MANUAL TRANSMITTAL

21.4.5

Department of the Treasury
Internal Revenue Service

SEPTEMBER 11, 2023

EFFECTIVE DATE

(10-01-2023)

PURPOSE

(1)   This transmits revised IRM 21.4.5, Refund Inquiries, Erroneous Refunds.

MATERIAL CHANGES

(1)   IRM 21.4.5.2 - Added note to provide guidance for erroneous refund to a member of a consolidated group.

(2)   IRM 21.4.5.4.1 (1)(b) - Added a note and IRM link to include situations that extend a CSED.

(3)   IRM 21.4.5.4.1 (1)(c) - Replaced entire paragraph to improve accuracy of statement.

(4)   IRM 21.4.5.5 (1) - Updated example to specify this would be a category D erroneous refund.

(5)   IRM 21.4.5.5 (2) - Added note regarding rebate and non-rebate refunds.

(6)   IRM 21.4.5.5.4 (1) - Changed last sentence to clarify statement.

(7)   IRM 21.4.5.5.6.1 - Updated how DMERs are posted to the A/ERRF team by adding them to a new SharePoint site. IPU 23U0022 issued 01-03-2023

(8)   IRM 21.4.5.5.6.1 (2) - Changed bullet listings to remove duplicate actions.

(9)   IRM 21.4.5.6 (2) - Updated entire paragraph to refer to ID Theft IRM's for erroneous refund procedures.

(10)   IRM 21.4.5.6 (5) - Updated Note with correct IRM reference. IPU 22U1159 issued 12-07-2022

(11)   IRM 21.4.5.6.1 (4) - Updated Erroneous Refund Calendar for 2023. IPU 23U0224 issued 02-03-2023

(12)   IRM 21.4.5.7 (2)(g) - Removed outdated IRM reference. IPU 22U1159 issued 12-07-2022

(13)   IRM 21.4.5.7 (2)(g) - Changed reference for completing Form 12356.

(14)   IRM 21.4.5.7 (3)(j) - Updated incorrect IRM link to complete the Form 12356. IPU 23U0684 issued 06-01-2023

(15)   IRM 21.4.5.9 (3) - Removed outdated IRM reference. IPU 22U1159 issued 12-07-2022

(16)   IRM 21.4.5.10 (1)(a) - Removed outdated IRM reference. IPU 22U1159 issued 12-07-2022

(17)   IRM 21.4.5.11.1 (4)(a) - Updated incorrect IRM link to complete the Form 12356. IPU 23U0684 issued 06-01-2023

(18)   IRM 21.4.5.11.1 (4)(a) - Added to notate all actions taken.

(19)   IRM 21.4.5.12 - Removed paragraph 4 regarding taxpayers who want to return EIP. IPU 23U0224 issued 02-03-2023

(20)   IRM 21.4.5.15.1.1 (3) - Added a link to IRM 3.17.80.4, Processing Payments Over Cancellation (POC) - Preliminary Processes before an Erroneous Refund, in the Exception.

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(21)   IRM 21.4.5.15.1.1 (5)(a) - Updated incorrect IRM link to complete the Form 12356. IPU 23U0684 issued 06-01-2023

(22)   IRM 21.4.5.15.1.1 (5)(a) - Updated the wording in the paragraph to make it clearer.

(23)   Exhibit 21.4.5-2 - Updated DMER contacts. IPU 23U0022 issued 01-03-2023

(24)   Exhibit 21.4.5-2 - Updated DMER contacts based on current listing.

(25)   Editorial changes were made throughout the IRM for clarity. Reviewed and updated plain language, grammar, web addresses, and IRM references; deleted names in examples to make them gender neutral.

EFFECT ON OTHER DOCUMENTS

IRM 21.4.5, Erroneous Refunds, dated 9-7-2022 (effective 10-01-2022) is superseded. This IRM also incorporates the following IRM Procedural Updates (IPUs): IPU 22U1159 issued 12-07-2022, IPU 23U0022 issued 01-03-2023, IPU 23U0224 issued 02-03-2023 and IPU 23U0684 issued 06-01-2023.

AUDIENCE

Employees located in all business operating divisions who have contact with taxpayers either by phone, correspondence or personal contact

Joseph Dianto
Director, Accounts Management
Wage and Investment Division

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21.4.5
Erroneous Refunds

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21.4.5.1 (10-01-2017) **Program Scope and Objectives**	(1) **Purpose:** This IRM covers information on erroneous refunds, including research procedures to be used when working erroneous refunds.
	(2) **Audience:** The primary users of the IRM are anyone who prepares, inputs or creates erroneous refunds.
	(3) **Policy Owner:** The Director of Accounts Management
	(4) **Program Owner:** Process and Program Management, Accounts Management, Wage and Investment (WI)
	(5) **Primary Stakeholders:** The primary stakeholders are organizations with whom Accounts Management collaborates (e.g., Return Integrity & Compliance Services (RICS) and Submission Processing).
	(6) **Program Goals:** Program goals for this type of work are included in the Accounts Management Program Letter as well as IRM 1.4.16, Accounts Management Guide for Managers.

21.4.5.1.1 (10-01-2017) **Background**	(1) Employees in the Accounts Management (AM) organization respond to taxpayer inquiries and process claims and other internal adjustment requests.

21.4.5.1.2 (10-01-2017) **Authority**	(1) Authority for these procedures is found in IRM 1.2.1.13, Policy Statements for Customer Account Services Activities.

21.4.5.1.3 (10-01-2017) **Responsibilities**	(1) The Wage and Investment Commissioner has overall responsibility for the policy related to this IRM, which is published on a yearly basis.
	(2) Additional information is found in IRM 1.1.13.7.3, Accounts Management, and IRM 21.1.1, Accounts Management and Compliance Services Overview.

21.4.5.1.4 (10-01-2017) **Program Controls**	(1) **Program Reports**: The program reports provided in this IRM are for identification purposes for the Accounts Management Customer Service Representatives (CSRs) and Tax Examiners (TEs). For reports concerning quality, inventory, and aged listings, please refer to IRM 1.4.16, Accounts Management Guide for Managers. Aged listings can also be viewed by accessing Control Data Analysis, Project PCD, on the Control D/Web Access server, which has a login program control.
	(2) **Program Effectiveness**: Program Effectiveness is determined by Accounts Management's employees successfully using IRM guidance to perform necessary account actions and duties.
	(3) **Program Controls**: Goals, measures and operating guidelines are listed in the yearly Program Letter. Quality data and guidelines for measurement are referenced in IRM 21.10.1, Embedded Quality (EQ) for Accounts Management, Campus Compliance, Field Assistance, Tax Exempt/Government Entities, Return Integrity and Compliance Services (RICS) and Electronic Products and Services Support.

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21.4.5.1.5 (10-01-2019) **Acronyms**	(1) For a comprehensive listing of any IRS acronyms, please refer to the *Acronym Database*. (2) See table below for common acronyms in this IRM:

Acronym	Definition
A/ER	Accounting Erroneous Refund Unit
ASED	Assessment Statute Expiration Date
CSED	Collection Statute Expiration Date
DMER	Duplicate Manual Erroneous Refund
ERRF	Erroneous Refund
ERSED	Erroneous Refund Statute Expiration Date
OIC	Offer In Compromise
RSN	Refund Schedule Number
RTN	Routing Transit Number
TY	Tax Year

21.4.5.1.6
(10-01-2021)
Related Resources
	(1) 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.*
	
	(2) Additional related resources include:
	
	   • *Integrated Automation Technologies (IAT) Tool Instructions*
	   • *Document 6209 (IRS Processing Codes and Information)*
	   • *IDRS Command Codes Job Aid*

21.4.5.2 (10-01-2023) **Erroneous Refunds Overview**	(1) This IRM provides procedures on how to identify and recover erroneous refunds. (2) An erroneous refund is defined as "the receipt of any money from the Service to which the recipient is not entitled." This definition includes all erroneous refunds regardless of taxpayer intent or whether the error that caused the erroneous refund was made by the IRS, the taxpayer, or a third party. *Example:* A taxpayer calls regarding a refund check they received and indicates they were not expecting a refund. This is an erroneous refund once the taxpayer indicates they received money from the Service to which they do not think they were entitled, and the employee/IRS confirms the information. The procedures in this IRM must be followed. (3) It is the responsibility of the employee who identifies an erroneous refund to forward the required documentation as outlined in IRM 21.4.5.5, Erroneous

Refund Categories and Procedures, and IRM 21.4.5.6, Category D Erroneous Refund Procedures, to the respective site.

Exception: Erroneous refunds identified by Accounts Management (AM) headquarters analysts through the process outlined in IRM 21.4.5.5.6, Duplicate Manual Erroneous Refunds (DMER), will be forwarded to the employee who created the erroneous refund to prepare the erroneous refund package/documentation.

Exception: Erroneous refunds identified by the Treasury Offset Program (TOP) - Debtor Master File (DMF) liaisons when working the TC 766 Reject Listing will be sent to the employee who originally worked the case to prepare the erroneous refund package/documentation.

(4) Refunds issued to an identity thief are erroneous refunds; however, the provisions in this IRM do not apply. Please follow the procedures found in IRM 25.23.4.6.1, Required Research, and in IRM 25.25, Revenue Protection.

(5) Incorrect refunds issued to the Taxpayer Identification Number (TIN) owner as the result of fraudulently filed tax returns (identity theft) are erroneous refunds. Refer to IRM 21.4.5.12 (6), How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit.

(6) The recipient of an erroneous refund has a legal obligation to repay the amount to the IRS. Legally, the IRS must follow specific guidelines to recover and collect erroneous refunds. For the IRS to recover an erroneous refund, the IRS must clearly show:

- An erroneous refund was issued,
- The amount of the erroneous refund, and
- The applicable limitation period has not expired.

(7) There are five categories of erroneous refunds. Each category has a specific method that must be used to recover the erroneous refund and different statutes of limitation apply. The following IRM sections will provide the necessary guidance.

Note: Erroneous refunds made to a member of a consolidated group that is not the correct agent for the group may present special issues. Consult with your local Chief Counsel office for additional guidance.

(8) Whenever this IRM refers to disclosing any tax information to the taxpayer or their authorized representative, always make sure proper disclosure procedures are used.

a. Be sure you are speaking with the taxpayer or authorized representative. See IRM 21.1.3.2, General Disclosure Guidelines, for more information.
b. Review procedures in IRM 11.3.2.6, Methods for Communication of Confidential Information, before leaving a message on a taxpayer's or authorized representative's answering machine or voice mail.
c. Review procedures in IRM 10.5.1.6.9.4, Privacy Policy, Faxing, before faxing confidential information to the taxpayer or authorized representative.

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21.4.5.3
(10-01-2016)
Examples and Causes of Erroneous Refunds

(1) The following situations may cause or create an erroneous refund (this list is not all-inclusive):

    a.   Misapplied Payments – A payment applied to the wrong TIN. The misapplied payment overpays the account, causing an erroneous refund.

    b.   A taxpayer's **designated** payment posts to the correct TIN but the wrong type of tax or tax year.

    c.   A taxpayer's **designated** payment posts to the correct TIN and tax period but is refunded before actions can be taken on the account.

> *Example:* An Automated Underreporter (AUR) or BMF Underreporter (BUR) reply received with a payment and the payment is refunded before the account is adjusted.

> *Note:* **The erroneous refund procedures do not apply where a payment made with an amended return showing an increase in tax is refunded prior to the processing of the return. Instead, the additional tax is assessed based on the amended return and collected under normal collection procedures.**

    d.   A credit refund of any type if the taxpayer is not entitled.

    e.   Return of court ordered restitution.

    f.   An incorrect tax assessment or adjustment causing an incorrect refund.

    g.   A joint refund issued in one spouse's name only (if the other spouse did not benefit in any way).

    h.   Two taxpayers file refund returns, using the same TIN, and the refund goes to the wrong taxpayer.

    i.   A taxpayer fraudulently or by mistake, receives refunds from more than one TIN for the same tax period.

    j.   A taxpayer receives both a manual (transaction code (TC) 840) and a computer-generated (TC 846) refund for the same overpayment.

    k.   A taxpayer files a claim on a lost check, receives a replacement check, finds the original check and cashes both.

    l.   Incorrectly computed interest.

    m.   A direct deposit is applied to the wrong person's bank account due to IRS error (owner of account may or may not be known).

    n.   Improper release of the TC 700 (false credit) **"-U"** freeze. See Document 6209, *Section 8A. 2*, for a complete description of TC 700.

> *Note:* On Category D erroneous refunds, the Submission Processing, Accounting/Erroneous Refund Unit (A/ER), inputs a TC 700 to remove the erroneous refund amount from Master File and the account is re-established in Accounting. This action is taken to prevent administrative collection action (filing Notices of Federal Tax Lien or issuing levies) from occurring on the erroneous refund liability. **Do not release the TC 700 credit. Do not reverse or transfer the false TC 700 credit, which can be identified by a DLN with document code 58 and blocking 850-899 or 950-999.**

    o.   Statute barred refunds.

21.4.5.4
(10-01-2006)
Recovering Erroneous Refunds

(1) There are three primary steps for recovering an erroneous refund:

    a.   Identify the appropriate erroneous refund category. Refer to IRM 21.4.5.5, Erroneous Refund Categories and Procedures.

    b.   Complete the required actions within the applicable statutes of limitation to correct the error that caused the erroneous refund.

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        c.   Follow the required collection procedures to recover the erroneous refund amount.

(2)   The following IRM sections will provide the definition for each of the erroneous refund categories. The IRM sections will also provide examples, the applicable statute, and the necessary account actions required to recover the erroneous refund.

21.4.5.4.1
(10-01-2023)
Statutes of Limitations and Erroneous Refunds

(1)   The following Statutes of Limitation are used when recovering erroneous refunds:

    a.   The Assessment Statute Expiration Date (ASED) is generally three years from the date the return was filed. See IRC 6501 or IRM 25.6.1.9.2, General Assessment Period. The ASED is applicable when assessments are needed to recover an erroneous refund and applies to all erroneous refund categories except Category D.

    b.   The Collection Statute Expiration Date (CSED) is generally ten years from the date of assessment. See IRC 6502 or IRM 25.6.1.12, Collection Statute Expiration Date (CSED). Once the assessment has been made to correct the error that caused the erroneous refund, the CSED will apply. The CSED is used for collecting all erroneous refund categories except for Category D erroneous refunds.

        Note: While the CSED is generally ten years, there are events that can suspend or extend this. See IRM 5.1.19.3, Case Actions That Can Suspend And/Or Extend the CSED.

    c.   The Erroneous Refund Statute Expiration Date (ERSED) governs the time in which the government can bring a lawsuit to recover an erroneous refund regardless of whether an assessment of the erroneous refund can be made. The ERSED is thus the only period of limitation applicable to Category D erroneous refunds because they are not subject to assessment and enforced administrative collection.

        Note: The ERSED also applies to all erroneous refund suits and sometimes extends beyond the ASED, occasionally making filing suit the only option available to collect erroneous refunds in the other categories. See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED.

    d.   The ERSED is two-years from the date of the erroneous refund check or direct deposit. However, a five-year statute will apply if the IRS can show the erroneous refund was induced by fraud or a misrepresentation of a material fact. See IRM 21.4.5.15, Collection Methods for Category D Erroneous Refunds, for additional information on the ERSED.

21.4.5.5
(10-01-2023)
Erroneous Refund Categories and Procedures

(1)   When an erroneous refund has been identified, you must determine the appropriate erroneous refund category. In other words, what erroneous action generated the refund?

Example: A taxpayer filed their 2022 income tax return expecting a refund of $350. However, an estimated tax payment of $20,000 that belonged to another taxpayer had been erroneously applied to this taxpayer's account and a refund of $20,350 was issued. In this example, the error that caused the erroneous refund was the misapplied payment and the

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erroneous refund amount is $20,000. As provided below, this example results in a category D erroneous refund.

(2) The erroneous refund Categories, "A1", "A2", "B", "C", and "D", are explained in the subsections below.

Note: The Tax Court also distinguishes erroneous refunds as rebate or non-rebate refunds, a judicial label meant to distinguish whether the erroneous refunds are based on the substantive calculation and recalculation of a taxpayer's tax liability. **See, e.g.**, **Thomas v. Commissioner**, T.C. Memo. 2014-118, 2014 WL 2619662 at *2 (defining a rebate refund as being issued based on a substantive recalculation of the taxpayer's tax liability.); **YRC Reg'l Transp., Inc. v. Comm'r**, T.C. Memo 2014-112, 201 WL 2593272 at *5-*7 (defining a non-rebate refund as one that is unrelated to the recalculation of a tax liability and is usually issued based on a clerical or computer error.) Although these distinctions are not used in determining the type of erroneous refund while working a case, these distinctions are relevant if litigating these cases in court. Some non-rebate refunds may not be recoverable by assessment. See IRC 6211(b)(2) (defining rebate as an element of a deficiency, not a separate tax).

(3) If the erroneous refund involves a manual refund, it may meet Duplicate Manual Erroneous Refund (DMER) criteria. See IRM 21.4.5.5.6, Duplicate Manual Erroneous Refunds (DMER) for further information.

(4) If an erroneous refund is discovered and the case is not closed by the end of the day, establish a new IDRS control base, or update the existing IDRS control base with Category Code "ERRF". Follow additional required actions located separately under each category section.

Note: All employees with access to IAT must use the **IAT ERRF Tool**. This tool is programmed for use with all ERRF categories. For more information, see *Erroneous Refund Tool IAT Job Aid*.

21.4.5.5.1
(10-23-2023)
Category A1 Erroneous Refunds

(1) Category A1 erroneous refunds involve the following types of taxes: income tax, estate tax, gift tax and excise tax. The Category A1 erroneous refund occurs when the tax liability has been understated due to an error on either a tax assessment or on an adjustment to the tax liability and the error results in a refund.

Example: A taxpayer filed a Schedule A with their amended return for tax year (TY) 2022 to decrease their tax liability. They were expecting a refund of $500. The IRS processed the amended return and erroneously decreased the income tax liability on the TY 2022 income tax account by $5,000. A refund in the amount of $5,000 was issued. Since the erroneous refund of $4,500 resulted from an adjustment that decreased the TY 2022 income tax liability, this would be a Category A1 erroneous refund.

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(2) The Category A1 erroneous refund is generally recovered with a deficiency assessment by the Examination function. The notice of deficiency must be

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issued within the assessment statute period or by the ASED. See IRC 6501 (a) or IRM 25.6.1.9.2, General Assessment Period.

Note: If the ASED has expired, Category A1 erroneous refunds may still be recovered using the ERSED, if the ERSED is still open. In this instance, the Category D procedures would be used.

See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED.

(3) Once the erroneous amount has been assessed, normal collection procedures apply, and the amount can be recovered within the Collection Statute. See IRC 6502 or IRM 25.6.1.12, Collection Statute Expiration Date (CSED).

(4) Take the following account actions to recover Category A1 erroneous refunds:

- Prepare Form 4442/e-4442, Inquiry Referral; Form 5101, Examination Referral Slip; or Form 12356, Erroneous Refund Worksheet, include a detailed explanation of why it is an erroneous refund, and attach all information/documentation pertinent to the erroneous refund (otherwise the case will be rejected by Exam). Forward to your local Examination function for the issuance of a deficiency notice.

  Note: Do not select the CAT A option in CIS (Correspondence Imaging System) to route these cases.

- Follow local procedures when referring Category A1 cases to the Examination function. If a case is referred from another campus or office, the receiving campus is to follow their local examination procedures.
- Input a TC 971 action code (AC) 663 regardless of the dollar amount. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

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(5) If the Category A1 erroneous refund is identified during a telephone contact with the taxpayer, advise the taxpayer a referral will be made to the Examination division. See IRM 21.4.5.12, How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit, if the taxpayer volunteers to repay the amount. It is not necessary to advise the taxpayer the referral is being made unless the error is identified through direct telephone contact.

(6) The Letter 510C, Refund in Error; Return Check, is not issued on Category A1 erroneous refunds. Do not input a TC 470 or a TC 844 on these accounts.

(7) See the following table:

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If the	Examples	The Erroneous Refund Category is
Erroneous refund involves a TC 150, TC 29X, or TC 30X and the **Master File Tax (MFT) is not** 01, 08, 09, 10, 11, 12, 14, 16 or 17.	1. The IRS lowered the tax when processing the original return 2. Incorrect tax assessment or incorrect adjustments (TC 29X or TC 30X) on an amended return	**Category A1 Erroneous Refund** Examples 1 and 2: Refer to Examination for deficiency

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21.4.5.5.2
(10-01-2020)
Category A2 Erroneous Refunds

(1) Category A2 erroneous refunds involve errors on refundable or non-refundable credits that are subject to deficiency procedures. These credits include, but are not limited to:

- Education Credits
- Child Tax Credit
- Credit for Certain Uses of Gasoline and Special Fuels
- Credit for Increasing Research Activities
- Earned Income Tax Credit
- First-Time Homebuyer Credit
- Health Coverage Tax Credit
- Hope Scholarship Credit
- Making Work Pay Credit
- Adoption Credit
- Prior year minimum tax credit
- Recovery Rebate Credit
- Premium Tax Credit

Example: A taxpayer filed their 2022 income tax return expecting a refund of $900. They indicated on their return that they were not eligible for the Earned Income Tax Credit (EITC) because of their nontaxable income. When the return was processed, the IRS allowed a $2,000 EITC in error and a refund was issued in the amount of $2,900. Since the IRS erroneously allowed the EITC, $2,000 of the refund is a Category A2 erroneous refund.

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(2) If the taxpayer files two tax returns, one with an ITIN and one with an SSN, and receives two refunds, Category A2 procedures will be followed for the portion of the refund attributable to refundable/non-refundable credits (e.g., EITC, Child Tax Credit, etc.).

(3) The Category A2 erroneous refund is generally recovered with a deficiency assessment by the Examination function. The notice of deficiency must be mailed within the assessment statute period or by the ASED. See IRC 6501 (a) or IRM 25.6.1.9.2, General Assessment Period.

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Note: If the ASED has expired, Category A2 erroneous refunds may still be recovered using the ERSED, if the ERSED is still open. In this instance, Category D procedures would be used.

See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED.

(4) Once the erroneous amount has been assessed, normal collection procedures apply, and the amount can be recovered within the CSED. See IRC 6502 or IRM 25.6.1.12, Collection Statute Expiration Date (CSED).

(5) Take the following actions to recover Category A2 erroneous refunds:

- Prepare Form 4442/e-4442, Inquiry Referral; Form 5101, Examination Referral Slip; or Form 12356, Erroneous Refund Worksheet, include a detailed explanation of why it is an erroneous refund, and attach all information/documentation pertinent to the erroneous refund (otherwise the case will be rejected by Exam). Forward to your local Examination function for the issuance of a deficiency notice.

  Note: Please do not select the CAT A option in CIS (Correspondence Imaging System) to route these cases.

- Follow local procedures when referring Category A2 cases to the Examination function. If a case is referred from another campus or office, the receiving campus is to follow their local examination procedures.
- Input a TC 971 AC 663 regardless of the dollar amount. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

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(6) When the Category A2 erroneous refund is identified during a telephone contact with the taxpayer, advise the taxpayer a referral will be made to the Examination division. See IRM 21.4.5.12, How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit, if the taxpayer volunteers to repay the amount. It is not necessary to advise the taxpayer the referral is being made unless the error is identified through a direct telephone contact.

(7) The Letter 510C, Refund in Error; Return Check, is not issued on Category A2 erroneous refunds. Do not input a TC 470 or TC 844 on these accounts.

(8) See the following table:

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If the	Example	The Erroneous Refund Category is
Erroneous refund involves re-fundable or non-refundable tax credits that would be subject to deficiency procedures such as EITC or Child Tax Credit.	Taxpayer or IRS calculates the EITC incorrectly and the refund is issued before the error is identified.	**Category A2 Erroneous Refund** Refer to Examination for defi-

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21.4.5.5.3
(10-01-2016)
Category B Erroneous Refunds

(1)   The Category B erroneous refunds occur when **taxpayers** overstate their Federal income tax withholding credits or estimated income tax payments on a return or a claim for refund.

Example: A taxpayer filed their 2022 income tax return claiming a refund of $700. When they prepared the return, they made an error in their calculations and overstated the withholding by $300. The IRS did not correct the error and issued a refund for $700. Since the taxpayer overstated their withholding, $300 of the refund is a Category B erroneous refund.

(2)   If the **IRS** caused the overstatement of withholding or estimated tax payments, the erroneous refund becomes a Category D erroneous refund and can only be recovered through the Category D erroneous refund procedures. See IRM 21.4.5.6.1, Account Actions for Category D Erroneous Refunds.

(3)   If the taxpayer files two tax returns, one with an ITIN and one with an SSN, and receives two refunds, Category B procedures will be followed for the portion of the refund attributable to pre-paid credits (i.e., withholding and estimated tax payments).

(4)   IRC 6201(a)(3) gives the IRS the authority to assess an overstatement, on a return or claim for refund, of Federal income tax withholding credit or estimated income tax payment without deficiency or math error procedures:

   a.   That is allowed against the tax shown on the return, or
   b.   Which is allowed as a credit or refund

(5)   As a result, Category B erroneous refunds are generally recovered with an as-sessment (a TC 290) for the amount of the overstated withholding credit or in limited circumstances with a reversal (TC 807) of the overstated amount.

(6)   A TC 290 results in a legal assessment that allows the IRS to correct the over-stated credits using the provisions of IRC 6201(a)(3). The TC 807 or the reversal of estimated income tax payments is not a legal assessment. Another determining factor is whether the taxpayer claimed the overstated amount as a refund or if the overstated credits resulted in a refund or credit transfer.

(7)   Therefore, if the overstated amount of withholding credit or estimated payments did not result in a refund or a credit transfer, and the taxpayer did

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not claim the overstated amount as a refund, the overstated credit can be recovered with a reversal of the credit (i.e., TC 807, TC 662).

Example: A taxpayer filed their 2022 income tax return reporting a tax liability of $700 and withholding credits of $500. They overstated their withholding by $100 and the error was not corrected when IRS processed the return. Since the taxpayer did not claim the overstated amount as a refund (they reported a balance due) and the overstated amount did not result in a refund, a TC 807 may be used to correct the overstatement.

Example: Using the same facts as in the previous example, except there were math errors on the taxpayer's return that resulted in a refund of $200. In this example, the taxpayer did not claim a refund of the overstated withholding credit but the recalculation of their tax liability (due to the math errors) resulted in a refund of the overstated credit. Consequently, $100 of the refund is a Category B erroneous refund and the TC 807 cannot be used to correct the overstatement. A TC 290 assessment of $100 must be used.

Caution: Counsel has advised if a refund claim is pending (the taxpayer has included the overstated amount as a refund), an assessment using a TC 290 must be used to recover the overstated credit. This is true even if the IRS could stop the refund from being issued (the error is identified, and the refund is prevented from being issued). If the taxpayer files an amended return eliminating the overstated prepayment credits, no TC 290 assessment of the overstated credits should be made because the normal processing of the amended return eliminates the concerns behind this caution.

(8)   The TC 290 assessment is done using command code (CC) REQ54 and inputting a TC 290 for the overstated amount with a Reason Code 051. See Exhibit 2.4.16-4, Input Screen CC ADJ54, for an example of TC 290 input screen.

Example: A taxpayer filed their 2022 tax return expecting a refund of $800. They overstated their income tax withholding by incorrectly adding their income tax withholding of $600 to their Medicare tax withholding of $200. This error was not corrected when IRS processed the return and a refund of $800 was issued. Their account can be corrected with a TC 290 for $200 and a reason code 051. Since the overstated amount of withholding resulted in a refund, a TC 807 would not be used.

(9)   In the Remarks Section of the ADJ54 screen, provide sufficient comments to support the adjustment. Cite the reason the withholding is being adjusted.

(10)   While the Category B assessments are not subject to the deficiency procedures, the assessments must be made within the ASED. See IRC 6501.

Note: If the ASED has expired, Category B erroneous refunds may still be recovered using the ERSED, if the ERSED is still open. In this instance, the Category D procedures would be used. See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED.

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(11)   Once the amount of the overstated withholding credit or estimated payments has been assessed or reversed, normal collection procedures apply, and the assessment can be recovered within the CSED. See IRM 25.6.1.12, Collection Statute Expiration Date (CSED).

(12)   If the overstated amount was applied as a credit elect, the IRS can make an assessment for either tax year. The overstated amount can be assessed on the year in which the overstatement was made, or it can be assessed on the year the credit elect was claimed.

   Example: The taxpayer overstated their withholding in the amount of $500 for tax year 2019 and requested the overpayment be applied as a credit elect to tax year 2020. The IRS can correct the overstated withholding on either the 2019 or the 2020 account.

(13)   Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

(14)   The Letter 510C, Refund in Error; Return Check, is not issued on category B erroneous refunds. Do not input a TC 470 or TC 844 on these accounts. Do not use hold codes on the adjustment that will prevent the notice from being generated.

21.4.5.5.4
(10-01-2023)
Category C Erroneous Refunds

(1)   Category C erroneous refunds involve Business Master File (BMF) accounts and taxes reported on forms such as Form 940 (Employer's Annual Federal Unemployment Tax Return), Form 941 (Employer's QUARTERLY Federal Tax Return), Form 943 (Employer's Annual Tax Return for Agricultural Employees), Form 944 (Employer's ANNUAL Federal Tax Return), and Form 945 (Annual Return of Withheld Federal Income Tax). The erroneous refund can result from the IRS accepting a taxpayer representation and later determining that it is in error. The following examples are Category C erroneous refunds recoverable by assessment, however not all erroneous refunds based on an IRS mistake are assessable as Category C erroneous refunds.

If the	Example	The Erroneous Refund Category is
Error relates to BMF TC 150, 29X, and/or TC 30X **and the MFT is** 01, 08, 09, 10, 11, 12, 14, 16 or 17.	IRS makes an incorrect tax assessment (TC 150) by assessing less tax than the tax reported on the return.	**Category C Erroneous Refunds** Use a TC 290 to assess the difference between the tax reported on the return and the tax that was assessed.
Error relates to BMF TC 150, 29X, and/or TC 30X **and the MFT is** 01, 08, 09, 10, 11, 12, 14, 16 or 17.	IRS makes an incorrect adjustment to tax (TC 29X or TC 30X).	**Category C Erroneous Refunds** Use a TC 290 to assess the difference between the tax reported on the return and the tax that was assessed.

(2)   Category C erroneous refunds are generally recovered by an assessment (a TC 290) within the assessment statute period and must be assessed by the ASED. Once the assessment has been made, the CSED will apply. See IRM 25.6.1.12, Collection Statute Expiration Date (CSED).

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Note: If the ASED has expired, Category C erroneous refunds may still be recovered using the ERSED, if the ERSED is still open. In this instance, the Category D procedures would be used. See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED, and IRM 21.4.5.15, Collection Methods for Category D Erroneous Refunds.

(3) Whenever the tax shown on an original or amended return is reduced because of a processing error, rather than a redetermination of tax, IRS may immediately assess the difference between the tax that was reported on the return and the tax that was previously assessed. Ensure the total tax shown on the account is the amount the taxpayer reported on his original return. If the taxpayer files an amended return, base the tax assessment on the amended return. Adjust the tax:

  a.   Use CC REQ54 with TC 290. See Exhibit 2.4.16-4, Input Screen CC ADJ54, for an example of TC 290 input screen.
  b.   Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.
  c.   Advise the taxpayer of the processing error and that he will receive a bill for the additional amount of tax assessed.
  d.   Do not send the Letter 510C, Refund in Error; Return Check. Do not input a TC 470 or TC 844. Do not use hold codes on the adjustment that will prevent the notice from being generated.

21.4.5.5.5
(10-01-2019)
Overview of Category D
Erroneous Refunds

(1) Category D erroneous refunds include any erroneous refund that is not included in any other erroneous refund category.

Note: Refunds issued to an identity thief are erroneous refunds; however, the provisions of this IRM do not apply. Follow the procedures found in IRM 25.23.4.4, Taxpayer Inquiries Involving Identity Theft (IDT), and in IRM 25.25, Revenue Protection. Incorrect refunds issued to the TIN owner as the result of fraudulently filed tax returns (identity theft) are erroneous refunds. Refer to IRM 21.4.5.12 (6), How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit.

(2) The Category D erroneous refunds can also include any Category A1, Category A2, Category B, and Category C erroneous refunds if the ASED has expired but the ERSED is still open. See IRM 21.4.5.10, Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED, and IRM 21.4.5.15, Collection Methods for Category D Erroneous Refunds.

(3) Category D erroneous refunds are controlled by the ERSED and can only be recovered by an erroneous refund lawsuit, refund offset, or voluntary repayment. Administrative collection actions such as the filing of a Notice of Federal Tax Lien or issuance of a levy cannot be taken to recover Category D erroneous refunds. The ASED and the CSED do not apply to this category of erroneous refunds.

Note: The Erroneous Refund Unit in Accounting, Submission Processing, will input a false credit, a TC 700, on the Category D erroneous refund. This action is taken to remove the erroneous refund amount from Master File and the account is re-established in Accounting. This is done to prevent notices and

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administrative collection action (filing of a Notice of Federal Tax Lien or issuance of a levy) from occurring on the erroneous refund liability. The TC 700 credit can be identified by a Document Code 58 and a blocking series 950-999 in the document locator number (DLN). These accounts will have a -U Freeze (generated by a TC 844) and it informs other employees the account is being worked and monitored in Accounting. **Do not release the -U freeze. Do not reverse or transfer the false credit, which can be identified as a TC 700 with document code 58 and blocking 950-999.**

(4)   If the taxpayer does not repay the erroneous refund, the refund amount can be considered income to the taxpayer in the year received. See IRM 3.17.80.1.30, Form 1099 - Unrecoverable Unassessable Erroneous Refunds.

(5)   The following are examples and causes of Category D erroneous refunds. This list is not all-inclusive:

   a.   Misapplied Payments: A payment is misapplied to the wrong TIN, overpays the account and generates an erroneous refund.
   b.   A taxpayer receives both a manual refund (TC 840) and a systemically generated refund (TC 846).
   c.   A taxpayer files a non-receipt claim on a refund check and receives a replacement check. The taxpayer cashes both checks.
   d.   A direct deposit is applied to the wrong taxpayer's bank account (unintended recipient) due to IRS error.
   e.   A refund of court ordered restitution.
   f.   An AUR or BUR reply received with a payment and the payment is processed and refunded before AUR or BUR has input the proposed tax assessment.

(6)   Integrated Automation Technologies (IAT) has developed an erroneous refund tool to automate processes related to Category D erroneous refund processing. Accounts Management is required to use the IAT tools per Exhibit 21.2.2-2, Accounts Management Mandated IAT Tools.

21.4.5.5.6
(02-23-2017)
Duplicate Manual Erroneous Refunds (DMER)

(1)   A Duplicate Manual Erroneous Refund (DMER) is created anytime a manual refund (TC 840) and a computer-generated refund (TC 846) or two manual refunds are issued for the same overpayment, one of which the taxpayer is not entitled to receive. This definition applies regardless of taxpayer intent or whether the error that caused the DMER was made by the IRS, the taxpayer, or a third party.

(2)   DMERs can be created by:

   •   The input of an adjustment **without** a hold code (HC) 1, 2, or 4

      Example: A manual refund was prepared for an overpayment that was being held by a -R freeze, -A freeze, etc. At the same time, an adjustment was input on the account to correct the posted information and a HC 3 was used. The posting of the TC 29X with HC 3 released the freeze (-R, -A, etc.), and a systemic refund (TC 846) was issued in addition to the manual refund.

   •   A subsequent action, such as a credit transfer, taken without the necessary steps to hold the credit

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Example: An adjustment with a HC 1, 2, or 4 is input to hold the credit to offset part of the overpayment to another module and manually refund the remaining overpayment. A credit transfer (e.g., TC 662, TC 672, TC 820, etc.) without a TC 570, will release the -K Freeze set by the HC 1, 2, or 4, and allow a systemic refund (TC 846) in addition to the manual refund (TC 840).

- Two manual refunds issued from the same module for the same account credit

(3) When a DMER is identified, in addition to Form 12356, Erroneous Refund Worksheet, a Form 14165, Erroneous TC 840/846 Report, must be completed and included in the case file. DMER case files cannot be mailed to the Accounting Erroneous Refund Teams. All DMER case files will be saved on the DMER Shared Drive per the instructions in (6) below.

Note: These forms must be completed and scanned even if the refund has been repaid. See IRM 21.4.5.6.4, Full Paid Erroneous Refund Procedures.

Note: Even if the erroneous refund was created by another area or employee, it is the discovering area's responsibility to complete these forms, and scan and email the case file to the DMER BOD POC. For exceptions to this rule refer to IRM 21.4.5.2 (3), Erroneous Refunds Overview.

(4) Anytime a Form 14165 is created and scanned to the DMER Shared Drive, input a history item on IDRS and in AMS indicating "F14165SENT". Make sure to indicate in the AMS history that the case file was scanned into the DMER Shared Drive. The entire case file must be scanned into the folder for the month the file was completed.

Example: If the DMER case file is completed and ready to be scanned in December of 2021, the entire case file will be scanned into the December 2021 folder.

(5) When a DMER is identified, the discovering employee must contact the appropriate BOD POC listed in Exhibit 21.4.5-2.

- Prepare the DMER case file per the instructions in IRM 21.4.5.6, Category D Erroneous Refund Procedures.
- Scan the case file and email it to your site or BOD's POC.

(6) When the DMER case file is received from the originator/preparer, the BOD POC will load the file to the *DMER Shared Folder*.

- Ensure the appropriate naming convention is used to save the file to the DMER Shared Drive:

  Example: Refund Schedule Number (RSN)_last four digits on TIN. Example: 2014094175W_6081.

  Note: **Do not include the word "completed" at the end of the named file.** The Erroneous Refund Team in Accounting will include the word 'completed' after they review the file for completeness.

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- The day after uploading DMER case files to the DMER Shared folder, the BOD POC will access the shared folder to verify that case file status is "complete".

  Note: File names updated by SP to include "complete" indicate all required documentation was received; file names updated to include "incomplete" indicate missing documents. Remember, when using the naming convention above, do not add the word "complete". This is done by the ERRF Team in Accounting when they review the file for completeness.

- Review the DMER log on the *DMER SharePoint Site* to determine which documents are missing for each incomplete case.
- Secure the missing documentation from the DMER originator/preparer and re-save the entire case file in the shared folder using the naming convention described above (i.e., remove "incomplete" from the file name).
- Notify the SP HQ Analyst if any case file name has not been updated to reflect a case file status (either "complete" or "incomplete") within 24 hours of being uploaded to the shared folder.

(7) An IDT case is a DMER if, after the case was identified as IDT, a systemic refund (TC 846) was inadvertently generated (by the input of an incorrect account action) and a manual refund is issued.

Note: The case is not considered a DMER if a refund was released during initial processing to the Identity Thief (lost refund) and a manual refund was issued to the SSN owner.

Complete research must be performed to determine the course of action needed to correct the module. Determination of when the entity was updated to the SSN owner's account information must be taken into consideration in determining who the erroneous refund was sent to. Review the module to identify the disposition of the erroneous refund as follows:

If	Then
The refund was issued to the Identity Thief	a. Input a TC 971 AC 663 if it has not already been placed on the module. Refer to Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds. b. Follow procedures found in IRM 2.4.61, Command Code IDT48/IDT58/RPM48/RPM58/CSO48/CSO58/ELP45, and input TC 841 (reverses the entire refund) or TC 700 (reverses a partial refund), to offset the lost refund to the 1545 General Ledger Account. c. Complete Form 14165, scan it and forward to your DMER BOD POC to be saved in the Shared Drive File for that month. d. In Section 10, "Remarks", of the Form 14165 include the following note, "IDT DMER - Erroneous Refund package not required". e. Input a history item indicating that a Form 14165 has been scanned to the Accounting Function.

If	Then
The refund was issued to the SSN owner:	a. Input a TC 971 AC 663 if it has not already been placed on the module. Refer to Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds. b. Follow the procedures in IRM 21.4.5.6.1, Account Actions for Category D Erroneous Refunds. c. Follow the procedures in IRM 21.4.5.5.6.2, Form 14165, Erroneous TC 840/846 Report to complete the Form 14165. **Caution:** Do not input CC IDT48/CC IDT58 to post a credit to the account from the 1545 General Ledger Account when the erroneous refund is issued to the SSN owner. d. Input a history item indicating that a Form 14165 has been scanned to the Accounting Function.

21.4.5.5.6.1
(10-01-2023)
Duplicate Manual Erroneous Refunds (DMER) Report

(1) Monthly, AM Headquarters conducts a review of potential DMER accounts and generates a list for each BOD whose employees caused a DMER during the cycles reviewed. The monthly DMER list is sent to the appropriate BOD POC for referral and resolution of the DMER.

(2) For each DMER identified, the BOD POC must take the following actions within 15 calendar days of receiving the list from the AM HQ DMER analyst:

- Review the list and provide feedback to the AM HQ DMER analyst if they do not agree with the DMERs listed.
- Forward all cases to the DMER originator(s)/preparer for resolution.
- Receive the scanned DMER case files from the originator(s)/preparers and load them to the shared folder at: *Category D Erroneous Refunds*.
- Ensure the appropriate naming convention is used to save the file to the DMER shared folder.

    Example: Refund Schedule Number (RSN)_last four digits on TIN. Example: 2014094175W_6081.

    Do not include the word completed at the end of the named file. The Erroneous Refund Team in Accounting will include the word 'completed' after they review the file for completeness. The day after uploading DMER case files to the SharePoint site, the BOD POC will:
- Review the DMER log on the SharePoint site to determine which documents are missing for each incomplete case.

    Note: File names updated by the SP ERRF team to include "complete" indicate all required documentation was received; file names updated to include "incomplete" indicate missing documents.

- Secure the missing documentation from the DMER originator/preparer and re-save the entire case file in the shared folder using the naming convention described above (i.e., remove "incomplete" from the file name).
- Notify the SP HQ Analyst if any case file name has not been updated to reflect a case file status (either "complete" or "incomplete") within 24 hours of being uploaded to the shared folder.

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21.4.5.5.6.2
(10-01-2019)
Form 14165, Erroneous TC 840/846 Report

(1) The following are line by line instructions for completing Form 14165, Erroneous TC 840/846 Report:

    a. **Block 1** - Check the Campus where the report is being sent. This is the campus where the manual refund generated.

    b. **Block 2** - Enter the name, organization, and phone number of the employee who discovered the erroneous refund and who is completing the report.

    c. **Block 3** - Enter the name and address of the taxpayer who received the erroneous refund.

    d. **Block 4** - Enter the tax form or MFT.

    e. **Block 5** - Enter the TIN of the taxpayer who received the erroneous refund.

    f. **Block 6a** - Enter the 23C date of the erroneous TC 840/TC 846.

    g. **Block 6b** - Enter the date the erroneous refund was discovered. This is the date that the employee listed in block 2 discovered the erroneous refund.

    h. **Block 7** - Check the box to indicate who identified the erroneous refund (Employee, Bank, Taxpayer, or Other).

    i. **Block 8a** - Enter the principal amount of the erroneous refund (TC 840/TC 846 excluding interest).

    j. **Block 8b** - Enter the interest amount refunded.

    k. **Block 8c** - Enter the total erroneous TC 840 or TC 846 amount.

    l. **Block 9** - Check the box to indicate the BOD of the employee who issued the manual refund.

    m. **Block 10** - Enter the reason for the erroneous refund.

    n. **Blocks 11 through 13** will be completed by the Accounting Function after the form has been sent.

21.4.5.5.6.3
(10-01-2018)
Form 14165-A, Duplicate Manual Erroneous Refund Feedback

(1) When the Accounting Function has received the Form 14165, Erroneous TC 840/846 Report, they will complete a Form 14165-A, Duplicate Manual Erroneous Refund Feedback, and will send it, as well as a copy of the Form 14165, to the BOD POCs for the area that created the duplicate refund. For a listing of the BOD POCs refer to Exhibit 3.17.80-15, Business Operating Division (BOD) Points of Contact (POCs) for Duplicate, Manual, Erroneous Refund Feedback, Form 14165-A.

(2) When a Form 14165-A, Duplicate Manual Erroneous Refund Feedback, is received by the area that created the duplicate refund from the BOD POC, complete boxes 10, 11, and 12 and return the completed form to the BOD POC within 10 business days. For instructions on completing and returning the Form 14165-A, refer to IRM 3.17.80.1.35.1, Monthly Reporting and Error Feedback for Duplicate, Manual, Erroneous Refunds (DMER).

(3) The BOD POCs will forward an electronic copy of the completed and signed Form 14165-A, Duplicate Manual Erroneous Refund Feedback, to the *Financial Management Analyst* in the Deputy Chief Financial Officers area.

(4) For BOD POCs within W&I CAS, the completed Forms 14165-A, Duplicate Manual Erroneous Refund Feedback, will be sent forward by the BOD POCs via e-mail to the headquarters program analyst from Program Coordination and Support by the 5th day of the month following the completion of the Form 14165-A.

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Example: The Form 14165-A is received on June 5th. The area that created the erroneous refund has 10 days to complete the form and return it to BOD POC, who then has till July 5th to forward it to the headquarters program analyst from Program Coordination and Support.

21.4.5.6
(10-01-2023)
Category D Erroneous Refund Procedures

(1) When a Category D erroneous refund is identified within the ERSED statute, request the taxpayer repay the erroneous refund amount.

Note: If speaking to the taxpayer over the telephone, verbally request the taxpayer repay the erroneous refund amount and issue a Letter 510C, Refund in Error; Return Check, or an equivalent letter, such as the Letter 274C, Offer in Compromise; Installment Payment Due, used by Offer in Compromise (OIC).

Exception: If the erroneous refund is from a Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds, the Letter 510C, Refund in Error; Return Check, should be sent to the Issuer, regardless of to whom the refund check was issued. Refer to IRM 21.7.7.4.5.4.1, Form 8038-CP Erroneous Refund Procedures, for additional information.

Exception: If the erroneous refund module contains a bankruptcy indicator, the erroneous refund issue must be addressed by Field Insolvency or Centralized Insolvency Operation (CIO). Refer to IRM 21.5.6.4.44, -V Freeze. **Do not** request repayment or issue a Letter 510C, Refund in Error; Return Check. Refer the case to CIO in Philadelphia. CIO will determine the appropriate action.

(2) Refunds issued to an identity thief are erroneous refunds; however, the provisions of this IRM do not apply. Follow the procedures found in IRM 25.23.4.4, Taxpayer Inquiries Involving Identity Theft (IDT), and in IRM 25.25, Revenue Protection.

Note: If the taxpayer calls indicating they have not received their refund from an Identity Theft case and research indicates a refund intended for the good taxpayer was issued but a TC 971 AC 850 was not posted to the identity theft module before the refund was issued (thereby issuing an erroneous refund via direct deposit to the bad taxpayer), follow procedures in IRM 21.4.1.5.7.1 (6), Direct Deposit of Refunds, under the last box in the If/Then section.

(3) Incorrect refunds issued to the TIN owner as the result of fraudulently filed tax returns (identity theft) are erroneous refunds. Refer to IRM 21.4.5.12, How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit.

(4) A Treasury Offset Program (TOP) offset resulting from a fraudulently filed (identity theft) tax return that is subsequently refunded by the offset agency (TC 899 Type 2) to the TIN owner is considered a Category D Erroneous Refund. Refer to IRM 21.4.5.6.1, Account Actions for Category D Erroneous Refunds.

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(5) If speaking to the taxpayer and you request him/her (unintended recipient) to repay the erroneous refund, the date you request repayment is the date of demand.

    a. Document the telephone request for repayment in the case file and on Account Management Services (AMS).

    b. Add a history item on CC ENMOD with Activity Code "PHTPERRF".

    c. Send the taxpayer a Letter 510C, Refund in Error; Return Check or an equivalent letter, such as the Letter 274C, Offer in Compromise; Installment Payment Due, used by Offer in Compromise (OIC). See IRM 21.4.5.6.1, Account Actions For Category D Erroneous Refunds.

Note: When there is telephone contact with the taxpayer, you must ensure you are speaking with the taxpayer or authorized representative before disclosing any tax information. See the Taxpayer Authentication guidelines in IRM 21.1.3, Operational Guidelines Overview. Also see IRM 21.1.3.2.3, Required Taxpayer Authentication, for additional communication guidance.

21.4.5.6.1
(02-03-2023)
Account Actions For Category D Erroneous Refunds

(1) The necessary account actions will depend on what caused the erroneous refund:

Cause of Error	Issue Letter 510C or advise by phone	Input TC 844 and Refer to Accounting	Procedures to Follow	Other Account Actions
TC 840 and TC 846 for same overpayment	Yes	Yes	Follow procedures in (2) - (10) below and in IRM 21.4.5.5.6, Duplicate Manual Erroneous Refunds (DMER)	None
Taxpayer cashed lost check and replacement check	Yes	Yes	Follow procedures in (2) - (10) below	None
IRS Direct Deposit Error	Yes, if account owner known	Yes	Refer to IRM 21.4.5.11.1, IRS Error Direct Deposit	Issue Manual Refund to correct taxpayer
Misapplied payments to an incorrect TIN	Yes	Yes	Follow procedures in (2) - (10) below	Credit transfer to correct TIN
Refunds issued after the Refund Statute has expired	Yes	Yes	Follow procedures in (2) - (10) below	None

Cause of Error	Issue Letter 510C or advise by phone	Input TC 844 and Refer to Accounting	Procedures to Follow	Other Account Actions
Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds	Yes, send the letter to the bond issuer, not to the trustee.	No	Refer to IRM 21.7.7.7.4.5.4.1, Form 8038-CP Erroneous Refund Procedures	None
TC 899 Type 2 or TC 971 AC 599 Type 2	Yes, if the account owner's address is known	Yes	Follow procedures in (2) - (10) below	See IRM 21.4.5.6.4, Full Paid Erroneous Refunds Procedures, when an adjustment to the TIN owner's return fully pays the TC 899 Type 2.
Incorrect refund issued to the TIN owner as the result of fraudulently filed tax return	Yes	Yes	Follow procedures in (2) - (10) below	None

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Cause of Error	Issue Letter 510C or advise by phone	Input TC 844 and Refer to Accounting	Procedures to Follow	Other Account Actions
Taxpayer filed a return under both an ITIN and an SSN and received refunds from both	No	No	Refer to IRM 21.5.2.4.23.10, Moving Refunds.	This is not a Category D erroneous refund. These would be treated as Category A2 or Category B erroneous refunds, depending on the composition of the refund (refundable/ non-refundable versus pre-paid credits). Follow procedures in IRM 21.4.5.5.2, Category A2 Erroneous Refund, or IRM 21.4.5.5.3, Category B Erroneous Refunds.

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(2) Employees who identify a Category D erroneous refund are responsible for creating an erroneous refund package and completing the necessary actions before referring the case to the appropriate A/ER Unit. An erroneous refund package must include the following information:

• A completed Form 12356, Erroneous Refund Worksheet

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- Erroneous refund category and what caused it
- Documentation of all actions taken (verbal, C Letters, etc.)
- Context of telephone conversations, if applicable
- Copies of all letters (e.g., Letter 510C, Quick Notes, etc.)

(3) Prepare Form 12356, Erroneous Refund Worksheet. Refer to IRM 21.4.5.6.2, Preparing Form 12356, Erroneous Refund Worksheet.

(4) Send the taxpayer a Letter 510C, Refund in Error; Return Check, or an equivalent letter (e.g., Letter 274C, Offer in Compromise; Installment Payment Due, used by Offer in Compromise), using the IAT Letters Tool. This is the method used by the IRS to "demand" the erroneous refund be repaid. The date of the letter is considered the date of demand. See IRM 21.4.5.14, Interest and Penalty Consideration for Category D Erroneous Refunds.

Note: Since there is a delay from the time the letter request is input until the time the letter is actually mailed, add seven workdays from the date you input CC LETER (not counting the day of input, weekends or holidays) to determine the date of demand (the date of demand must be on or after the 23C date of the refund). Refer to the *Erroneous Refund Calendar (2023) Job Aid*.

(5) When applicable, selective paragraphs in the letter may be used to advise the taxpayer if they repay the erroneous refund within 21 calendar days from the date of the letter, interest will not be charged (see exceptions at IRM 21.4.5.14, Interest and Penalty Consideration for Category D Erroneous Refunds).

Note: **The Letter 510C is used only on Category D erroneous refunds.**

(6) To determine whether the taxpayer owes interest when issuing a Letter 510C see the table below.

If	Then
The taxpayer (or related party) caused the error, deliberate or not, regardless of the amount of the erroneous refund	Interest is assessed from the date of the refund (TC 846/TC 840). Follow instructions in paragraph 7(b) below.
IRS caused the error and the erroneous refund is $50,000 or less	Interest is assessed from the notice and demand date (date of the Letter 510C) Follow instructions in paragraph 7(a) below.
IRS caused the error and the erroneous refund is over $50,000	Interest is assessed from the date of the refund (TC 846/TC 840). Follow instructions in paragraph 7(b) below. *Note:* Refer to IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds, for case-by-case discretionary authority to abate interest on erroneous refunds that exceed $50,000.

Note: Interest is not charged when a Treasury check is returned (i.e., the check was not cashed).

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(7) Employees must input a TC 844 using CC REQ77/FRM77 when a Category D erroneous refund is identified. The TC 844 generates a "-U" freeze on the account.

Note: If the erroneous refund date is a future date, request on the Form 12356, that a TC 844 be input by the Accounting Function upon receipt of the case. Ensure the date of demand is on or after the 23C date of the refund.

Exception: Before inputting a TC 844 on BMF accounts, verify that there is no MFT 46 account with report ranges in the 200, 400 or 800 range. If the account does contain an MFT 46 Doc Code 88 with report ranges 200, 400 or 800, please refer to Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds, IRM 21.7.7.4.5.4.1, Form 8038-CP Erroneous Refund Procedures. The TC 470 needs to be input on these accounts.

    a. If IRS error and $50,000 or less:
    - Input TC 844. See Exhibit 2.4.19-6, Examples of Command Code FRM77, for an example of TC 844 input.
    - Enter the Date of Demand in the "EXTENSION-DT" field.
    - Enter the date of the erroneous refund (TC 840 or TC 846 or TC 899 Type 2) in the "TRANS-DT" field.
    - Enter the erroneous refund amount in the "FREEZE-RELEASE-AMT" field.

    b. If taxpayer error or refunds more than $50,000:
    - Input TC 844. See Exhibit 2.4.19-6, Examples of Command Code FRM77, for an example of TC 844 input.
    - Enter the date of the erroneous Refund (TC 840 or TC 846 or TC 899 Type 2) in the "TRANS-DT" field.

(8) Employees must input a TC 470 using CC REQ77/FRM77 to stop all systemic notices and collection processes. If the taxpayer's account will be in a balance due status, use a cc 93. See Exhibit 2.4.19-2, Command Code REQ77 Response, for an example of FRM77 input screen.

(9) Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

(10) Update the Integrated Data Retrieval System (IDRS) Category Code to ERRF, reassign the IDRS control base to the appropriate A/ER unit, change the status to "M" with activity code "ERRORREF". The first five digits of the Erroneous Refund Units IDRS numbers are as follows:

- Austin - 0611300000
- Kansas City - 0911800000
- Ogden - 0411700000

Note: To determine the appropriate campus, see IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

(11) On identity theft cases where a refund has been offset to a false secondary TIN, process the ERRF as follows:

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a. Move the refund (TC840/TC 846) for the amount of the TC 899 Type 2 (or TC 971 AC 599 Type 2) to the false secondary TIN. See IRM 21.5.2.4.23.10, Moving Refunds, for the actions required to move the refund.

b. Follow procedures 2 - 10 above for the amount of the TC 899 Type 2 (or TC 971 AC 599 Type 2).

> ***Note:*** The IAT tool cannot be used in this situation. Follow the instructions found in paragraphs 2-10 above to initiate the erroneous refund package.

21.4.5.6.2
(03-26-2015)
Preparing Form 12356, Erroneous Refund Worksheet

(1) The following are line-by-line instructions for completing Form 12356, Erroneous Refund Worksheet:

- **Item 1 - First Field - Discovering Function** - Enter the area that discovered the erroneous refund.

  Example: W&I AM Ogden Dept. 2 Team 203

- **Item 1 - Second Field - Date Discovered** - This is the date the erroneous refund was identified.
- **Item 2 - Function who created the erroneous refund** - This is the area that **created** the erroneous refund.

  Example: The area within the IRS that input a credit transfer or an adjustment without freezing the module which generated a systemic or manual refund that should not have been issued. **W&I AM Dept. 1 Team 101**.

- **Item 3 - First Field - Campus responsible for collecting erroneous refund** - This is the campus that issued the refund. See Exhibit 3.17.80-4, Erroneous Refund Coordinators, for a list of A/ER functions and their corresponding erroneous refund coordinators
- **Item 3 - Second Field - ERRF Category** - This is the category of the erroneous refund (A1, A2, B, C, or D).
- **Item 4 - First Field - TC Code**- Indicate if the erroneous refund was generated with a TC 846 or TC 840.
- **Item 4 - Second Field - Dated** - The is the date of the erroneous refund.
- **Item 5 - First Field - ERRF Refund DLN** - Enter the DLN of the refund (TC 846 or TC 840).
- **Item 5 - Second Field - RSN** - This is the Refund Schedule Number and is found in IDRS posted with the TC 846 or TC 840.
- **Item 6 - ERSED** - Check the box for the appropriate erroneous refund statute expiration date (ERSED).
- **Item 7 - 510C Date** - Enter the Letter 510C date.
- **Item 8 - Date of Demand** - Enter the date of demand. See IRM 21.4.5.14, Interest and Penalty Consideration for Category D Erroneous Refunds.
- **Item 9 - ERRF Amount $** - Enter the amount of the erroneous refund. This is generally the amount of the TC 846 or TC 840, but not always.
- **Item 10 - TC 470 Date** - Enter the date the TC 470 was input.
- **Item 11 - TC 844 Date** - Enter the date the TC 844 was input.
- **Item 12 - TC 971 AC 663 Date** - Enter the date the TC 971 AC 663 was input.

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- **Item 13 - Identify Taxpayer(s) and Account(s) Involved** - Enter the TIN, MFT, tax Period, name, and address of the account the erroneous refund was issued from as well as any cross-reference account information if applicable.
- **Item 14 - Explanation of Erroneous Refund** - Check the applicable box indicating why the erroneous refund was issued and then supply a detailed explanation of the cause of the erroneous refund.
- **Item 15 - First Field - Discovering Employee Information** - Enter the employee number, telephone number, and mail stop of the employee who discovered the erroneous refund. Also enter the date the employee discovered the erroneous refund.
- **Item 15 - Second Field - Manager's Signature** - Before the erroneous refund package is routed, the Form 12356 needs to be signed by the manager of the team that discovered the erroneous refund.
- **Item 16 - ERRF Coordinator Signature** - When the erroneous refund package is received within the Accounting Function, the erroneous refund coordinator will sign and date the Form 12356.

    Note: **The Accounting function may return the erroneous refund package if the Form 12356 is not filled out completely or if the Form 12356 has not been reviewed and signed by the manager**.

21.4.5.6.3
(10-01-2022)
Routing Category D Erroneous Refund Packages

(1) Effective October 1, 2020, all Category D erroneous refunds will be emailed to the organizational mailbox established for each A/ER function. The email will include all required documentation as discussed in IRM 21.4.5.6.1 (2) and be merged into one pdf document. The Form 12356 needs to be the first page of the document. No Form 3210 will be needed any longer. The subject line on the email and the file will be the Refund Schedule Number (RSN)_last four digits on TIN. Example: 2014094175W_6081.

- *W&I SP Erroneous Refund Austin
- *W&I SP Erroneous Refund Kansas City
- *W&I SP Erroneous Refund Ogden

Reminder: Update the Integrated Data Retrieval System (IDRS) Category Code to ERRF, reassign the IDRS control base to the appropriate A/ER unit per IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, before emailing the ERRF package.

(2) To determine the appropriate campus for routing the erroneous refund package, use the 8th and 9th position of the Refund Schedule Number (RSN). See Exhibit 3.17.79-4, Refund Schedule Number Format.

Example: A refund has an RSN showing 2010046281Z. The 8th and 9th position is 28 which represents Philadelphia.

If the 8th and 9th digits of the RSN are	Then email the erroneous refund package to
• 08 (Andover) • 07 (Atlanta) • 89 (Fresno) • 09 (Kansas City)	Kansas City A/ER Team at *W&I SP Erroneous Refund Kansas City

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If the 8th and 9th digits of the RSN are	Then email the erroneous refund package to
• 18 (Austin)	Austin A/ER Team at *W&I SP Erroneous Refund Austin
• 19 (Brookhaven) • 17 (Cincinnati) • 49 (Memphis) • 28 (Philadelphia) • 29 (Ogden)	Ogden A/ER Team at *W&I SP Erroneous Refund Ogden

(3) The gaining A/ER function will:

    a. Control case and input TC 700.
    b. Input another TC 844, if applicable.
    c. Issue a second Letter 510C, Refund in Error; Return Check.
    d. Communicate (through Planning and Analysis Staff or management channels) to the originating site, information about cases that were forwarded with missing data or required actions omitted.

21.4.5.6.4
(10-01-2020)
Full Paid Erroneous
Refund Procedures

(1) Situations exist where a newly identified erroneous refund has already been fully repaid. The erroneous refund may have been satisfied by:

    a. The offset of an overpayment from another tax year
    b. Payments received from the taxpayer
    c. The taxpayer returning the erroneous refund check

Note: The above listing is not an all-inclusive listing.

(2) Even though the balance has been repaid, an incorrect refund was issued to the taxpayer and it is necessary to follow the Category D erroneous refund procedures to protect the taxpayer. Per IRC 6404(e)(2), the interest is abated until the date of demand if the erroneous refund is $50,000 or less and the taxpayer (or related party) did not cause the erroneous refund. Since the erroneous refund was repaid prior to the issuance of a notice of demand (Letter 510C), no interest is due on the erroneous refund amount.

Note: Interest is charged from the date of the erroneous refund (TC 840 or TC 846) if the amount is over $50,000.

Note: Interest is not charged when a treasury check is returned (the check was not cashed).

(3) If the account has been fully paid by an offset or by the taxpayer submitting full payment on the account, take the following actions:

    a. Input a TC 844 using the current date as the date of demand. The input of the TC 844 with the current date as the date of demand will reverse any systemically assessed interest.
    b. Complete a Form 12356, Erroneous Refund Worksheet.
    c. In the remarks section (section 14) state, "Full Paid Erroneous Refund", "No 510C Letter sent", "Please input TC 845 to reverse TC 844".
    d. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

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    e.   Update the Integrated Data Retrieval System (IDRS) Category Code to ERRF, reassign the IDRS control base to the A/ER, and change the status to "M" with activity code "ERRORREF". See IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, for IDRS control numbers.

    f.   Email the erroneous refund packages to the appropriate A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund packages.

(4)   If the taxpayer returned the treasury check and there is a TC 841 with "99999" in the DLN on the account, then take the following actions:

    a.   Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

    b.   Complete a Form 12356, Erroneous Refund Worksheet.

    c.   In the remarks section (section 14) state, "Check Returned - TC 844 Not Needed", and "No 510C Letter Sent".

    d.   Email the erroneous refund packages to the A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

21.4.5.7
(10-01-2023)
Adjustments and Credit Transfers on Category D Accounts

(1)   If the erroneous refund was not the taxpayer's fault and transferring the credit   #

debit side of the credit transfer to suppress CP 60, Credit Reversal Adjustment Notice, and CP 260, Credit Reversal Adjustment.

(2)   If a credit transfer or reversal of an erroneous offset is needed on a module to resolve the case, take the following actions:

    a.   Input TC 570 on debit side of transfer.

    b.   Input TC 470, cc 93 and Cycle Delay of 1.

    c.   Input TC 844.

        Note: See IRM 21.4.5.6.1 (7)(b), Account Actions for Category D Erroneous Refunds, for instructions on inputting a TC 844 for erroneous refunds resulting from taxpayer error or from IRS error where the refund is greater than $50,000. See IRM 21.4.5.6.1 (7)(a) for instructions on inputting TC 844 for erroneous refunds resulting from IRS error **and** are $50,000 or less.

    d.   Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 Identifying Erroneous Refunds, for more information.

    e.   Send Letter 510C, Refund In Error; Return Check.

    f.   Refer to the IRM 21.5.8, Credit Transfers, for more information.

    g.   Complete all applicable account actions and document all actions on Form 12356, Erroneous Refund Worksheet. See IRM 21.4.5.6.2, Preparing Form 12356, Erroneous Refund Worksheet, for instructions on completing the form.

    h.   Email erroneous refund packages to the A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

(3)   If a correction of tax must be made and deficiency procedures do not apply, take the following actions:

    a.   Input a TC 290 for the amount of tax.

    b.   Use HC 3.

    c.   Input TC 470, cc 93 and Cycle Delay of 1.

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      d.   Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 Identifying Erroneous Refunds, for more information.

      e.   Input TC 844 per taxpayer error/refund over $50,000 or IRS error.

      f.   Send Letter 510C, Refund In Error; Return Check.

      g.   Update IDRS Category Code to **"ERRF"**.

      h.   Reassign IDRS control base to A/ER function with Activity Code **"ERRORREF"**.

      i.   Update IDRS status to **"M"**. See IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, for IDRS control numbers.

      j.   Complete all applicable account actions and document all actions on Form 12356, Erroneous Refund Worksheet. See IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages, for emailing instructions. Refer to IRM 3.17.80.4.4.2, Undeliverable or No Taxpayer Reply, Figure 3.17.80-45, for instructions on completing the Form 12356.

      k.   If original return and/or any adjustment documents were filed at a campus other than your own, do not request these documents before emailing the case file to your A/ER function. This would cause delays in resolving the case and may prevent IRS from obtaining repayment of the erroneous refund.

(4)   If a joint refund was issued in one spouse's name only, and the other spouse did not benefit in any way, take the following actions:

Caution: The refund must not have been deposited into the joint bank account.

      a.   Request an allocation from the taxpayer. See IRM 21.6.1.5.8, Allocating Married Filing Joint Cases.

      b.   Determine the amount of refund the taxpayer is entitled to.

      c.   Issue a manual refund to the requesting spouse.

      d.   Input TC 470, cc 93.

      e.   Input TC 844 per taxpayer error/refund over $50,000 or IRS error/ $50,000 or less.

      f.   Send Letter 510C, Refund In Error; Return Check, to the spouse who received the original refund.

Note: The erroneous refund amount will be the amount of the manual refund.

Reminder: Joint filers can request their refund be issued in one name only, see IRM 21.4.3.5.5.2.2, Joint Filers Request Refund Check in One Name. If that is the case, do not apply the above procedures.

(5)   The following IRMs will assist in determining whether additional account actions or taxpayer notification is required:

- IRM 21.4.1, Refund Research
- IRM 21.4.2, Refund Trace and Limited Payability
- IRM 21.4.3, Returned Refunds/Release
- IRM 21.4.4, Manual Refunds
- IRM 21.4.6, Refund Offset
- IRM 21.5.1, General Adjustments
- IRM 21.5.2, Adjustment Guidelines
- IRM 21.5.5, Unpostables
- IRM 21.5.6, Freeze Codes
- IRM 21.5.7, Payment Tracers
- IRM 21.5.8, Credit Transfers

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- IRM 21.6, Individual Tax Returns
- IRM 21.7, Business Tax Returns and Non-Master File Accounts
- IRM 20.1, Penalty Handbook
- IRM 20.2.11, Miscellaneous Interest Provisions
- IRM 25.6, Statute of Limitations
- IRM 2.4.37, Command Code NOREF Overview

21.4.5.8
(10-01-2017)
Erroneous Refunds on Designated and Non-Designated Payments

(1) A taxpayer may designate a voluntary payment three ways:

a. Tax year and the type of tax are designated on the front of the check.
b. Payment is attached to or included in an envelope with an IRS payment voucher (completed) or with an IRS notice for the tax period and type of tax intended.
c. Taxpayer correspondence is associated with the payment and identifies the tax period and type of tax to which the payment should be applied.

Note: **Electronic payments are designated payments where the electronic system makes the user designate the tax year and type of tax.**

(2) A refund of the taxpayer's own payment results in an erroneous refund if the taxpayer designates a payment for a specific tax liability and the IRS fails to apply the payment to the intended account.

Example: A taxpayer filed their 2021 income tax return and reported a balance due of $700. They designated their payment of $700 to be applied to the 2021 account. The IRS applied the payment to an outstanding balance of $100 on the 2022 account because the 2021 return had not posted. A refund of $600 was issued on the 2022 account. Although the refund of $600 was issued on the 2022 account, the erroneous refund is on the 2021 account because IRS failed to apply the payment to the designated account.

In these cases, the designated payment must be moved to the designated account.

(3) When a taxpayer properly designates a payment for a specific liability, the payment is considered to have legally satisfied that liability regardless of how IRS applies the payment. The IRS cannot take administrative collection action on the liability to which a payment was properly designated (up to the amount of the payment), even though the IRS improperly applied the payment to another liability. Therefore, if a properly designated payment has been misapplied, the payment should be transferred to the designated account. Prior to transferring the payment, extreme caution should be used to ensure the payment was properly designated.

(4) Generally, if the taxpayer **does not** designate how a payment should be applied, the IRS is entitled to apply the payment in the best interest of the government. Once applied, the IRS is not required to move the payment. See the following table.

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If	Then
Erroneous refund was a refund of the taxpayer's voluntary payment and the payment was properly designated	The credit must be moved to the designated tax year and type of tax.
Any portion of the payment has refunded and the taxpayer did not designate the payment	**DO NOT transfer the credit.** Advise the taxpayer the payment refunded. Until the taxpayer repays the full amount previously refunded, IRS cannot post a credit to the account. Interest and penalties continue to accrue until the tax is paid in full.

(5)   Do not transfer the payment (in part or in whole) if the payment has refunded unless the payment was designated to a specific tax year and type of tax. If designation cannot be verified via internal research, the taxpayer must submit proof of proper designation.

(6)   When a taxpayer states they requested a credit elect, but instead received a refund, instruct the taxpayer on how to return the refund check or direct deposit. See IRM 21.4.5.12, How to Repay an Erroneous Refund or Return an Erroneous Refund Check or Direct Deposit. Advise the taxpayer, upon receipt of the returned refund amount, the credit will be transferred to the next tax year as a credit elect. The failure of the IRS to transcribe the credit elect line on a tax return during original processing will only be a Category D erroneous refund if we transfer the funds before the refund is returned.

Reminder: Only the refund principal will be applied as a credit elect. Any interest allowed with the refund must be reversed.

21.4.5.9
(12-07-2022)
Reversal of TC 844

(1)   When an account has been identified incorrectly with the Erroneous Refund TC 844, "-U" Freeze, **and the Letter 510C was sent**, a Quick Note of apology, or the appropriate Correspondex letter, must be sent to the taxpayer.

Note: The manager or lead must review the Quick Note before sending to the taxpayer.

(2)   Only the A/ER, is authorized to release the TC 844 with the input of a TC 845.

(3)   Prepare Form 12356, Erroneous Refund Worksheet, and email to your servicing A/ER Unit, explaining the error and request the input of a TC 845.

(4)   If an account identified with an erroneous refund issue is resolved, but the TC 844 has not been reversed, prepare a referral. Notate all actions taken and explain why the release of TC 844, **"-U"** freeze is needed. Email to your servicing A/ER function for follow up actions.

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21.4.5.10
(12-07-2022)
Categories A1, A2, B and C Erroneous Refunds Processed as a Category D Erroneous Refund Using the ERSED

(1) When the ASED has expired on a Category A1, A2, B, or C Erroneous Refund but the ERSED is still open, take the following account actions:

   a. Prepare Form 12356, Erroneous Refund Worksheet, listing pertinent information.
   b. Input TC 844 using CC REQ77/FRM77. See Exhibit 2.4.19-6, Examples of Command Code FRM77, for an example of TC 844 input. Enter the date of the erroneous refund (TC 840 or 846) in the "TRANS–DT" field.
   c. Input TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds. (A TC 470 is not required as the module generally will not be in balance due).
   d. Send a Letter 510C, Refund In Error; Return Check.
   e. Do not advise the taxpayer the referral is being made.
   f. Email the erroneous refund packages to the appropriate A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

   > *Reminder:* Update the category code of the IDRS control base to ERRF and reassign it to the appropriate A/ER unit per IRM 21.4.5.6.1 (10), Account Actions for Category D Erroneous Refunds, before emailing the ERRF package.

(2) These procedures are also applicable to an erroneous refund of any category when the ASED or CSED has expired but the ERSED is still open.

21.4.5.11
(10-01-2019)
Erroneous Direct Deposit

(1) A direct deposit into an account that is not the taxpayer's is a Category "D" erroneous refund only if the error was made by the IRS.

(2) The IRS is not responsible for misdirected direct deposits that are a result of bank error or the taxpayer providing the wrong Routing Transit Number (RTN) or bank account number. These types of misdirected direct deposits will be worked by Refund Inquiry. See IRM 21.4.1.5.7.2, Direct Deposit Erroneous Refunds, for routing instructions.

(3) Refund Anticipation Loans (RAL) or Refund Anticipation Checks (RAC) are agreements between the taxpayer and tax preparer. It is important to keep in mind that whether a taxpayer state they received a RAC or a RAL, it remains a direct deposit refund.

(4) See the following table.

If	Then
IRS error caused the direct deposit to go to the wrong account	IRS will reissue the direct deposit refund.
It was taxpayer error, or the error was made by the Electronic Return Originator (ERO), or the tax return preparer	**IRS will not reissue the refund**.
A tax related identity theft case involving a direct deposit	Refer to IRM 25.23.4.6.1, Required Research.

21.4.5.11.1
(10-01-2023)
IRS Error Direct Deposit

(1) All IRS direct deposit errors are Category D erroneous refunds and have an ERSED of two-years from the refund issuance date.

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(2) If the RTN or bank account numbers differ from that shown on the return and the IRS caused the error, issue a manual refund to the correct taxpayer as soon as possible to limit the amount of credit interest paid to the taxpayer.

(3) If the financial institution or The Bureau of Fiscal Services (BFS) (formerly Financial Management Service (FMS)) identifies the account owner of the erroneous direct deposit, **and the bank does not return the credit**, the Refund Inquiry Unit must follow Category D erroneous refund procedures. Upon obtaining the account owner's name, TIN and address, complete the following actions on the erroneous refund account:

a. Move the refund (TC 846) to the erroneous taxpayer's account (unintended recipient). See IRM 21.5.2.4.23.10, Moving Refunds, for the actions required when moving refunds.
b. Monitor the account for the posting of the TC 849 to post.
c. Input TC 844 using CC REQ77/FRM77.
d. Enter date of demand (Extension Date) on CC FRM77. See IRM 21.4.5.6.1 (7), Account Actions for Category D Erroneous Refunds, to determine the date of demand based on the erroneous refund amount.
e. Enter the IDRS posting date of the erroneous refund (TC 846 or TC 840) as the "TRANS-DT". See IRM 21.4.5.6.1 (7), Account Actions for Category D Erroneous Refunds, for "TRANS-DT" procedures based on the erroneous refund amount.
f. Enter the erroneous refund amount as the freeze release amount, (FREEZE-RELEASE-AMT).
g. Send Letter 510C, Refund In Error; Return Check.
h. Prepare an erroneous refund package (all pertinent information) and email to the appropriate A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.
i. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.

(4) If the financial institution or BFS (formerly FMS) does not identify the account owner of the erroneous direct deposit, and the **bank does not return the credit**, the Refund Inquiry Unit will take the following actions:

a. Prepare a Category D erroneous refund package that includes a copy of the case file and Form 12356, Erroneous Refund Worksheet. Notate all actions taken and research conducted. Refer to IRM 3.17.80.4.4.2, Undeliverable or No Taxpayer Reply, Figure 3.17.80-45, for instructions on completing the Form 12356.
b. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds, for more information.
c. Email the erroneous refund packages to the appropriate A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages, for posting of a TC 700 (false credit).

(5) When the disposition of the direct deposit is learned and the identity of the taxpayer in receipt of the erroneous direct deposit (unintended recipient) is not obtainable, the Refund Inquiry Unit must email the case file to the appropriate A/ER function, noting recipient of the direct deposit could not be identified. See IRM 21.4.1.5.7.5, Non-Receipt of Direct Deposit Refunds - "Refund Inquiry Employees".

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21.4.5.11.1

21.4.5.12
(02-03-2023)
**How to Repay an
Erroneous Refund or
Return an Erroneous
Refund Check or Direct
Deposit**

(1)   If an erroneous taxpayer (unintended recipient) advises they have received another taxpayer's refund in error, use the following table to advise the erroneous taxpayer how to return or repay **an erroneous refund check**:

If	Advise the taxpayer to:
The recipient **has not cashed** the refund check	1. Write "Void" in the endorsement section on back of the check. 2. Submit check within 21 days of the "date of demand" to the taxpayer's filing campus. 3. Do not staple, bend, or paper clip the check. 4. Include a note stating, "Return of Erroneous Refund Check" and provide an explanation as to why the check is being returned. 5. See IRM 21.4.3.5.4 (1), Returned Refund Check Procedures, for more information. *Note:* Upon receipt of the returned refund, the Refund Inquiry area will research and correct the account as appropriate.
The recipient **has cashed** the refund check	1. Submit payment within 21 days of the "date of demand" to the taxpayer's filing campus. If the taxpayer wants to repay in installments, see IRM 5.19.1.5.17.1, Unassessable (Formerly Non-Rebate) Erroneous Refunds. 2. Write on the check or money order: "Payment of Erroneous Refund", the tax period (for which the refund was issued, e.g., 201912), the account type (IMF or BMF), and the TIN (i.e., SSN, EIN, or Individual Taxpayer Identification Number (ITIN)). 3. Advise recipient of possible interest accruals.

(2)   Follow the erroneous refund procedures for the applicable category. Refer to IRM 21.4.5.5, Erroneous Refund Categories and Procedures.

(3)   Use the following table to advise the erroneous taxpayer (unintended recipient) how to return or repay **an erroneous direct deposit**:

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If	Then
The recipient will contact their bank to have the erroneous refund returned	Advise the recipient to contact the Automated Clearing House (ACH) Department of their bank to have the deposit returned to the IRS. ***Note:*** Title 31 §210.8(d) of the Code of Federal Regulations requires financial institutions that become aware that an agency has directed a payment to an account not owned by the payee whose name appears in the ACH payment information to promptly notify the agency. The financial institution can either issue a Notification of Change with the correct account and/or Routing and Transit Number information or return the credit to the agency to satisfy this requirement.
The recipient will submit payment to repay the erroneous refund **and the correct taxpayer is known** (the correct taxpayer will sometimes be identified on the recipient's bank statement)	1. Move the refund (TC 846) to the recipient's account. See IRM 21.5.2.4.23.10, Moving Refunds, for the actions required when moving refunds. 2. Follow Category D erroneous refund procedures. See IRM 21.4.5.6.1, Account Actions for Category D Erroneous Refunds. 3. Issue a manual refund to the correct taxpayer.

The recipient will submit payment to repay the erroneous refund **and the correct taxpayer is unknown**	1. Advise the recipient to submit payment within 21 days of the "date of demand" to the recipient's filing campus.
	 2. Write on the check or money order: "Payment of erroneous direct deposit", the tax period (if known), the account type (IMF or BMF) and the TIN (i.e., SSN, EIN or ITIN).
	 3. Monitor the account for 28 days for the payment to post.
	     a. If the payment posts to the erroneous taxpayer's (recipient's) account, see (5) below.
	     b. If the payment does not post to the erroneous taxpayer's (recipient's) account, issue a Letter 510C, Refund In Error; Return Check.

(4) When an erroneous taxpayer will be submitting a payment, add an IDRS history item with Activity Code "TPMAILCK", document all actions taken and conversations with taxpayer. Refer to IRM 25.13.1.3, Erroneous Correspondence Procedures - Report Erroneous Correspondence Process, if erroneous correspondence was sent to the taxpayer.

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(5) When the repayment of an erroneous direct deposit refund is received and the correct taxpayer cannot be identified, the credit must be transferred to the Un-identified Remittance File (4620 Account).

- Complete Form 2424, Account Adjustment Voucher. Notate in the explanation box, "Repayment of an erroneous direct deposit refund, correct taxpayer unknown".
- Attach supporting documentation (e.g., current CC IMFOL, BMFOL or TXMOD print, a copy of taxpayer correspondence, tax returns or vouchers) showing the credit is available to the Form 2424.
- Input a TC 971 AC 296.

(6) If the owner of a TIN indicates they received an erroneous refund as the result of a fraudulently filed return (identity theft), take the following actions:

a. Input a TC 971 AC 522 and the appropriate IDT Tracking Code per IRM 25.23.2.4.5, IRS Initiated Suspicion of Identity Theft - TC 971 AC 522 IRSID.
b. Advise the taxpayer to complete a Form 14039, Identity Theft Affidavit, if they have not already completed and submitted that form, and return the refund to the Service within 21 calendar days.
c. Use the If/Then tables found in paragraphs 1 or 3 above to advise the taxpayer how to return or repay **an erroneous refund check**.

(7) Once the request to return the payment has been made, the employee will:

a. Document the telephone request for repayment in AMS.
b. Follow the procedures found in IRM 25.23.4.4, Taxpayer Inquiries Involving Identity Theft (IDT), for identifying and referring IDT cases.

21.4.5.13
(10-01-2020)
Field Offices Without IDRS or IDRS Update Capabilities

(1) An employee in a field office who identifies an erroneous refund but does not have access to IDRS or who does not have IDRS update capabilities, should obtain all the pertinent information, and take the following actions:

a. Immediately contact the appropriate A/ER Unit.
b. Request establishment of an IDRS control base.
c. Prepare a Form 12356, Erroneous Refund Worksheet.
d. Email the Form 12356 and all information including signature documents to the A/ER Unit indicating that this request is from a field office that does not have access to IDRS. See IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages, for email information.

21.4.5.14
(10-01-2017)
Interest and Penalty Consideration for Category D Erroneous Refunds

(1) Failure to Pay (FTP) penalty under IRC 6651(a)(2) and (a)(3), does not apply to Category D erroneous refunds.

#
#

(2) IRC 6404(e)(2) states interest is not charged from the date of the refund to the date of demand if:

a. The erroneous refund is $50,000 or less and
b. The taxpayer (or related party) did not cause the Category D erroneous refund

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(3)   Interest on any unpaid amount is charged from the date of the refund to the date of repayment if:

   a.   The erroneous refund is more than $50,000, (see IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds-IRC, for exceptions) or
   b.   The taxpayer (or related party) caused the erroneous refund

If	Then	
The taxpayer (or related party) caused the error, deliberate or not, regardless of the amount of the erroneous refund	Interest is assessed from the refund date (TC 846/TC 840). The Letter 510C will provide a balance due which includes interest calculated to	# # #
	interest will continue to accrue. ***Note:*** If the erroneous refund amount is $100,000 or more, taxpayers have 10 business days balance due or interest will continue to accrue.	
The IRS caused the error and the amount of the refund is **$50,000 or less**	Interest is assessed from the notice and demand date (date of the Letter 510C). The taxpayer has balance due stated in the notice and demand or interest will accrue starting on the notice and demand date.	#
The IRS caused the error and the amount of the erroneous refund is **more than $50,000 but less than $100,000**	Interest is assessed from the refund date (TC additional interest.	# #
The IRS caused the error and the amount of erroneous refund is **$100,000 or more**	Interest is assessed from the refund date (TC 846/TC 840). Taxpayers have 10 business days avoid additional interest.	#

Note: Interest is not charged when a treasury check is returned (the check was not cashed).

Note: Refer to IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds, for case-by-case discretionary authority to abate interest on erroneous refunds that exceed $50,000.

(4)   If debit interest is restricted (e.g., TC 34X on module) Master File will be unable to calculate interest as described in the previous If/Then table. Interest must be manually computed and input. Likewise, if the repayment did not post with a TC 720, interest must be manually computed and input. (A payment received within 21 calendar (or 10 business) days from the erroneous refund demand date must post with a TC 720 for Master File to correctly suspend interest from the date of demand to the repayment date). See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340 for more information.

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(5) If credit interest did not reverse or is incorrect, enter TC 772 to correct the amount. If debit interest is incorrect, assess or abate as directed in IRM 20.2.7, Abatement and Suspension of Debit Interest.

(6) Interest abatement is not required if the refund is greater than $50,000, but may be allowed on a case by case basis, see IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds. Refer questions on interest abatement for erroneous refunds more than $50,000 to local interest specialists, or through managerial channels to local counsel.

21.4.5.14.1
(10-01-2017)
Interest Delegation Orders

(1) Except where the abatement of interest is required by statute, interest must be charged. IRC 6404(e)(2) requires abatement of interest on erroneous refunds of $50,000 or less unless the taxpayer (or related party) caused the erroneous refund. The IRS also has discretionary authority to abate interest when the erroneous refund exceeds $50,000. Permission to abate debit interest must be requested from an individual listed in Delegation Order 20-1. See IRM 1.2.2.13.1, Delegation Order 20-1, Abatement of Interest, (Rev.2, formally DO-228, Rev 3), Abatement of Interest. More information on the factors considered for discretionary abatement is in IRM 20.2.7.7, IRC 6404(e)(2), Erroneous Refunds.

21.4.5.15
(10-01-2007)
Collection Methods for Category D Erroneous Refunds

(1) The IRC provides recovery methods and statute of limitations for Category D erroneous refunds that differ from those used for tax liabilities.

(2) The IRS may recover Category D erroneous refunds only by voluntary repayment, by filing an erroneous refund suit against the taxpayer (unintended recipient) under IRC 7405, and by offsets.

(3) An erroneous refund suit must be initiated within the 2 or 5-year time limit. See IRC 6532(b).

(4) The IRS possesses a "Common Law Right to Offset" against a refund due the taxpayer, to recover the full amount of an erroneous refund. If the erroneous refund and the refund to be offset do not arise within the same tax account and the same tax year, the offset must be made within the applicable ERSED.

(5) There is no time limitation for the IRS's right to offset any refund due the taxpayer for the:

- Same year, and
- The same tax to which the erroneous refund relates

(6) The erroneous refund suit is limited to amounts that exceed the litigating threshold established by the Department of Justice. Refer case to Area Counsel, using local established procedures, requesting information on whether to pursue the erroneous refund suit.

(7) Refer to IRM 25.6, Statute of Limitations, for additional information concerning the time that governs the Service's ability to collect the erroneous refund.

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21.4.5.15.1
(10-01-2010)
Collection Statute Expiration Date for Category D Erroneous Refunds
	(1) Before referring an erroneous refund case to the appropriate A/ER function, ensure the applicable Statute of Limitation is not about to expire. Two common occurrences in which the CSED expires before the ERSED are:
	
	  a. The taxpayer received the erroneous refund before satisfying his/her tax obligation.
	  b. The erroneous refund is caused by a credit reversal.

21.4.5.15.1.1
(10-01-2023)
Statutes of Limitations Category D Erroneous Refunds
IRC 6532(b) ERSED

(1) The ERSED for recovering Category D erroneous refunds is two or five years from the date the refund check or direct deposit clears (the date the bank or the ACH hold period expires) the bank. Generally, you should normally rely on the two-year statute, because the five-year statute only applies if the erroneous refund was due to fraud or misrepresentation of a material fact.

(2) You can obtain a copy of the cancelled check to determine the date the check cleared the bank. If the erroneous refund was a direct deposit, the ERSED is two or five years from the date the ACH hold is released on the direct deposit. This date can be obtained through BFS (formerly FMS). **However, as a safe practice, just use the date of the refund.**

(3) If it appears the five-year statute may apply, prepare Form 4442/e-4442, Inquiry Referral, and seek advice, through management channels, of the local Counsel. Refer to IRC 6532 (b).

Reminder: A five-year statute will apply if the IRS can show the erroneous refund was induced by fraud or a misrepresentation of a material fact.

Exception: Erroneous refunds caused by payment over cancellation (POC) meet the requirements of the five-year statute. You may use the five-year statute in these cases without seeking confirmation from Counsel. IRM 3.17.80.4, Processing Payments Over Cancellation (POC) - Preliminary Processes before an Erroneous Refund, for more information.

(4) The 5-year statute applies only if it is proven that the refund was induced by fraud or misrepresentation of a material fact. If the two-year statute is running out, contact (through management channels) your local Counsel for a determination as to whether the 5-year statute applies.

Note: A taxpayer's check returned for insufficient funds, by itself, does not meet the requirements of the five-year statute. But in such cases, there may be additional evidence sufficient to trigger the five-year statute.

(5) If the ERSED has expired, take the following actions:

  a. Prepare Form 12356, Erroneous Refund Worksheet, listing all required information pertaining to the case. Refer to IRM 3.17.80.4.4.2, Undeliverable or No Taxpayer Reply, Figure 3.17.80-45, for instructions on completing the Form 12356.
  b. Input a TC 470 cc 93 if the module is a debit balance (balance due).
  c. Input a TC 971 AC 663. See Exhibit 21.4.5-1, TC 971 AC 663 - Identifying Erroneous Refunds.
  d. Do not input a TC 844.
  e. Do not send the Letter 510C, Refund In Error; Return Check.
  f. Email the erroneous refund packages to the A/ER function per IRM 21.4.5.6.3, Routing Category D Erroneous Refund Packages.

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Exhibit 21.4.5-1   (10-01-2013)
TC 971 AC 663 - Identifying Erroneous Refunds

TC 971 AC 663 must be input on each erroneous refund module, regardless of the category. TC 971 AC 663 is used for reporting purposes.

Input TC 971 AC 663 using CC REQ77 as follows:

   a.   In the TC field, enter 971.
   b.   In the TC971/151-CD field, enter 663.
   c.   In the FREEZE-RELEASE-AMT field, enter the erroneous refund amount.
   d.   In the MISC field, identify the erroneous refund category, responsible function and type of error. Each entry must be followed by a space.
   e.   The valid entries for **erroneous refund category codes** are:

Valid Entry	Description
A1	Category A1 Erroneous Refund
A2	Category A2 Erroneous Refund
B	Category B Erroneous Refund
C	Category C Erroneous Refund
D	Category D Erroneous Refund
A1/D	Category A1 processed as a Category D
A2/D	Category A2 processed as a Category D
B/D	Category B processed as a Category D
C/D	Category C processed as a Category D

   f.   The valid entries for identifying the **responsible party** are:

Valid Entry	Description
ACS	Automated Collection System
AM	Accounts Management
CI	Criminal Investigation
CSCO	Compliance Services Collection Operations
Exam	Small Business/Self-Employed (SB/SE) and Wage and Investment (W&I) Exam
FA	Field Assistance
SP	Submission Processing
TAS	Taxpayer Advocate Service
OTH	Other

   g.   The valid entries for **type of error** are:

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Exhibit 21.4.5-1 (Cont. 1) (10-01-2013)
TC 971 AC 663 - Identifying Erroneous Refunds

Valid Entry	Description
01	Taxpayer error
02	IRS error

Example: A Category D erroneous refund caused by the Taxpayer Advocate Service would be reported in the "MISC" field as "D TAS 02".

h.   **In the remarks field, enter the reason for the erroneous refund** (e.g., payment over cancellation, misapplied payment, encoding error, hold code error, etc.)

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Exhibit 21.4.5-2   (10-01-2023)
DMER Site Contacts

The names and numbers listed below are exclusively used as contacts to load DMER cases to the DMER Shared Folder and should not to be shared with taxpayers or used for any other purpose. Email the primary and back-up contact for the site or BOD associated with the DMER.

BOD/Site	Primary Contact	Back-Up Contact
HQ AM Analyst	Ellen Valade	Fawn Collins
AM - Andover	Nancy Rushton	Samuel Olson
AM - Atlanta	Bridgette R Dennis	Azizah Davis
AM - Austin	Quang C Lu	Elissa Workhoven
AM - Brookhaven	Valeri M Garbarino	
AM - Cincinnati	Michael J Lynn	Michelle R Feinauer
AM - Fresno	Shannon Scott	Virginia Blackmon
AM - Kansas City	Megan McCarroll	Catherine Bryant
AM - Memphis	Kenya R Johnson	Rodriguez Hagood and Amanda K Erving
AM - Ogden	April E Osaka	Cheryl J Murray
AM - Philadelphia	Darlene Moffitt	Wynter C Jacks
AM - IDTVA	Ronald Reece	Christopher M Shaffer
Field Assistance	Stacey Houston	Michelle R Jones
RIVO	Linda Malan	
RCEO	Pauline Bennett	Kei Matchingtouch
SBSE	Wanda Ramos	Teresa Cook
SP	Mary Preston	
TAS	Katherine Schave	Dominick Zarrillo and Henry Phelan

If your BOD is not listed, please contact HQ AM analyst for guidance.

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