MANUAL TRANSMITTAL

20.2.9

Department of the Treasury
Internal Revenue Service

AUGUST 2, 2013

EFFECTIVE DATE

(08-02-2013)

PURPOSE

(1) This transmits revised IRM 20.2.9, *Interest, Interest on Carryback of Net Operating Loss.*

MATERIAL CHANGES

(1) Minor editorial changes have been made throughout this IRM. Web site addresses, legal references, IRM references, and tables were reviewed and updated as necessary.

(2) Incorporated IPU 090825 09-29-2009 and Re-issued IG Memo, SBSE-20–0411–006 - Expiration - 06/30/2011 - IRM 20.2.9.2 - Determining the Overpayment Interest Period.

Reference	Description
IRM 20.2.9.1 (1)	Clarified the carryback period for certain losses.
IRM 20.2.9.1 (2)	Deleted paragraph, which addressed the Job Creation and Worker Assistance Act of 2002. The act retroactively changed the two-year carryback period to a five-year carryback period for losses arising in 2001 and 2002.
IRM 20.2.9.2(1) and (5)	Incorporated Interim Procedural Update (IPU) 090825 dated 09-29-2009, *Determining the Overpayment Interest Period,* and Interim Guidance SBSE 20-0411-006, *Determining the Overpayment Interest Period*.
IRM 20.2.9.2 (3)	Clarified carryforward due date.
IRM 20.2.9.2 (4)	Inserted the word “generally” at the beginning of the first sentence and added the dollar criteria for considering the issuance of a manual refund.
IRM 20.2.9.2 (5)	Added the statement: “determined without regard to extensions” after “due date of loss year return” to the if/then table. Added a reminder statement regarding the return processible date (RPD) as a possible interest start date for purposes of computing credit interest.
IRM 20.2.9.2 (6)	Specified that, in order to meet the 45-day interest-free period, the date of the refund check must be dated on or before the dates outlined in the alpha list.

Reference	Description
IRM 20.2.9.2.1 (1)	Replaced “prior to July 18, 1984” with “on or before July 18, 1984” in the if/then table.
IRM 20.2.9.3 (1)	Added note statement that an AMD-CLMS-DT should not be input on carryback adjustments.
IRM 20.2.9.3 (2)	Merged item 2(c) into the example and renumbered (d) to (c). Placed text following the note statement into a separate paragraph. Updated the last example statement to clarify what date to use when determining if the 45-day period has been met on a late filed loss year return.
IRM 20.2.9.4 (1)	Revised the if/then table for clarity when recapturing erroneous carryback allowances and debit interest is manually computed.
IRM 20.2.9.4	Rearranged and edited text for clarity. The content of paragraph (3) moved to paragraph (2). In the first if/then table, replaced “after January 1, 1987” with “on or after January 1, 1987.” Added the note statement describing a Master File limitation. Deleted paragraph (4).
IRM 20.2.9.7	Edited to describe in more detail combination adjustments originating from Form 2285, “Concurrent Determinations of Deficiencies.”
IRM 20.2.9.7.1	Clarified when the running module balance method is to be used to compute interest on tax shown on Form 2285.
IRM 20.2.9.7.2	Revised the text to describe the calculation of interest on modules involving barred assessments.
IRM 20.2.9.7.3	Edited to change “Examination Division” to “Technical Services.”
IRM 20.2.9.8 (1)(c)	Clarified dates interest is computed for a carryback allowance when there is a reduction of an unpaid liability.
IRM 20.2.9.8 (2)(c)	Clarified why no credit interest is allowed when, due to a carryback allowance, a partial abatement of an unpaid liability results in no net overpayment.

Reference	Description
IRM 20.2.9.8 (3)(c)	Clarified dates interest is computed for a carryback allowance that reduces an unpaid liability to produce an overpayment.
IRM 20.2.9.8 (5)	Clarified the interest to date for systemically generated refunds.
Exhibit 20.2.9-2	Rearranged content for clarity.
Exhibit 20.2.9-3	Clarified the last caution statement to describe a short statute situation where a single net tax adjustment is permitted.
Exhibit 20.2.9-4	Removed the exhibit and incorporated the information within the text of this IRM.

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 20.2.9, dated 06/30/2009 and incorporates IPU 090825 dated 09/29/2009, *Determining the Overpayment Interest Period,* and Interim Guidance SBSE 20-0411-006, *Determining the Overpayment Interest Period*, dated 04/27/2011.

AUDIENCE

All operating divisions and functions that work with interest.

Brad Bouton
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20.2.9
Interest on Carryback of Net Operating Loss

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20.2.9.1
(08-02-2013)
Carryback Overview

(1) In general, a net operating loss (NOL) can be carried back to each of the two taxable years preceding the loss year (IRC 172(b)). A capital loss (corporations only) can be carried back to each of the three taxable years preceding the loss year (IRC 1212(a)(1)(A). Unused general business credit is generally carried back one year. See IRM 21.5.9.5.3, *Special Carryback/Carryforward Periods*, for exceptions.

(2) See IRM 21.5.9, *Account Resolution, Carrybacks*, for complete instructions on identifying and processing carryback claims and requests for tentative refunds.

20.2.9.2
(08-02-2013)
Determining the Overpayment Interest Period

(1) For interest accruing **after** October 3, 1982 (post-TEFRA), compute interest from the later of the dates listed below **TO** the refund schedule date (less the applicable back off date):

- The loss year return due date (determined without regard to extensions).
- The received date of a delinquent loss year return.
- The date the loss year return is filed in processible form.
- The date the overpayment arose.

(2) For interest accruing on or **before** October 3, 1982 (pre-TEFRA), compute interest as follows:

a. **FROM** the first day after the end of the loss year or the date the overpayment arose, whichever is later.
b. **TO** the refund schedule date (also see additional rules below, applicable to pre-TEFRA and post-TEFRA periods).

Example: Loss year is 198112 (Form 1120, *U.S. Corporation Income Tax Return*)
Loss year return due date is 03151982
Tentative application or claim is filed 11141982

c. If **refunded within 45 days**, interest is allowed from January 1, 1982 (one day after the end of the loss year) to either the received date of the claim or October 3, 1982, whichever is earlier. **If *not* refunded within 45 days**, interest is allowed from January 1, 1982 to the refund schedule date.

Note: The interest start date for Transaction Code (TC) 299 is January 1, 1982 (pre-TEFRA).

Example: Loss year is 198208 (Form 1120)
Loss year return due date is 11151982
Tentative application or claim is filed 10151982

d. For pre-TEFRA and post-TEFRA straddle years, if **refunded within 45 days**, interest is allowed from September 1, 1982, to October 3, 1982. **If *not* refunded within 45 days**, interest is allowed from September 1, 1982 to October 3, 1982, then from November 15, 1982, to the refund schedule date.

Note: The interest start date for Transaction Code (TC) 295 or TC 299 is September 1, 1982.

(3) Losses carried forward to years succeeding the loss year are available on the due date of the return to which they are applied. Thus, for debit and credit interest purposes, the carryforward is available on the return due date of the carryforward year.

(4) Generally, interest is not allowed when the Service refunds an overpayment of income tax attributable to a carryback of a net operating loss within 45 days of the date on which a taxpayer files a claim for refund of the overpayment in processible form. See IRM 20.2.9.2 (6) for exceptions.

a. The law provides specific rules with respect to how interest is to be computed on overpayments arising from the carryback of the net operating loss.
b. IRC 6611(f)(4)(B)(i)(I) provides that for purposes of IRC 6611(e), the overpayment attributable to the carryback of the net operating loss is treated as an overpayment for the loss year. IRC 6611(f)(4)(B)(i)(II) provides that IRC 6611(e) is applied with respect to that overpayment by treating the return for the loss year as not filed before claim for such overpayment is filed.
c. When the 45-day period is in jeopardy, consideration should be given to issuing a manual refund when the overpayment to be refunded is $5,000 or more. See IRM 21.5.9.5.12, *Carryback Manual Refund*.

(5) Compute interest on carryback applications and claims as follows:

If	**And**	**Then**
An application (Form 1045, *Application for Tentative Refund* or Form 1139, *Corporation Application for Tentative Refund*) is filed	The tax is not refunded within the 45-day period	Compute interest from the due date of the loss year return (determined without regard to extensions), received date of the delinquent loss year return, the date on which the loss year return is filed in processible form, or the overpayment date, whichever is later.
A claim (Form 1040X, *Amended U.S. Individual Income Tax Return* or Form 1120X, *Amended U.S. Corporation Income Tax Return*) is filed	The tax is not refunded within the 45-day period	Compute interest from the due date of the loss year return (determined without regard to extensions), received date of the delinquent loss year return, the date on which the loss year return is filed in processible form, or the overpayment date, whichever is later.

Reminder: A return processible date (RPD) is used to revise the date in which an original tax return is considered to be in a processible form. This date is also known as the correspondence received date (CRD). Therefore, for purposes of determining the processible date of the loss year return, the RPD and CRD must be considered as possible interest start dates for the computation of overpayment interest on carryback claims and applications.

(6) To determine whether the 45-day period has been met, consider the following:

a. The due date of the loss year return.
b. Received date of the delinquent loss year return.
c. The date the loss year return is filed in processible form.
d. The application or claim received date.
e. The application or claim processible date, whichever is later.

To the later of these dates, add 45 days. If the date of the refund check is not on or before that date, interest must be allowed on the refund. See IRM 20.2.4, *Overpayment Interest*.

20.2.9.2.1
(08-02-2013)
Special Rules

(1) If a carryback application (Form 1045 or Form 1139) and a carryback claim (Form 1120X or Form 1040X) are filed for the same loss year, determine the start date for the 45-day interest free period as follows:

If	**Then**
Form 1139 or Form 1045 were filed ***on or before*** July 18, 1984	The 45-day interest-free period is added to the received date of Form 1040X or Form 1120X.
Form 1139 or Form 1045 were filed ***after*** July 18, 1984	The 45-day interest free period is added to the received date of Form 1139 or Form 1045.

Reminder: This rule does not apply if the applications were received prior to the due date of the loss year return or the delinquent loss year return received date.

(2) For loss years ending on or before October 3, 1982, interest is paid from the first day after the loss year to October 3, 1982. Additional interest, if any, is computed from October 4, 1982, the loss year return due date or received date of the delinquent loss year return, whichever is later.

(3) If the module is restricted from Master File interest computation, the interest restriction **must** be addressed. See Exhibit 20.2.9-1, *Interest Restrictions*.

20.2.9.3
(08-02-2013)
Transaction Codes for Claims Processing

(1) Transaction Code (TC) 295 or TC 299 must contain the following:

- An interest start date (INT-CMPTN-DT), and
- The tentative carryback application or claim received date (TCB-DT). The TCB-DT is used by Master File programming to “start” or “clock” the 45-day period to determine whether interest is allowable on the carryback transaction.

Note: The INT-CMPTN-DT and TCB-DT are required entries for carryback allowances. Input of an AMD-CLMS-DT field engages the interest routine of IRC 6611(e)(2) which does not apply to carryback adjustments and should not be included.

(2) For claims or applications received prior to the loss year return due date, the credit is available on the loss year return due date. In these situations:

a. If the current date is prior to the loss year return due date, change the interest start date (INT-CMPTN-DT) from the loss year return due date ***to*** the current date. **Do not enter** a future date in the interest start date field. Master File uses the tentative carryback application or claim received date (TCB-DT) to determine the expiration of the 45-day interest-free processing period.

b. Change the tentative application or claim date (TCB-DT) from the date received to the **loss year return due date**. Master File uses the tentative carryback application or claim received date (TCB-DT) to determine the expiration of the 45-day interest-free processing period.

Example: Loss year is 200512 (Form 1120)
Return due date is 03152006
Tentative application or claim is filed 02152006

If refunded within 45 days of the loss year return due date (RDD), no interest is allowed. If refunded after 45 days, interest is allowed from March 15, 2006. Input TC 295 or TC 299 and TCB-DT of March 15, 2006 date.

c. Override the IDRS check by inputting a “C” in the override (OVERRIDE-CD) field.

Note: If the claim for credit or refund is filed prior to the due date of the loss year return, the 45-day interest-free period will not begin until the due date of the loss year return.

(3) For claims or applications **received *after* the loss year return due date** (determined without regard to extensions), interest is generally allowed from the unextended due date of the loss year return. See IRM 20.2.9.2, *Determining the Overpayment Interest Period*, for exceptions. **If the loss year return was filed late, interest is allowed from the received date of the delinquent loss year return.** See IRM 21.5.9.5.32, *Carryback Form 1045 and Form 1139 Carryback Interest Computation Dates*.

Example: Form 1120 for 200512 is filed November 22, 2006. At the same time it is filed, the taxpayer files Form 1139 for a tentative refund. If the refund is **not** processed within 45 days of November 22, 2006, credit interest begins on November 22, 2006, the date the delinquent loss year return was filed. Input TCB-DT as November 22, 2006.

Note: A carryback credit is available for offset as of the due date of the loss year return if the credit consists of payments or credits dated on or before the due date of the loss year return, e.g., withholding, estimated tax credits. However, **credit interest** is computed ***from*** the delinquent loss year ***received date***. See IRM 20.2.9.2 for other exceptions to computing interest from the unextended due date of the loss year return.

20.2.9.4
(08-02-2013)
Carryback Recaptures

(1) When recapturing erroneous carryback allowances, due to a prior restriction or the current adjustment requires restriction, debit interest is computed manually using directions in the table below:

If	Then
Credit interest was not paid on the refund and the carryback was refunded before the loss year return due date	Debit interest is due from the loss year return due date (without regard to extensions) on the amount of the carryback recapture equal to the amount refunded.
Credit interest was not paid on the refund and the carryback was refunded on or after the loss year return due date	Debit interest is due from the refund schedule date (23C) on the amount of the carryback recapture equal to the amount refunded.

If	And	Then
Credit interest was paid on the refund	The refund was issued ***before*** January 1, 1987	Debit interest is due from the loss year return due date (without regard to extensions) for loss years 8210 and later or from the first day after the end of the loss year for 8209 and prior.
Credit interest was paid on the refund	The refund was issued ***on or after*** January 1, 1987	Debit interest on the carryback and TC 772 annual netting interest amount begins on the refund schedule date (23C). Rev. Proc. 94-60.

(2) When reassessing an erroneous carryback allowance and Master File computes the interest, follow the instructions in the table below:

If	And	Then
Credit interest was paid on the refund	The refund was issued ***on or after*** January 1, 1987	Enter the loss year return due date as the interest computation date (INT-CMPTN-DT) for TC 294/298 or TC 308.

If	Then
Credit interest was not paid on the refund	Enter the loss year return due date as the interest computation date (INT-CMPTN-DT) for TC 294/298 or TC 308.

Note: Master File cannot accurately compute debit interest on the recovery of a prior TC 295/299 adjustment carrying an INT-CMPTN-DT dated earlier than the loss year return due date. Debit interest must be manually computed.

20.2.9.5
(06-30-2009)
Unused Investment Credit Carryback

(1) Compute credit interest as follows:

- For interest accruing on or before October 3, 1982, allow interest from the first day of the year following the year in which the credit arose.
- For interest accruing after October 3, 1982, allow interest from the due date or the delinquent received date of the year in which the credit arose.

(2) Assess a deficiency that is the result of an excessive or erroneous investment credit carryback any time before the statute expiration date of the taxable year that released the credit.

20.2.9.6
(06-30-2009)
NOL Carryback and Recaptured Investment Credit

(1) A taxpayer may claim investment credit in one year and pay recaptured tax in another year. An NOL carryback could release an investment credit. Because the investment credit is no longer in use, the taxpayer does not owe the recaptured tax. The recaptured tax is then refunded with an availability date of the NOL that released the investment credit.

Example: Hawthorn Corporation purchased an asset in 2002 and claimed a $300 investment credit. In 2004, they sold the asset. They were not entitled to any investment credit, so they paid the recapture tax of $300. In 2005, they had a net operating loss. It was carried back to 2002 and eliminated the income and the tax. The Form 1139 showed not only the carryback of the NOL to 2002, but also a refund of the recaptured tax in 2004. A statement was attached explaining why the refund of the recaptured tax was being claimed. Use a TC 295 with an interest computation date of March 15, 2006 (due date of the NOL) to allow the refund of the recaptured tax.

20.2.9.7
(08-02-2013)
Combination of Adjustments—Form 2285, *Concurrent Determinations of Deficiencies*

(1) An adjustment to a taxpayer's income may result in an underpayment or overpayment of tax on which interest is restricted or prohibited. An examination of the return may involve income adjustments under more than one section of the law (usually carryback adjustments). These underpayments and overpayments attributable to the different Code sections are often offset against each other resulting in a net no change, net underpayment, or net overpayment within the same tax module. A 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* should accompany the Examination or Appeals report to show the tax increase or decrease attributable to each applicable year. A copy of the Form 2285 should be sent to the taxpayer.

(2) Examination and Appeals employees prepare Form 2285 when income tax adjustments fall under more than one section of the Code and a combination of adjustments is needed.

a. The amounts of the deficiencies and overpayments on which interest is to be computed are shown on line 11 of Form 2285, in columns (a) through (g).
b. The net tax amount due or allowed as an overpayment is shown in column (h).

(3) **It is *recommended* that an interest computation be prepared and attached** to Form 2285. Manually calculate interest only when it is determined that the computer cannot systemically compute the interest. See Exhibit 20.2.9-2, Form 2285.

a. Recompute the module using a "running module balance" including interest due on deficiencies shown in any of the columns from (a) through (g) whether or not there is a net deficiency in column (h).
b. Reduce the "running module balance" by overpayments shown in columns (a) through (g) and compute credit interest when the running module balance is overpaid.
c. Use current TXMOD or Master File tax module information.

(4) Generally, combination adjustments have been assessed with restricting transactions for both overpayment and underpayment interest. However, Master File programming can accurately compute the interest in some situations. If possible, do not restrict the module, but instead use the following procedures:

IF a General Adjustment Is an	AND a Carryback Is an	THEN Master File Programming Can Compute Interest When the Following Actions Are Carried Out
Underpayment	Allowance	Input a TC 300 **AND** TC 309 with the interest computation date. ***Exception:*** When the G/A (+) amount ***equals*** the C/B (-) amount, Master File **cannot** correctly compute the interest. ***Exception:*** When the G/A (+) amount is ***less than*** the C/B (-) amount, Master File **cannot** correctly compute the interest.
Underpayment	Recapture	Input TC 300 **AND** TC 308 with the interest computation date.
Abatement	Allowance	Input TC 301 **AND** TC 309 with the interest computation date. ***Caution:*** TC 301 must post first. Use cycling procedures when posting TC 301 with a TC 309.

IF a General Adjustment Is an	AND a Carryback Is an	THEN Master File Programming Can Compute Interest When the Following Actions Are Carried Out
Abatement	Recapture	Input TC 301 **AND** TC 308 with the interest computation date. ***Exception:*** When the G/A (-) amount ***equals*** the C/B (+) amount, Master File **cannot** correctly compute the interest. ***Exception:*** When the G/A (-) amount is ***less than*** the C/B (+) amount, Master File **cannot** correctly compute the interest.

(5) Whenever possible, input Form 2285 adjustments (including restricted interest modules) so all components are posted to IDRS/Master File. This action provides, as a supplement to the case file, a posted record of the combination adjustment for subsequent updates of the tax module.

Caution: When cycling or combining transaction codes on IDRS/Master File to adjust interest, monitor the adjustment to confirm that all have posted correctly.

Reminder: Use of appropriate hold codes may be required when cycling adjustments to prevent the issuance of erroneous notices and/or refunds.

See Exhibit 20.2.9-3 for a case involving Form 2285 with multiple adjustments and restricted interest.

(6) When updating manually assessed interest on a tax module, you must attach a copy of Form 2285 or other relevant information to identify the overpayment and/or underpayment amounts and dates.

(7) Consider the use of the non-restricting TC 340 to update manually assessed combination adjustment interest. See IRM 20.2.8.11, *Non-Restricting TC 340*.

(8) If the net tax adjustment is zero or a credit, but there is still a balance owing for debit interest, input CC REQ77 with TC 550 using the 23C Date plus ten (10) years to extend the CSED.

Caution: Input of this adjustment as a single, net tax decrease is not recommended. Input as a single, net tax adjustment should only be used if there are statute concerns (e.g., short statute for all adjustments - not a barred assessment adjustment per IRM 20.2.9.7.2).

Caution: Input of a single, net tax adjustment may require the manual restriction of certain penalties.

Example: Form 2285 Data:

General Adj.	1st Carryback	2nd Carryback	Net Tax
200212	200312	200412	
$500,000.00	<$300,000.00>	<$400,000.00>	<$200,000.00>

Failure to pay penalty was previously assessed (TC 276) due to late paid tax on the original tax return of $100,000.00. Form 2285 adjustments were input with a single, net tax decrease (TC 301-$200,000.00). If the TC 301 is not accompanied with a manual posting of TC 270, IDRS/Master File will erroneously abate the failure to pay penalty by applying the TC 301 as of the due date of the return.

Caution: Always consider the effect of a single, net tax adjustment to systemic penalty computation routines and, if necessary, manually compute such penalties.

Reminder: Always monitor these adjustments to confirm posting accuracy.

20.2.9.7.1
(08-02-2013)
Application of Overpayment

(1) When Form 2285 is used to compute an overpayment and/or underpayment of tax, compute interest on that tax by using a “running module balance” with current TXMOD or Master File information.

a. Apply all interest considerations (e.g., Rev. Rul. 99-40, Rev. Proc. 94-60) in recomputing the tax module.
b. Apply carryback allowances with the loss year filing date for years after October 3, 1982.
c. When applying carryback recaptures, consider Rev. Rul. 99-40 and within module netting procedures as appropriate. Allow credit interest on general adjustment decreases to the due date of the loss year return for the carryback recapture(s).

20.2.9.7.2
(08-02-2013)
Interest on Barred Assessments

(1) IRC 6501(a): If a deficiency exists on a tax module that is not attributable to a carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module, the statutory period of time to make the assessment is generally the **later of** the following:

- Three years from the return due date,
- Three years from the date the return was filed, or
- Exceptions found under IRC 6501(c).

(2) IRC 6501(h) and IRC 6501(j): If a deficiency exists on a tax module that **is attributable** to a carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module, the statute for assessment of the deficiency generally is the **later of** the following:

- Three years from the due date of the **loss year** return in which the carryback allowance originated,
- Three years from the date the **loss year** return in which the carryback allowance originated was filed, or
- Exceptions found under IRC 6501(c).

(3) IRC 6501(k): If the statutory periods outlined in paragraph (1) above have expired, a deficiency that is **not** attributable to a **tentative** carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module may be assessed **up to the amount of the tentative carryback allowance, less any amount assessed per paragraph 2 above** by the **later of** the following:

- Three years from the due date of the **loss year** return in which the carryback allowance originated, or
- Three years from the date the **loss year** return in which the carryback allowance originated was filed.

Note: **Interest on the deficiency not attributable to a tentative carryback allowance is not subject to the limitation upon the "amount" of the tentative carryback allowance. See Rev. Rul. 72–447**.

Note: IRC 6501(k) was originally designated as IRC 6501(m) and was redesignated in 1984. See Treas. Reg 301.6501(m)-1(a)(2).

Reminder: By seeking a refund under IRC 6411, the IRS is able to recover a deficiency that is unrelated to the carryback including deficiency interest.

(4) The examples below are for Paragraph 3 above:

Example: **Deficiency not attributable to a tentative carryback allowance is assessed up to the amount of the tentative carryback allowance.** Taxpayer files 1040X claiming an NOL carryback allowance from 200812 (loss year) to the 200512 (gain year) late filed return. The statute to assess the 200512 general adjustment (G/A) tax liability is expired (200512 ASED -10/15/2009). The statute for the 200812 tax period expires 10/15/2012, three years from the extended due date of the loss year return. NOL statute of limitation period is open for assessment.

Form 2285—Example 1

Form 2285 Item Number	Column (a) -G/A -Tax Year -2005-Barred Assessment	Column (c) -CB-Loss Year-2008 Allowance	Column (h) -After All Adjustments
11. Net Increase (Decrease) in Tax	$50,000.00	$50,000.00-	$0.00

The 200512 G/A tax liability of $50,000.00 is limited up to the amount of the 200812 carryback allowance of $50,000.00 and will be assessed and posted.

Debit interest on the TC 300 tax assessment ($50,000.00) for 200512 is **not** limited by the amount of the 200812 carryback and will be computed and posted to the 200512 tax period.
The adjustments would be input and posted to the 200512 tax period using the following transaction codes and adjustments:

- TC 300 - $50,000.00 - Assessment limited to the carryback allowance of $50,000.00.
- TC 309 - $50,000.00 - INT-CMPTN-DT - 04152009 - Statute expires 3 years from the extended due date of the 200812 loss year return (10/15/2012) (loss year statute is open for assessment).
- TC 340 - $11,611.71 - DB-INT-TO-DATE - 04152009 - Interest on the assessable TC 300 adjustment is not limited by the amount of the carryback.
- Update ASED 60 days from input date to allow TC 300 adjustment to post.

Note: ASED is extended out 60 days from input on gain year (200512) module in order to maintain an audit trail involving barred G/A assessments posting with carryback allowance adjustments.

Example: **Deficiency not attributable to a tentative carryback allowance is assessed up to the amount of the tentative carryback allowance, less any amount assessed per paragraph 2 above.**

Note: The tax periods and statutes are the same as in example 1 above.
The Service processed and refunded a NOL carryback allowance- 200812 (loss year) to 200512 (gain year). Taxpayer received a refund of $50,000.00. An audit was performed and Form 2285 was prepared as follows:

Form 2285—Example 2

Form 2285 Item Number	**Column (a) -G/A -Tax Year -2005-Barred Assessment**	**Column (c) -CB-Loss Year-2008 Recapture**	**Column (h) -After All Adjustments**
09. Carryback previously allowed		$50,000.00	
10. Corrected Carryback		$30,000.00	
11. Net Increase (Decrease) in Tax	$40,000.00	$20,000.00	$60,000.00

The 200512 statute is expired (10/15/2009). The statute is open for assessment on the 200812 loss year 10/15/2012. Currently a TC 295 - $50,000.00, INT-CMPTN-DT 04152009 and TC 846 - $50,000.00 are posted to the transcript.
For this example, the adjustments would be input and posted on the 200512 tax period using the following transaction codes and adjustments:

- TC 300 - $30,000.00 - Statute expired (200512) to assess $40,000.00. Assessment limited to $30,000.00 ($50,000.00 carryback previously posted and refunded minus $20,000.00 carryback recapture).
- TC 308 $20,000.00, INT-CMPTN-DT 04/15/2009 - Statute expires 3 years from the extended due date of the 200812 loss year return (10/15/2012) (loss year statute is open for assessment).
- TC 340 $700.00 - Interest on the assessable TC 300 adjustment is not limited by the amount of the carryback.
- Update ASED 60 days from input date to allow the TC 300 adjustment to post.

Note: ASED is extended out 60 days from input on gain year (200512) module in order to maintain an audit trail involving barred G/A assessments posting with carryback adjustments.

Note: If the carryback allowance full pays the general tax adjustment and only deficiency interest is owed, manually offset any overpayment from other tax periods to full pay the deficiency interest. Do not allow systemic offset. Master File will post the overpayment at the 23C Date of the general tax adjustment.

20.2.9.7.3
(08-02-2013)
Corrections

(1) If an error is found in a tax adjustment, Technical Services function should prepare a “corrected” Form 2285.

Note: The original and corrected adjustments must be annotated in adjacent columns.

(2) Examine the original and verify the amounts shown in each column with the amounts on the corrected form. Recompute the interest using the corrected amounts and adjust the interest accordingly.

(3) If an obvious error is discovered in the interest computation for Form 2285 during an update of the interest, correct the error with the update.

20.2.9.7.4
(08-02-2013)
Non-Examination Combination Adjustments

(1) Areas processing requests and claims for carryback allowances may encounter combination adjustments. Instructions for processing multiple carryback adjustments can be found in IRM 21.5.9.5.10, *Account Resolution, Carrybacks - Multiple Adjustments*.

20.2.9.8
(08-02-2013)
Summary

(1) When determining the interest period for a tentative allowance or a general adjustment due to a carryback loss and there is a reduction of an unpaid liability:

a. Use TC 295/299 or TC 309 with an interest computation date.
b. Compute debit interest from the due date of the carryback year to the due date of the loss year return.
c. Compute credit interest on any overpayment from the loss year return due date, received date of delinquent loss year return, date loss year return is filed in processible form, or payment date, whichever is later, to the refund schedule date (less the applicable back-off period). See IRM 20.2.9.2.

(2) For a partial abatement of an unpaid tax liability:

a. Use TC 295/299 or TC 309 with an interest computation date.

b. Compute debit interest from the due date of the carryback year to the due date of the loss year return.
c. Credit interest is not allowed on the abated unpaid tax liability because there is no net overpayment.

(3) For a decrease in the liability which results in an overpayment:

a. Refund or offset (if applicable) the overpayment.
b. For interest accruing on or before October 3, 1982, compute credit interest from the first day after the end of the loss year or from the payment date, whichever is later, to the refund schedule date.
c. For interest accruing after October 3, 1982, compute credit interest from the loss year return due date, received date of the delinquent loss year return, date loss year return is filed in processible form, or the payment date, whichever is later, to the refund schedule date (less the applicable back-off period). See IRM 20.2.9.2.

(4) Credit any overpayment and any corresponding credit interest to any unpaid tax, interest, and penalty for any other year before refunding any part of the overpayment. Interest is computed on the overpayment from its availability date to the due date of the liability that is being paid.

If	**Then**
The overpayment is credited to a tax liability for a prior year	Credit interest is not allowed on the amount of overpayment that is less than or equal to the tax liability.
The overpayment is credited to a tax liability due for a subsequent year	Credit interest is allowed from the availability date of the credit to the due date of the subsequent year tax liability on the amount of overpayment that is less than or equal to the tax liability.
The overpayment is credited to unpaid interest, penalty or addition to tax for another year or type of tax	Credit interest is allowed from the credit availability date to the due date of the interest, penalty, or addition to tax.

(5) Compute credit interest on any remaining overpayment to be refunded, from the credit availability date to the refund schedule date (less the applicable back-off period), after all liabilities for tax, penalties, additions to tax, and debit interest have been paid.

(6) If credit interest was allowed, assess interest on an excessive tentative refund or an erroneous refund claim from the date it was allowed. Then assess interest on the excessive refund and the netted interest amount from the refund date to the earlier of the following:

- The 30th day after filing a waiver
- The date of assessment
- The date of payment
- The credit availability date (if paid by credit)

(7) When determining the debit interest period for an NOL and net capital loss carryback with general adjustments, assess interest on the deficiency as shown earlier in IRM 20.2.9.7.

(8) Allow credit interest on a net overassessment as shown in IRM 20.2.4, *Overpayment Interest*.

(9) When debit interest was assessed at any time before the end of a loss year and there is a net overassessment due to a combination of a general adjustment decrease and a carryback allowance, debit interest must be reduced.

a. Determine whether debit interest was initially computed to a date beyond the loss year due date. If so, recompute debit interest to the loss year due date.
b. Abate the excess debit interest with a TC 341.

(10) Estimated tax penalties and penalties for late filing (Failure to File), negligence in reporting income (Accuracy Related), and fraud are not reduced by carryback losses. See IRM 20.1.5.2.3, *Carrybacks and Carryovers*.

Note: See IRM 20.2.5.3 (5), *Interest on Penalties and Additions to Tax* for penalties that do not begin to accrue until the due date of the loss year return.

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Exhibit 20.2.9-1 (06-30-2009)
Interest Restrictions Reminder

CAUTION

Be sure to check for interest restrictions (TC 34X), which may require a manual recomputation and assessment of debit interest. If the effective date of a carryback is later than the previous TC 340 assessment date, you must compute and assess any additional debit interest. Input your TC 340 with TC 295/299. If the effective date of the carryback is earlier than the TC 340 assessment date, recompute debit interest and input a TC 341 for any interest reduction required. If there is no change in debit interest, input TC 340 for zero with TC 295/299 to avoid an unpostable condition. Restrictive debit interest transactions (TC 34X) do not restrict the computer from calculating credit interest. If the Failure to Pay penalty is restricted, recompute that penalty as necessary. Use TC 270 to assess or TC 271 to abate the Failure to Pay penalty as required.

When a module is re-established from the retention register, interest is systemically restricted with a TC 340 for zero with interest updates requiring a manual computation and restriction of interest.

Exhibit 20.2.9-2 (08-02-2013)
Form 2285

Form 2285 is completed by SBSE Technical Services. The amount of increase in tax to be assessed is shown on line 11, column (h) of Form 2285. Math verify line 11 and match line 11, column (h) with the audit report.

Note: The ACT/DMI InterestNet computation tool is used to calculate interest and a Report 490 Activity Summary of the interest computation should be attached to Form 2285.

Exhibit 20.2.9-3 (08-02-2013)
Example of Combination Adjustment Computation

Examination has determined that for Form 1120 for 200212, Lamb Corporation was liable for a general adjustment of $543,210.00. The large corporate underpayment rate does not apply in this example.

Examination also determined that the taxpayer has Net Operating Loss (NOL) carryback allowances from 200312 and 200412 in the amounts of $280,111.00 and $294,222.00, respectively.

Using the current TXMOD print, interest is computed using a running module balance by entering the general adjustment with an effective date of March 15, 2003 and the carryback allowances with availability dates of March 15, 2004 and March 15, 2005. A "Run to Date" of September 14, 2006 is used.

In this case, the net adjustment is a tax decrease of $31,123.00 with underpayment interest of $40,024.75, resulting in a balance owing of $8,901.75.

The adjustments will be input so that all components of Form 2285 are posted to IDRS/Master File.

Caution: Use of appropriate hold codes may be required when cycling adjustments to prevent the issuance of erroneous notices and refunds.

The input of a combination of transaction codes as described in the table located within this IRM, will allow the generation of systemic interest computations. Use Posting Delay Codes when applicable. See IRM 4.4.12.4.52, *AIMS Processing Handbook-Form 5344-Item 43 Posting Delay Code* or IRM 8.20.7-1, *Form 5403 Appeals Closing Record (Instructions)*.
See IRM 20.2.9.7.

If the adjustment is input with a tax decrease in the amount of $31,123.00 with a TC 340 for $40,024.75, a TC 550 must be input to extend the CSED (23C Date plus 10 years).

Caution: Input of this adjustment as a single, net tax, decrease is not recommended. Input as a single, net tax adjustment should only be used if there are statute concerns (e.g., short statute for all adjustments - not a barred assessment adjustment per IRM 20.2.9.7.2).

Example of 1st Adjustment Document (Form 5344, *Examination Closing Record* / Form 5403, *Appeals Closing Record*)
Multiple Form 2285 Adjustments to Single Module

Transaction Code	Amount	Interest Date
TC 300	$543,210.00	
TC 309	$280,111.00-	INT-CMPTN-DT>03/15/2004
TC 340	$0.00	DB-INT-TO-DT>09/14/2006

Exhibit 20.2.9-3 (Cont. 1) (08-02-2013)
Example of Combination Adjustment Computation

Example of 2nd Adjustment Document (Form 5344/Form 5403)
Multiple Form 2285 Adjustments to Single Module

Transaction Code	Amount	Interest Date
TC 309	$294,222.00-	INT-CMPTN-DT>03/15/2005
TC 340	$40,024.75 COMP-INT-AMT>$8,901.75	DB-INT-TO-DT>09/14/2006

Use Posting Delay Code - 1

----------Example of Transcript of Account----------

TXMODA 12-3456789----MFT>02----TX-PRD>200212 NM>LAMB
00347-718-00007-3<DLN BOD-CD>SB

SC-STS>---- MOD-BAL>0.00
MF-STS>12 MOD-BAL>0.00 CYC>200339 TODAYS-DT>12-01-2003
ASED>03152007 FRZ>L-
CSED>03152013 INTL>
RSED>03152006 NAICS-CD>999999

----------POSTED RETURN INFORMATION----------

RET-RCVD-DT>03152003 TX/TPR> 1,645,654.00
NET-CRD-CLMD>1,645,654.00
NET-TXBL-INCOME>8,973,823.00
CR-ELECT-TXPYR>.00

Exhibit 20.2.9-3 (Cont. 2) (08-02-2013)
Example of Combination Adjustment Computation

----------RETURN TRANSACTION----------

T/C	POSTED	TRANS-AMOUNT	CYC	T	DLN
150	04242003	1,645,654.00	200315	D	00311-096-00000-3
660	04152002	-411,413.50	200214		003979-170-00000-2

----------POSTED TRANSACTIONS SECTION----------

T/C	POSTED	TRANS-AMOUNT	CYC	T	DLN
660	06152002	-411,413.50	200221		00397-170-00000-2
660	09152002	-411,413.50	200240		00397-270-00000-2
660	12252002	-411.413.50	200249		00397-350-00000-2
420	10232003	.00	200344		00977-296-00000-3
	AIMS-NUM>0101000086				
560	03152006	.00	200612		00377-058-00000-6
	ASED>03152007				

490 Activity Summary - Lamb Corp. **FED- 123456789 Lamb Corp 1120 Tax Period: 2002/12**	
Run Method: IRS Default	Module Status: Open(Open)
Interest To: 09/14/2006	
GATT Method: Retain Character (New)	GATT Date: 01/01/95 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

Exhibit 20.2.9-3 (Cont. 3) (08-02-2013)
Example of Combination Adjustment Computation

Date Transcript	Date Start	Date Adj/End	Description	Susp/Equal	Principal	Balance
04/24/2003		03/152003	150 Return Filed and Assessed Tax Liability		1,645,654.00	1,645,654.00
09/14/2006		03/15/2003	**300** Additional Tax Assessment By Examination		543,210.00	2,188,864.00
Various		03/15/2003	660 Estimated Tax		(1,645,654.00)	543,210.00
10/23/2003			420 Examination Indicator			543,210.00
09/14/2006		03/15/2004	**309** Abatement of Prior Tax Assessment by Examination		(280,111.00)	263,099.00
02/27/2005			560 Waiver Ext. Date Assessment Statute			263,099.00
09/14/2006		03/15/2005	**309** Abatement of Prior Tax Assessment by Exam		(294,222.00)	(31,123.00)

Date	Description	Amount	Factor	Interest	Balance
03/15/2003	150 Return Filed and Assessed Tax Liability	1,645,654.00			
	300 Additional Tax Assessment by Examination	543,210.00			

Exhibit 20.2.9-3 (Cont. 4) (08-02-2013)
Example of Combination Adjustment Computation

Date		Description	Amount	Factor	Interest	Balance
		660 Estimated Tax	(1,645,654.00)			543,210.00
03/16/2003	10/23/2003	Underpay	543,210.00	0.030226640	16,419.41	559,629.41
10/24/2003	03/15/2004	Underpay	559,629.41	0.015882307	8,888.21	568,517.62
03/15/2004		**309** Abatement of Prior Tax Assessment by Exam	(280,111.00)			288,406.62
03/16/2004	02/27/2005	Underpay	288,406.62	0.045761771	13,198.00	301,604.62
02/28/2005	03/15/2005	Underpay	301,604.62	0.002194034	661.73	302,266.35
03/15/2005		**309** Abatement of Prior Tax Assessment by Exam	(294,222.00)			8,044.35
03/16/2005	09/14/2006	Underpay	8,044.35	0.106584455	857.40	8,901.75

Account Summary:	**As Computed**	**Per Tran-script**	**Adjustment**
Deficiency Interest	40,024.75		40,024.75
Overpay-ment Interest			
Principal Balance			(31,123.00)
	40,024.75		8,901.75