 and IRC 6699 are Failure to File Penalties for Form 1065, U.S. Return of Partnership Income, and Form 1120S, U.S. Income Tax Return for an S Corporation, respectively, but interest does <b>not</b> start until the 23C date, even though the penalty posts with a TC 16X.
Estimated Tax Penalties IRC 6654 and IRC 6655	170/176	Assessment (23C) date

Title	Transaction Code	Interest Start Date
Failure to Deposit Penalty IRC 6656	180/186	Assessment (23C) date
Taxpayer Identification Number Penalty IRC 6723	200	Assessment (23C) date
Daily Delinquency Penalty IRC 6652(c)	234/238	Assessment (23C) date
Miscellaneous Civil Penalties Various IRC sections - see IRM 20.3.1.4	240 with penalty reference number (PRN) 680, 681, 683, 686, 786-792	Return due date or extended return due date whichever is later
Miscellaneous Civil Penalties Various IRC sections - see IRM 20.3.1.4	240 with all other penalty reference numbers (PRNs)	Assessment (23C) date
8752 or 1065 Penalty IRC 6698(a)(2)	246	Assessment (23C) date
Failure to Pay Tax Penalty IRC 6651(a)(2) and 6651(a)(3)	270/276	Assessment (23C) date

Title	Transaction Code	Interest Start Date
Bad Check Penalty IRC 6557	280/286	Assessment (23C) date <b>Exception:</b> When the penalty carries an assessment or 23C date <i>prior</i> to the return due date, determined without regard to any extension of time for filing, interest on the penalty begins on the unextended return due date.
Failure to Report Income from Tips Penalty IRC 6652(b)	310	Assessment (23C) date
Fraud Penalty IRC 6663	320	Return due date or extended return due date whichever is later
Fees and Collection Costs 31 USC § 9701	360	Assessment (23C) date

**Note:** Interest is computer-generated on penalty assessments using the dates above. Do **NOT** manually compute or unnecessarily prevent systemic calculation of interest on penalties unless interest must otherwise be manually computed.

**Caution:** When a penalty (except for the failure to pay penalty) has been asserted due to the recapture of a carryback allowance, interest on the penalty accrues from the later of the due date of the loss year return, or the

extended due date of the loss year return. With these penalty adjustments, interest must be manually computed and restricted by input of TC 340. Failure to pay penalty that is asserted due to the recapture of a carryback allowance accrues interest from the assessment (23C) date of the penalty and does not require manual interest computation or restriction.

- (5) For purposes of computing interest, a penalty-reduction is first applied to the earliest assessment of that penalty in the order of first-in, first-out (FIFO). See Exhibit 20.2.5-1 for an illustration of this methodology.

**Exception:** For the estimated tax penalty, Master File first looks for a matching amount. Thus, interest is not necessarily computed in FIFO order when ES tax penalty is reversed. TC 171 and 177 are applied against matching TC 170 or TC 176. If a match is not found, it is first applied against TC 170 and then against TC 176 in FIFO order. The abatement has the same effective date as the assessment against which it is applied. A reversed TC 170 is identified by reversal indicator “R” in BMF (e.g. TC 170R), and by transaction code converted from TC 170 to TC 173 in IMF. (A reversed TC 176 cannot be distinguished from a TC 176 that has not been reversed.)

**Exception:** TC 241 without a matching penalty reference number (PRN) uses the 23C date of the transaction as the effective date. Thus, when reversing a TC 240, use the **same** PRN as the original, even if the PRNs have now changed definitions. When there is a matching reversed TC 240, it can be identified by reversal indicator “R” in BMF (e.g. TC 240R), and by TC converted from TC 240 to TC 243 in IMF. (A reversed TC 246 cannot be distinguished from a TC 246 that has not been reversed.)

**Note:** See Document 6209, Section 10.5, Penalties and Interest Provisions - Penalty and Interest Table, for more information.

- (6) When preparing a quick or prompt assessment using Form 2859, Request for Quick or Prompt Assessment, on a late filed return, failure to file penalty (TC 160) must be manually computed and assessed with the tax. Also, failure to pay penalty (TC 270) must be manually computed if adjusting the withholding credit. See IRM 20.1.2.2.5, Manual Penalty Adjustments .

20.2.5.4  
(05-11-2023)  
**Notice and Demand and Underpayment Interest**

- (1) Once notice and demand is issued, the taxpayer has a limited time period to pay the amount shown as due before additional interest on that amount is charged, see IRC 6601(e)(3). For notice and demand issued **after** December 31, 1996:

If the amount shown on the notice	And	Then
is less than \$100,000	is paid within 21 calendar days,	additional interest is not charged.
equals or exceeds \$100,000	is paid within 10 business days,	additional interest is not charged.

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**Note:** For notice and demand issued **before** January 1, 1997, if the amount shown on the notice is paid within **10 calendar days**, additional underpayment interest is not computed.

- (2) The notice grace period only applies **after** a notice and demand for payment has been sent to the taxpayer showing an amount owed (including accruals). It doesn't apply to payments made before there is an assessment of tax, even if the payment posted as a TC 670.
- (3) The issuance of notice and demand are identified on Master File or IDRS by Notice Status Codes 19, 20, 21, 54, 56, and 58. See Exhibit 20.2.5-2, Payment Effective Date Decision Chart.
- (4) A Collection due process notice allows 30 days to pay. This condition is identified by Transaction Code (TC) 971, Action Code (AC) 069. Additionally, the Federal Payment Levy Program (FPLP), identified by TC 971 AC 169 allows 30 days to pay. The FPLP attaches federal disbursements due an individual or business, such as, retirement, vendor/contractor payments, and social security.

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- (5) Offsets from another module of the same or a different taxpayer are to be treated as payments when determining if the notice grace period applies. This applies to offsets from overpayments, as well as offsets from overpayment interest. See IRM 20.2.5.13, Underpayment Interest on Liabilities Paid by Credit/Offset.

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applied by the IRS computer systems when a foreign address is present; this includes APO, FPO, and DPO addresses. When interest is manually computed, the 45-day grace period must be used instead of the normal 10/21 days for U.S. taxpayers who live in a foreign country.

- (7) IRC 6603 deposits are properly designated remittances made **prior** to a notice date. See Rev. Proc. 2005-18 for procedures to make, withdraw, or identify deposits under IRC 6603 . They stop interest, but are **not** considered payments in lieu of an agreement. Thus, they generally don't receive the notice grace period suspension, unless the remittance was processed incorrectly. For example, the remittance posted as a TC 640, when it should have posted as a TC 670. See IRM 20.2.4.8.2, IRC 6603 Deposits, for more information.

20.2.5.5  
 (05-11-2023)  
**Application of IRC 7503  
 for Interest  
 Computations**

- (1) A liability must be paid on or before the due date to avoid underpayment interest charges.

**Exception:** IRC 7503, provides that if the last day prescribed for the performance of any act falls on a Saturday, Sunday or legal holiday, the performance of the act on the next succeeding workday is deemed timely. As it relates to the filing of a return, if the return due date is a Saturday, Sunday, or legal holiday, then the return can be filed on the following workday and will be considered timely filed. If full payment of the liability is made by the following workday, no interest is charged on the liability. However, if not full paid by the first workday, then interest will be charged on the liability from the actual return due date and not from the date authorized by IRC 7503. Likewise, if only a partial payment is made, interest on the remaining liability will accrue from the actual return due date.

**Caution:** IRC 7503 does **NOT** prescribe a new due date. Returns **not** sent in by the date authorized for filing per IRC 7503 are considered late filed. Interest on any unpaid amounts will be computed from the actual return

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- (2) Any authorized extension of time to file via Form 4668, Employment Tax Examination Changes Report, must be postmarked by the IRC 7503 due date.
- (3) The following table outlines how payments are considered when the due date falls on a Saturday, Sunday, or legal holiday:

If	Then
payment of the entire tax liability is received by the following FIRST WORKDAY,	<b>NO</b> interest is charged.
partial payment is received by the following FIRST WORKDAY,	charge interest on the remaining unpaid tax liability: FROM: actual return due date TO: date of full payment.
no payment is received by the following FIRST WORKDAY,	charge interest on the entire tax liability: FROM: actual return due date TO: date of full payment.

- (4) See IRM 25.6.1.6.18, List of Legal Holidays, for the list of legal holidays.

20.2.5.6  
(05-11-2023)  
**Restricted Interest**

- (1) Interest may be limited to specific time periods or rates, or it may be statutorily prohibited, which gives rise to the term **restricted interest**. Restricted interest is subject to the same variables (time, rate, amount) as **normal** interest calculated by the IRS.
- (2) The primary difference between normal and restricted interest is that the IRS computer systems may **not** be able to identify all the conditions involved in a restricted interest situation. When IRS computer systems are incapable of calculating interest, it must be manually computed and input.
- (3) The IRC contains provisions by which interest is either restricted or prohibited. See IRM Exhibit 20.2.1-1, Provisions Restricting Interest. This exhibit lists the

section of the Code and certain provisions having the effect of law, which govern adjustments resulting in underpayments or overpayments on which interest is restricted. It also lists an identifying title and the related provisions which govern the computation of interest.

20.2.5.6.1  
(05-11-2023)

**Reasons to Manually  
Compute Interest**

- (1) Some of the reasons for manually computing underpayment interest on a tax module are listed in the table below (the list is not all inclusive):

Description	Reference
Carryback and general adjustments using Form 2285, Concurrent Determinations of Deficiencies (Increases in Tax) and Overassessments (Decreases in Tax) in Cases Involving Restricted Interest Provisions of the Internal Revenue Code	IRM 20.2.9, Interest on Carryback of Net Operating Loss
Carryback adjustments with related penalties, such as the accuracy-related penalty (Master File uses the carryback year due date as the effective date for the penalty, instead of the loss year return due date)	IRM 20.2.5.3(5) Note, Interest on Penalties and Additions to Tax
Carryback adjustments posted with refundable tax credits prior to 2016. (Master File used the carryback (gain) year due date as the effective date for the credits, instead of the loss year return due date. Starting January 2016, Master File is using the Interest Comp Date (INT-CMPTN-DT) of the carryback adjustment as the effective date of associated credits.) Exception: For carryback adjustments containing refundable credits received and processed prior to the loss year return due date, but the current date is used as the INT-CMPTN-DT, interest must still be manually computed.	IRM 21.5.9.5.12.4, Carryback Net Operating Loss (NOL) Effect on Refundable Credits
Combat zone with multiple in/out tours within a 6-month period	IRM 20.2.7.11, IRC 7508, Combat Zone

Description	Reference
Credits reversals with interest suspension periods prior to July 2015, such as fuel credits, withholding credits, education credits, or credits from Form 8839, Qualified Adoption Expenses, Form 8801, Credit For Prior Year Minimum Tax - Individuals, Estates, and Trusts, Form 8885, Health Coverage Tax Credit, Form 8827, Credit For Prior Year Minimum Tax - Corporations, Form 3800, General Business Credit, etc., with interest suspension periods	IRM 20.2.7.9.1, IRC 6601(c) Suspension Period Calculation
Dividend Deficiencies	IRM 20.2.11.2.2, Criteria to Claim a Deficiency Dividend Deduction
Disaster areas	IRM 20.2.7.13, IRC 7508A, Presidentially Declared Disaster or Terroristic or Military Actions
Employment Tax ascertained date under IRC 6205	IRM 20.2.10.5, Employment Taxes
Estate tax returns	IRM 20.2.10.2, Interest on Estate Tax Returns
Expired CSED - accounts with one or more expired CSEDs.	IRM 20.2.5.2.1.1, Allocation of Payments
Foreign tax credit adjustments	IRM 20.2.10.3, Foreign Tax Credits
IRC 6404(g) with previously posted TC 29X/30X adjustments including TC 29X/30X for zero when TC 971 AC 064 is pending or posted and the input adjustment results in an increase in liability (tax, penalties, or decrease in refundable credits).	IRM 20.2.7.8.6, IRC 6404(g) Interest Computation
Large corporate underpayment (LCU)	IRM 20.2.5.8, Large Corporate Underpayment (LCU) Introduction
Ministerial or managerial acts causing errors or delays	IRM 20.2.7.5, IRC 6404(e)(1), Unreasonable Error or Delay in Performing a Ministerial or Managerial Act
Multiple waiver dates	IRM 20.2.7.9, IRC 6601(c), Suspension of Interest on Deficiencies

Description	Reference
Multiple IRC 6404(g) notice dates	IRM 20.2.7.8.5.1, Multiple IRC 6404(g) Notices
Net rate interest netting	IRM 20.2.14, Netting of Overpayment and Underpayment Interest
Non-Master File assessments	IRM 21.7.12, Non-Master File (NMF) Adjustments
Non-Mirrored MFT 31 modules	IRM 20.2.5.14, Non-Mirrored MFT 31
Offers in compromise (OIC)	IRM 20.2.11.11, Offers in Compromise (OIC)
Personal holding company tax	IRM 20.2.11.2.4, Decreases in PHC Tax, and IRM 20.2.11.2.5, Underpayment (Debit) Interest on PHC Tax Adjustments
Reinstated from retention	IRM 20.2.5.6.3, Non-restricting Transaction Code (TC) 340
Rev. Proc. 2002-18	IRM 8.6.3.10, Change in Accounting Practice or Method, and IRM 4.11.6, Changes in Accounting Methods
Rev. Rul. 99-40	IRM 20.2.5.7, Revenue Ruling 99-40 (Modifies and Supersedes Revenue-Ruling 88-98) Use of Money
Section 3082(a), Public Law 110-289 of the Housing and Economic Recovery Act of 2008	IRM 20.2.7.13.2, Amended Returns for Hurricane Related Casualty Losses With Subsequent Grant Reimbursement
Tax motivated transactions	IRM 20.2.5.9, Tax Motivated Transaction (TMT) Interest

**Note:** See IRM 4.10.8.14.3.4, Restricted Interest, for routing and notation procedures for examination cases requiring the manual computation of (restricted) interest.

20.2.5.6.2  
(05-11-2023)

#### Manual Computations

- (1) When a manual underpayment or overpayment interest adjustment is required, all personnel should review their own interest computation for accuracy. Additionally, when the interest computation exceeds \$100,000 per tax module, it is recommended that the computation be reviewed by another technician with expertise in calculating interest. Local management may use their discretion as to the method of achieving the interest computation review and may lower the recommended dollar threshold.

- (2) **All** manual interest computations are also subject to random quality reviews, regardless of the adjustment amount. Managers (or their delegates) are required to randomly review manual computations to verify that interest is restricted and computed correctly.
- (3) When manually computing interest address the following:
  - a. **Always attach the computation and the reason for the action taken to the adjustment source document.** See IRM 20.2.1.4.2.1, Manual Calculation of Interest - Documentation, for a description of what documents to send to files.

**Note:** Correspondence Imaging Inventory (CII) interest adjustments are done as non-source documents (NSD). The CII image is the source document. A CIS-IND>1 will be present on TXMOD indicating the source document is available in CII. Use ESTABDO to request a hard copy of the pdf interest computation (document) from files if unable to access CII. For additional information see IRM 21.5.1.5.3, CII Source Documentation.

- b. Provide the reason on the adjustment source document when interest is abated.
- c. Provide the reason on the adjustment source document when a TC 340 for zero amount is input.

**Note: Do not** unnecessarily block (restrict) the systemic calculation of interest on a tax module. Use TC 19X or non-restricting TC 340 whenever possible. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340. Ensure that TC 190, TC 191, TC 340, TC 341, TC 770, and TC 772 are used appropriately.

- (4) It is not necessary, when inputting manual underpayment interest restriction transaction codes (TC 34X) in ADJ54 or AMCLS, to use a blocking series that will create a refile DLN, **if sufficient documentation is attached to the adjustment source document.**

**Reminder:** Electronically document the reason for the action taken when Accounts Management Services (AMS) is available to the function inputting the adjustment.

**Example:** If the case is located on AMS, notate the following in the case history: 1) Reason interest has been manually computed. 2) Relevant interest computation dates and amounts for the adjustment. 3) Any specific information that would be helpful to someone in reconstructing the posted restricted interest adjustment.

- (5) All manual underpayment interest transactions input through CC ADJ54 or CC AMCLS must have an interest-to-date in the "DB-INT-TO-DT" field (MMDDYYYY format). Interest is generally computed to the full paid date, 30 days from the agreement date, or the 23C date of the assessment, whichever is the earliest. The "DB-INT-TO-DT" field posts to the module and identifies to which date the manual underpayment interest was computed. Accurate entry of this field assists employees who are responsible for performing subsequent interest computations, account updates, and account inquiries.

**Exception:** The following are exceptions to using a date other than the date interest was computed to in the "DB-INT-TO-DT" field: 1) If a TC 340 for zero is input to stop erroneous accruals, then the 23C date of the

assessment can be used. 2) If no interest is due on the module, then use the return due date (RDD). 3) When non-restricting TC 340 is used, enter the 23C date of the non-restricting TC 340 adjustment. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340.

- (6) Use TC 190 to post manually computed underpayment interest on quick and prompt assessment documents when the tax module is not restricted and does **not** require interest to be restricted. Do **not** post a TC 190 for zero unless no interest is due. If interest needs to be restricted, then whenever possible, input a non-restricting TC 340 after a quick or prompt assessment has posted with a restricting TC 340 to allow Master File to update interest. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340, for input details.

**Note:** Any Subsequent adjustment to tax requires recomputation of the non-restricting TC 340.

- (7) Any time underpayment interest is manually computed, it is necessary to recompute the entire tax module to ensure an accurate computation is made. When a tax module is recomputed, all prior interest transactions (e.g., TC 19X, TC 33X, TC 34X, TC 770, TC 772) must be verified, including systemic transactions, even if the module was imported into ACT/DMI. If needed, CC INTSTD can help with the prior systemic underpayment interest. If you are unable to match the manually computed interest transaction amount(s), secure the appropriate document(s) or the case file. If unable to secure the documents after several attempts, then try to contact the employee or area that computed the restricted interest. Also, the taxpayer or Power of Attorney (POA) may have a copy of the interest computation. When all attempts to verify the prior computations have been exhausted, then use the interest to date of the last manually computed interest as the starting point, unless there is an interest-free suspension period, then use the 23C date of the posted transaction as the interest start date. Compute interest to the appropriate "DB-INT-TO-DT" considering any payments, credits, waivers, or notices posted after the last interest transaction. Ensure that your interest computation and notes related to searches for the prior interest computation are associated with the adjustment document.
- (8) A reversal of some tax credits (e.g., fuel tax), will require a manual computation and restriction of underpayment interest if the taxpayer signed an agreement form with a waiver of restrictions under IRC 6213(d), such as, Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, prior to programming change in July 2015. Tax credit reversals are entitled to the same waiver suspension period as tax. Prior to July 2015 Master File did not recognize all of them. Also, additional credits, payments, or both should be included in this suspension amount. See IRM 20.2.7.9, IRC 6601(c), Suspension of Interest on Deficiencies and its subsections.
- (9) Master File does not recognize TC 772 as a total consideration of all overpayment interest (e.g., an overpayment interest combination adjustment which may include netted or additional overpayment interest, etc.). As a result, if the tax period has an overpayment at the time of posting, it will recalculate overpayment interest, post an erroneous TC 776 amount, and issue a refund with excessive overpayment interest. To avoid this, it is necessary to cycle the adjustment by performing the following processing steps.

1. Calculate interest to the 23C date of the following cycle.
2. Post the necessary adjustments, including the TC 772 to the current cycle, using a hold code to prevent Master File from posting a TC 776, and releasing the credit.
3. Input a TC 340 for zero and TC 770 for zero to release the credit for refund with a one week cycle delay (to match the interest to date).
4. Post a hold code that only holds the notice.

**Note:** Unlike a TC 772, Master File recognizes a TC 770 as the current total computation of overpayment interest and generally will not post (generate) a TC 776.

- (10) TC 342 removes the interest restriction previously set by either a TC 340 or TC 341. Input TC 342 with a Priority Code (PC) 5 to allow Master File to post accrued interest when applicable. Master File considers all posted TC 19X, TC 34X, and TC 33X amounts when assessing or abating additional interest as a result of a recomputation.

**Note:** Master File will not post accrued interest unless PC 5 is posted with the input of a TC 342. See IRM 20.2.5.2.2, Assessment of Interest Accruals, for additional information.

- a. TC 342 may **NOT** be input without first securing the source document for the TC 340/341 that created the interest freeze.

**Exception:** The TC 342 may be input if the TC 340/341 restriction was unnecessary or if a TC 340 for zero was systemically generated on an original filed return because of the combat zone indicator.

- b. If manually abating the failure to pay penalty (TC 271), and/or there is a prior TC 271 on the module, posting of a concurrent or subsequent TC 342 may not permit Master File to compute interest correctly. Continue to manually update the interest or monitor to make sure Master File computed correctly.
- c. A TC 340 for zero may indicate a net rate interest netting adjustment. **DO NOT INPUT TC 342** in this instance. One way to identify these modules is to see if there is a TC 971 AC 355 posted. See IRM 20.2.14.6.9, Identifying Modules Involved in Net Rate Adjustments, for more information.

**Note:** There are additional reasons why a TC 340 for zero may be input as shown in the table below. These adjustments should **not** be released by the input of TC 342. This list is not all inclusive.

<b>Additional Adjustment Types:</b>
Combat zone indicator
Prevent the posting of de minimis interest accruals
Innocent spouse adjustments
Erroneous refund due to IRS error
Systemic interest problems causing erroneous notices to be sent out

**Additional Adjustment Types:**

Interest abatement under IRC 6404(e) due to unreasonable delay by IRS.

- d. When inputting TC 342, it is not necessary to use a blocking series that will create a refile DLN **if sufficient documentation is attached to the adjustment source document.**
- e. Attach a copy of the source document for the TC 340/341 to the TC 342 adjustment document. If the source document is not available, notate on the TC 342 adjustment document why a TC 340 for zero was originally input (if known).

**Example:****Combat zone indicator**

TC 150 - \$1,000.00

TC 806 - \$500.00

TC 270 - \$0.00

TC 340 - \$0.00

A source document would not be available for the TC 340 for zero adjustment. Notate on the TC 342 adjustment document **Source document not available - combat zone indicator - TC 340 for zero systemically generated on original filed return.**

**Reminder: TC 342 will reverse ALL restricted interest transactions on the module.**

- (11) When a notice is issued to an individual taxpayer that includes interest to be paid, the notice must include a computation of the interest. See IRC 6631 and IRM 20.2.1.2.2, Notice Requirements. Because a sole proprietor is an individual taxpayer, the requirements of IRC 6631 also apply to employment and excise tax liabilities of a sole proprietor. Master File programming will systemically include an explanation of the interest calculation with notices sent to taxpayers when interest has been systemically generated.
  - a. If interest is manually computed or restricted, send a copy of the interest computation report. Users of command code (CC) COMPA may only send COMPAD prints to taxpayers as an explanation of the manual interest computation.
  - b. Use Letter 3535, Interest Computation Cover Letter, as a cover letter when providing all manual interest computations to the taxpayer as required by IRC 6631.

**Reminder:** In accordance with the purpose of the Office of Management and Budget (OMB) Memorandum M-07-16, Safeguarding Against and Responding to the Breach of Personally Identifiable Information, use only the last four digits of a taxpayer's SSN on the documents mailed to the taxpayer.

- c. The requirements of IRC 6631 **only** apply to notices which “include an amount of interest required to be paid” by the taxpayer.

**Note:** While there is no **requirement** under IRC 6631 to provide an explanation on business Master File (BMF) modules, it is **recommended** that an explanation be provided to the taxpayer when interest on a BMF module is manually computed.

- (12) All manual interest computations **must include documentation** supporting the interest computations and attached with the input document that is either sent to Files or CII. Documentation is required even if a copy of such documentation is retained in the area. See IRM 20.2.1.4.2.1, Manual Calculation of Interest - Documentation, for more information.

20.2.5.6.3  
(05-11-2023)  
**Non-Restricting  
Transaction Code (TC)  
340**

- (1) The non-restricting TC 340 is an enhancement to Master File programming to allow a systemic interest update on a tax module after interest has been manually computed, and it should be used whenever possible. This is especially useful for, but not limited to, the following situations:
  - a. Multiple waiver dates
  - b. Combination adjustments involving carrybacks (Form 2285, Concurrent Determinations of Deficiencies).
  - c. Disaster area adjustments
  - d. Abatements due to a delay or error in a ministerial or managerial act
  - e. Combat zone participants
  - f. Multiple IRC 6404(g) notice dates
  - g. Rev. Rul. 99-40
  - h. Removing the large corporate underpayment (LCU) applicable date (i.e., 2% trigger date) for a tax module in which the LCU rate doesn't apply
- (2) The total balance, including accruals, is entered in the “COMP-INT-AMT” field with the TC 340 adjustment. This causes Master File to resume normal interest computation on that amount from the date entered in the “DB-INT-TO-DT” field. See Exhibit 20.2.5-4, Input Screen of Non-Restricting TC 340 Using ADJ54.
  - a. The module balance includes any unpaid tax, penalty, and interest as of the “DB-INT-TO-DT,” including accrued failure to pay penalty (TC 270/276). Refer to the If/Then Table below that provides the rules for handling TC 27X when determining the “COMP-INT-AMT” for the non-restricting TC 340.

<b>If the 23C (posting) date of the TC 270/276</b>	<b>Then the TC 270/276 amount</b>
is the same as the “INT-TO-DATE,”	<b>should be included</b> in the “COMP-INT-AMT.”
is after the “INT-TO-DATE,”	<b>should not be included</b> in the “COMP-INT-AMT.”

- b. When the non-restricting TC 340 is used, the interest accruals are updated systemically. Master File uses the “DB-INT-TO-DT” as the start date for subsequent computations. Therefore, compute interest to the posting date (23C date) and input this date in the “DB-INT-TO-DT” field.

See IRM 20.2.5.6.2(5) for the date to use in this field when computing a manual TC 340.

**Example:** For Exam and Appeals tax assessments with a signed IRC 6601(c) waiver, the “DB-INT-TO-DT” input is the 23C date of the assessment, **not** 30 days past the agreement date, even though interest is computed to 30 days past the agreement date.

**Reminder:** Use a non-restricting TC 340 whenever possible. When feasible, input a non-restricting TC 340 after a prompt or quick assessment has posted with a TC 340 to allow Master File to update interest.

**Caution:** The COMP-INT-AMT is limited to 13 characters, including commas and periods. If the entry is more than 13 characters, it will have to remain restricted.

- (3) The non-restricting TC 340 should not be used in situations where normal programming cannot correctly update the interest. Some examples are as follows:
- a. Tax motivated transaction interest (TMT) (120% interest)
  - b. BBA (Bipartisan Budget Act) interest
  - c. Complex large corporate underpayment (LCU) interest (2% interest)
  - d. Modules reactivated from retention (TC 370 with Document Code 52 sets a permanent underpayment interest restriction, unless the TC 370 contains a Julian date of “999,” in which case the module is not restricted)
  - e. Net rate interest netting cases

20.2.5.6.3.1  
(11-01-2016)  
**Subsequent Manual  
Interest Accrual  
Processing**

- (1) After the posting of a non-restricting TC 340, any subsequent adjustment with an interest effective date earlier than the last posted **DB-INT-TO-DT** requires the account to be recalculated and input with a new non-restricting TC 340. Examples are adjustments to tax (including TC 290 for zero), penalties, and credits.
- (2) The -I freeze **will not** be present on the module after the non-restricting TC 340 posts. Any adjustment with an earlier effective date, such as a credit transfer from another module, will set a new -I freeze, unless the TC 340 is identified and addressed with a manual interest update.

20.2.5.7  
(10-02-2020)  
**Revenue Ruling 99-40,  
Use of Money**

- (1) Pursuant to IRC 6601(a), the IRS is authorized to assess interest on any tax that is not paid on or before the last date prescribed for payment. The last date prescribed for the payment of tax is the due date for the tax return on which the tax is reported, without regard to any extensions for the filing of the return - IRC 6601(b).
- (2) In *Avon Products, Inc. v. United States: 588 F.2d 342 (2d Cir. 1978)*, the court interpreted IRC 6601(a) to mean that interest on an underpayment can only be charged when the tax is both **due and unpaid**, reasoning that interest is charged only for the loss of the use of money. This impacts interest computations when an underpayment is determined after either of the following conditions have occurred:
- a. A refund without overpayment interest is issued; or

- b. An overpayment is applied to a succeeding tax period as a credit elect. Because of the court cases of *May Department Stores Co. v. U.S.*, 36 Fed. Cl. 680 (1996) and *Sequa Corp. v. United States*, 99-1 USTC (CCH) 50,379 (1998), this condition is often referred to as May/Sequa.

**Note:** Rev. Rul. 99-40, which modified and superseded Revenue Ruling 88-98, addresses both situations.

- (3) Before allowing a credit or refund of overpaid deficiency interest pursuant to Rev. Rul. 99-40, ensure the statute is open to do so. See IRM 20.2.5.2.4.

20.2.5.7.1  
(05-11-2023)  
**Revenue Ruling 99-40  
and Refunds Without  
Interest**

- (1) When an overpayment is refunded without overpayment interest, which is permitted under IRC 6611 if certain conditions are met - see IRM 20.2.4, underpayment interest on a subsequently determined deficiency runs from the date of the refund check on that part of the deficiency that is equal to or less than the overpayment and from the original due date on the remainder.
- (2) The IRS computer is programmed to handle Revenue Ruling 99-40 as it relates to the interest-free periods defined in IRC 6611. Do not restrict interest unless there are other conditions on the module that require the restriction of interest.
- (3) When it is necessary to apply Revenue Ruling 99-40 in a manual computation of interest, follow the procedures below.

- a. Compute a running module balance (which includes the subsequent underpayment), from the return due date to the date the overpayment was refunded.

**Note:** The refund date of the overpayment for systemic refund is typically the 23C date of the TC 846, whereas the date for manual refunds (TC 840) is the date the check was mailed, or wire transferred. To determine the date a manual refund was mailed, or wire transferred, use the Julian date of the TC 840, which is the sixth, seventh, and eighth digits of its document locator number (DLN).

- b. Suspend underpayment interest on the amount of the refund or the module balance, whichever is less, from the interest start date to the date of the refund.

**Note:** When a module is downloaded to ACT/InterestNet, the program automatically includes the suspension period on original return refunds. However, there are situations that may require manipulation of the program (e.g., avoidance of erroneous within module netting). See IRM 20.2.5.7.4, Revenue Ruling 99-40 and Carry-backs.

**Caution:** Always verify the suspension dates when using the import function on ACT/InterestNet.

- c. Resume underpayment interest from the refund date on the full module balance including the amount suspended for the refund.
- (4) Refunds issued **with** interest also receive special underpayment interest consideration. See IRM 20.2.14.4, Within Module Interest Netting Under Revenue Procedure 94-60.

20.2.5.7.2  
(05-11-2023)  
**Revenue Ruling 99-40  
and Credit Elects  
(May/Sequa)**

- (1) When there is a subsequent underpayment of tax on a module containing a credit elect posting to a succeeding tax period, under Rev. Rul. 99-40 the interest start date may be different. In order to determine when interest starts per Rev. Rul. 99-40, a computation is needed for the subsequent tax period. A spreadsheet using the same information as found on Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, Form 2210-F, Underpayment of Estimated Tax by Farmers and Fisherman, or Form 2220, Underpayment of Estimated Tax by Corporations, can be used. See IRM 20.2.5.7.2.1 on how to compute the interest.
- (2) When a taxpayer elects to apply an overpayment to the succeeding year's estimated taxes (credit elect), the credit elect is applied to unpaid estimated tax payments in order to avoid the failure to pay estimated income tax penalty under IRC 6654 or IRC 6655 for that year. Since the estimated tax penalty computation is based on the original return filing information of tax and payments due each quarter, the original filing information is used for completing the spreadsheet. (Amended returns and claims are not considered in the penalty computation.) See IRM 20.1.3, Estimated Tax Penalties, for additional information.

**Caution:** Once the taxpayer elects to have the overpayment applied to the succeeding year, it cannot be revoked.

**Note:** Transaction Codes (TC) 830/836 identify the credit elect amount on the overpaid module and TC 710/716 identify the credit elect amount posted on the tax module for the immediately succeeding taxable year. Page 2 of CC AMDISA will now indicate if the module contains a TC 836.

**Note:** When a revised Form 2210 or Form 2220 is submitted after the original return has already been filed and processed, it needs to be considered, especially if it results in a decrease of a posted estimated tax penalty. This is provided the penalty abatement wasn't due to reasonable cause. For example, the taxpayer wishes to have the penalty reduced using an annualized computation.

- (3) If a tax module being processed by an IRS employee contains a TC 830 or TC 836, a determination should be made whether Rev. Rul. 99-40 applies. If Rev. Rul. 99-40 applies, interest should be computed according to the provision. Since a taxpayer is entitled to this interest provision, a taxpayer request is **not** needed. To assist the case closing units, an examiner should annotate Form 3198, Special Handling Notice for Examination Case Processing, and provide any needed documents. This prevents the taxpayer from having to file a claim later.

**Exception:** No determination of Rev. Rul. 99-40 applicability is necessary when the tax owed on the return due date is being reduced to zero. See IRM 20.2.5.7.2(5) for details.

- (4) Starting with 2016 returns, the return due date will be the same as the due date of the first quarter for estimated tax payments. The only exception are fiscal year ending (FYE) June returns; they will keep the 9/15 due date until 2025.

- (5) If Rev. Rul. 99-40 has been considered, even if it is determined that Rev. Rul. 99-40 does not apply, Transaction Code (TC) 971 Action Code (AC) 653 is now required to be input on IDRS. This action code became available January 2015, and can be input on any year Rev. Rul. 99-40 was considered, even if this was in the past. AC 653 is to benefit other employees. This requirement doesn't apply to cases when the tax is being reduced to zero with a general tax abatement. However, Rev. Rul. 99-40 may still be applicable when a carryback with a later effective date reduces the tax. A carryback is typically treated like a payment, and is not available to reduce tax until the normal (un-extended) due date of the **loss year** return.

**Note:** This requirement applies to all income tax returns, except for Form 1041, U.S. Income Tax Return for Estates and Trusts, because MFT 05 wasn't set up to accept AC 653.

- (6) If the TC 150 indicates a substitute for return and the first assessment represents tax shown on an original return, then Rev. Rul. 99-40 does **not** apply, because this is not a subsequent underpayment.
- (7) If a corporation is acquired or merged with another corporation, the due dates for the estimated tax payments will be the same as the acquired or parent return, if the income is reported on the parent return. For these types of cases, use caution in posting the correct amounts and due dates. Form 2220, Underpayment of Estimated Tax by Corporations, for the parent corporation must be obtained to determine how much of the TC 710 or TC 716 is to be applied for that tax period.
- (8) The estimated tax payments for foreign corporations have the same due dates as the domestic corporations. If the foreign corporation does **not** have a US office, then the return is due two months later (e.g., June 15 instead of April 15). For returns with a tax period beginning date prior to 2016, the return was due three months later (June 15 instead of March 15). See IRM 21.8.2.9.3, Payment of Tax Due - Form 1120-F, and IRM 20.1.3.4.1.1.4, Foreign Corporations. If the credit elect is not needed, the corporation still receives one year interest-free.

**Example:** A 201312 Form 1120-F return (no U.S. office) contains a credit elect amount of \$500,000 (TC 716). The credit elect is not needed to pay the installments due 4/15/2013, 6/15/2013, 9/15/2013, and 12/15/2013. Therefore, the credit elect is effective as of the return due date 6/15/2014.

- (9) When reviewing a filed claim requesting Rev. Rul. 99-40, check for the following:
- If the claim also requests an adjustment to tax, existing claim procedures will be followed.
  - If the taxpayer already has an open/active account on AIMS or IDRS, the claim will be routed for association.

- c. Claims/requests involving restricted interest are only sent to Appeals when the claim/request has been disallowed and the taxpayer requests the case be sent for Appeals consideration.

**Caution:** If the taxpayer used the annualized installment method, Form 2210 or Form 2220, the subsequent year's original tax return should be secured before an adjustment is made. On BMF modules, computer condition code (CCC) 8 is an indicator that the annualized installment method was used, while CCC P is for IMF. If unable to secure the return, proceed with the 99-40 calculation, and add a remark on AMS or in the history items, "Form 2210/2220 not available."

20.2.5.7.2.1  
(05-11-2023)

**Computation of Revenue Ruling 99-40 for Credit Elects**

- (1) If there is an underpayment of tax in a year the taxpayer made a credit elect, determine whether the credit elect was needed to avoid or reduce the failure to pay estimated tax penalty for the immediately succeeding tax period.

**Note:** The Rev. Rul. 99-40 benefit is allowed even if there is a penalty for failure to make timely estimated tax payments on the succeeding tax period.

**Example:** There is a \$10,000 estimated tax payment due for each quarter. The taxpayer only paid \$2,000 for each installment and had a credit elect for \$15,000. The estimated tax penalty would be based on a shortfall for the second, third, and fourth installments. \$8,000 would be applied to the first quarter and the taxpayer would receive Rev. Rul. 99-40 of \$7,000 for an interest-free consideration in the second quarter when calculating underpayment interest.

- (2) Using the information found on TXMOD, IMFOL/BMFOL, or the taxpayer's returns, the following information is needed to make this determination:
  - a. For individuals, the adjusted gross income for the underpayment tax period.
  - b. The amount of overpaid tax that was credited to the succeeding tax period.
  - c. Any payments of estimated tax made for the succeeding tax period.
  - d. Any refundable credits (e.g., fuel tax credit), shown on the succeeding tax year.
  - e. Estimated tax liability for each installment period based on the taxpayer's required installments of estimated tax for purposes of IRC 6654 or IRC 6655.
- (3) With the information in paragraph (2) above, a determination can then be made regarding how much of the credit elect is needed for each quarter for the succeeding year. Refundable credits are subtracted from the tax owed **prior** to computing the required installments, except for withholding and TETR credits, which are treated as payments. See IRC 6654(d), IRC 6655(d) or IRC 6655(e). For internal use, the Appeals TCS SharePoint website has spreadsheets available for this purpose. See <https://organization.ds.irsnet.gov/sites/AppelsSEPR/TS/Lists/TCSSpread/AllItems.aspx>, Appeals TCS Spreadsheets, for the TCS spreadsheets.

**Note:** When using the spreadsheet for an individual, the Adjusted Gross Income (AGI) is required in order to determine the required installment amounts. The AGI is per the original return filing. If the original return or a copy isn't avail-

able, then use the AGI amount shown on TXMOD/IMFOLR and subtract (or add if this shows a minus) the amount shown with reference number 888 located below the tax assessment or on IMFOLA to arrive at the original AGI amount.

- (4) Compute interest on the subsequent underpayment as follows:
- a. Using current TXMOD or Master File information, compute a running module balance.
  - b. Using the spreadsheet, suspend underpayment interest from return due date to the installment date for the amount needed on the subsequent year. For corporations, a one month suspension will apply for prior to 2016 returns. Starting with 201601 returns, most Form 1120 return due dates will have the same due date as the first installment. See IRM Exhibit 3.11.16-2, Due Date Charts, for more information.
  - c. Include all other payments, assessments, and any other required suspensions.
  - d. The maximum interest suspension for Rev. Rul. 99-40 is one year.
  - e. Make sure that erroneous “within module netting” does **not** occur. Although IRS procedures are to apply Rev. Rul. 99-40 **before** within module (annual) netting, the ACT/DMI software may do the opposite. In certain circumstances, ACT/DMI must be manipulated to avoid the application of annual netting when the use of money principle under Rev. Rul. 99-40 would apply instead. This problem surfaces when a refund or offset is allowed credit interest, but an interest-free period for an overpayment (a refund, offset or credit elect) runs during this same time period.

**Example:** J Taxpayer Neptune files Form 1040, U.S. Individual Income Tax Return, for the 201612 tax year reflecting an overpayment of \$65,000. Neptune requests that \$45,000 of the overpayment be applied as a credit elect to the 201712 tax period. The remaining overpayment of \$20,000 is refunded with interest. Overpayment interest on the refund is allowed from the April 15, 2017 return due date to the refund schedule date of July 22, 2017. Later, Neptune files an amended return reporting tax of \$30,000, and requests application of Rev. Rul. 99-40. The amended return was processed and the credit elect was applied to the fourth quarter estimated tax installment due January 15, 2018. Thus, underpayment interest on the \$30,000 tax will begin from January 15, 2018. To prevent the ACT/DMI program from applying annual netting during the period of time interest was allowed on the original \$20,000 refund, the tax assessment (up to the amount of the \$45,000 credit elect), is assigned an effective date of January 15, 2018. This prevents the program from computing interest (annual netting) during the interest-free period allowed by Rev. Rul. 99-40.

**Caution:** The amount of the assessment(s) subject to the effective date reassignment can not be more than the interest-free refund, offset, or credit elect (as the case may be).

- f. See Exhibit 20.2.5-3 for a Rev. Rul. 99-40 example.

If	Then
the required installments are equal to or less than the amount of timely estimated tax payments,	the credit elect amount is not needed and the taxpayer is not liable for underpayment interest (up to the amount of the credit elect).
the required installments are more than the amount of all timely estimated tax payments,	the credit elect (or a portion thereof) is needed and underpayment interest begins from the due date of the installment on the lesser of the underpayment, the installment amount, or portion of the installment that is more than the estimated tax payments.
the tax on the return is equal to or less than the amount of estimated tax payments,	the credit elect amount is not needed and the taxpayer is not liable for interest on the amount of underpayment equal to the credit elect for the time period that is prior to the return due date for the succeeding tax period (maximum of one year underpayment interest-free period).
the estimated tax payments were not timely, but made before filing the return,	the credit elect is applied to the quarter(s) it is needed, even if the installment due date is earlier than the payment date. That is, credit elects are considered first; the payment date of the credit elect (TC 71X) is <b>not</b> important.
the taxpayer receives a refund of some or all of the estimated tax payments <b>prior</b> to the unextended return due date,	the underpayment interest suspension will stop on the date of the refund up to the amount of the refund that is more than the estimated payments needed to avoid the estimated tax penalty.

20.2.5.7.3  
(05-11-2023)  
**Credit Elects and  
Employment Tax**

- (1) Rev. Rul. 99-40, as it relates to unpaid installments of estimated income tax, does **not** apply to employment tax returns (e.g., Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return) or to Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, because filers of such returns are not required to make estimated tax payments. Federal tax deposits are not considered estimated tax payments.

20.2.5.7.4  
(05-11-2023)  
**Revenue Ruling 99-40  
and Carrybacks**

(1) When a subsequent assessment (general adjustment), including penalties, is made and a carryback has previously been allowed and refunded for the same year without interest, underpayment interest on the subsequent assessment for that year (up to the amount of the carryback) is not computed for the period between the carryback availability date and the carryback refund date.

(2) Compute underpayment interest on the subsequent assessment as follows:

a. Using a current TXMOD or Master File transcript, compute a running module balance on the subsequent assessment from the due date of the tax to the date the carryback is available.

**Note:** For interest accruing for periods prior to October 4, 1982, the date the carryback is available is the first day after the end of the loss year or the date the tax was paid, whichever is later.

b. Suspend interest on the lesser of the module balance or the carryback amount on the carryback availability date.

c. Resume underpayment interest on the suspended amount from the carryback refund date to the applicable ending date; waiver date plus 30 days (if applicable), payment date or 23C date, whichever is earlier.

d. When importing data from TXMOD using ACT/DMI, the software will automatically populate an overpayment interest suspension period for carryback overpayments issued without overpayment interest. Use the loss year return due date as the effective date of the carryback recapture. When using the import feature, **always** ensure the original dates on TXMOD are correct.

e. Make sure that erroneous annual netting does not occur. Erroneous annual netting occurs when underpayment interest is computed at the overpayment rate during a period of time where no underpayment interest is due. ACT/DMI will attempt to net interest.

**Example:** A claim is filed for a refund and is not processed in 45 days, so the taxpayer receives overpayment interest. Later, the taxpayer has a carryback that is refunded without interest. There is a subsequent audit and part of the carryback previously allowed is recaptured. Since the carryback was originally issued without interest, there is an underpayment interest-free period, so annual netting cannot occur.

(3) See IRM 20.2.9, Interest on Carryback of Net Operating Loss, for rules concerning carrybacks.

(4) Effective for adjustments posting in cycle 198909 and later, underpayment interest is systemically computed in refund situations under the above rules if the module is **not** restricted. **Do not unnecessarily restrict a tax module.**

20.2.5.8  
(05-11-2023)  
**Large Corporate  
Underpayment (LCU)**

(1) The Omnibus Budget Reconciliation Act of 1990, Public Law (PL) 101-508, added IRC 6621(c) which increased the interest rate for amounts deemed to be "Large Corporate Underpayments" (LCU), for interest accrual periods after December 31, 1990. LCU means any underpayment of a tax by a C corporation for any taxable period if the underpayment for that period exceeds \$100,000. See Treasury Regulation 301.6621-3 for additional guidance.

- (2) Interest on large corporate underpayments is charged at a rate that is 2 percentage points higher than the normal underpayment interest rate. Accordingly, while interest on underpayments is generally imposed at the normal underpayment rate of the Federal short-term rate plus 3 percentage points, interest on large corporate underpayments is equal to the Federal short-term rate plus 5 percentage points. Large corporate underpayment interest, also known as “2% interest”, was implemented as an incentive for corporations to promptly pay any large underpayment balances.
- (3) The Taxpayer Relief Act (TRA) of 1997, Public Law 105-34, amended IRC 6621(c) by adding an exception for determining the existence of a large corporate underpayment for small letters and notices (IRC 6621(c)(2)(B)(iii)), relevant for interest accrual periods after December 31, 1997. Prior to the amendment, a letter or notice for \$100,000 or less could initiate the LCU interest rate.
- (4) Depending on when a letter or notice was issued, the method for computing LCU interest can involve the rules effective January 1, 1991 (*pre-98*), January 1, 1998 (*post-97*), or be a combination of both.
- (5) The LCU interest rate is effective for interest accrual periods after December 31, 1990, regardless of the taxable period to which the underlying tax may relate.

**Note:** Section 6621(c) provides a “transition period”. If a notice/letter is issued prior to January 1, 1991 but the amount due was paid by January 31, 1991, no applicable date is set, see IRM 20.2.5.8.2. The LCU rate cannot be charged prior to January 1, 1991, even if the applicable date is prior to December 31, 1990. The earliest date that the LCU rate can begin is January 1, 1991.

20.2.5.8.1  
(05-11-2023)

**Requirements for  
Application of LCU Rate**

- (1) In order for the large corporate underpayment rate to apply, the following criteria must be met:
  - a. The taxpayer must be a “C” corporation. See IRM 20.2.5.8.1.1, **Definition of a “C” Corporation**.
  - b. A “threshold underpayment” of tax must exist. See IRM 20.2.5.8.1.2, **Threshold Underpayment for LCU**.
  - c. A preliminary notice of proposed deficiency (30-day letter), statutory notice of deficiency (90-day letter), or notice and demand for payment (under non-deficiency procedures) must have been issued that, when unpaid, trigger an “applicable date”. See IRM 20.2.5.8.2, Applicable Date for LCU Interest Rate.

20.2.5.8.1.1  
(05-11-2023)

**Definition of a “C”  
Corporation**

- (1) For purposes of IRC 6621(c), a “C” Corporation is described as:
  - a. BMF taxable entity with a Form 1120, U.S. Corporation Income Tax Return, filing requirement (except Form 1120S, U.S. Income Tax Return for an S Corporation).

**Note:** BMF taxable entities that have a C corporation filing requirement include corporate, employment tax, and excise tax returns.

  - b. BMF taxable entity without a Form 1120 filing requirement but having an exempt organization section present with a corporate indicator, (e.g., Form 990T, Exempt Organization Business Income Tax Return).

20.2.5.8.1.2  
(05-11-2023)  
**Threshold  
Underpayment for LCU**

(2) Typically, the literal **C-CORP>1** is shown at the top of TXMOD when the taxpayer is a C corporation. See IRM 20.2.5.8.3 if the module doesn't have a C-Corp indicator, but should.

(1) A threshold underpayment of tax is an amount exceeding the \$100,000 benchmark of IRC 6621(c)(3)(A), necessary to establish a **large corporate underpayment**.

(2) A threshold underpayment of tax is the **“aggregate”** of unpaid tax (*excluding* interest, penalties, additions to tax, or additional amounts) as of the last date prescribed for payment (typically, the un-extended return due date, or if a carryback recapture, the due date of the loss year return).

(3) Payments made after the prescribed date for payment do not affect the determination of a threshold underpayment. Also, payments made on or before the prescribed date for payment that have been refunded, or offset may not be considered when determining the threshold underpayment for a subsequent tax assessment.

**Note:** The terms “additions to tax” and “additional amounts” refer to the penalties imposed under IRC 965(i)(7)(C) and sections IRC 6651 through IRC 6663 of the code.

**Note:** While a threshold underpayment consists of only tax, the amount on which the large corporate underpayment rate is charged includes tax, penalties, interest, additions to tax, and additional amounts.

(4) The existence of a threshold underpayment of tax and the amount of a large corporate underpayment are generally determined only when an assessment is made with respect to the taxable period. Thus, the amount of a deficiency or proposed deficiency set forth in a letter or notice pursuant to which the applicable date is determined (see IRM 20.2.5.8.2, Applicable Date For LCU Interest Rate) does **not** determine whether there is a large corporate underpayment. Interest is charged at the LCU rate when all three conditions described in IRM 20.2.5.8.1 are met.

(5) Application of the instructions in parts 1 through 3 above may be illustrated by the following examples.

**Example:** Pluto, a C Corporation receives a notice and demand for payment of \$115,000 for his Form 1120 return. The notice reflects an outstanding amount of original unpaid tax of \$75,000, with an additional tax deficiency of \$20,000, plus \$20,000 in combined penalties and interest. Although the total liability stated in the notice is \$115,000, the aggregate amount of unpaid tax is only \$95,000. The penalty and interest charges of \$20,000 cannot be considered when determining a threshold underpayment of tax.

**Example:** Star, a C Corporation, timely filed its 2017 Form 1120 income tax return on April 15, 2018, reporting tax of \$80,000, of which Star paid \$20,000 with the return. On July 9th, 2018, Star filed an amended return, Form 1120X, reporting additional tax of \$50,000. At the time the additional tax for the amended return is assessed, Star has met the condition for a

threshold underpayment of tax because the combination of unpaid tax (\$60,000 plus \$50,000) as of the prescribed date for payment (April 15, 2018) totals \$110,000.

**Example:** Lunar, a C Corporation, filed its 2018 Form 1120 tax return reporting tax of \$130,000. Lunar made estimated tax payments of \$270,000 as of the due date of the return (April 15, 2019). The Service refunded the resulting overpayment of \$140,000. Later, Exam assessed additional tax of \$120,000, which was paid shortly thereafter. At the time of the subsequent assessment, Lunar's total tax of \$250,000, met the threshold underpayment of \$120,000. The estimated payments (\$270,000 that timely overpaid the original tax by \$140,000 and the remittance received afterwards of \$120,000 is disregarded for purposes of determining the threshold underpayment of tax.

**Example:** On December 10, 2018, the Service mailed a letter of proposed deficiency for the 2017 tax year in the amount of \$180,000 to Moon, a C Corporation. Moon requested Appeals review. The administrative appeal concluded March 18, 2019, with the Service assessing tax in the amount of \$70,000. While the initial letter proposed a deficiency for an amount exceeding \$100,000, at the time of the **assessment** the tax established to be due for Moon (\$70,000) did not meet the amount for threshold underpayment of tax.

**Example:** Saturn, a C Corporation, files Form 1120X , Amended U.S. Corporate Income Tax Return, for the 2016 tax year, notifying the Service of an error it made in the computation of a prior net operating loss carryback from the 2017 tax year of \$400,000, reported on Form 1139 , Corporation Application for Tentative Refund. and issued as a refund to the taxpayer. Once the error was accounted for, the carryback allowance should have been \$250,000. Accompanying Saturn's amended return received October 22, 2018, was a payment for the tax due of \$150,000. A threshold underpayment of tax was thus established for the assessment because the payment remitted with amended return was dated after the prescribed date for payment of the carryback recapture, April 15, 2018.

**Example:** Orbit, a C corporation, timely filed its 2016 income tax return, Form 1120, on April 15, 2017, reporting tax of \$350,000, of which Orbit had satisfied with estimated tax payments for the same amount. As a result of a subsequent examination, the Service issued a letter of proposed deficiency to Orbit for tax of \$200,000, which Orbit did not respond to, followed by a statutory notice of deficiency. Orbit did not petition the Tax Court, and the Service assessed the additional amount on May 21, 2018. No payment was remitted for the amount owed. On August 6, 2018, Orbit files a Form 1120X , Amended U.S. Corporate Income Tax Return, reporting a tax decrease of \$150,000. The Service accepted the amended return as correct and reduced the tax accordingly on September 10, 2018. With the posting of the tax decrease on September 10, 2018, the aggregate of unpaid tax for Orbit is \$50,000. Thus, there is no threshold underpayment of tax on September 10, 2018. However, there existed a threshold underpayment of tax on May 21, 2018, the date on which the additional tax of \$200,000 was assessed.

- (6) Different types of tax (such as income tax and FICA tax) and amounts that relate to different taxable periods are **not** added together when determining if there is a threshold underpayment of tax. And while a threshold underpayment consists only of tax, the amount on which the LCU rate is charged **includes** tax, penalties, interest, additional amounts, and additions to tax.

**Example:** Solstice, originally a C corporation, converts to an S Corporation effective January 1, 2017. On January 31, 2017, Solstice files its 2016 FUTA tax return and encloses a payment equal to the amount reported as due on the return. On April 15, 2017, Solstice files its 2016 income tax return and encloses a payment equal to the amount reported as due on the return. On August 1, 2017, the Service assesses \$150,000 of FUTA tax, plus interest, with respect to calendar year 2016. On January 1, 2019, Solstice files an amended income tax return for 2016 showing \$15,000 of tax due. Solstice's threshold underpayment of FUTA tax for 2016 is \$150,000. Because Solstice was a C Corporation in 2016 and the threshold underpayment of FUTA tax for 2016 exceeds \$100,000, Solstice has a large corporate underpayment of FUTA tax. However, Solstice's threshold underpayment of tax for the same taxable period (i.e., calendar year 2016) is \$15,000, so that Solstice does not have a large corporate underpayment on income tax for that year.

- (7) In determining a threshold underpayment, the IRS is **not** following *Med James, Inc. v. Commissioner*, 121 T.C. 147,155-57 (2003). A net operating loss carryback cannot be used to reduce tax that has a liability date (i.e., prescribed date for payment) that is **earlier** than the availability date of the carryback credit. A net operating loss carryback is treated like a payment, and is not available to reduce tax until the due date of the loss year return (determined without regard to any extension of time for filing the loss year return). However, in the case of a carryback recapture and carryback allowance with the **same** effective date, the carryback allowance is used to reduce the tax of the carryback recapture (provided the carryback allowance was not previously refunded or offset).

**Example:** On March 26, 2018, the Service mailed a letter for a proposed general tax increase for the 2016 tax year in the amount of \$340,000 to Comet, a C Corporation. Comet files an amended return, Form 1120X on April 23, 2018, reporting the tax increase of \$340,000, along with a net operating loss carryback allowance from the 2017 tax year of \$280,000. The Service accepted the amended return as correct. Though the carryback allowance reduced the net total tax due to \$60,000, it is not available on the date payment for the general tax assessment of \$340,000 was due, April 15, 2017. The carryback allowance is considered a payment available April 15, 2018, the due date (determined without regard to extensions) of the 2017 loss year return. For that reason, there is a large corporate underpayment, represented by the \$340,000 threshold underpayment of tax not paid by the un-extended due date of the 2016 tax return, April 15, 2017.

20.2.5.8.2  
(05-11-2023)  
**Applicable Date for LCU  
Interest Rate**

- (1) The “start” date for charging the LCU rate is referred to as the “applicable” date or “trigger” date, once a threshold underpayment is established. See IRM 20.2.5.8.1.1 and IRM 20.2.5.8.1.2 .

**Note:** When a applicable date is set, causing large corporate underpayment interest to be assessed for a tax year, interest accrues at the LCU rate on all underpayments for that tax year, except for the situation described in item 6 below and for interest accruals periods prior to January 1, 1991.

- (2) The applicable date is set when either a letter of proposed deficiency (30-day letter), statutory notice of deficiency (90-day letter), or notice of assessment (bill), **whichever is earlier**, is issued for a liability and the amount set forth in the letter or notice is not fully paid within 30 days of the date notification is sent to the taxpayer.
- (3) After 2011, a TC 971 Action Code (AC) 257 indicates a Statutory Notice of Deficiency (90-day letter) was issued for over \$100,000 in tax by a BMF Correspondence Unit, such as the Automated Underreporter Unit (AUR).
- (4) Certain account indicators can be used to identify when a 30- or 90-day letter has been issued:
  - a. Master File Status Code 30 (30-day or 90-day letter)
  - b. AIMS Status Code 13 (30-day letter)
  - c. AIMS Status Code 24 (90-day letter)
- (5) If the taxpayer agreed to an underpayment before a 30-day letter was issued, then the notice and demand date is used to determine an applicable date. The notice and demand date can be found on TXMOD in the Master File Status section as Status Code 19 or 21.

**Note:** If the correct applicable date cannot be determined, contact the examining officer to request research to find the date the taxpayer was mailed the first notification of liability meeting the necessary criteria.

**Note:** Partnership 60-day letters and notices described in IRC 6223(a)(1) and IRC 6223(a)(2) are not considered for purposes of setting an “applicable” date. Likewise, a revenue agent’s report (RAR) cannot be used to set an applicable date because it is not a notice and demand as defined in IRC 6601(c).

- (6) An applicable date is seldom voided but the letter or notice that set the applicable date may be disregarded if:
  - a. The amount shown in the letter or notice is paid within 30 days of the letter or notice date.

**Reminder:** Cash bonds and IRC 6603 deposits are **not** considered for purposes of determining whether the underpayment shown in the letter or notice is paid within 30 days.

- b. As a result of an administrative error, the letter or notice is issued to the wrong taxpayer or for the wrong taxable period.
  - c. The tax assessment or proposed assessment for which the letter or notice was sent is subsequently abated in full.
  - d. The notice of deficiency is rescinded under IRC 6212(d).
- (7) The legal provisions for setting an applicable date vary, depending on when the letter or notice was issued. See items 8 through 12 below.
- (8) **Pre 1/1/1998 Letters/Notices:** The applicable date for the period January 1, 1991 to December 31, 1997 (pre-98), is set the 30th day after the IRS sends

the taxpayer either 1) an initial letter of proposed deficiency (30-day letter), 2) a statutory notice of deficiency (90-day letter), or 3) a notice or letter of assessment or proposed assessment, and full payment for the amount set forth in the letter remains unpaid after 30 days.

- (9) Additionally, under the pre-98 rules, the amount shown in the letter or notice is irrelevant and did not need to state an amount of unpaid tax. And so, while an applicable date can be triggered on **any** amount shown in the letter or notice, the LCU rate **cannot** be charged until a **threshold** underpayment exists.

**Note:** LCU interest will stop on December 31, 1997 if no letter/notice was issued on or before December 31, 1997 for an amount exceeding \$100,000.

**Example:** Venus, a C corporation, filed its 1993 income tax return reporting an overpayment. However, as the result of a computational error on the return, no refund is issued and the taxpayer was, instead, sent a math error notice for \$300 of unpaid tax on March 25, 1994. The notice was paid on May 16, 1994, 52 days after the notice date. Although the amount shown in the notice of March 25, 1994 was fully paid on May 16, 1994, it cannot be disregarded for purposes of setting an applicable date because it was not paid within 30 days. Thus, an applicable date of April 24, 1994 is set based on the math error notice that was not paid within 30 days. While an applicable date is set, the LCU rate is not charged at this time because a threshold underpayment did not exist. On January 9, 1996, Venus is issued a 30-day letter for additional tax of \$135,000, which the taxpayer pays on February 18, 1996. Because the **“aggregate”** of unpaid tax as of the unextended return due date is now \$135,300, the criteria for charging the LCU rate has been met; an applicable date **and** threshold underpayment exceeding \$100,000 exists. Interest at the prevailing underpayment rate is charged from the return due date to April 24, 1994. Interest is charged at the LCU rate on the total underpayment of \$135,300 (plus accrued interest at the prevailing rate) **from** the April 24, 1994 applicable date (30 days after the March 25, 1994 \$300 notice date) **to** the interest ending date.

- (10) **Post 12/31/1997 Letters/Notices:** The Taxpayer Relief Act of 1997 (TRA '97) modified IRC 6621(c) that for periods after December 31, 1997 (post-97), the applicable date is the 30th day after the first notice or letter of an amount (or proposed amount) greater than \$100,000 (not including interest, penalties, or additions to tax) that is **not** paid within 30 days. Letters and notices with amounts not greater than \$100,000 are disregarded and **cannot** trigger an applicable date. Letters and notices for small amounts may not be combined to meet the over \$100,000 letter or notice requirement.

**Example:** On Taxpayer Meteor's 1997 return, a math error notice is sent dated 5/15/1998 for \$110,000 of additional tax. Meteor paid \$60,000 within 30 days of the notice date, but the \$50,000 balance, plus penalty and interest charges, was not paid within that time-frame. Later, a 30-day letter for \$21,000 was sent and not paid within 30 days. The \$21,000 assessment was made on 11/7/1998 and was paid within 30 days. The applicable date is 6/14/1998, 30 days after the math error notice date. Since only part of the amount stated in that notice was paid within 30 days, the notice is **not** disregarded. The LCU rate applies to any amounts due for that tax period (\$50,000 and \$21,000 plus interest and any penalties) **after** the 6/14/1998 applicable date.

- (11) **Pre 1/1/1998 and Post 12/31/1997 Letters/Notices:** Special consideration must be given when a tax module is affected by both pre-98 and post-97 LCU interest rules. Interest must be manually computed and restricted when a module is affected by pre and post rules. Prior to January 1, 1998, IRC 6621(c) specified an unpaid letter or notice for any amount could trigger application of the LCU interest rate if the other criteria were met. After December 31, 1997, TRA '97 added section IRC 6621(c)(2)(B)(iii) detailing the letter or notice must show an amount exceeding \$100,000. The addition of the TRA 1997 amendment can result in there being more than one applicable date if letter/notices were issued after December 31, 1997 and before January 1, 1998.

**Note:** If an applicable date was triggered prior to January 1, 1998 and the letter or notice initiating the LCU rate was for an amount under \$100,000, the LCU rate stops on 12/31/1997. The LCU rate will not begin again until 30 days after a letter or notice is issued for an amount exceeding \$100,000, provided that letter or notice is not paid within 30 days.

**Note:** If an applicable date was triggered prior to January 1, 1998 based on a letter or notice for an amount exceeding \$100,000, the LCU rate continues to be charged from that original applicable date until all amounts are paid.

**Example:** Earth, a C corporation, had a 30-day letter issued for the 1994 income tax return on May 12, 1996 for tax of \$70,000. Another 30-day letter was issued December 8, 1996 for tax of \$20,000. A third 30-day letter was issued February 5, 1999 for tax of \$105,000. None of the amounts were paid. Because the aggregate of unpaid tax as of the un-extended due date of the return is \$195,000, the criteria of a large corporate underpayment has been met. The applicable date is June 11, 1996, 30 days from the first letter of May 12, 1996 that was not paid within 30 days. The applicable date is valid for the other assessments as well. Therefore, LCU interest begins on the total underpayment (unpaid tax of \$70,000, \$20,000 and \$105,000 plus accrued interest) on June 11, 1996. Interest at the higher LCU rate ends on December 31, 1997 because the pre-98 applicable date was set by a letter/notice for an amount under \$100,000. The LCU rate will however begin again on March 7, 1999, 30 days after the unpaid letter issued on February 5, 1999 for over \$100,000. If the May 12, 1996 letter setting the pre-98 applicable date was for an amount exceeding \$100,000, then the LCU rate would not stop on December 31, 1997.

- (12) In determining whether the LCU rate is charged, consideration must also be given to the liability amount ultimately assessed. An applicable date may be set, and a threshold underpayment determined but the amount “ultimately” assessed impacts whether the LCU rate is charged.

**Note:** For consideration of the additional 2% interest on C corporations over \$100,000 when a final assessment has been made, also see IRM 4.4.5.2.1 and IRM 4.4.12.5, subsections 11-13.

**Example:** Taxpayer Nova, a C corporation, was issued a 30-day letter, dated December 3, 2007, for a proposed assessment of \$150,000. The taxpayer agreed to the assessment, but the amount stated as due in the 30-day letter was not paid within 30 days. The amount set forth in the letter was assessed January 7, 2008, and the taxpayer fully paid the

balance due on January 16, 2008. Nova later files a claim (Form 1120X) requesting abatement of the amount assessed. The Service determines no additional tax should have been charged and eliminates the assessment of \$150,000 in its entirety. At the time of the assessment of \$150,000, the criterion of a threshold underpayment was met. However, while the issuance of the first letter of proposed deficiency (30-day letter) would normally serve as the basis for determining the applicable date, the letter dated 12/3/2007 is disregarded because the tax was subsequently abated in full. The past applicable date of 1/2/2008 (12/3/2007 + 30 days) is voided. LCU interest is not relevant. Conversely, if the tax abatement had been for less than the full amount of the earlier assessment, the 30-day letter would **not** be disregarded and the applicable date of 1/2/2008 would remain.

**Example:** Taxpayer Asteroid, a C corporation, is issued a 30-day letter for \$120,000 on June 9, 2007. The taxpayer fails to pay the \$120,000 within 30 days of the 30-day letter date. Therefore, July 9, 2007 becomes the applicable date. Asteroid goes to Appeals and is only assessed \$80,000 on August 5, 2009 and full pays that amount on August 15, 2009. The \$80,000 is **not** subject to the LCU rate since the ultimate assessment is **under** \$100,000. Therefore, interest on the \$80,000 assessment is computed from the return due date at the normal underpayment rate (through July 9, 2007) until August 15, 2009. On January 20, 2011, there is a TEFRA flow-through adjustment of \$300,000. This underpayment amount **is** subject to the additional LCU rate from the July 9, 2007 applicable date.

**Note:** In the immediately preceding example, the TEFRA flow-through underpayment was subject to the LCU rate. If, however, there had **not** been a prior 30-day letter, 90-day letter, or notice and demand for payment over \$100,000, an applicable date would **not** have been triggered. The issuance of partnership 60-day letters and notices described in IRC 6223(a)(1) and IRC 6223(a)(2) do **not** trigger an “applicable” date. See Treas. Reg. 301.6621-3(c)(4).

20.2.5.8.3  
(05-11-2023)  
**Systemic Calculation of  
the LCU Interest Rate**

- (1) Always verify the “applicable” date on TXMOD or BMFOL for LCU interest through careful analysis of the case. If incorrect, then correct this date using Document Code 54, CC AMCLS, or on Form 2859, Request for Quick or Prompt Assessment.

**Note:** An applicable date input on Form 2859 will override any date previously posted on the module.

- (2) Remove an erroneous applicable date on IDRS by entering all 9’s into the “2% Interest Date” field. A manual correction or removal of an applicable date will **require** input of a TC 340 or 341. Whenever possible, use a non-restricting TC 340.

**Note:** When an applicable date is deleted, an indicator of “1” will appear as a value entry in the new “2% INT DT MAN DEL” field. If the applicable date has not changed, or a new date is later input, the indicator value is displayed as “0”. On BMFOLT shown below the TC 340 entry, the “2% Trigger Date” field will

show “1231~~9999~~” when an applicable date is deleted. Page one of BMFOLT in this situation will show all “zeros” in the “2% Interest Date” field.

- (3) Generally, modules requiring the LCU interest rate must have interest manually computed and restricted, especially if there is more than one “applicable” date.
- (4) In limited instances, if Master File has the correct applicable date, it can systematically compute the LCU interest rate provided there are no other issues that require the module to be restricted. However, a manual interest computation is required when assessing additional tax on AIMS using CC AMCLS. Always monitor the case, even if not restricting, using TXMOD or BMFOL one to two cycles later to verify the correct posting of interest. If the account is unpaid after 30 days, make sure the LCU indicator is set. If not, then a manual computation of interest must be done.
- (5) Prior to 2015, assessments input with an interest computation date (shown as INTCMP-DT on CC REQ54 and INT-CMPTN-DT on CC TXMODA) (e.g., with carryback or interest-free employment tax adjustments) must have the LCU rate manually computed if it applies. Starting in 2015, Master File recognizes assessments with an INT-CMPTN-DT (not full paid within 30 days) and considers the LCU rate, if applicable.
- (6) If the “C” corp indicator is **not** present on TXMOD/BMFOLT, but BMFOLE shows the taxpayer has a Form 1120 filing requirement (1120:01), then starting in July 2017, this can be corrected with a TC 971 AC 359 for each year an indicator is needed.

20.2.5.8.4  
(05-11-2023)

#### Computation of the LCU Interest Rate

- (1) Once it is determined that the LCU interest rate is to be charged:
  - a. Using a current TXMOD or Master File transcript, compute a running module balance from the return due date to the applicable date (notice date plus thirty days).
  - b. Compute underpayment interest on the balance due as of the applicable date at the LCU rate, starting from the applicable date to the payment date, waiver + 30 date (if applicable), or 23C date, whichever is earlier.

**Note:** When using ACT/DMI, the LCU applicable date must be entered in the “Edit Selected Module” screen.

20.2.5.9  
(05-11-2023)

#### Tax Motivated Transaction (TMT) Interest

- (1) IRC 6621(c), formerly pertaining to interest on tax motivated transactions (TMT), was repealed for returns with due dates (without regard to extensions) **after** December 31, 1989. Since January 1, 1991, IRC 6621(c) refers to Large Corporate Underpayment (LCU) interest (IRM 20.2.5.8). Prior to its repeal, IRC 6621(c) imposed an interest rate of 120% of the underpayment rate determined under IRC 6621 (for interest accruing after December 31, 1984), on substantial underpayments attributable to tax motivated transactions.
- (2) Interest at the 120% rate is computed only on the **tax** amount determined to be motivated. Interest on any penalties associated with the TMT tax liability is computed at the prevailing underpayment (non-TMT) rate.

**Exception:** If the TMT tax is determined to be due to negligence or fraud, the 50% interest portion of the negligence or fraud penalty is computed using the 120% rate. See IRM 20.2.5.9.3.

- (3) There are still active TMT cases that are either pending an assessment/ abatement or in a collection status, with TMT rates continuing to apply to those balances.
- (4) A taxpayer may be liable for both TMT and LCU interest (IRM 20.2.5.8 and IRM 20.2.5.9.1).
- (5) Annual (within module) netting and net rate netting are applicable when the underpayment interest rate is TMT. See IRM 20.2.14, Netting of Overpayment and Underpayment Interest.

20.2.5.9.1  
(02-04-2015)  
**Processing TMT Interest**

- (1) For returns with due dates before January 1, 1990 (without regard to extensions), IRC 6621(c) required that tax assessments resulting from tax motivated transactions be subject to an interest rate that was 120% of the rate determined by IRC 6621(a). Generally, 120% interest is computed on the TMT underpayment from the later of the return due date (RDD) or December 31, 1984.

If the return due date or interest start date of the assessment is:	Then
prior to January 1, 1985,	1. compute interest at the applicable underpayment rate, on the tax motivated principal amount to December 31, 1984.  2. compute 120% interest on the tax motivated principal PLUS the total compounded interest from step 1, from December 31, 1984 to the applicable interest ending date.
after December 31, 1984,	compute 120% interest on the tax motivated principal amount from the return due date to the applicable interest ending date.

- (2) See IRM 20.2.5.9.5.2 for an example of a TMT interest calculation.
- (3) If a taxpayer is liable for both TMT and LCU interest, compute underpayment interest at the 120% rate on the TMT tax starting on January 1, 1985, and effective January 1, 1991, compute interest at 120% of the LCU interest rate (beginning from the LCU applicable date).

20.2.5.9.2  
(03-12-2010)  
**Special Processing Conditions for TMT Interest**

- (1) There are special conditions that apply to the processing of TMT interest assessments:
  - Assessments are generally made only by Examination, Criminal Investigation, and Appeals.
  - The 120% interest rate **ONLY** applies to a TMT assessment of \$1,000 or more.

**Note:** Once assessed, interest continues to accrue at the 120% rate even though the unpaid TMT tax liability drops below \$1,000.

- The 120% interest rate **MUST** be manually computed and input with TC 340 due to Master File limitations.

**Caution: DO NOT** input a non-restricting TC 340 on a tax module that includes TMT interest.

20.2.5.9.2.1  
(05-11-2023)

**Reference Numbers for  
TMT Interest**

- (1) Reference Numbers (Ref. No.) must be manually input whenever there is an assessment or abatement of either the TMT tax amount or TMT interest amount (positive or negative). The reference numbers are used to identify the portion of the total tax assessment and associated interest accruals related to TMT on the Master File account.

- (2) The reference numbers are displayed on all transcripts as Ref. No. 221 (TMT tax) and 222 (TMT interest).

**Note:** Under current programming, item reference numbers 221 and 222 will show partnership literals instead of TMT literals. Older modules that show the partnership literals may in fact be TMT and will need to have deficiency interest calculated accordingly. The literals are PTRSH-T (tax) and PTRSH-I (interest) on CFOL.

- (3) Input Ref. No. 221 with TC 29X/30X for a **significant tax amount** to identify the portion of the total tax assessment related to TMT.
  - Ref. No. 221 should reflect the TMT tax for the specific tax adjustment it accompanies.
  - The total amount of TMT tax can be determined by totalling all of the Ref. No. 221 amounts on the module.
  - Interest on the Ref. No. 221 amount is computed at 120% of the applicable underpayment interest rate.
  - Ref. No. 221 posts to Master File and displays the literal "TX-MOTV-TRANS".

**Note:** As procedures have varied in the use of these reference numbers, it may be necessary to request previous adjustment documents from the Files function to review and analyze the correct amount of TMT interest.

- (4) Input Ref. No. 222 with TC 340 to identify the portion of the total interest assessment related to TMT.
  - The TC 340 amount will **include** the 120% TMT interest amount.
  - Interest accruals on the Ref. No. 222 amount must be manually computed.
  - Additional Ref. No. 222 amounts must be input to identify additional accruals of tax motivated interest until fully paid.
  - Include in the Ref. No. 222 amount the TMT interest associated with that adjustment up to the current adjustment date.
  - The Ref. No. 222 amount does **not** have to match the TC 340 amount being input.
  - The total TMT interest on the module will be the sum of all Ref. No. 222 amounts.

- (5) If Ref. No. 221 and 222 were previously omitted or incorrect, update the module by entering the reference number and appropriate amounts. Input these reference numbers with TC 290 or TC 300 for .00 and Hold Code 2. Include an explanation with the source document.

20.2.5.9.3  
(02-04-2015)  
**Negligence and or Fraud  
Penalty in Conjunction  
with TMT Interest**

- (1) The 120% rate is used to compute interest on a tax motivated underpayment of tax. If the TMT tax is determined to be due to negligence or fraud (for applicable tax years), the 50% interest portion of the negligence or fraud penalty is computed using the 120% rate. See IRC 6653(a)(1)(B) and IRC 6653(b)(1)(B) prior to the 1989 tax law amendment.
- a. Use the TMT interest rate to compute the 50% interest portion of the negligence or fraud penalty associated with the TMT underpayment. See IRM 20.2.5.3 for further details on how to compute the 50% interest portion of the negligence or fraud penalty.
- b. After the penalties are assessed, normal interest rates apply to the interest accruals on the penalty amounts.

**Note:** Interest on the tax motivated underpayment continues to accrue at 120%.

20.2.5.9.4  
(05-11-2023)  
**Waiver Date Processing  
regarding TMT Interest  
and Tax Equity and  
Fiscal Responsibility Act  
of 1982 (TEFRA)**

- (1) TMT interest is computed on all TMT tax assessments as of December 31, 1984. However, not all TMT tax assessments are subject to deficiency procedures per IRC 6212. The TMT tax may be assessed in some cases without a Notice of Deficiency (90-day letter).
- (2) Per PL 97–248, of the “Tax Equity and Fiscal Responsibility Act of 1982” (TEFRA), TMT assessments made under the provisions of IRC 6222 are **not** subject to deficiency procedures. A waiver is **not** obtained for these tax assessments (known as “TEFRA” assessments).

**Note:** A waiver (referred to as an 870 agreement) may be obtained separately from the TEFRA tax assessment. The waiver suspension period applies to the penalties (see IRM 20.2.7.9, IRC 6601(c), Suspension of Interest on Deficiencies).

**Note:** For tax years beginning **after** August 5, 1997, the waiver suspension period **is** applicable to TEFRA assessments.

- (3) The total assessment may include TMT items that may or may not be TEFRA related, and may or may not have penalties. TEFRA related items can be identified in the administrative file or, after assessment, by the DLN associated with the Document Code 47 adjustment. The following blocking series, located in the ninth, tenth, and eleventh digits of the DLN, identify TEFRA assessments prior to January 1, 2007:

- 080–099
- 180–199
- 200–299
- 680–699
- 750–769
- 780–789
- 980–999

**Note:** See Document 6209, Section 12 or IRM 4.4.1, AIMS Procedures and Processing Instructions, Introduction, for the types of returns these blocking numbers are referencing.

- (4) Use the following chart to determine if the waiver period may be applicable (this chart can also be used for non-TMT cases for tax years ending on or before August 5, 1997):

If the assessment is:	Then a waiver suspension may apply:
TEFRA tax only	NO
Non-TEFRA tax only	YES
Penalties only	YES
TEFRA tax and Non-TEFRA tax	NO YES
TEFRA tax and penalty	NO YES
Non-TEFRA tax and penalties	YES YES
TEFRA tax, Non-TEFRA tax and penalty	NO YES YES

20.2.5.9.5  
(02-04-2015)

**Partial Payment  
Allocation for Tax  
Motivated Transactions**

- (1) Partial payments must first be applied against any underpayments that are **NOT** due to tax motivated transactions. See Treasury Regulation 301.6621-2T, Q&A (11). Apply undesignated payments in the following order:
1. non-TMT tax;
  2. TMT tax;
  3. any penalties or fees;
  4. non-TMT interest; then,
  5. TMT interest.

**Note:** Because TMT tax is often assessed years later due to Tax Court decisions, or there may have been prior audit assessments paid prior to the TMT assessment, it may be necessary to recompute the module if there are open periods of collection on the prior assessments. When recomputing a module, payments previously used to pay TMT, interest and or penalties are reallocated in the order listed above (non-TMT tax, TMT tax, etc.). For interest computation purposes only, amounts previously used to pay assessed interest or penalties may, at a later date, be used to pay an additional tax assessment. This has the effect of reducing the amount of interest charged on subsequent adjustment(s) in most instances. However, when a non-TMT assessment follows a TMT assessment, the interest charges will generally increase after reallocation.

**Exception:** Payments are not reallocated from interest to tax for interest assessed prior to January 1, 1983, or if the CSED has expired on the prior assessment(s). Also, payments are not reallocated for purposes of determining an underpayment interest suspension period (e.g., a waiver period per IRC 6601(c), also called 870 waiver).

**Caution:** When using ACT/DMI, the program cannot allocate payments in the order shown above. Separate interest computations may be required if the TMT tax was full paid and there are subsequent unpaid penalties.

20.2.5.9.5.1  
(05-11-2023)  
**Computing Interest on  
non-TMT Tax  
Underpayment and  
Penalty**

- (1) Interest is computed at the prevailing underpayment rate on the non-TMT tax and penalty assessment from the return due date (or extended due date for certain penalties) until 30 days after the waiver date. See IRM 20.2.5.3 for interest on penalties.
- (2) Interest is suspended from 31 days after the waiver date until the 23C date of the TC 300 assessment.
- (3) Interest continues to accrue on the principal plus interest accruals from the 23C date of the TC 300 assessment until paid.

**Example:** A timely filed 198212 return is audited. The taxpayer agrees to the audit adjustment of \$9,086 in tax and \$1,452 for a substantial understatement penalty on December 13, 1989. The tax of \$9,086 includes motivated tax of \$7,260 and non-motivated tax of \$1,826. The assessment is not made until May 28, 1990. He pays \$21, 277.84 on July 2, 1990. In the figures below, interest is computed using CC COMPA and CC COMPAP. Separate interest computations must be done for the non-TMT tax and penalties from the TMT tax. Then the interest is combined.

**Computing Underpayment Interest on non-TMT Tax using CC COMPA**

<b>Step</b>	<b>Action</b>
1.	Using CC COMPA, compute interest at the prevailing underpayment rate on the non-TMT tax from the return due date to July 18, 1984, when interest on penalties became law. <b>COMPA</b> <b>04151983 07181984 1,826.00</b> <b>Total Interest \$293.06</b>
2.	Compute interest at the prevailing underpayment rate on the non-TMT tax plus accrued interest and on the substantial understatement penalty from July 18, 1984 to 30 days after the waiver date (January 12, 1990). <b>COMPA</b> <b>07181984 01121990 3,571.06 (1,826.00, plus 1,452.00, plus 293.06)</b> <b>Total Interest \$2,812.30</b>
3.	Compute interest on the principal plus the accrued interest (step 1 and 2) from May 28, 1990 (23C date) to the date of payment. Note: IRC 6601(c) waiver period is applicable. Interest is suspended from the 30th day after the waiver date to the 23C date of the assessment. <b>COMPA</b> <b>05281990 07021990 6,383.36 (3,571.06 plus 2,812.30)</b> <b>Total Interest \$67.68</b>
4.	The payment of \$21,277.84 is allocated per 20.2.5.2.1, Application of Payments. Tax, penalty and interest are partially paid as of July 2, 1990. Add together the "total interest" amounts from step 1 through step 3 to arrive at the total interest associated with the non-TMT tax underpayment and the penalty. <b>\$3,105.36 plus \$67.68 equals \$3,173.04</b>

**Figure 20.2.5-1**

20.2.5.9.5.2  
(05-11-2023)

**TMT Interest Calculation**

- (1) The following figure illustrates the example in IRM 20.2.5.9.5.1 for the TMT interest computation using CC COMPA and CC COMPAP.

**Computing TMT Interest using CC COMPA and CC COMPAP**

Step	Action
1.	Use CC COMPA to compute interest at the normal underpayment rate on the TMT assessment from the RDD to December 31, 1984 (the effective date for TMT interest). <b>COMPA</b> <b>04151983 12311984 7,260.00</b> <b>Total Interest \$1,596.18</b>
2.	Use CC COMPAP to compute TMT interest on the total principle plus accrued interest as of December 31, 1984 to 30 days after the waiver date. <b>COMPAP</b> <b>12311984 01121990 8,856.18 (7,260.00 plus 1,596.18)</b> <b>Total Interest \$7,891.07</b>
3.	Compute interest from the 23C date of the assessment to the payment date on the TMT underpayment principle plus the accruals of TMT Interest as of 30 days past the waiver date. <b>COMPAP</b> <b>05281990 07021990 16,747.25 (8,856.18 plus 7,891.07)</b> <b>Total Interest \$213.29</b>
4.	The payment of \$21,277.84 is allocated per IRM 20.2.5.2.1, Application of Payments. Non-TMT tax, penalty and interest (including the normal interest computed on the tax motivated assessment as of December 31, 1984) are partially paid as of July 2, 1990. Add together the "total interest" amounts from step 2 and step 3 to arrive at the total TMT interest associated with motivated tax as of July 2, 1990. <b>\$7,891.07 plus \$213.29 equals \$8,104.36.</b>

**Figure 20.2.5-2**

- (2) If using ACT/DMI to compute interest, assign the amounts that are subject to TMT including any prior refunds (if applicable) by changing the transaction type under the "Adv" tab to "Motivated". This may also be accomplished by changing the transaction subject to TMT interest to "Code 1001". Review reports to ensure the proper results are achieved.

20.2.5.9.5.3  
(02-04-2015)

**Computing Accruals of TMT**

- (1) Using the same example, determine the remaining balance as of the payment date. Subtract from the payment, the tax, penalty, and interest liabilities. The total underpayment as of July 2, 1990, is \$2,133.71.

Amount	Type (tax, penalty, interest, or payment)
(\$21,277.84)	— Payment
1,826.00	— non-TMT tax
7,260.00	— TMT tax
1,452.00	— Substantial understatement penalty
3,173.04	— Normal interest non-TMT tax & penalty
1,596.18	— Normal interest/TMT tax
8,104.36	— TMT interest
\$2,133.74	— Module Balance as of July 2, 1990

- (2) Because all of the non-TMT liabilities have been paid, the remaining balance is unpaid TMT interest. Using CC COMPAP, compute TMT interest on the remaining balance from July 2, 1990, to the pay-off date requested by the taxpayer. If using ACT/DMI, recompute the entire module making sure to assign the TMT interest rate to those items subject to TMT (see IRM 20.2.5.9.5.2, above).

**Reminder:** Interest on the substantial understatement penalty starts on the return due date, extended due date or July 18, 1984, whichever is later. When using ACT/DMI, all previously issued refunds (up to the amount of the TMT tax) must be annotated as TMT to ensure the ACT/DMI program accurately computes the TMT interest amount.

20.2.5.10  
(04-27-2016)  
**Corporate Installment  
Payments - Form 7004  
(1982 and Prior)**

- (1) Applies to corporate returns filed prior to January 1, 1983. The privilege of paying corporate income tax in installments without additional interest was repealed for tax years beginning after December 31, 1982.
- (2) See revision dated 2-4-2015, if needed.

20.2.5.11  
(05-11-2023)  
**Special Rules for  
Determining Due Date of  
Payments**

- (1) Consider the following special rules for the due date of payments for Form 2290, Heavy Highway Vehicle Use Tax Return, jeopardy assessments, accumulated earnings tax, and penalties.
- a. See IRM 20.2.10.3.10, Heavy Highway Vehicles, or IRM 21.7.8.4.2, Form 2290, Heavy Highway Vehicle Use Tax Return, for instructions for Form 2290. Beginning July 1, 2005, the installment privilege was eliminated. The installment payment line on Form 2290 was deleted. Tax must be paid in full with the filing of Form 2290. Otherwise, penalties and interest will accrue on the unpaid balance (IRM 21.7.8.4.2.5.1, Balance Due Payment).
- b. In the case of a jeopardy assessment, notice and demand for payment is issued immediately [IRC 6861(a)]. The due date for payment of the assessment is the date of the notice and demand.

**Caution:** Taxpayers normally have 21 calendar days from the notice date, or 10 business days if the amount due is over \$100,000, to pay the amount shown on a notice.

- c. The due date of accumulated earnings tax (IRC 531) is the due date of the income tax return, determined without regard to extensions. For returns due **before** January 1, 1986, the accumulated earnings tax was due on notice and demand.
- d. Underpayment interest is computed on penalties from the due dates set forth in IRM 20.2.5.3.
- (2) Disregard any extension of time for filing the return or any installment agreement entered under IRC 6159 when determining the due date for payment of the above liabilities.
- (3) Procedures for interest on Form 8752, Required Payment or Refund Under IRC 7519, can be found in IRM 20.2.11.10, Form 8752, Required Payment or Refund Under IRC 7519.
- (4) Procedures for interest on the trust fund penalty can be found in IRM 20.2.10.4.8.1, Interest on TFRP.

- (5) IRC 1363(d)(2) applies when a C corporation elects to become an S corporation. It provides that the payment of tax related to the last-in first-out (LIFO) recapture is due in 4 equal installments. The first installment shall be paid by the due date of the return for the last year as a C corporation and the 3 succeeding installments shall be paid by the due date for the S corporation return for the 3 succeeding taxable years. There is no interest charge for the period of extension. There is no interest charge provided payments are made by the installment due date.

20.2.5.12  
(03-12-2010)

**Unidentified Remittance  
Account Payments**

- (1) When a payment is refunded from the unidentified remittance account, no interest is allowed.
- (2) When a payment from the unidentified account is correctly identified and applied to a tax module, it is treated the same as any other payment on the module. Normal underpayment and overpayment interest rules apply.
- (3) To ensure correct interest computations, always apply a payment from the unidentified remittance account using the payment received date.

**Note:** If an amount from the unidentified payments account is returned to the taxpayer because the taxpayer establishes that it was sent to the IRS in error, no interest is allowed.

20.2.5.13  
(05-11-2023)

**Underpayment Interest  
on Liabilities Paid by  
Credit/Offset**

- (1) IRC 6402(a) permits the IRS to credit a taxpayer's overpayment to his or her outstanding liability. In order to be "outstanding," a liability must be unpaid.

**Caution:** When performing an offset, the offset amount cannot create a credit balance in the liability module. Only offset the amount needed to fully pay the balance due. This includes cross-referenced payments.

**Note:** The Service may also credit an overpayment against internal revenue liabilities for which no assessment has been made, or statutory notice of deficiency issued, when the liabilities are identified in a proof of claim filing in a bankruptcy case. (See Rev. Rul. 2007-52).

- (2) Generally, when manually offsetting, use transaction code (TC) 820/700. See IRM 20.2.4.6, Offsets, regarding overpayment interest.

**Caution:** When manually offsetting credits, be sure to use the correct transaction codes, amounts, and dates. Do **not** rely on the IAT tool to always use the correct codes, amounts, or dates.

- (3) An offset can't be applied until a determination of liability has been made, which means it will never be **earlier** than the due date of the receiving module, unless a termination assessment has been made. Otherwise, penalties could erroneously be reduced. See IRM 20.2.4.6.2(2), Rules for Applying Offsets Under Section 6402, for exceptions.
- (4) When offsetting overpayments that include estimated tax payments, do **not** use TC 662/660, unless the estimated payment was actually applied to the wrong taxpayer or year. This includes any payment (e.g., TC 640, 670, 680, etc.) on the module.

**Note:** If the payment was actually applied to the wrong taxpayer or year, the reapplication is **not** an offset.

- (5) If an overpayment is credited to an outstanding tax liability, compute underpayment interest from the due date of the liability to the availability date of the overpayment. Underpayment interest runs to the availability date **of the credit** on any portion of a liability satisfied by credit of an overpayment. See IRC 6601(f) and Rev. Rul. 88-97 .
- (6) Compute underpayment interest on a liability satisfied by an offset of a credit with an availability date that is **later** than the liability due date as follows:
  - a. Using a current TXMOD or Master File transcript, compute a running module balance on the liability from the due date of the tax to the date the credit is available.
  - b. Apply the offset as a payment on the availability date of the credit. The offset credit is to be treated the same as a payment in regards to notice grace periods. See IRM 20.2.5.4, above. The earliest available credit is always offset first, regardless of the year (prior or later) it is offset to.
  - c. Continue underpayment interest to the applicable interest computation ending date: waiver date plus 30 days (if applicable), payment date, or 23C date, whichever is appropriate.
- (7) Whenever possible, offset overpayments in a manner that will not create overlapping underpayment and overpayment interest periods. This is done to avoid creating a net rate interest netting situation.
- (8) No underpayment interest is charged on a liability (up to the amount of the credit) that is fully satisfied by an offset credit dated **earlier** than the liability due date.
- (9) If the original payment that created the offset is returned due to “insufficient funds,” then the offset needs to be manually reversed, including any allowable interest. Otherwise, the taxpayer is erroneously receiving credit for the payment on another module. See IRM 20.2.4.6.2(5), Rules for Applying Offsets Under Section 6402, for more information.

20.2.5.13.1  
(10-02-2020)

**Underpayment Interest on Liabilities Credited from Another Module by a Different Taxpayer**

- (1) IRC 6402(a) allows IRS to offset an overpayment only against the liability of the person who made the overpayment. The accrual of underpayment interest ends as provided in IRC 6601(f).
- (2) A liability of one taxpayer may be paid by the overpayment of another taxpayer at the overpaid taxpayer’s request. Rev. Proc. 65-20, 1965-2 C.B. 1003. See archived IRM 4.4.3.2, (dated 09-16-2011), **Transferring Payments and Credits Between Related Taxpayers**. A credit is deemed to be a payment at the time the credit is allowed. The allowance occurs on the date when the certifying officer signs the schedule of overassessments. See IRM 25.6.1.7.2, **Time When Payments and Credits Are Considered to be Made**, at (5).

**Note:** A taxpayer cannot simply assign a claim for credit or refund to another taxpayer. 31 USC 3727.

- (3) Research may be needed to determine if the overpayment and the liability involve the same or a different taxpayer. For corporate returns, it will depend on if they were the same corporation during the tax years to and from which the payments are being applied.

**Example:** Corp Aurora has an overpayment for 2019; Corp Jupiter has an underpayment for 2020. Aurora and Jupiter merge in 2021 with Aurora surviving. If Aurora's overpayment is used to satisfy Jupiter's underpayment, it would be considered a liability paid by a different taxpayer.

**Example:** Corp Quasar has an overpayment 2019; Corp Quasar and Corp Universe merge with Quasar surviving in 2010; Quasar has an underpayment in 2021. Quasar's 2019 overpayment is applied to Quasar's 2021 underpayment. This would be an offset, not a liability paid by a different taxpayer.

**Example:** Corp Galaxy has an overpayment for 2019; Corp Galaxy and Corp Solar merge with Solar surviving in 2020; Solar Corp has an underpayment 2021. If Galaxy's overpayment is used to satisfy Solar's underpayment, this would be an offset, not a liability paid by a different taxpayer.

- (4) Compute underpayment interest on the liability satisfied by the offset of the credit as follows:
- a. Using a current TXMOD or Master File transcript, compute a running module balance on the liability from the due date of the tax to the date the offset is applied.
  - b. Apply the offset as a payment using the current 23C date.
  - c. Continue underpayment interest to the applicable ending date. This will be the earlier of: the waiver date plus 30 days (if applicable), payment date, or 23C date.

**Example:** Sun and Moon file a joint return for 201812 showing an overpayment. Rather than getting the refund sent to them, they request that it be applied to their son, Space, who still owes on his 201712 return. Even though the overpayment is available on April 15, 2019, the effective date will be the date the payment gets transferred, which is usually the current 23C date. If the 23C date is November 7, 2019, then the overpayment will be offset using November 7, 2019 as the availability date of the credit.

<b>Steps:</b>
Underpayment interest is computed on Space's liability from April 15, 2018, to November 7, 2019 (the current 23C date), when Sun and Moon's overpayment (with interest) is applied.
Overpayment interest is computed on Sun and Moon's overpayment from April 15, 2019, to November 7, 2019, when the overpayment will be transferred to Space's liability.
The overpayment will be offset with TC 820 and TC 700, while the interest will be applied using TC 850 and TC 730.

**Steps:**

If Space's liability is not totally satisfied, underpayment interest will continue to accrue on the balance until it is fully paid.

20.2.5.14  
(05-11-2023)

**Non-Mirrored MFT 31**

(1) Non-Mirrored MFT 31 Exam/Appeals/AUR modules are created when (list not all inclusive):

- An assessment of restitution is made pursuant to a court order in a criminal case.

**Note:** For a TC 971 AC 102 dated March 23, 2011, or later, the module may contain a TC 971 with AC 180-189 in lieu of AC 110. TC 971 AC 180 and 181 indicates there is not a duplicate module.

- Only one spouse requests to go to Appeals, petitions Tax Court, or signs an agreement with regard to a proposed tax adjustment.
- Only one spouse has filed bankruptcy and the non-bankrupt spouse has defaulted.
- An innocent spouse claim is filed during open examinations.

(2) Since these MFT 31 accounts do not mirror what is on the MFT 30 module, the related MFT 30 needs to be analyzed to determine if interest on MFT 31 is to be manually computed. Account conditions on the MFT 30 module that may necessitate manual calculation of interest on the related and un-mirrored MFT 31 module include:

- Overpayment interest-free periods that create underpayment interest-free periods (TC 830/836 and/or TC 840/846 with **no** TC 770/776).
- Underpayment interest suspension periods (e.g., combat zone, military deferment, presidentially declared disaster). See IRM 20.2.7, Abatement and Suspension of Debit Interest.
- Equalization of interest rates based on Revenue Procedure 94-60 (TC 820/840/846 **with** TC 770/776). See IRM 20.2.14.4 , Within Module Interest Netting Under Revenue Procedures 94-60.

**Note:** When interest on MFT 31 is manually computed, use a non-restricting TC 340 whenever possible. See IRM 20.2.5.6.3.

(3) If the MFT 30 account includes a TC 460, then manually post the TC 460 to the MFT 31 account(s). This will help ensure the correct calculation of interest for those routines, taking TC 460 in account. For more information on MFT 31, see IRM 21.6.8 , Split Spousal Agreements.

**Example:** An accuracy-related penalty (TC 240, PRN 680) is assessed on an MFT 31 account, and the taxpayer had a valid extension to file (TC 460) posted to the MFT 30 account. Since interest on the penalty does not start accruing until the later of the return due date or extended return due date, the extension must be posted to the MFT 31 account to prevent interest from incorrectly accruing on the penalty from the un-extended due date of that account.

20.2.5.15  
(05-11-2023)  
**Claims for Refund of  
Overpaid Underpayment  
Interest**

- (1) The statutory period of limitations for filing a claim for refund of overpaid underpayment interest is two years from the date of the payment or three years from the time the return was filed, whichever is later. See IRM 25.6.1.10.2.7, Claims for Credit or Refund-General Time Period for Submitting a Claim. The amount of credit or refund may not exceed the portion of the tax paid within the period immediately preceding the filing of the claim equal to 3 years plus the period of any extension of time for filing the return. Prepaid credits are considered paid on the return due date for this purpose. See IRC 6511.

**Exception:** If a consent (Form 872) to extend the Assessment Statute Expiration Date (ASED) is secured, the period for filing a claim for refund of overpaid underpayment interest is also extended six months from the new ASED. The amount of credit or refund may not exceed the portion of the tax paid after the execution of the agreement and before the filing of the claim, as well as the portion of the tax that would have been open under the two or three year statute periods, if a claim had been filed on the date the agreement was executed.

**Caution:** TC 560 may **not** necessarily be an indicator of an 872 extension.

**Example:** The normal ASED is April 15, 2013. A consent Form 872 was secured extending the ASED to December 31, 2013. The taxpayer has until June 30, 2014, to file a claim for overpaid underpayment interest.

- (2) For rules concerning the statute of limitations, see IRM 25.6.1, Statute of Limitations Processes and Procedures.

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**Exhibit 20.2.5-1 (10-02-2020)**

**Interest on Penalties**

Although the late filing penalty (TC 166) and failure to pay penalty (TC 276) both carry a 23C posting date of May 14, 2021, only Failure to pay penalty accrues deficiency interest from the 23C posting date. Whereas deficiency interest on the failure to file penalty (TC 166) accrues from the later of the return due date or extended return due date. See the first two tables below representing CC TXMOD posted return and transactions section. CC DINCOMP, represented in the third table, displays the applicable interest effective date for each penalty.

- TXMODA XX-1111111 MFT>01 TX-PRD>201912 NM-CTRL>MARS
- RETURN TRANSACTION INFORMATION

T/C	POSTED	TRANS-AMT	CYCLE	T	DLN
150	05142021	950.00	202118	N/A	00111-111-11111-1

- POSTED TRANSACTIONS SECTION

T/C	POSTED	TRANS-AMT	CYCLE	T	DLN
650	12162019	275.00-	201952	T	00000-000-00000-1
650	01172020	275.00-	202004	T	00000-000-00000-2
610	04112021	350.00-	202117	N/A	00000-000-00000-3
970	04112021	.00	202118	N/A	00000-000-00000-3
166	05142021	90.00	202118	X	00000-000-00000-4
276	05142021	30.00	202118	N/A	00000-000-00000-4
196	05142021	55.00	202118	N/A	00000-000-00000-4

- DINCOMP XX-1111111 01 201912 2021157 COMPUTE TO 06062021

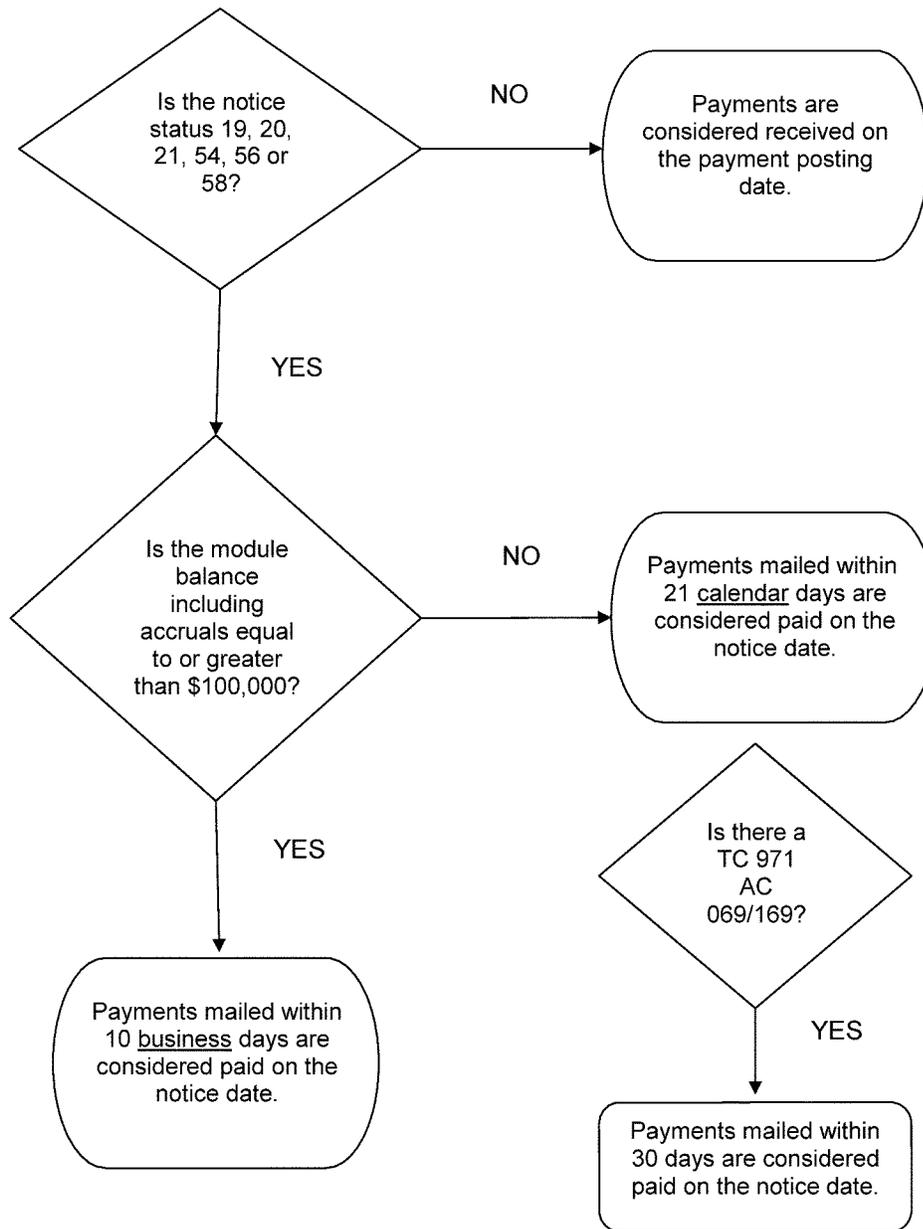
CODE	TRANS-AMT	FROM DT	TO DT	PRINCIPLE	INTEREST FACTOR	INTEREST
8%	.00	12312019	N/A	.00	N/A	.00
1500	950.00	01312020	N/A	950.00	N/A	.00
1660	90.00	01312020	N/A	1040.00	N/A	.00
6500	275.00-	01312020	N/A	765.00	N/A	.00
6500	275.00-	01312020	03312020	490.00	.01319	6.46
9%	.00	03312020	06302020	496.46	.02287	11.35
9%	.00	06302020	09302020	507.81	.02287	11.61
9%	.00	09302020	12312020	519.42	.02287	11.88
9%	.00	12312020	03312021	531.30	.02287	12.15

**Exhibit 20.2.5-1 (Cont. 1) (10-02-2020)**  
**Interest on Penalties**

CODE	TRANS-AMT	FROM DT	TO DT	PRINCIPLE	INTEREST FACTOR	INTEREST
8%	.00	03312021	04112021	543.45	.00241	1.31
6100	350.00-	04112021	05142021	194.76	.00725	1.41
2760	30.00	05142021	06062021	226.17	.00505	1.14
7%	.00	06302021	N/A	227.31	N/A	.00
N/A	N/A	N/A	N/A	N/A	TOTAL INTEREST	57.31

Exhibit 20.2.5-2 (02-04-2015)  
 Payment Effective Date Decision Chart

Exhibit 20.2.5-2  
 Payment Effective Date Decision Chart



Note: This chart is for payments made after 12-31-1996. Payments received within the notice grace period are considered paid on the notice date, even if not full paid. See IRM 20.2.5.4 for additional information.

**Exhibit 20.2.5-3 (05-11-2023)**  
**Revenue Ruling 99-40 Example**

Taxpayer Triton, Inc., timely filed with an extension and paid Form 1120 for tax periods ending December 31, 2018 and December 31, 2019. Each period had overpaid estimated tax payments, which the taxpayer elected to have credited to their respective succeeding tax periods.

Subsequently, on June 23, 2020, the taxpayer submitted an amended tax return for 201812, which resulted in a tax assessment of \$521,886. The amended return included a payment of \$540,000.

After receiving a notice for additional interest of \$7,594.70, the taxpayer requested that Rev. Rul. 99-40 be applied.

Using TXMOD information, Form 2220, and the chart shown on the following page, we determined that the taxpayer can apply Rev. Rul. 99-40 as follows:

<b>Transaction</b>	<b>Amount</b>
Tax Assessment	521,886.00
Credit elect used on 9/15/2019	-246,913.50
Credit elect not used until 3/15/2020	-214,472.50
Balance of underpayment	60,500.00

Underpayment interest starts as follows

<b>Date</b>	<b>Amount</b>
3/15/2019	60,500.00
9/15/2019	+246,913.50
3/15/2020	+214,472.50
Total underpayment interest	521,886.00

Underpayment interest starts on the underpayment in excess of the credit elect on the return due date.

**The application of Rev. Rul. 99-40 may not extend the underpayment interest start date past the return due date of the succeeding tax period.**

**TXMOD of Assessed Tax Period**

TXMODA 00-1111111 MFT 02 TX-PRD 201812 NM-CTRL>TRIT

<b>T/C</b>	<b>POSTED</b>	<b>TRANS-AMOUNT</b>	<b>CYC</b>
150	09212019	1,234,456.00	20194008
660	04152018	308,614.00-	20181408
660	06152018	308,614.00-	20182108
716	04152018	770,000.00-	20184008
660	12152018	308,614.00-	20184908

**Exhibit 20.2.5-3 (Cont. 1) (05-11-2023)**  
**Revenue Ruling 99-40 Example**

T/C	POSTED	TRANS-AMOUNT	CYC
460	03152019	0.00	Ext Dt 09152019
836	04152019	461,386.00	20191608
640	06232020	540,000.00-	20202508
290	08162020	521,886.00	20203808
196	08162020	25,708.70	20203808

**TXMOD of Subsequent Tax Period**

TXMODA 00-1111111 MFT 02 TX-PRD 201912NM-CTRL>TRIT

T/C	POSTED	TRANS-AMOUNT	CYC
150	08162020	987,654.00	-
660	04152019	246,913.50 -	20191408
660	06152009	246,913.50-	20192108
460	06152020	.00	EXT DT 09/15/2020
716	04152019	461,386.00-	20194008
660	12152019	246,913.50-	20194908
836	04152020	214,472.50	20201608

NOTICE	AMOUNT	CYCLE	S	DO
12	.00	20201608	-	-

**Exhibit 20.2.5-3 (Cont. 2) (05-11-2023)**  
**Revenue Ruling 99-40 Example**

<b>SEQUA Worksheet for</b>	<b>UNDERPAYMENT OF ESTIMATED TAX BY CORPORATIONS</b>	<b>TAX YEAR ENDED 12/31/09</b>
<b>NAME OF TAXPAYER</b>		
Interest for tax year ending one year prior to date above SCHEDULE __		
Book, Inc.		

	TAX YEAR BEGINNING 01/01/09	
Is this a "Large" corp? (Large=1, No=0)	1	
1. Tax per Return (or audit if no return filed)	987,654.00	
2a. Personal Holding Co. tax included on line 1		
b. Look-back interest included on line 1		
c. Credit for fuel tax		
d. Total. Add lines 2a through 2c	0.00	
3. Subtract 2 from 1	987,654.00	
If line 3 < \$500 penalty n/a		
4a. Multiply line 3 by 100%	987,654.00	
4b. Enter tax from prior years' return	1,234,456.00	
4c. Required annual payment. Smaller of 4a or b	987,654.00	
25% of line 4c (if large corp. only applies for first installment & the reduction is recaptured in next period)	246,913.50	
Enter refund issued prior to due date		Enter date of refund
Overpayment credit from prior year	461,386.00	
Annualized method applicable? (Yes=1, No=0)	0	
Enter annualized installments in this row.		

	04/15/09	06/15/09	09/15/09	12/15/09	03/15/10
5. Installment due dates					
6. Required installments*	246,913.50	246,913.50	246,913.50	246,913.50	
7. Amount paid or credited each period*	246,913.50	246,913.50		246,913.50	
<b>* DO NOT INCLUDE THE CREDIT ELECT</b>					
8. Amount from line 14 prior column					
9. Add lines 7 and 8		246,913.50	0.00	246,913.50	
10. Add amounts on lines 12 & 13 previous column		0.00	0.00	0.00	
11. Subtract line 10 from line 9 (not <0). Column a enter totals from line 7)	246,913.50	246,913.50	0.00	246,913.50	
12. Remaining underpayment from previous period. If the amount on line 11 is zero, subtract line 9 from line 10 & enter the result. Otherwise, enter zero		0.00	0.00	0.00	
Application of overpayment credit per <u>Sequa</u>	0.00	0.00	246,913.50	0.00	214,472.50
13. UNDERPAYMENT. If line 11 is less than or equal to line 6, subtract line 11 and line above from line 6 and enter the result. Then go to line 7 of the next column. Otherwise go to line 14.	0.00	0.00	0.00	0.00	
14. OVERPAYMENT. If line 6 is less than line 11, subtract line 6 from line 11 and enter the result. then go to line 7 of the next column.	0.00	0.00	0.00	0.00	

15. Application of overpayment credit due to early refund:		
Dates overpayment used:		
Amounts used		

**Exhibit 20.2.5-3 (Cont. 3) (05-11-2023)**  
**Revenue Ruling 99-40 Example**

**490 Activity Summary - Book, Inc.**

FED - \*\*\*\*\*1111 Book, Inc. 1120 - Per Master File Tax Period: 2008/12

Run Method: IRS Default	Module Status: Open/(Open)
Interest To: 08/16/2010	
GATT Method: Retain Character (New)	GATT Date: 01/01/1995 Amount: \$10,000
LCU Method: Default IRS	LCU Interest Date: LCU Interest is OFF
Underpay Net Start: All Dates Included	Overpay Net Start: All Dates Included

Date Transcript	Date Start	Date Adj / End	Description	Susp/Equal	Principal	Balance
09/21/2009		03/15/2009	150 Return Filed & Assessed Tax Liability		1,234,456.00	1,234,456.00
03/15/2009			460 Extension of Time for Filing To 9/15/2009			1,234,456.00
08/16/2010		03/15/2009	290 Additional Tax Assessment		521,886.00	1,756,342.00
Various		03/15/2009	660 Estimated Tax		(925,842.00)	830,500.00
04/15/2008		03/15/2009	716 Generated Overpay Credit Applied from Pr		(770,000.00)	60,500.00
04/15/2009	03/15/2009	04/15/2009	836 Overpayment Credit Elect to Next Periods	(461,386.00)	461,386.00	521,886.00
06/23/2010			640 Advance Payment of Determined Deficiency		(540,000.00)	(18,114.00)

Date	Description	Amount	Factor	Interest	Balance
03/15/2009	150 Return Filed & Assessed Tax Liability	1,234,456.00			
	290 Additional Tax Assessment	521,886.00			
	660 Estimated Tax	(925,842.00)			
	716 Generated Overpay Credit Applied from Pr	(770,000.00)			60,500.00
03/16/2009	04/15/2009 Underpay	60,500.00	0.003842741	232.49	60,732.49
04/15/2009	836 Overpayment Credit Elect to Next Periods	461,386.00			522,118.49
04/16/2009	06/23/2010 Underpay	522,118.49	0.048708113	25,431.41	547,549.89
06/23/2010	640 Advance Payment of Determined Deficiency	(540,000.00)			7,549.89
06/24/2010	08/16/2010 Underpay	7,549.89	0.005935027	44.81	7,594.70

Account Summary:	As Computed	Per Transcript	Adjustment
Deficiency Interest	25,708.70	25,708.70	
Overpayment Interest			
Principal Balance			7,594.70
	25,708.70	25,708.70	7,594.70

**Exhibit 20.2.5-3 (Cont. 4) (05-11-2023)**  
**Revenue Ruling 99-40 Example**

**490 Activity Summary - Book, Inc.**

FED - \*\*\*\*\*1111 Book, Inc. 1120 - With RR 99-40 Tax Period: 2008/12

Run Method: IRS Default	Module Status: Open/(Open)
Interest To: 05/07/2011	
GATT Method: Retain Character (New)	GATT Date: 01/01/1995 Amount: \$10,000
LCU Method: Default IRS	LCU Interest Date: LCU Interest is OFF
Underpay Net Start: All Dates Included	Overpay Net Start: All Dates Included

Date Transcript	Date Start	Date Adj / End	Description	Susp/Equal	Principal	Balance
09/21/2009		03/15/2009	150 Return Filed & Assessed Tax Liability		1,234,456.00	1,234,456.00
03/15/2009			460 Extension of Time for Filing To 9/15/2009			1,234,456.00
08/16/2010		03/15/2009	290 Additional Tax Assessment		521,886.00	1,756,342.00
Various		03/15/2009	660 Estimated Tax		(925,842.00)	830,500.00
04/15/2008		03/15/2009	716 Generated Overpay Credit Applied from Pr		(770,000.00)	60,500.00
04/15/2009	03/15/2009	09/15/2009	836 Overpayment Credit Elect to Next Periods	(246,913.50)	246,913.50	307,413.50
04/15/2009	03/15/2009	03/15/2010	836 Overpayment Credit Elect to Next Periods	(214,472.50)	214,472.50	521,886.00
06/23/2010			640 Advance Payment of Determined Deficiency		(540,000.00)	(18,114.00)

Date	Description	Amount	Factor	Interest	Balance
03/15/2009	150 Return Filed & Assessed Tax Liability	1,234,456.00			
	290 Additional Tax Assessment	521,886.00			
	660 Estimated Tax	(925,842.00)			
	716 Generated Overpay Credit Applied from Pr	(770,000.00)			60,500.00
03/16/2009	09/15/2009 Underpay	60,500.00	0.020815258	1,259.32	61,759.32
09/15/2009	836 Overpayment Credit Elect to Next Periods	246,913.50			308,672.82
09/16/2009	03/15/2010 Underpay	308,672.82	0.020032541	6,183.50	314,856.32
03/15/2010	836 Overpayment Credit Elect to Next Periods	214,472.50			529,328.82
03/16/2010	06/23/2010 Underpay	529,328.82	0.011018566	5,832.44	535,161.27
06/23/2010	640 Advance Payment of Determined Deficiency	(540,000.00)			(4,838.73)
06/24/2010	05/07/2011 Overpay GATT	(4,838.73)	0.010658945	(51.58)	(4,890.31)

Account Summary:	As Computed	Per Transcript	Adjustment
Deficiency Interest	13,275.27	25,708.70	(12,433.43)
Overpayment Interest	(51.58)		(51.58)
Principal Balance			7,594.70
	13,223.69	25,708.70	(4,890.31)

Exhibit 20.2.5-4 (04-27-2016)

Input Screen for Non-Restricting TC 340 using ADJ54

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ADJ54 xxx-xx-xxxx .....MFT>30 .....PLAN>000 .....TX-PRD>xxxx12 ..... NM-CTRL>NCNC
SEQ-NUM>001-----BLK>05-----DT-TRNSFR-----CORSP-DT>----- INTCMPTN-DT>
CASE-STS-CD>C-----IRS-RCVD-DT>-----CTRL-CAT>-----2%-INT-DT>
ACTIVITY>COMBATZONE-----PYE-DT>-----TCB-DT>-----CR-INT-TO-DT
RET-PROC-DT>-----RVRSN-DT>-----OVERRIDE-CD>-----RFSCDT>
DB-INT-TO-DT>03182012 -----COMP-INT-AMT>23,456.89 -----OTN>
DATA-REF-1>-----REF-CHG-1>-----DATA-REF-2>-----REF-CHG-2>
N-PER>-----N-AMT>-----N-BEG>-----N-END>-----N-MFT>
*****TRANSACTION CODES*****
TC>-----AMT>-----TC>-----AMT>-----TC>-----AMT>-----
TC>-----AMT>-----TC>-----AMT>-----TC>-----AMT>-----
*****
SRCE-CD>1--RSN-CDS>-----RCA-IND>-----MTH-ERR-CDS>-----FLC>
HOLD-CD>0--PRT-CD>-----PSTNG-DLAY-CD>-----CP-NTC-SUPP-IND>-----AMD-CLMS-DT>
ACK-LTR?>N---TRANS-REG-IND>-----DMF-AG>-----SUB-AG>-----XREF-TIN>
***** ITEM-REF-CDS/ABST-CDS/CR-REF-CDS/FUTA-STATE-CD/DRI-CD *****
CD>-----AMT>-----CD>-----AMT>-----CD>-----AMT>-----
CD>-----AMT>-----CD>-----AMT>-----CD>-----AMT>-----
CD>-----AMT>-----CD>-----AMT>-----CD>-----AMT>-----
*****
CIS-IND>-----SOURCE-DOC-ATTACHED?>Y ..... REMARKS>SD ..... ADJUST INT & PNLT>
    
```

**Note:** Entering an amount in the “COMP-INT-AMT” field will allow interest to be systemically updated on that amount from the date entered in the “DB-INT-TO-DT” field.

**Exhibit 20.2.5-5 (07-25-2017)****Two-Part Penalty Computation for Returns Due Prior to 1989****Interest Computation Part of the Penalty**

For tax returns due **after** December 31, 1981, interest for purposes of the additional 50% interest component [provided by IRC 6653(a)(2), Negligence Penalty], begins to accrue on the return due date (determined without regard to an extension) through the payment date, 23C date or waiver plus 30 days, whichever is earlier. Between December 31, 1981, through September 3, 1982, there was no provision for the additional 50% interest component attributable to fraud.

For tax returns due after September 3, 1982 through December 31, 1988, interest for purposes of the additional 50% interest component (provided by IRC 6653(b)(2), Fraud Penalty), begins to accrue on the return due date +(determined without regard to an extension) through the payment date, 23C date or waiver plus 30 days, whichever is earlier.

The 50% interest component must be adjusted if any portion of the negligent or fraudulent tax is abated.

Once assessed, interest on the penalty amount is computed from the 23C date of the tax and penalty assessment. Effective December 31, 1986, IRC 6653(a)(2) was renumbered to IRC 6653(a)(1)(B) and IRC 6653(b)(2) was renumbered to IRC 6653(b)(1)(B).

For returns due **after** December 31, 1988, the additional 50% interest component was repealed.